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Agenda

Dorset County Council

Meeting:	Pension Fund Committee
Time:	10.00 am
Date:	22 November 2018
Venue:	Park Plaza London Waterloo, 6 Hercules Road, London, SE1 7DU

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

Notes:

- The reports with this agenda are available at www.dorsetforyou.com/countycommittees then click on the link "minutes, agendas and reports". Reports are normally available on this website within two working days of the agenda being sent out.

- We can provide this agenda and the reports as audio tape, CD, large print, Braille, or alternative languages on request.

- **Public Participation**

  Guidance on public participation at County Council meetings is available on request or at http://www.dorsetforyou.com/374629.

  Public Speaking

  Members of the public can ask questions and make statements at the meeting. The closing date for us to receive questions is 10.00am on 19 November 2018, and statements by midday the day before the meeting.

Debbie Ward
Chief Executive

Date of Publication:
Wednesday, 14 November 2018

Contact: Liz Eaton, Democratic Services Officer
County Hall, Dorchester, DT1 1XJ
01305 225113 - e.a.eaton@dorsetcc.gov.uk

11. **Date of Next Meeting**

To confirm the date for the next meeting:

27 February 2019	County Hall, Dorchester

Future dates to be determined due to Local Government Reorganisation.

12. **Questions**

To answer any questions received in writing by the Chief Executive by not later than 10.00 am on 19 November 2018.

Exempt Business

To consider passing the following resolution:

To agree that in accordance with Section 100 A (4) of the Local Government Act 1972 to exclude the public from the meeting in relation to the business specified below it is likely that if members of the public were present, there would be disclosure to them of exempt information as defined in the paragraph detailed below of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

13. **Request of Employer to Exit the Local Government Pension Scheme (Paragraph 3)** 195 - 242

To consider an exempt report by the Pension Fund Administrator – **Not For Publication.**

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Dorset County Council

Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Monday, 17 September 2018

Present:
John Beesley (Chairman)
May Haines, Mark Roberts, John Lofts and Andrew Turner

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

Manager and Advisor Attendance
Alan Saunders, Independent Advisor
Matthew Trebilcock, Brunel Pensions Partnership Ltd

(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, 22 November 2018**.)

Apologies for Absence

30 Apologies for absence were received from Spencer Flower, Colin Jamieson and Peter Wharf (all Dorset County Council).

Code of Conduct

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

Minutes of Previous Meeting

32 The minutes of the meeting held on 21 June 2018 were confirmed and signed.

Public Participation

33 Public Speaking

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

There were no public questions 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.

Presentation from Brunel Pension Partnership Ltd

34 The Committee received a presentation from Matthew Trebilcock, Brunel Pensions Partnership Ltd, the Fund's Local Government Pension Scheme (LGPS) investment pooling manager. The presentation covered progress with asset transitions to Brunel portfolios and other developments since the last meeting of the Committee held on 21 June 2018.

The transition of approximately £6 billion of client fund assets into Brunel's passive portfolios was successfully completed in July 2018. Annual fee savings for the client funds in total were estimated to be approximately £1.1 million better than those assumed in the Final Business Case (FBC) for the pooling project, with transition costs also significantly lower than estimated in the FBC.

Brunel's Authorised Contractual Scheme (ACS) prospectus was submitted to the Financial Conduct Authority (FCA) on 10 September 2018. The first portfolios to be launched through the Brunel ACS were planned to be (active) UK Equities and Global Low Volatility Equities, with transition of assets expected in November 2018.

The manager selection process for the two new portfolios was near completion, with the announcement of the results expected shortly. Estimated fee savings from the UK Equity transition were expected to be significantly better than those assumed in the FBC. Brunel were asking for confirmation of commitments to the two new portfolios by 30 September 2018.

In response to queries from the Independent Adviser regarding the results of this exercise, the investment pooling manager expanded on the selection process that had been followed including the additional due diligence that had been undertaken. Further details of the strategies and teams of the successful bidders were requested.

In Private Markets, significant Secured Income commitments were close to completion with good progress also in identifying Private Equity opportunities. Good progress had been made in the establishment of Brunel as the 'multi-manager' for the clients' investments in pooled property funds. This excluded Dorset whose property investments (direct and pooled) would continue to be managed by CBRE.

The Independent Adviser was happy with progress in Private Markets. He believed that Dorset had demonstrated commitment to the Brunel approach by making allocations to the Private Equity and Secured Income portfolios.

The transition plan for all remaining portfolios was under review, based upon experience gained to date, and client expectations and priorities. The Independent Adviser asked if the transition plan for the Diversified Growth Fund (DGF) portfolio could be accelerated. The investment pooling manager explained that as part of the review all client funds had been asked to highlight their priorities. A number of client funds, including Dorset, had identified DGF as a high priority.

The Fund Administrator noted the good progress in implementation to date but asked for an update on additional costs. The investment pooling manager expected the outcome of the review to recommend extending the transition period from two to three years, but also with a requirement for some additional resource. A draft plan with indicative costs and benefits for different options would be presented to the Brunel Oversight Board on 27 September 2018 for feedback and direction.

Resolved
That further details of the strategies and teams of the successful bidders for UK Equities be provided by Brunel.

Independent Adviser's Report

35 The Committee considered a report by the Independent Adviser that gave his views on the economic background to the Fund's investments, and the outlook for different asset classes. He highlighted the key risks for markets, with the conclusion that it was time to take a more cautious approach to investment decisions.

Inflation in the US was predicted to rise with the expectation that the Federal Reserve would 'put the brakes on' by increasing interest rates, leading in turn to the appreciation of the US Dollar. This would have adverse consequences for Emerging Markets, due to the large dollar denominated debts of some countries and companies.

Increased global trading and political tensions were another key source of risk. The potential impact on oil prices of deteriorating relations between the US and Iran was highlighted. A member asked if the UK's North Sea oil reserves gave some protection from such a scenario. The Independent Adviser replied that although the UK was still reasonably self-sufficient in oil, an increase in oil prices was still expected to have an overall adverse impact on the economy.

In credit markets, there were signs of deterioration in the quality of loans, particularly the rise of 'covenant-lite' loans that had weaker protections for lenders, and an increased incidence of corporate failures.

UK equity markets were weaker than in other developed markets largely due to continued uncertainty regarding the final outcomes of the Brexit process. The worst case for markets would be 'no deal' or a perceived 'bad deal' as this would very likely lead to significant depreciation of sterling, similar to that witnessed after the results of the referendum.

Should any of these risks be realised, it could also be difficult for central banks to respond with more Quantitative Easing (QE) due to pressures on their balance sheets. In conclusion, the Fund should continue to de-risk by selling equities back towards target allocation, with UK equities the priority.

Noted

Fund Administrator's Report

36 The Committee considered a report by the Pension Fund Administrator on the latest indicative funding position, and the asset allocation, valuation and performance of the Fund's assets up to 30 June 2018.

The Fund Administrator highlighted the inclusion in the report of an interim update on the funding position between full triennial valuations from Barnett Waddingham, the Fund's Actuary. An update on the funding position would be included in all future reports.

The funding update showed an improvement in the funding position from 83.2% at the last triennial valuation at 31 March 2016 to an estimated 90.1% as at 30 June 2018 due to higher than expected increases in asset values in the intervening period.

The update also showed that the average required employer contribution rate was estimated to have increased from 21.4% of payroll to 22.2% due to higher assumed long-term inflation and lower assumed future investment returns. The Independent Adviser highlighted the impact of the choice of actuarial discount rate on this calculation. The Chairman also noted the impact of diversification away from equities towards other asset classes.

The value of the Fund's assets at 30 June 2018 was £2.95 billion, with a total return on investments of 3.5% for the quarter, against the combined benchmark return of 3.8%. Returns in the quarter were driven by large gains in equities in developed markets, reversing the losses in the previous quarter.

Performance in each asset class was discussed. The Independent Adviser highlighted the outperformance of the Multi Asset Credit (MAC) benchmark against the bonds benchmark which supported the decision for the change in target asset allocation. The Fund's MAC manager, CQS, had accepted an invitation to present at the next meeting of the Committee on 22 November 2018.

The Fund was overweight in equities with 52% of assets by value invested in listed equities, including emerging markets, compared to a target of 45%. Officers would continue to sell equities back towards target, but the challenge was to invest the proceeds in the more illiquid asset classes, such as private equity, infrastructure and property, where the Fund was below target.

Re-negotiations with Insight Investments, the Fund's Liability Driven Investment (LDI) manager, had resulted in a reduction in base fees, an improved performance fee mechanism and an updated benchmark. Significant changes to reporting had also been made but some further improvements 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 publication of the final audited Pension Fund accounts for 2017-18 be noted.
4. That the Risk Register be agreed.
5. That officers be thanked for their efforts in relation to the continued good performance and administration of the Fund.

The Brunel Pension Partnership - Project Progress Report

37 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, as approved by the Committee at its meeting on 9 January 2017.

Much of the report's content had been covered by the presentation from Brunel earlier in the meeting, but officers expanded on some points specific to Dorset that weren't previously covered.

The Fund's internally managed UK equities' portfolio successfully transitioned to the Brunel UK Passive portfolio on 11 July 2018 and the Fund's global equities under the management of Allianz successfully transitioned to the Brunel Smart Beta portfolio on 18 July 2018. In total, approximately £700 million of investments transferred to the Brunel's management, representing nearly a quarter of the Fund's total assets.

The Independent Adviser asked if the assets transferred to Brunel would be hedged against currency movements. Officers confirmed that the Fund's holdings in the Brunel Smart Beta portfolio were split equally between 'hedged' and 'unhedged' unit classes. This closely replicated the effect of the previous 50% hedge on assets denominated in US Dollars, Euros and Japanese Yen under the management of Allianz.

The Independent Adviser commented that Brunel's progress was advanced compared to that of the other LGPS investment pools.

Noted

Pension Fund Administration

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

Regulation 13 of the Local Government Pension Scheme (Amendment) Regulations 2018 introduced the requirement for the payment of an exit credit to an employer where a surplus was identified in a cessation valuation. Previously the regulations did not allow such a payment and any such surplus funds would remain in the Fund.

The bulk of the Annual Benefit Illustrations (ABIs) for members were issued before the statutory deadline of 31 August 2018 but issues with the data provided by one large employer resulted in 1,799 ABIs not being issued. This matter was being progressed with the employer.

The new Member Self-Serve Facility had gone 'live' with nearly a quarter of active and deferred scheme members now registered. The main intended benefit of the facility was increased engagement of members. It was anticipated that in 2019-20 members would have the choice to 'opt out' of the receipt of a paper copy of their ABI but there were no plans currently to stop paper copies entirely.

The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have launched a campaign to raise awareness of pension scams. To date this had not been a big issue for the Fund, but it was something that would continue to be closely monitored by officers.

Noted

Report to those charged with Governance (ISA 260) 2017-18

39 The Committee considered a report on the Fund's financial statements for 2017-18 by KPMG, the administering authority's external auditor. The Fund Administrator reported that no material issues had been identified, and an unqualified audit opinion on the Fund's financial statements was issued on 23 July 2018.

The auditor also concluded that the financial and non-financial information in the Fund's annual report was "not inconsistent" with the financial information contained in the Fund's audited financial statements.

Noted

Pension Fund Annual Report 2017-18

40 The Committee received the Pension Fund Annual Report for 2017-18. Officers confirmed that the report would be posted on the Fund's website.

Noted

Voting Activity 2017-18

41 The Committee received the annual report on the Fund's voting activity in relation to the equities directly owned by the Fund and held through pooled investments.

Officers highlighted that the Fund only voted against or abstained on a very small percentage of resolutions proposed by the management of companies it invested in, examples of which were given.

A single common voting policy would shortly be introduced for investments held in Brunel portfolios by the ten client funds including Dorset. This was unlikely to be materially different to the existing Dorset policy.

Noted

Dates of Future Meetings

42 **Resolved**

That meetings be held on the following dates:

21/22 November 2018	London (to be confirmed)
27 February 2019	County Hall, Dorchester

Questions

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

Meeting Duration: 10.00 am - 12.30 pm

MJ HUDSON
Allenbridge

DORSET COUNTY PENSION FUND

Governance Compliance Update

Pension Fund Committee on 22nd November 2018

24th November 2018

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Contact

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1.0 Summary Observations

- I have reviewed the business and minutes of Committee and Board meetings and I am satisfied that governance standards are being maintained and improved.
- The Pension Board has been operating effectively and in line with its responsibilities, but has suffered problems with meeting dates even on the basis of two meetings per year. Conversely there is pressure from the Pensions Regulator for more frequent meetings.
- I have reviewed the Annual Report for 2017-18 as reported to the Committee in September and I am satisfied that it is compliant with the regulatory requirements and reflects good practice.
- The new pooling arrangements (BPP) are continuing to evolve and assets are in a well-planned transition process through to 2020. Governance arrangements will need to be reviewed and similarly evolve to ensure the Committee and Board are best able to meet their responsibilities.
- Other issues developing nationally by the Scheme Advisory Board, the Government Actuary's Department and the Pensions Regulator should be monitored and responded to as and when appropriate.

2.0 Introduction

2.1 I last reported on the governance arrangements for the Dorset County Pension Fund to the Committee on 23rd November 2017. Since then, the Fund has been heavily engaged in developing and implementing new pooling arrangements, on which I comment later in this report.

2.2 As I have indicated to the Committee previously, my role in relation to compliance reporting has changed with the introduction of the Pension Board. Nevertheless, I continue to monitor the governance activities of both the Committee and the Board, and keep the Committee informed of issues developing scheme-wide.

2.3 Notwithstanding the pressures placed on funds to move to new pooling arrangements, the regulatory framework continues to develop and pressure continues on the administration arrangements. I have included some indicators of current developments, some commentary on discussions at the Scheme Advisory Board level of which the Committee should be aware, and also some recent national dialogue relating to local pension boards and pooling.

3.0 Core business activity

3.1 Part of my governance review involves monitoring the reports and minutes of Committee meetings and of Board meetings. While this may give only a limited perspective on the detail of meetings, it does enable me to form the view that governance standards are being maintained and improved. From my limited experience, I believe these standards are at a high level and consistent with the other funds with which I am involved.

3.2 I note in particular that the Committee has been kept informed of developments on data quality checks, the GMP reconciliation exercise, whole fund tracing, GDPR, administration backlogs, existence checks, amending regulations, exit credits, annual benefit statements, the risk register, and pension scams which are all issues under the regulatory spotlight. In addition I note the training day with BPP and the regular review of the Oversight Committee reports, and also the move to quarterly funding updates from Barnett Waddingham.

4.0 Review of the Annual Report

4.1 I have reviewed the content of the Annual Report and each of the policy documents contained within the Report. I have not studied each policy document in detail as this is a function more for the Board and I do not wish to duplicate their efforts. However I found the documents overall to be compliant with the regulations and have made some observations below.

4.2 No information is provided on administration performance over the past year, e.g. against benchmark for each main case type and in the form reported regularly to the Committee. In a similar vein, no indication is given of performance by employers under the Administration Strategy, e.g. payments made on time (or late if appropriate), any fines levied. This might be viewed technically as a lack of compliance with the regulatory requirements.

4.3 The report contains a statement of compliance with Myners' Principles. While this is a useful indicator of good practice, there is no longer any regulatory requirement to report on this. As a consequence, comments on compliance are no longer accurate in this context. Dorset is not alone in continuing to refer to Myners' Principles but any formal need for this is slipping away and the issues have almost been forgotten in the private sector.

5.0 Implementation of pooling arrangements

5.1 As I have indicated previously, the introduction of pooling arrangements represents a major change in the way LGPS funds are invested and I don't need to remind the Committee of the difficult and complex process they have gone, or are still going through. I note that the Committee has been advised that BPP are making good progress and better progress than some other pools.

5.2 At this albeit early stage, I believe there are still a number of detailed governance issues to be resolved particularly in the transition to a new structure through which the Committee and Board can continue to meet their responsibilities. While there will be guidance and advice on generic processes the Committee and Board will need to develop governance arrangements that work best for them in practice.

5.3 In terms of collaboration between pools, the Chairs of LGPS pension committees and local pension boards attended an open session on 27th March where representatives from the eight asset pools reported on progress in establishing their organisational structures and governance arrangements. I was not available to attend this meeting.

5.4 The SAB reports that steps have been taken to establish the Cross Pool Open Forum approved by the Board in February 2018, comprising three representatives from each of the eight pools and three trade union representatives. Such a Forum may be a useful cross reference for the Committee in testing their own arrangements both with other funds in BPP and also in other pools.

6.0 Dorset Local Pension Board

6.1 Over the past 12 months, the Board has continued to operate in line with its terms of reference, covering the key areas of their responsibilities. However, there is a continuing problem with holding meetings with the September meeting cancelled due to lack of availability, to be re-scheduled in November.

6.2 The Board considered the frequency of meetings earlier in the year and decided that two per year were adequate. As indicated later in this report, there is growing pressure from the Pensions Regulator for public sector pension boards to meet more frequently.

6.3 In reviewing the risk register as currently agreed, the Board may wish to consider whether there should be more references to the activities of the Board on reviewing compliance and performance, for example, as mitigating factors in reducing the likelihood of risk.

6.4 There has been considerable debate nationally about the representation of scheme members on the oversight committees of the pools, led in part by discussions at the Scheme Advisory Board. Earlier in the year, the SAB revised its guidance and issued a revised statement. The key component of this revised guidance is:

***"In line with the UK Corporate Governance Code principle of 'comply or explain', any pool making a decision to exclude member representatives from their formal oversight structures should publish this decision and formally report the reasons to the local pension boards which the pool serves**."*

6.5 I make this point as in my view this is something of a 'veiled threat' to administering authorities as the SAB has no powers to compel funds to comply although this will be perceived as good practice. BPP has already taken the step of appointing two scheme member representatives to the Oversight Committee in the capacity of observers and I understand that they report back to meetings of representatives of local pension boards of funds in the pool. This will be an important part of evolving governance arrangements.

6.6 Subsequently, there was some discussion at a CIPFA Conference for Local Pension Boards in June on the role of LPBs in pooling. I was unable to attend this event but a summary of the discussion has been circulated to attendees and I have circulated this to officers at funds with which I have an involvement.

6.7 While the comments are mainly from a local pension board perspective and are not in any way conclusive, the Committee may find it useful to know how pension boards generally are reacting to the new pooling arrangements. The conclusions in that note were:

- *"Overall the view appeared to be that LPBs should be very cautious about getting involved in decision making roles and the focus should be on scrutinising how the Committee\administering authority is managing the pool.*
- *There was support for an observer role and this is clearly working well in some Pools; it was felt that attending in person can provide a different understanding and view of what they mean than reading the reports and minutes.*
- *There was interest in the idea of the LPB chairs within each pool meeting as is already practiced by some although London may need to meet in smaller groups.*
- *The different Pool models make prescribing a solution difficult. There needs to be a clear process for making Pools accountable but in a free market environment this could be restrictive."*

6.8 In my view, the underlying issue is whether or not scheme member representatives should have a role in the investment decision making process, particularly in regard to responsible investment. As I have indicated to the Committee previously, my view is that local pension boards have a role in ensuring compliance and efficient processing but not in detailed investment decisions.

7.0 Scheme Advisory Board

7.1 Aside from the issues referred to above concerning scheme member representation, the Committee should be aware of other activities in progress.

7.2 The SAB has agreed three key projects in their Work-plan for 2018-19:

[1] The separation project with the objective to identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role. This project was first raised in 2015 and some initial investigative work done. However it was put on hold while pooling was progressed.

[2] A project proposed by MHCLG to identify regulations which may be better sited within statutory guidance and assist with the drafting of revised regulations and guidance.

[3] A project to assist administering authorities in meeting the Pension Regulator's requirements for monitoring and improving data, to include the identification of scheme specific conditional data and the production of guidance for authorities and employers.

7.3 In a move to improve communication of its work, the SAB agreed in October to circulate a bullet point summary of each meeting to scheme stakeholders as soon as possible to be followed up with a more detailed summary on the Board's website. The summary from their meeting on 10th October has been circulated to officers and I have highlighted some key governance issues below.

7.4 Cost cap mechanism:

- Following completion of the Section 13 national valuation process and the Treasury announcement regarding quadrennial national scheme valuations, the 2% floor has been breached in most cases.
- SAB has its own cost cap mechanism for LGPS which indicates a total cost of 19% against a target of 19.5%, and a working group has been established to agree a package to bring costs back to 19.5%.
- Any subsequent regulatory changes must be on the statute book by 1st April 2019.
- A move to quadrennial valuations for the LGPS is under discussion but won't affect the 2019 valuation.

7.5 Separation Project: Following a tender exercise, three bids for the work are under consideration.

7.6 Code of transparency: 91 signatories have signed up to the code covering £180bn of assets. An OJEU process is underway for the procurement of a code compliance utility.

7.7 Responsible investment: The Board has agreed that the guidance on Responsible Investment should include reference to the Government's latest position on ESG and, in particular, climate risk. ShareAction may be approaching funds to discuss their approach to ESG policies.

7.8 Pensions Regulator: Further to concerns raised by a number of funds, the Board agreed that the Chair should write to the Pensions Regulator about their activities and approaches in dealing with the LGPS. I do not know what those particular concerns are.

8.0 The Pensions Regulator

8.1 The results of the Public service governance and administration survey undertaken in autumn 2017 were finally published in May. Some of the key issues are summarised in Appendix A as these will influence tPR's work in the coming year. The survey for 2018 is due to be issued in early November for completion by the end of that month. It is important for funds to respond to this survey as the results are clearly used by tPR to assess performance on governance issues.

8.2 A new approach to regulation of workplace pension scheme has been launched recently with the 'banner' headlines:

"An increasing number of workplace pension schemes will come under greater scrutiny from The Pensions Regulator (TPR) from next month as part of a significant shift in its approach to protect savers. To reflect major changes in the political, economic and pensions landscape, TPR will be working proactively with more pension schemes through a new range of interventions to address risks sooner, clearly set out its expectations and take action where necessary."

8.3 While this new approach applies to all workplace schemes with the emphasis on protecting savers, inevitably there will be an additional focus on LGPS schemes and current indications are that at least five LGPS funds have been targeted for one-to-one contact. This may be the source of the concerns referred to in paragraph 7.8 above.

8.4 Key areas of focus are suggested as:

Record keeping and data quality: This remains a high priority with data scores implemented in 2018 and scheme returns (issued in September for submission by the end of October) to include data scores for the first time.

Local Pension Boards assisting Scheme Managers: An expectation that Scheme Managers should work with LPBs and that the boards take an active role in identifying key risks and driving forward improvements.

21st Century Governance: This remains a key focus in raising standards of competence and improving the governance and administration of pension schemes.

Writing to Scheme Managers: Main risk areas should already be focussing on risks, how to identify and mitigate them, coupled with tPR's expectations.

9.0 The Pensions Advisory Service

9.1 The current LGPS regulations require references to TPAS to be made in dispute resolution decisions and documentation. However, TPAS dispute resolution service was transferred to the Pensions Ombudsman in March 2018. While this may be due to Parliamentary time pressures, there is nevertheless a compliance issue that is causing some confusion.

10.0 Other issues

10.1 MHCLG has recently released draft regulations covering survivor benefits together with other technical amendments. Further regulatory changes, albeit a long time coming, are still expected in respect of an exit cap, 'Fair Deal' and valuation factors.

10.2 Notwithstanding the enormous pressures placed on funds in relation to pooling and with the forthcoming valuation exercise next year, the administration and governance of the Scheme continues to face enormous pressures.

Public service governance and administration survey 2017

Summary of key findings reported by the Pensions Regulator

- Confirms their assessment that the top risks are around scheme governance, record keeping and internal controls but identifies significant improvements.
- 60% of schemes reported that all members received their annual benefit statements on time (up from 43% the previous year).
- Increased engagement from scheme managers and pension boards in running the schemes.
- 43% of schemes hold fewer than four meetings a year which in their view provides inadequate opportunity for pension boards to effectively carry out their role and raises concerns about the quality of governance.
- Process improvements have stalled in some Local Government schemes and this group was the one least likely to respond to the survey and they are concerned about the risks of disengagement.
- Because of the specific challenges faced by Local Government schemes, they expect to focus casework activities on that group in the coming year.
- Only 58% of schemes have all six of the key processes measured by tPR in place.

  [N.B.] The six key processes are not entirely clear but are likely to include:

  [1] Governance

  [2] Conflicts of interest

  [3] Risk management

  [4] Administration performance

  [5] Record keeping and data quality

  [6] Reporting

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REPORT PREPARED FOR

Dorset County Pension Fund - Pension Fund Committee

November 2018

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INVESTMENT OUTLOOK

While markets held up well in the third quarter, there has been a significant sell off in October, the second correction of the year. The risk factors behind market sentiment remain much as we have documented them this year, notably the pace of Fed tightening. In broad terms, the overall economic landscape has not altered much, with the exception perhaps of a weakening in the European economy.

The Brexit discount on UK equities has not changed with continuing underperformance and Mrs May's customs partnership offer to date has been rejected by the EU. The government is talking up the prospect of agreement later in November. Meanwhile, the budget was notable for the shift to fiscal stimulus and the abandonment of a balanced budget objective as better tax revenues than expected have been used to deliver the NHS spending pledge, with the carrot of a Brexit dividend if a good deal is struck.

As a commentator once said "bull markets don't die of old age, they get killed by the Fed". Ten years on, it is no surprise that the bull run is being challenged despite the very positive corporate earnings reported in the US. We are now seeing selling of both US equities and US bonds. In recent years, this has caused the Fed to soften policy to avoid any macro weakness but now the Fed seems determined to press on. With trade wars threatening, China slowing and Trump bearing down hard on Iran,we reiterate our cautious outlook.

ECONOMY

In the US, policy rates are now up to 2.0-2.25% with another rise likely by year end and the expectation being rates well over 3% by next year .In contrast, UX base rates are only 0.75%. The US economy is growing strongly still but the Fed fears presumably that there is little spare capacity given full employment and that inflation will rise over 3%. With the mid –term elections imminent and Democrat gains expected, the President is picking fights overseas, with China and Iran the current targets. The spat with Iran could be the more dangerous in the near term if over 1mbbl/day oil exports are cut off as there is little spare production capacity in OPEC these days. Oil prices at $100/bb plusl would damage the global economy and raise inflation though of course, economies are less vulnerable than they used to be, given increased energy efficiency.

The European economy slipped back to growth of only 0.2% in Q3, half the rate expected and, not surprisingly, Italy saw zero growth. If the overall economy is really stalling, as these numbers suggest, that will present a dilemma for the ECB, as it is due to stop its policy of buying bonds at year end. It will be difficult to start contracting its balance sheet, as the Fed is now doing, if the economy is contracting. The Italian stand-off over its proposed budget deficit is concerning with Italian bond yields now around 3.5%. The unknown is the exposure of European banks to the bond market and the extent of any writedowns necessary.

In the UK, the government had a good budget, albeit somewhat political in emphasis. The shift from fiscal contraction to stimulus was equivalent to some 0.5% GNP, which helps prop up a subdued economic forecast. The deficit has reduced from some 10% of GNP to around 2% currently so a degree of belt loosening seems justified. The positive impact can of course be more than offset by Brexit in a hard landing scenario. In that event, the Chancellor has kept something back, to support the economy through tax cuts or spending increases. The BoE may also be forced to reduce interest rates as well as provide liquidity to markets. Whether the outturn is a variant of the existing customs union proposal, a Canada plus deal or a Norwegian deal, consensus forecasts all point to weaker economic activity than would otherwise be the case in the near term .With a sensible transition period, the challenges should be manageable but it is harder to say that of a disorderly exit where supply disruptions could be very damaging. Markets are not pricing that in as hopes remain for a deal.

In emerging markets, the recovery in the dollar and higher US interest rates provide a continuing threat. Brazil has elected a conservative at last which has rallied the market. China is still reporting growth numbers of 6.5%, in line with target, but the economy does seem to be slowing and the remnimbi is at a ten year low against the dollar which the US won't like. Higher tariffs are not having much impact yet though factory orders are beginning to fall off. As in previous growth pauses, the authorities are likely to intercede and already bank reserve requirements are being eased. They are however conscious of moving too far as they did in 2015 to stimulate the economy. That produced a stockmarket boom and bust which they will try to avoid this time round.

MARKETS

Equity markets suffered their worst monthly sell-off since 2013 in October. The period under review though saw a more nuanced picture, with the US and Japan producing gains but the UK, Europe and emerging markets down somewhat. In sterling terms, global equities were up some 5% in the quarter and for the year to date while the UK has flatlined.

It is more helpful perhaps to focus on these last few weeks. In 2016, US treasury bonds rallied as equities sold off as flow of funds sought security. Now bonds are weak too with 10 year yields at 3.25%. The fundamentals are not good for bonds with the Fed shrinking its balance sheet at the same time as the government is issuing bonds in record size to fund the expanding budget deficit.

Valuation models with higher discount rates put a lower value on future corporate earnings and thus equity market levels. Recent US profits growth has been an extraordinary 20% but the view is increasing that we must be at the top of the earnings cycle and valuation is certainly strained in the US. Other factors though are at work. There has been a major retreat by technology stocks, partly for non-market reasons like the privacy debate.

Former Fed chair, Janet Yellen, has been stepping up her critique of the credit markets recently, a frequent source of comment in this report. Corporate leverage in the US is now very high, partly to fund stock buybacks but also to fund takeovers. Could a credit event unnerve markets as in 2008? Certainly, loan standards are deteriorating but while credit spreads could widen out if defaults increase, the capacity of the financial system to absorb losses is much greater now than in 2008 as banks have been forced to improve their capital ratios.

With the UK, Europe and emerging markets all suffering in their different ways at present, it is hard to see how a general contagion can be avoided if the US correction does extend further. Already, some markets, like China, could be said to be in bear market territory, with falls of some 20%. The global economy does not look like it is heading for recession even though it appears to be slowing. By 2020, though, a global slowdown is quite likely as the Trump fiscal stimulus runs out of steam and escalating tariffs start to bite.

Even without Brexit, therefore, it would be wise to be cautious about prospects for markets in 2019. How much of that will be brought forward into 2018 is the current focus. All risk assets are vulnerable, including credit where spreads are in the process of starting to widen out. High yield bonds have produced returns of only 1% year to date though leveraged loans have done better.

Where does the UK gilt market go with all these divergent forces? 10 year gilt yields have stuck around the 1.3% level, so have not shared in the US retreat. A major sell-off in sterling in the event of a hard Brexit could produce that but experience suggests the safe haven argument tends to win the day in the UK. Index linked might do better in this potentially inflationary scenario

Property continues to surprise with its resilience, at least as far as commercial property is concerned. The high street remains challenged with no easy solution but elsewhere rents and capital values are holding up. With limited office developments in the pipeline and overseas buying likely to be attracted by any further sterling weakness, some areas like London offices may become even more over- priced.

ASSET ALLOCATION

Brunel implementation continues apace and will be addressed elsewhere. Allocations to pools in Secured Finance and Private Equity have been agreed. The LDI mandate remains under discussion with a case to be made for increasing the inflation hedge closer to 50%. That is one use of spare capital but given the risks addressed in this review, there is no harm in keeping some cash on the sidelines at present.

FOR FURTHER INFORMATION

For further information, please contact Alan Saunders on 020 7079 1000 or at alan.saunders@mjhudson.com.

Pension Fund Committee

Dorset County Council

Date of Meeting	22 November 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 funding position, and the valuation and overall performance of the Fund's investments as at 30 September 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 current projection of the funding level as at 30 September 2018 is 92.9% and the average required employer contribution would be 20.6% of payroll assuming the deficit is to be paid by 2038. The value of the Fund's assets at 30 September 2018 was £3,021M compared to £2,854M at the start of the financial year. The Fund returned 6.2% over the financial year to 30 September 2018, which is in line with its strategic benchmark. Return seeking assets returned 6.9%, whilst the liability matching assets returned 1.1%.
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.
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: Listed Equities Report Appendix 2: Corporate Bonds Report Appendix 3: Property Report
Background Papers	
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Key issues to highlight

1.1 The estimated funding level has improved from 83.2% at the last triennial valuation, as at 31 March 2016, to 92.9% as at 30 September 2018. This improvement is largely the result of the substantial appreciation in the value of the Fund's investments in 2016-17.

1.2 The Actuary has estimated that the average required employer contribution would be 20.6% of payroll compared 21.4% at the 31 March 2016 funding valuation.

1.3 Performance for the quarter was slightly ahead of the Fund's combined benchmark, and is broadly in line with benchmark over all longer periods.

1.4 The quarter saw large gains in overseas developed equities markets, with UK and emerging markets equities markets generally quiet flat.

1.5 The quarter saw very high absolute and relative returns from both the Fund's private equity managers, in part as a result of the appreciation of the dollar. 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.

1.6 Similarly, absolute and relative returns from IFM, one of the Fund's two Infrastructure managers, for the financial year to 30 September June were favourably affected by the appreciation of the dollar. The investments are held in US dollars but performance is measured against a 10% absolute return in sterling.

2. Funding Update

2.1 The Fund's actuary, Barnett Waddingham, undertake a full assessment of the funding position every three years. This was last completed as at 31 March 2016 and will be next undertaken as at 31 March 2019.

2.2 In addition to the full triennial assessment, officers have now asked Barnett Waddingham to carry out indicative updates on the funding position on a quarterly basis. It is intended that this will provide a better understanding of movements in the Fund's overall funding position between triennial valuations.

2.3 The assessment as at 30 September 2018 is based on:

- the results of the last triennial actuarial valuation as at 31 March 2016
- estimated whole Fund income and expenditure items for the period to 30 September 2018; and
- estimated Fund returns based on Fund asset statements provided to 30 September 2018.

2.4 The results of this assessment indicate that the current projection of the funding level as at 30 September 2018 is 92.9% (90.1% at 30 June 2018) and the average required employer contribution would be 20.2% of payroll assuming the deficit is to be paid by 2038 (22.2% at 30 June 2018). This compares with the funding level of 83.2% and average required employer contribution of 21.4% of payroll at the 31 March 2016 funding valuation.

2.5 Actual contribution rates will remain unchanged until the results of the next triennial valuation are agreed for 2020-21 onwards, based on a full review of liabilities and assets at 31 March 2019.

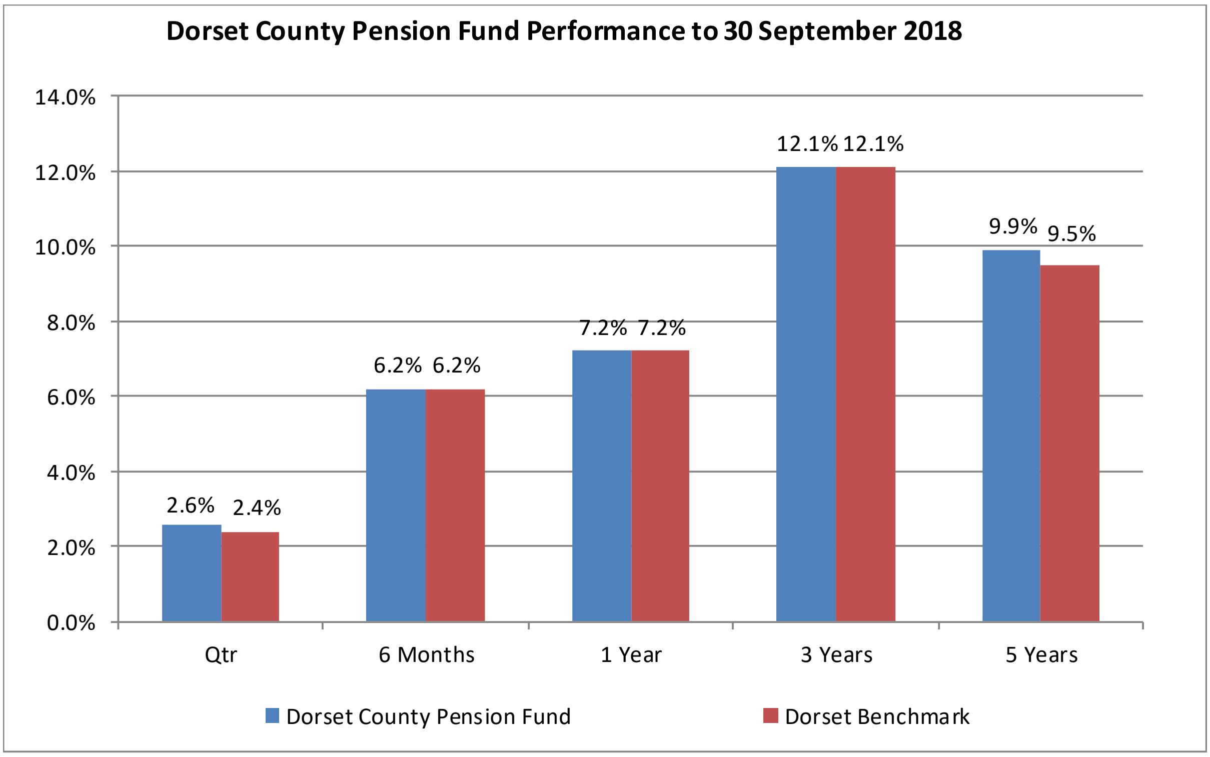
2. Asset Valuation

2.1 The table below shows the Fund's asset valuation by asset class at the beginning of the financial year and as at 30 September 2018, together with the target allocation as agreed at the meeting of the Committee, 13 September 2017, and the tolerances for each asset class as stated in the Investment Strategy Statement (ISS).

		31-Mar-18		30-Sep-18		Target Allocation		Tolerance
Asset Class	**Manager**	**£M**	**%**	**£M**	**%**	**£M**	**%**	
UK Equities	Several	647.2	22.7%	659.6	21.8%	604.0	20.0%	+/- 4.0%
Overseas Equities	Several	691.4	24.2%	755.7	25.0%	664.4	22.0%	+/- 4.0%
Emerging Markets Equities	JP Morgan	103.2	3.6%	97.4	3.2%	90.6	3.0%	+/- 0.5%
Total Listed Equities		***1,441.8***	***50.5%***	***1,512.7***	***50.1%***	***1,359.1***	***45.0%***	
Corporate Bonds	RLAM	204.5	7.2%	203.2	6.7%	181.2	6.0%	+/- 1.5%
Multi Asset Credit	CQS	136.2	4.8%	138.7	4.6%	151.0	5.0%	+/- 1.0%
Diversified Growth	Barings	173.3	6.1%	178.7	5.9%	241.6	8.0%	+/- 1.0%
Infrastructure	Several	106.6	3.7%	136.5	4.5%	151.0	5.0%	+/- 1.0%
Private Equity	Several	76.5	2.7%	83.2	2.8%	151.0	5.0%	+/- 1.0%
Property	CBRE	295.4	10.4%	310.5	10.3%	362.4	12.0%	+/- 1.0%
Cash	Internal	40.0	1.4%	72.8	2.4%	-	0.0%	-
F/X Hedging	State Street	-	0.0%	0.5	0.0%	-	0.0%	-
Total Return Seeking Assets		**2,474.3**	**86.7%**	**2,636.3**	**87.3%**	**2,597.4**	**86.0%**	
Liability Matching Assets	Insight	379.7	13.3%	383.9	12.7%	422.8	14.0%	+/- 3.0%
Total Asset Valuation		**2,854.0**	**100.0%**	**3,020.2**	**100.0%**	**3,020.2**	**100.0%**	

3. Investment Performance

3.1 The overall performance of the Fund's investments to 30 September 2018 is summarised below.



3.2 The Fund returned 6.2% for the financial year to 30 September 2018, matching its benchmark. Over the longer term, the Fund matched its benchmark over 3 years, returning an annualised 12.1%, and overperformed over 5 years, returning an annualised 9.9% against the benchmark of 9.5%.

3.3 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.

3.4 For the financial year to 30 September 2018, return seeking assets returned 6.9% against the benchmark return of 7.1%, and liability matching assets returned 1.1% against the benchmark return of -0.5%. 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.

4. Performance by Asset Class

UK Listed Equites

4.1 On 11 July 2018, the internally managed UK equity portfolio transferred to the Brunel UK Passive Equities portfolio managed by Legal & General Investment Management (LGIM). The performance of the Fund's external mangers is detailed in Appendix 1, and summarised in the tables below.

AXA Framlington

	Performance	Benchmark	Relative
Quarter	-1.3%	-0.8%	-0.5%
Financial Year to Date	6.4%	8.3%	-1.9%
12 months	3.4%	5.9%	-2.5%
3 years p.a.	7.7%	11.5%	-3.8%
5 years p.a.	6.5%	7.5%	-1.0%
Since inception p.a.	7.4%	6.2%	1.2%

Schroders

	Performance	Benchmark	Relative
Quarter	1.1%	-2.1%	3.2%
Financial Year to Date	6.6%	4.8%	1.8%
12 months	9.7%	0.6%	9.1%
3 years p.a.	16.1%	9.4%	6.7%
5 years p.a.	14.6%	8.6%	6.0%
Since inception p.a.	11.4%	7.1%	4.3%

Brunel/LGIM Passive

	Performance	Benchmark	Relative
Quarter	-1.6%	-1.5%	-0.1%
Since inception p.a.	-1.6%	-1.5%	-0.1%

Global Equites

4.2 On 18 July 2018, the holdings under the management of Allianz transferred to the Brunel Smart Beta portfolio managed by LGIM. The performance of the Fund's external global equities managers is detailed in Appendix 1 and summarised in the tables below.

Investec

	Performance	Benchmark	Relative
Quarter	5.8%	6.3%	-0.5%
Financial Year to Date	14.7%	14.9%	-0.2%
12 months	13.3%	14.4%	-1.1%
Since inception p.a.	16.9%	17.4%	-0.5%

Wellington

	Performance	Benchmark	Relative
Quarter	7.6%	6.3%	1.3%
Financial Year to Date	15.7%	14.9%	0.8%
12 months	17.2%	14.4%	2.8%
Since inception p.a.	18.9%	17.4%	1.5%

Brunel/LGIM Smart Beta

	Performance	Benchmark	Relative
Quarter	3.0%	3.1%	-0.1%
Since inception p.a.	3.0%	3.1%	-0.1%

Brunel/LGIM Smart Beta (Hedged)

	Performance	Benchmark	Relative
Quarter	2.8%	2.6%	0.2%
Since inception p.a.	2.8%	2.6%	0.2%

4.3 Relative performance in the quarter and the financial year to date was below the benchmark for Investec, whilst Wellington outperformed their benchmark over the same period. Over twelve months Wellington outperformed their benchmark but Investec underperformed theirs. Over the longer term both 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 Wellington are above their benchmark whilst Investec are underperforming their benchmark.

Emerging Markets Equities

4.4 The performance of JP Morgan, the Fund's emerging markets equities manager is detailed in Appendix 1 and summarised below.

	Performance	Benchmark	Relative
Quarter	-0.8%	0.1%	-0.9%
Financial Year to Date	-5.7%	-2.1%	-3.6%
12 months	-2.4%	2.0%	-4.4%
3 years p.a.	18.4%	18.1%	0.3%
5 years p.a.	8.2%	8.2%	0.0%
Since inception p.a.	5.9%	5.9%	0.0%

4.5 Emerging markets equities in the quarter were weighed down by a slowdown in the pace of Chinese credit growth, and fears over the vulnerability of some economies to tighter US monetary policy and concerns about the potential impact of global trade tensions. China has successfully slowed the pace of non-bank credit growth but, faced with the external headwind of US tariffs, the authorities are now easing policy to support domestic growth. This should provide some support for those countries that depend on Chinese demand.

4.6 In the quarter, Taiwanese stocks were the biggest detractors from performance for JP Morgan, primarily driven by technology stocks due to concerns over weak sales for the latest generation iPhone and a cyclical slowdown in semiconductors. Over the last 12 months, the strategy has underperformed driven by stock selection, notably in Asia. Long term performance over 3 and 5 years is broadly in line with benchmark.

Corporate Bonds

4.7 The performance of the Fund's external Corporate Bonds manager, RLAM, is detailed in Appendix 2, and summarised below.

	Performance	Benchmark	Relative
Quarter	-0.4%	-0.6%	0.2%
Financial Year to Date	-0.6%	-1.0%	0.4%
12 months	1.0%	0.0%	1.0%
3 years p.a.	6.2%	5.4%	0.8%
5 years p.a.	7.2%	6.2%	1.0%
Since inception p.a.	8.5%	8.4%	0.1%

4.8 Absolute returns were negative for the quarter and financial year to 30 September, but ahead of benchmark for all periods. The manager outperformed the broader sterling credit market, with performance driven by their positioning in financials and being underweight in supra-nationals.

Multi Asset Credit (MAC)

4.9 The performance of the Fund's external MAC manager, CQS, is covered in further detail elsewhere on the agenda and is summarised below.

	Performance	Benchmark	Relative
Quarter	1.5%	1.2%	0.3%
Financial Year to Date	1.8%	2.3%	-0.5%
Since inception (Dec-17)	2.7%	3.9%	-1.2%

Property

4.10 The performance of the Fund's external Property manager, CBRE, is detailed in Appendix 3, and summarised below.

	Performance	Benchmark	Relative
Quarter	0.7%	1.7%	-1.0%
Financial Year to Date	2.5%	3.5%	-1.0%
12 months	7.6%	8.6%	-1.0%
3 years p.a.	7.6%	7.5%	0.1%
5 years p.a.	11.4%	10.9%	0.5%
Since inception p.a.	7.9%	7.9%	0.0%

4.11 The portfolio has underperformed the IPD benchmark over 1 year but outperformed over 3 and 5 years.

Private Equity

4.12 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.

4.13 The tables below summarise performance to date for both managers.

HarbourVest

	Performance	Benchmark	Relative
Quarter	8.2%	-0.8%	9.0%
Financial Year to Date	23.6%	8.3%	15.3%
12 months	23.5%	5.9%	17.6%
3 years p.a.	19.1%	11.5%	7.6%
5 years p.a.	19.4%	7.5%	11.9%
Since inception p.a.	11.3%	6.1%	5.2%

Aberdeen Standard

	Performance	Benchmark	Relative
Quarter	7.5%	-0.8%	8.3%
Financial Year to Date	18.1%	8.3%	9.8%
12 months	23.7%	5.9%	17.8%
3 years p.a.	15.0%	11.5%	3.5%
5 years p.a.	11.6%	7.5%	4.1%
Since inception p.a.	3.1%	6.6%	-3.5%

4.14 Private Equity is an asset class that takes several years for commitments to be fully invested. The table below summarises the commitment the Fund has made in total to each manager, 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 30 September 2018 and the total gains or losses, which includes the distribution plus the latest valuation.

Private Equity Commitments, Drawdowns and Valuations

Manager	Commitment	Drawdown		Distribution	Valuation	Gain
	£m	£m	%	£m	£m	£m
HarbourVest	107.7	70.9	66%	63.5	48.2	40.9
Aberdeen Standard	77.7	53.2	68%	49.1	35.0	31.0
Brunel	60.0	0.0	0%	0.0	0.0	0.0
Total	**245.4**	**124.0**	**51%**	**112.7**	**83.3**	**71.9**

4.15 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, Aberdeen Standard and the Brunel private markets team to identify further opportunities for investment.

Diversified Growth Funds (DGF)

4.16 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. The fund's objective is to deliver 'equity like' returns (over the long term) but with about 70% of the equity risk.

4.17 The performance for Barings is summarised below.

	Performance	Benchmark	Relative
Quarter	1.7%	1.2%	0.5%
Financial Year to Date	3.1%	2.4%	0.7%
12 months	2.7%	4.7%	-2.0%
3 years p.a.	6.7%	4.5%	2.2%
5 years p.a.	4.7%	4.6%	0.1%
Since inception p.a.	4.8%	4.6%	0.2%

4.18 The manager's decision to shift equity allocations to US and the long-held allocation to Japan were the main contributors to performance. Substantially reducing the exposure to emerging market debt also aided performance.

Infrastructure

4.19 The Fund has two external infrastructure managers, Hermes and IFM. In July 2018, Federated Investors Inc. completed their acquisition of a 60% stake in Hermes Investment Management from BT Pension Scheme (BTPS). BTPS retain a 29.5% stake in Hermes, with Hermes senior management holding in total the remaining 10.5%. Infrastructure and private equity mandates will continue to be managed under their existing ownership and governance structure.

4.20 As with Private Equity, Infrastructure is a long term investment that takes several years for commitments to be fully invested. Performance to date for each manager is summarised in the tables below:

Hermes

	Performance	Benchmark	Relative
Quarter	-1.7%	2.5%	-4.2%
Financial Year to Date	-1.0%	5.0%	-6.0%
12 months	8.6%	10.0%	-1.4%
3 years p.a.	8.8%	10.0%	-1.2%
5 years p.a.	N/A	N/A	-
Since inception p.a.	8.4%	10.0%	-1.6%

4.21 Valuations of regulated utilities have decreased reflecting the impact of recent policy announcements by UK regulators in relation to price controls in the water and energy sectors.

IFM

	Performance	Benchmark	Relative
Quarter	7.8%	2.5%	5.3%
Financial Year to Date	13.1%	5.0%	8.1%
12 months	22.4%	10.0%	12.4%
3 years p.a.	N/A	N/A	-
5 years p.a.	N/A	N/A	-
Since inception p.a.	18.3%	10.0%	8.3%

4.22 During the quarter, IFM completed the acquisition of a 49% stake in FCC Aqualia (a leading Spanish water company) and the disinvestment of its remaining 20% stake in 50Hertz. Positive returns were driven by outperformance from 50Hertz, Vienna Airport, and Manchester Airports Group, partially offset by a negative yield from Mersin International Port. Distributions also contributed to performance.

4.23 Following the end of the quarter, IFM GIF announced the acquisition of a 50% stake in impala Terminals, a diversified portfolio of base metal terminal infrastructure assets located in Peru, Spain and Mexico. The transaction is subject to regulatory approvals in Europe.

4.24 The Fund's investments with IFM are held in US dollars but performance is measured against a 10% absolute return in sterling, therefore absolute and relative returns will be affected by currency movements.

Liability Driven Investment (LDI)

4.25 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-18	379,717
Investment	0
Disinvestment	0
Increase / (Decrease) in Valuation	4,143
Valuation 30-Sep-18	383,860

4.26 Officers and the Independent Adviser, supported by Mercer, have concluded discussions with Insight to refresh the liability benchmark, revisit the fee basis and improve the monitoring framework. The results of this review are expected to be implemented shortly.

5. Cash and Treasury Management

5.1 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 30 September 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	2,330	0.15%
Svenska Handelsbanken	5,000	0.68%
Total Call Accounts	7,330	0.51%
Money Market Funds		
Standard Life	8,000	0.66%
BNP Paribas	15,000	0.68%
Federated Prime Rate	15,000	0.69%
Deutsche	15,000	0.70%
Goldman Sachs	700	0.63%
Total Money Market Funds	53,700	0.68%
Holding Accounts		
HSBC Custody Accounts	-	0.00%
Property Client Account	2,043	0.00%
State Street Custody Accounts	9,716	0.00%
Total Holding Accounts	11,759	0.00%
Total Cash / Average Return	**72,789**	**0.56%**

5.2 The Fund is currently 'cashflow positive' as it 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 £10M to £20M in the 2018/19 financial year. The table below summarises the main Fund's main cash flows for the financial year to date.

Statement of cash-flow for the six months ended 30 September 2018

	£M	**£M**
Cash at 1 April 2018		**40.0**
Less:		
Property Transactions (net)	15.4	
Diversified Growth Fund (net)	0.0	
Multi Asset Fund (net)	0.0	
Infrastructure Drawdowns (net)	22.8	
Currency Hedge (net)	22.0	
		60.2
Plus:		
Private Equity (net)	8.8	
UK Equity transactions (net)	36.6	
Liability Matching Bond (net)	0.0	
Overseas Equities	35.3	
Hedge Funds (net)	0.0	
Bonds (net)	0.0	
Increase in Cash	12.3	
		93.0
Cash at 30 September 2018		**72.8**

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 6.7% 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 5.9% against the revised target of 8%, and the current allocation to UK Equities as 21.8% against the revised target of 20%.

6.4 The internally managed passive UK equity portfolio, and the Allianz managed Global Equity portfolios transitioned to Brunel portfolios managed by Legal and General Investment Management (LGIM) in July 2018. In order to bring equity allocations closer to target, as part of these transitions there was a disinvestment of the self-managed UK equity portfolio of £30M, and disinvestments totalling £35M from the Allianz managed Global Equity portfolio.

6.5 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. A commitment of 2.0% has been made to the Brunel Private Equity portfolio, with a further 2.0% commitment to the Brunel Secured Income portfolio. Drawdowns against commitments will be funded from cash balances and/or further disinvestment from equities and corporate bonds.

6.6 For all other asset classes, where the current allocation is different to the new target, it is expected that the target will be achieved through allocation to the appropriate Brunel portfolio as and when these become available.

Richard Bates
Pension Fund Administrator
November 2018

Dorset County Pension Fund Committee 22 November 2018

Listed Market Equities

1. Equity Markets Performance

1.1 There was positive performance from the UK in the six months to 30 September 2018. The FTSE100 was the best performer rising 6.4% (454 points). The FTSE Small Cap index was the worst performing UK index despite rising 4.1% (229 points) over the same period. In comparison, performance from major world indices were mixed with the Nikkei 225 the best performing index rising 12.4% (2,666 points), whilst the Shanghai Composite fell 11% (348 points) over the same period. The Dow Jones rose 9.8% (2,355 points) in the six-month period to 30 September 2018.

1.2 Over the twelve-month period to 30 September 2018, there were positive performances from the UK indices. The FTSE250 was the best performer rising 2.2% (432 points), whilst the FTSE Small Cap ex Investments Trust was the worst performing UK index rising 0.6% (50 points). In comparison, performance from major world indices were mixed with the Nikkei225 rising 18.5% (3,764 points), whilst the Shanghai Composite fell 15.8% (528 points) over the same period.

1.3 Both the Dow Jones and the S&P 500 indices reached record highs on 20 September 2018. The S&P 500 was led by technology stocks as strong economic data helped to alleviate trade worries.

1.4 The tables below show the performance of UK and World indices over the six months to September 2018.

Six months to 30 September 2018

Country	Index	31/03/2018	30/06/2018	% Change
UK	FTSE100	7,056.1	7,510.2	6.4
UK	FTSE250	19,460.5	20,307.0	4.3
UK	FTSE350	3,941.2	4,180.7	6.1
UK	Small Cap	5,593.1	5,822.0	4.1
UK	Small Cap ex Investment Trusts	7,354.9	7,709.4	4.8
UK	All Share	3,894.2	4,127.9	6.0
Japan	Nikkei225	21,454.3	24,120.0	12.4
US	Dow Jones	24,103.1	26,458.3	9.8
Hong Kong	Hang Seng	30,093.4	27,788.5	-7.7
France	Cac 40	5,167.3	5,493.5	6.3
Germany	Dax	12,096.7	12,246.7	1.2
China	Shanghai Composite	3,168.9	2,821.4	-11.0

Twelve months to 30 September 2018

Country	Index	30/09/2017	30/09/2018	% Change
UK	FTSE100	7,372.8	7,510.2	1.9
UK	FTSE250	19,874.8	20,307.0	2.2
UK	FTSE350	4,101.7	4,180.7	1.9
UK	Small Cap	5,712.4	5,822.0	1.9
UK	Small Cap ex Investment Trusts	7,659.9	7,709.4	0.6
UK	All Share	4,049.9	4,127.9	1.9
Japan	Nikkei225	20,356.3	24,120.0	18.5
US	Dow Jones	22,405.1	26,458.3	18.1
Hong Kong	Hang Seng	27,554.3	27,788.5	0.8
France	Cac 40	5,329.8	5,493.5	3.1
Germany	Dax	12,858.9	12,246.7	-4.8
China	Shanghai Composite	3,348.9	2,821.4	-15.8

2. Market Review

2.1 Global equities posted positive results for the second straight quarter, extending their year-to-date gain to 6.0%. Global markets stabilized in the wake of robust US economic data while political uncertainty and trade concerns weighed on other regions.

2.2 US and China trade relations remained volatile, as US tariffs on approximately US$200 billion of Chinese imports took effect in September. China promptly retaliated with tariffs on about US$60 billion of US exports.

2.3 Emerging markets volatility spiked after Turkey's financial crisis rattled global markets, but receded at the end of the quarter.

2.4 Oil approached a four year-high amidst global supply uncertainties and strong global growth. Oil inventories declined after OPEC refrained from increasing output and as the first round of US sanctions on Iran went into effect.

2.5 On the monetary front, the US Federal Reserve, the Bank of England and the Bank of Canada raised interest rates by 25 basis points. The European Central Bank remained dovish, leaving rates unchanged and reiterating its pledge to keep them low at least until the summer of 2019.

UK Equity performance for the period ending 30 September 2018

3. Background

3.1 On 11 July 2018, the internally managed passive UK equity portfolio transferred to the Brunel UK Passive Equities portfolio managed by Legal & General Investment Management (LGIM). The Fund also has two UK equities active managers, AXA Framlington and Schroders. 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 (£659.6M at 30 September 2018) are shown in the table at paragraph 4.1.

3.2 Investment in the smallest companies which make up 3.5% of the index is achieved by a holding in the Schroders Institutional UK Smaller Companies Fund which is managed on an active basis.

4. Valuation

4.1 The table below summarises the valuations for the four managers as at 1 April 2018 and 30 September 2018.

	In-House	LGIM	AXA	Schroders	Total
	£000s	£000s	£000s	£000s	£000s
Valuation 01-Apr-18	401,402	-	190,746	55,096	647,244
Investment	-	434,849	-	-	434,849
Disinvestment	- 434,849	- 30,000	-	-	- 464,849
Increase in Valuation	33,808	- 7,585	12,543	3,610	42,376
Valuation 30-Sep-18	361	397,264	203,289	58,706	659,620

5. Performance

5.1 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 30 September 2018.

		LGIM	AXA Framlington	Schroders
Quarter to Date				
	Performance	-1.6%	-1.3%	1.1%
	Benchmark	-1.5%	-0.8%	-2.1%
	Relative Return	-0.1%	-0.5%	3.2%
Financial Year to Date				
	Performance	-	6.4%	6.6%
	Benchmark	-	8.3%	4.8%
	Relative Return	-	-1.9%	1.8%
Twelve Months to Date				
	Performance	-	3.4%	9.7%
	Benchmark	-	5.9%	0.6%
	Relative Return	-	-2.5%	9.1%
Three Years p.a.				
	Performance	-	7.7%	16.1%
	Benchmark	-	11.5%	9.4%
	Relative Return	-	-3.8%	6.7%
Five Years p.a.				
	Performance	-	6.5%	14.6%
	Benchmark	-	7.5%	8.6%
	Relative Return	-	-1.0%	6.0%
Since Inception				
	Performance	-1.6%	7.4%	11.4%
	Benchmark	-1.5%	6.2%	7.1%
	Relative Return	-0.1%	1.2%	4.3%

Global Equities performance for the period ending 30 September 2018

6. Background

6.1 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. On 18 July 2018 Dorset's global equities under the management of Allianz were successfully transitioned to the Brunel Smart Beta portfolio. In addition, JP Morgan has been the Fund's emerging markets equities manager since April 2012.

7. Valuation

7.1 The table below summarises the movement in valuations for all managers for the financial year to 30 September 2018.

	Allianz £000s	**Investec £000s**	**Wellington £000s**	**LGIM £000s**	**JPM £000s**
Valuation 01-Apr-18	281,878	195,927	213,503	-	103,200
Investment	-	-	-	275,115	-
Distribution	- 310,115	-	-		-
Increase in Valuation	28,898	28,869	33,599	8,096	- 5,800
Valuation 30-Sep-18	661	224,796	247,102	283,211	97,400

8. Performance

8.1 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 30 September 2018.

	Investec	Wellington	LGIM	LGIM (Hedged)	JPM
Quarter to Date					
Performance	5.8%	7.6%	3.0%	2.8%	-0.8%
Benchmark	6.3%	6.3%	3.1%	2.6%	0.1%
Relative Return	-0.5%	1.3%	-0.1%	0.2%	-0.9%
Financial Year to Date					
Performance	14.7%	15.7%	-	-	-5.7%
Benchmark	14.9%	14.9%	-	-	-2.1%
Relative Return	-0.2%	0.8%	-	-	-3.6%
Twelve Months to Date					
Performance	13.3%	17.2%	-	-	-2.4%
Benchmark	14.4%	14.4%	-	-	2.0%
Relative Return	-1.1%	2.8%	-	-	-4.4%
Three Years to Date					
Performance	-	-	-	-	18.4%
Benchmark	-	-	-	-	18.1%
Relative Return	-	-	-	-	0.3%
Five Years to Date					
Performance	-	-	-	-	8.2%
Benchmark	-	-	-	-	8.2%
Relative Return	-	-	-	-	0.0%
Since Inception					
Performance	16.9%	18.9%	3.0%	2.8%	5.9%
Benchmark	17.4%	17.4%	3.1%	2.6%	5.9%
Relative Return	-0.5%	1.5%	-0.1%	0.2%	0.0%

8.2 Investec underperformed its benchmark over three months by 0.5% and by 0.2% over the six months to the 30 September 2018. Wellington outperformed their benchmark by 1.3% over three months and by 0.8% over six months. Over the twelve-month period to 30 September 2018 Wellington outperformed its benchmark by 2.8% while Investec underperformed by 1.1%. Since inception, Wellington has outperformed their benchmark by 1.5%, whilst Investec has underperformed by 0.5%.

8.3 JP Morgan have underperformed their benchmarks for the quarter, financial year to date and over twelve months, whilst being in line with the benchmark over five years and since inception.

9. Manager Commentaries (Active Mandates)

9.1 AXA Framlington

<u>Performance</u>: During the quarter, the fund underperformed the FTSE All Share with a return of -1.3% against the benchmark of -0.8%. For twelve months, the fund returned 3.4% against a benchmark of 5.9%. Over the three years, the fund underperformed its benchmark by 3.8% and by 1.0% over the five year period.

<u>Activity</u>: The portfolio underperformed the benchmark in the quarter. The biggest contributor to relative performance was Worldpay. Spirent Communications performed well in anticipation of orders for 5G implementation. Being overweight in healthcare was the most positive contributor to relative returns. Being underweight in financials, especially banks, was a positive influence on sector relative returns. BBA

Aviation was the biggest detractor from relative returns as growth in the USA slowed. Coats was purchased and a new holding, Creo Medical, was purchased. Creo is a medical devices company used in gastrointestinal procedures. Various holdings were reduced. The balance of the holding in Vodafone was sold and the Melrose shares, from the GKN takeover, were disposed.

Outlook and Strategy: The US trade/tariff disputes continue to create volatility and there is monetary tightening happening on both sides of the Atlantic. Merger and acquisition activity was noticeable, even into elevated share valuations. Brexit continues to lessen consumer confidence in the UK. Rising bond yields are having implications for equities, especially where companies are financially leveraged.

9.2 **Schroders**

Performance and Market Summary: The fund significantly outperformed its FTSE Small Cap (ex-investment companies) benchmark over three months under review by 3.2%. Over the twelve-month period the Fund returned 9.7% against its benchmark of 0.6%. Over the three years the Fund outperformed the benchmark by 6.7% and by 6.0% over the five-year period.

Activity: Medical enterprise software supplier Craneware was a top contributor after its full-year results underlined the significant potential growth opportunity in its US healthcare market. Miniatures manufacturer Games Workshop also performed very well after the company confirmed that quarter 1 trading had been robust despite tough comparatives, prompting earnings upgrades against conservatively set expectations. In addition, management declared a dividend at a similar level to the one paid at the same time last year, indicating that cashflows have remained strong.

Travel and logistics group Dart performed very well on revealing that its 2019 pre-tax profits would “substantially exceed” market expectations. Meanwhile, shares in mobile advertising platform provider Taptica International continued to recover from the lows they struck earlier in the year. Sentiment towards Taptica has been negatively impacted by fears around the possible negative regulatory implications for data-driven media models following revelations around the misuse of personal information obtained from Facebook. However, the company published another set of strong results, included a confident outlook statement, revealing Taptica is on course to exceed full-year market expectations for EBITDA. A positive to performance was not owning African diamond miner Petra Diamonds which performed poorly after revealing it would miss production targets for 2019. The holding in Sinclair Pharma, which specialises in minimally invasive cosmetic surgery such as collagen treatment, performed well on the back of a recommended bid approach from Chinese pharmaceuticals group Huadong Medicine.

On the negative side, semiconductor manufacturer IQE fell in the wake of disappointing interim results. Oil services group Lamprell gave back gains of the previous quarter when a major shareholder in the company had doubled its stake, creating upward pressure on the stock. Lamprell continues to await confirmation of a long-term agreement with Saudi Arabia’s state oil company Saudi Aramco. Multi-channel women’s fashion retailer QUIZ performed poorly as sentiment towards the sector was negatively impacted by fears around the competitive pressures seemingly affecting the online retail sector. Intense competition was seen as a key driver of a profit warning from European online fashion retailer Zalando. In addition, investors were concerned about the possible knock-on impact on QUIZ of House of Fraser’s change in ownership – QUIZ operates concessions within the group’s department stores and has used it as a third-party web retailer. Meanwhile, not owning network testing business Spirent Communications detracted after it performed well on the back of technical buying ahead of confirmation of its inclusion in the FTSE 250 index.

The holding in Sinclair Pharma was sold following the bid approach. A new holding in Countrywide was established at a distressed valuation by participating in the emergency refinancing of the estate agency group. An IPO with multi-channel UK specialist value retailer The Works was participated in as their chairman has a proven track record of spotting new retail trends, having built up the Card Factory from a single outlet to a 400-plus chain retailer of value greeting cards, and enjoyed early success as a quoted company. The Works is focused on low-ticket value item with a “must have now” appeal, one example of which would be Squishies, which are fast becoming one of the children’s toy phenomenons of the moment.

Outlook and Strategy: While UK growth has slowed since the EU referendum the economy has continued to expand at a steady pace against the backdrop of a very low unemployment rate and rising wages. The country’s fiscal position has recovered as tax receipts have picked up (in excess of the rate of economic growth) further underlining the resilience of UK plc. Despite their depressed levels of confidence in the general economic outlook, consumers are positive about their personal financial position and the surveys show their confidence to make major purchases (furniture, electrical goods etc.) has improved over recent months. There is evidence from portfolio holdings that consumers are willing to spend. More widely, many more small-cap companies which are delivering good levels of organic growth, sensible bolt-on acquisitions and being underpinned by strong balance sheets are still being found.

9.3 **Investec**

The market environment was challenging for our 4Factor process and the portfolio underperformed its performance comparison index. Each of the four factors underperformed.

Stock picking in the consumer discretionary sector was the biggest drag on relative performance. The large exposure to Casino operator Las Vegas Sands was a significant detractor in the sector as it experienced setbacks both domestically and in Asia, where its Macau casinos were forced to close during Typhon Mangkhut. Also within the sector, the holdings in Lear and Delphi Technologies, both auto parts suppliers, lost value as sentiment toward automotive and related companies suffered from recent trade and environmental concerns. Also, stock-specific setbacks included the cost pressures on Lear from the recently imposed US metal import tariffs, while Delphi faced falling demand from Chinese automakers.

Consumer staples holdings also detracted over the quarter, especially Japanese brewer Asahi, the portfolio’s single largest performance detractor at stock level. Although Asahi continued to see steady growth in its overseas markets, its results were held back by declining demand for beer in Japan. Another detractor in the sector was Chinese pork producer WH Group on concerns a recent outbreak of African swine flu in China will further erode the company’s profit margins.

Stock pricing in the materials sector also detracted due to setbacks with mining giant Rio Tinto and Australian gold metal miner Evolution Mining. Rio’s shares were dragged by concerns over global economic growth and hence demand for industrial metals, while Evolution retreated after cutting its outlook due to lower than expected yields at some of its mines. The holding in Rio Tinto was sold.

There were strong stock picking in the industrials sector which was a significant performance contributor. Two of the sector’s standout performers were Honeywell and Norfolk Southern, which both rallied after reporting very positive earnings.

Honeywell shares were given additional momentum from the positive analyst endorsements over the company's plan to spin off its transportation business.

The portfolio also had success with selected holdings in the healthcare sector, more specifically US firms Cigna, Eli Lilly and Thermo Fisher Scientific, which all comfortably outperformed earnings expectations. As with the industrials sector, returns were given some additional impetus from corporate actions as Eli Lilly announced plans to spin off its lower-margin animal health division.

Not having any exposure to underperforming US social media giant Facebook was the portfolio's most significant stock-level performance contributor.

9.4 **Wellington**

The Global Research Equity Portfolio outperformed the index during the quarter. Positive stock selection in the consumer discretionary and health care sectors outweighed negative selection in consumer staples. Within consumer discretionary, strong security selection in the retailing industry, particularly Amazon.com and TJX Companies, supported relative returns. Amazon continued its 2018 run, rising nearly 18% in the third quarter. The stock price was driven by strong previous quarter results, highlighted by robust growth and sustained profitability. Amazon has established creditability in a broad set of businesses, many of which have ingredients for further growth and success. The fundamentals across Amazon's three key business units: Marketplace, Amazon Prime and Amazon Web Services, remain robust.

TJX Companies is the largest global off-price apparel and home goods retailer, operating the TJ Maxx, Marshalls and Home Goods brands. The stock price advanced during the period on strong adjusted earnings per share. Results were favourable across the board as sales, gross profit, and operating profit all increased year over year. TJX can achieve same stores growth as it captures new customers with thoughtful inventory management, targeted marketing, and excellent execution by a top tier management team. In addition, the company is unique as it has potential to outperform in both offensive and defensive macro environments and will continue to hold the position.

Within healthcare, two Japan-based pharmaceutical companies, Eisai Co and Ono Pharmaceuticals, boosted relative returns. Eisai is a diversified pharmaceutics company. Early in the period the stock price jumped following positive topline results for their Alzheimer's therapy developed in partnership with Biogen. Further development of the therapy remains a key growth catalyst in the stock. A recent immune-oncology collaboration agreement with Merck has also yielded promising data. The position will continue to be held. Ono's stock price began to bounce back following a disappointing previous quarter. The position will be held and confidence remains that Ono's immune-oncology treatment, Opdivo, will play an important role in the first line treatment of numerous forms of cancer.

Stock selection within consumer staples detracted from relative returns. British American Tobacco, the world's second largest cigarette maker, fell during the quarter. A challenging regulatory environment has broadly weighed on tobacco stocks in 2018 which has caused the market to overreact. British American Tobacco continues to push into the next generation technology with its heat-not-burn product, increasing share in key markets. The view is that the company's current valuation does not reflect the potential of the evolving 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 be held.

Baked goods company, Hostess, also detracted from relative returns. The company reported weak quarterly results due in part to decreased promotional support from Walmart, inflationary pressures, and recent acquisitions continuing to drag on profitability. The global brand awareness is liked, significant market share in the sweet baked goods space, unique direct to warehouse distribution strategy, and a strong management team. The position will be held.

Some positioning changes were made within the energy sector, establishing a position in Exxon as well as two exploration and production companies, Concho Resources & Diamondback Energy. Given recent underperformance, it is an opportune time to invest in Exxon as it plans to significantly expand its capex in the coming years, suggesting the long-term growth potential for the company outweighs that of its peers. Exxon’s attractive business mix and integration of downstream and upstream activities is liked. A history of thoughtful capital deployment with strong return on common equity also supports the view of the stock. The position in Chevron, which has recently executed well, and that capital was used to build the position in Exxon.

Concho Resources and Diamondback Energy both operate in the Permian Base, the largest shale oil region in the US. Oil drillers in the Permian Basin have underperformed peers that operate in other parts of the country so far this year. The underperformance is largely attributed to a deterioration in sentiment rather than a structural change in long-term fundamentals. It is felt that the Permian Basin has a superior depth on inventory and an enviable position at the bottom of the cost curve, and as a result, Permian names have the potential to offer sustainable growth and free cash flow yields in the years ahead. Concho Resources and Diamondback Energy are well positioned to take advantage of improving sentiment in the region.

Within the industrials sector, a position was established in US-based General Dynamics. The outlook for General Dynamics’ defence business is very strong, led by combat systems, marine, and information systems and product technology. Recent results in their aerospace business (Gulfstream) has also been supportive of potential future growth. Harris Corp has been added as a holding, which boasts a strong stable of products including advanced tactical radios, aviation technology, and space intelligence businesses. Their cutting-edge technology is also cost-effective, a combination which could leave them well positioned for contract bids. Their commercial business model, platform approach, and innovative technology are key competitive advantages compared to some larger competitors in this space.

Within healthcare, a position in Koninklijke Phillips was established, a Netherlands-based health technology company focused on healthcare solutions for consumers and healthcare professional. The driver of the thesis rests on continued growth of the Diagnostics & Treatment (D & T) division, which includes image-guided therapy, ultrasound, and diagnostic imaging. The margin expansion is on track in D & T with better manufacturing and new product launches supporting higher gross profit margins. In the biopharmaceutical space a position was established in Assembly Biosciences, which is exploring the cutting edge of hepatitis B therapeutics. Radius was purchased which is a biopharma company with a focus on women’s health. The recent launch of their osteoporosis therapy has seen early success in the US market. Radius’ pipeline includes a metastatic breast cancer treatment, which could provide upside if trial data is positive. Elsewhere in the sector, a position was initiated in Elanco, an animal health company that operates in both the companion animal and livestock segments. The company, which recently became public, boasts strong fundamentals and has attractive prospects for growth in the companion animal segment.

9.5 JP Morgan

After a strong 2017 and first quarter of 2018 when the fund benefitted from the ongoing cyclical recovery in emerging markets, performance since April has been disappointing, albeit performance recovered strongly in September. In summary, USD strength, which pressured EM currencies broadly and vulnerable markets specifically, combined with Russian sanctions and US protectionism to create a 'risk-off' environment from April onwards. As the USD rose further, this turned into broad based selling of the asset class during the third quarter. In this environment cheap stocks were heavily impacted, and the pro-cyclical positioning and a natural value-tilt hurt relative performance.

Growth momentum in emerging markets is slowing, and the belief is that emerging markets are still only mid-cycle within a maturing global cycle. Furthermore, if the USD stabilises emerging equities should expect to perform strongly.

Therefore, the portfolio activity has been focused on rotating holdings towards stocks with the best trends in earnings and adding to domestically orientated consumer businesses, in order to exploit stock level opportunities if the current volatility continues. While some commodity exposure has been trimmed, the portfolio should capture any recovery in markets.

Taiwanese stocks were the biggest detractors from performance, primarily driven by technology stocks. Concerns over weak sales for the latest generation iPhone and a cyclical slowdown in semiconductors weighed on the sector, despite a lack of meaningful downward earnings revisions. There are a number of examples in Taiwan where stock prices are discounting the end of the cycle, yet earnings remain strong. A good example is portfolio holding, Global Wafers, a leading Taiwanese producer of silicon wafers that delivered strong earnings results, has high entry barriers and good order visibility. Nonetheless the stock fell over 20% in USD in August.

Russia and Brazil screen well in the country model due to relatively attractive valuations and growth prospects. Stock section in and an overweight exposure to Brazil was the largest contributor to performance. An improvement in the political mood towards the end of the quarter drove positive equity performance, and the holdings in iron ore producer Vale and steel producer Gerdau contributed. Consumer exposures that have been an area of weakness for the better part of the year also rebounded in September. Stock selection in and an overweight exposure to Russia also helped returns. The equity market rallied as oil prices hit fresh 4-year highs, benefitting portfolio holdings such as Lukoil.

Turkish equities and currency became exceptionally cheap during the quarter, however poor political news flows and a very grudging approach to raising interest rates - the orthodox policy response to a falling currency and large external financing needs - has led us to reduce the overweight position. There is still a small overweight position in this market given the very strong valuation signals and will be limiting the size of overweight so as to manage the country risk. Holdings have been tilted within the country towards weak currency beneficiaries and away from the pure domestic exposure.

The strategy has underperformed driven by stock selection, notably in Asia. During the twelve months, asset allocation and stock selection detracted from returns. As a reminder, superior risk adjusted returns are hoped to be achieved over the long term by using diversified sources of alpha, while maintaining a value bias.

The portfolio continues to be overweight in North Asia and Eastern Europe, which show the best combinations of attractive valuations and positive trends in earnings.

The portfolio has been gradually added to materials since the start of 2016 and this positioning has been the key sector contributor through the twelve months.

Reform markets continue to look expensive. The underweights continue to be those selected reform markets, such as India, Mexico and Philippines, which still stand out as expensive.

David Wilkes
Finance Manager (Treasury and Investments)
November 2018

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ASSET MANAGEMENT

DORSET COUNTY PENSION FUND

Quarterly Report 30 September 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)
30 September 2018	**203.19**
30 June 2018	204.07
Change over the quarter	(0.88)
Net cash inflow (outflow)	0.00

Executive summary

Performance

- The Fund gave a gross return of-0.43% over the quarter, compared with a benchmark return of -0.57%.
- The average sterling investment grade credit spread narrowed modestly to 1.20% during the quarter. Revived investor risk appetite and sustained strength in company earnings supported demand for corporate debt, while UK government bonds struggled against a backdrop of anticipated monetary policy tightening, rising inflation and weakness in sterling.
- The Fund outperformed the broader sterling credit market, with performance driven by our positioning in financials and underweight in supranationals.

The economy & bond markets

- While still solid, global growth seems at best to be drifting sideways. However, policy support for the global economy is substantial in 2018, including still accommodative monetary policies. Although headline inflation is picking up in many countries following the rise in oil prices, core inflation still looks relatively well behaved and seems particularly subdued in the eurozone and Japan. The risk of global recession in 2018 and into 2019 is low, but there are a few red lights flashing, such as prospects of increased protectionism and tight labour markets in many economies.
- The UK economy seems likely to feel some further impact from Brexit over the remainder of 2018, with the outcome still unclear and political uncertainty heightened. In particular, we expect business investment to be relatively subdued in the rest of 2018. Our base case is that a withdrawal deal will be reached and ratified by March 2019 or soon after.
- Sterling investment grade credit outperformed UK government debt in the third quarter – respective all-maturities returns were -0.36% and -1.73% – after lagging behind in the first half of 2018. Revived investor appetite for risk and sustained strength in corporate earnings supported credit demand, while gilts struggled against a backdrop of anticipated monetary policy tightening, rebounding inflation and a weaker pound.

Investment outlook

- Our base case is for world growth to remain in a range of 3.5% to 4%, slowing on average as the cycle matures in several major economies and policy support fades. We expect inflation pressures to pick up, while remaining limited, avoiding any need for sharp and widespread monetary tightening.
- The probability of recession seems low for now, with little indication that growth might weaken sharply. However, downside risks have risen: trade tensions are high; monetary policy is tightening; oil prices are up sharply versus a year ago; and Brexit is approaching.
- We anticipate more (gradual) rate rises by the Fed, with one further increase in 2018 and three in 2019. We expect the Bank of England (BoE) to leave rates unchanged into 2019, and no hikes by the European Central Bank before the second half of next year. The People's Bank of China remains ready to ease on any signs of a significant slowdown.

FUND PERFORMANCE

Performance

	Fund (%)	Benchmark* (%)	Relative (%)
Q3 2018	-0.43	-0.57	0.14
Rolling 12 months	1.26	-0.03	1.29
3 years p.a.	6.33	5.42	0.91
5 years p.a.	7.19	6.17	1.02
10 years p.a.	9.80	8.42	1.38
Since inception 02.07.2007	8.40	8.33	0.07

Source: RLAM, gross of standard management fees.

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

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RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	99.4	98.9
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	0.4	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.2	1.1
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0
Other	0.0	0.0

Fund data

	Fund	Benchmark[1]
Duration	10.0 years	10.2 years
Gross redemption yield[3]	3.41%	2.82%
No. of stocks	240	700
Fund size	£278.8m	-

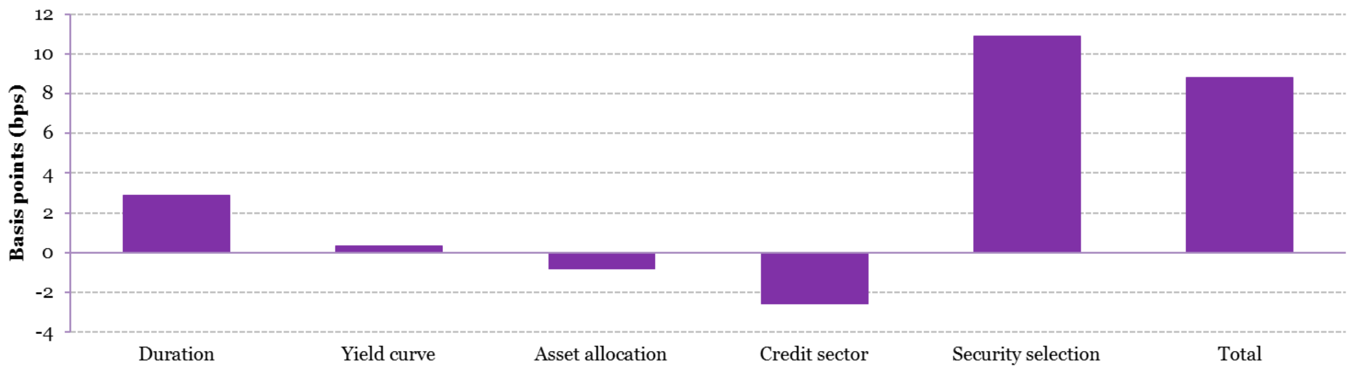
Source: RLAM, Launch date: 20.07.2007.

[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

Performance attribution for quarter 3 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.

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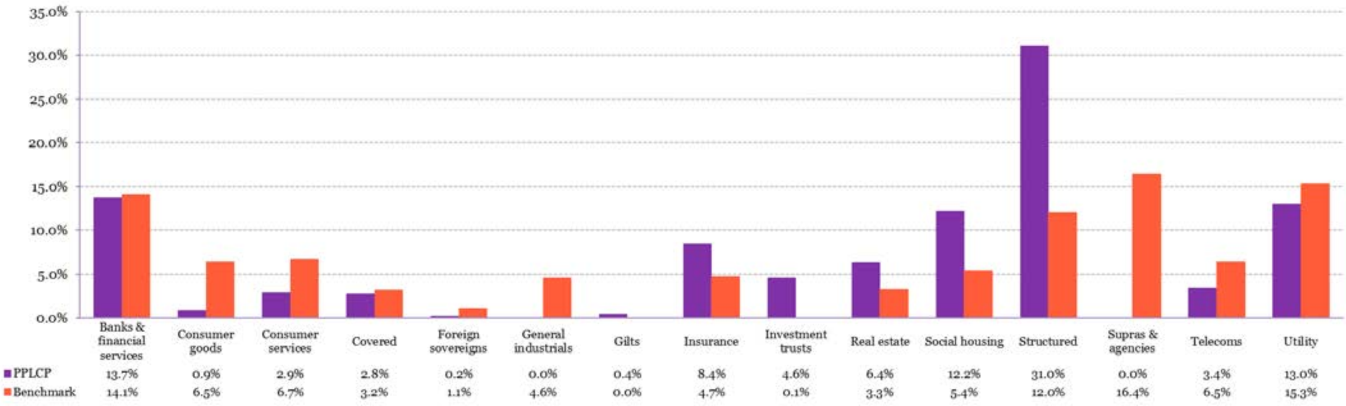
ROYAL LONDON

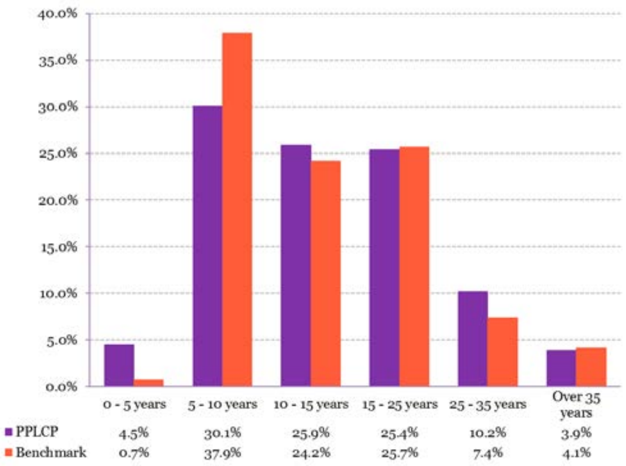
RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Sector breakdown

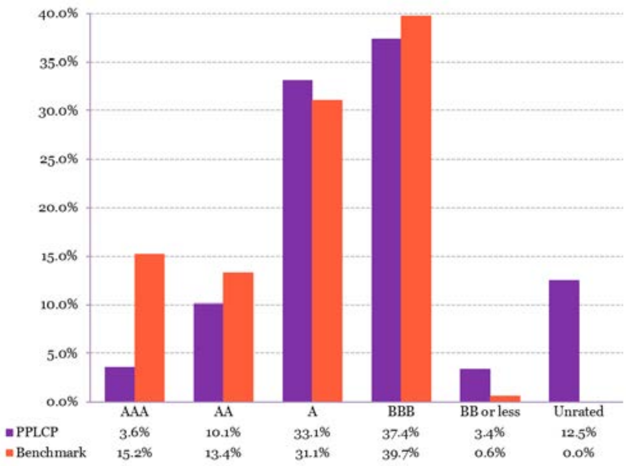


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio

Maturity profile



Credit breakdown



Ten Largest Holdings

	Weighting (%)
HSBC Bank 5.375% 2033	1.5
Innogy Finance 6.125% 2039	1.4
Finance for Residential Social Housing 8.368% 2058	1.2
Barclays Plc 3.25% 2033	1.1
Lloyds Bank Plc 6% 2029	1.1
Aviva Plc 6.125% 2036	1.0
Prudential Plc 5.7% VRN 2063	1.0
SL Aberdeen 6.75% VRN Perpetual	1.0
Citigroup Inc 7.375% 02039	1.0
Equity Release 5.7% 2031	1.0
Total	**11.3**

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

ROYAL LONDON

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Portfolio review

	What we thought	What we did	What happened	Effect on portfolio
Sector	We expected corporate bonds to outperform supranational debt.	We kept the significant overweight position in corporate issues versus supranationals.	Supranational debt recorded its first quarterly underperformance of the wider sterling credit market in 2018, as revived investor appetite for risk supported demand for corporate bonds.	The fund's substantial underweight position in supranationals supported relative performance.
Sector	We continued to see value in financials (banks and insurers), and to favour subordinated debt over senior bonds.	The overweight exposure to subordinated financial debt and underweight holding of senior issues were broadly maintained.	Financial debt recorded a strong performance for the quarter as a whole, led by subordinated issues, as investors sought higher returns.	The overweight allocation to financial issues and the preference for subordinated debt were beneficial for performance.
Sector	We thought that high-profile, consumer-orientated and industrial bonds were unattractively priced, relative to other sectors.	We maintained the underweight allocation to consumer and industrial debt.	Consumer sectors mostly outperformed, led by media as bidding escalated in the high profile takeover battle for broadcaster Sky. Industrial issues lagged moderately behind the wider market.	The low weightings in consumer and industrial sectors did not have a material impact upon relative performance.
Sector	We continued to believe that secured bonds were undervalued relative to unsecured debt.	We kept the 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 over the quarter as a whole as investors focused on returns over security.	Above benchmark exposure to secured and structured debt was disadvantageous for returns, but this effect was offset by security selection.
Ratings	We believed lower rated credit bonds offered better value than AAA / AA rated securities. Credit ratings, while useful, are not a complete assessment of creditworthiness and value.	We maintained the bias towards lower rated bonds, and towards bonds rated below investment grade where we felt they were consistent with the fund's overall objective. Exposure to unrated bonds, which predominantly have investment grade risk characteristics and are in many instances secured, was broadly unchanged.	Lower rated debt outperformed AAA rated and AA rated bonds for the period as a whole, reflecting stronger investor appetite for risk. High yield bonds outperformed investment grade credit for the quarter as a whole. Unrated bonds in the fund, which consist mainly of secured and structured issues, generally outperformed.	The preference for lower rated debt supported relative performance during the quarter. The allocation to sub-investment grade debt supported returns. Exposure to unrated bonds had a small positive impact upon relative performance over the quarter.
Duration	We expected a gradual increase in UK government bond yields.	The fund's short duration stance versus the benchmark was maintained over the quarter.	Yields on benchmark 10-year gilts rose 30 basis points (bps) during the quarter, touching the highest level since February.	The short duration position had a positive impact upon relative performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Fund activity

- Sterling investment grade credit issuance rose sharply in the quarter from the prior three months, helped by a fourfold surge in September. Over 2018's first nine months, issuance declined modestly from the prior year.
- The fund increased its overweight exposure to financial debt by a small amount, maintaining the bias towards bank issues.
- Financial sectors continued to produce a plentiful supply of new debt, as the fund bought subordinated bonds of **HSBC**, **Pension Insurance Corp.** and **Prudential**, the latter a 50-year issue carrying a 6.25% coupon. Purchases also included senior issues from **Goldman Sachs**, **Banco Santander** and **CYBG**.
- Secured and structured sectors also remained a prominent area of new issue activity. In social housing, the fund bought long dated bonds of **Peabody**, which has origins dating to 1862, and **Blend Funding**, a new platform that on-lends the proceeds of debt sales to housing associations which typically lack the capacity or need to issue their own benchmark-size bonds. Purchases also included secured bonds of **Wales & West Utilities** and senior unsecured debt of real estate investment trust **Assura**, which manages a portfolio of primary care medical centres around the UK.
- In the secondary market, the fund increased allocations to structured debt of **Canary Wharf** and of **Progress Health**, reflecting the view that the bonds were attractively priced. Holdings of pub company **Enterprise Inns** and 100-year debt of the **University of Oxford** were expanded to invest cashflows. The fund sold exposures to social housing association **London & Quadrant Housing Trust** and utility **Veolia Environnement** to manage liquidity, and the sale of long dated debt of **Bromford Housing Group** reflected duration management. Within financials, bonds of **HSBC** were sold against **Goldman Sachs** debt to diversify risk.

Key views within the portfolio

- A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.
- Duration below 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'.

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IMPORTANT INFORMATION

Financial Statements

Portfolio Valuation

Trading Statement

Portfolio Valuation

As at 30 September 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										
	85,101,458	GB00B1ZB3X88	RLPPC Over 5 Year Corp Bond Pen Fd	2.38765	107,593,762.46	203,192,497.32	0.00	203,192,497.32	0	100.0
				Funds Held total	**107,593,762.46**	**203,192,497.32**	**0.00**	**203,192,497.32**		**100.0**
				Grand total	**107,593,762.46**	**203,192,497.32**	**0.00**	**203,192,497.32**		**100.0**

Trading Statement

For period 01 July 2018 to 30 September 2018

Dorset County Pension Fund

	Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
Acquisitions						
Funds Held						
	05 Jul 2018	Acquisition Rebate	62,997.69	RLPPC Over 5 Year Corp Bond Pen Fd	2.43	153,319.36
					Funds Held total	**153,319.36**
					Acquisitions total	**153,319.36**

CBRE GLOBAL INVESTORS

DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT Q3 2018

TABLE OF CONTENTS

DORSET COUNTY COUNCIL PENSION FUND

1. EXECUTIVE SUMMARY: Q3 2018

MARKET OUTLOOK

- We are projecting UK property to deliver an average annual total return of 3.8% over the period 2019-23.
- Within this outlook, we expect modest All Property capital value falls in 2019/20 as a consequence of declining rents and weaker investor sentiment.
- In this environment good quality buildings in strong locations will prove most resilient.
- Attractive investment opportunities are likely to emerge from the coming uncertainty, so we should remain patient when deploying capital and focus on long-term sustainable income in the interim.

STRATEGY

You have confirmed that you would like to increase your allocation to property from 10% to 11% of total assets which represents approximately £330m. The new allocation of approximately £55m is to target Secure Long Income ("SLI"), beyond which the intention is to transition the portfolio gradually to a 50/50 split between Conventional properties and SLI.

With effect from 1st April 2018, the overall portfolio has been split into Conventional and SLI portfolios, each with distinct benchmarks. In this report, we provide you with an update on the two portfolios' in parallel.

VALUE

The Conventional portfolio was valued at the end of Q3 at £280.6m, comprising £240.4m of direct property and £40.2m of indirect assets. The SLI portfolio was valued at £29.9m.

The portfolio's overall value as at the end of Q3 was therefore £310.5m (90% Conventional/ 10% SLI), leaving approximately £19.5m remaining to invest to reach the target size of £330m.

PERFORMANCE

The Conventional portfolio underperformed over the quarter and 1 year to the end of September on account of the development in Cambridge. It continues to outperform the IPD Benchmark however over 3 and 5 years. The future prospects for the portfolio remain strong, with good quality properties and a favourable sector mix of low retail and high industrial weightings.

The SLI portfolio has recorded its second quarter's performance since being measured separately from the Conventional portfolio. It produced a total return of -1.6% real over the quarter (-0.7% nominal, RPI 0.9% over the quarter). Returns are being dampened by transaction fees (of approximately 6.8%) while the portfolio is in build up.

Overview

The allocation to property has increased from 10% to 11% of Dorset Pension Fund's total assets which represents approximately £330m. The new allocation of approximately £55m is to target SLI property beyond which the intention is to transition the portfolio gradually to a 50/50 split between SLI and Conventional properties.

Total Portfolio Value

	Value	Assets
UK Direct	£270.3m	32
Indirect	£40.2m	3
Total value of portfolio	**£310.5m**	
Largest asset	Woolborough Lane Ind Estate Crawley	
Largest tenant	ACI Worldwide EMEA Ltd	

'Conventional' Portfolio

Value	£280.6m
NIY	4.9%
Vacancy rate	2.4%
AWULT to expiry (to break)	8.4yrs (7.8 yrs)

'Secure Long Income' Portfolio

Value	£29.9m
NIY	3.5%
Vacancy rate	0%
AWULT to expiry (to break)	21.8 yrs (18.1 yrs)

Performance Target

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

CONVENTIONAL	Portfolio	Target	Relative
Q3 2018 %	0.9	1.5	-0.5
1 Yr %	8.0	8.4	-0.3
3 Yr % p.a. (2016-2018)	7.5	7.4	0.2
5 Yr % p.a. (2014-2018)	11.3	10.9	0.4

'Secure Long Income': To achieve a return at least equal to LPI + 2.0% p.a.

SLI	Nominal	RPI	Real
Q3 2018 %	-0.7	0.9	-1.6

INCOME

The Conventional portfolio has an net income yield of 4.4% p.a. with 4.8% from direct property and 2.8% p.a. for the indirect assets. The vacancy rate for the direct portfolio was 2.6% of rental value at the end of Q3.

The Secure Long Income portfolio has a net income yield of 3.2% p.a. There are no vacancies in the SLI portfolio.

Transcations

	Q3 2018
Money available	£19.5m
Purchases	£9.0m
Sales	£0.4m

2. MARKET COMMENTARY

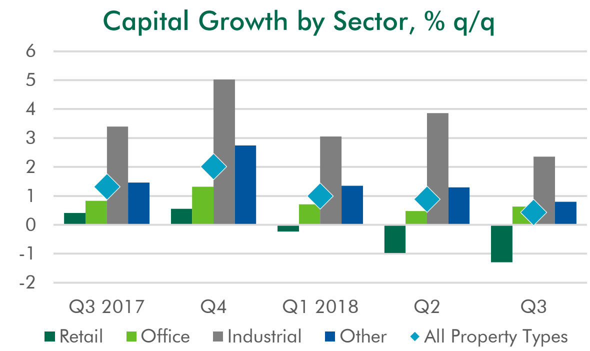
UK ECONOMIC OUTLOOK

The UK economy is continuing along its recent path of stable, below-trend growth. Recent high frequency data has been firm, meeting or modestly exceeding expectations, but not suggesting an imminent change in trajectory. In August the three-monthly rate of GDP growth increased to 0.7%, its strongest outturn since early-2017, although this was flattered by the comparison with the period of weather-related disruption earlier in the year. This is likely to be as good as it gets over the coming 12 months as growth continues at a modest rate.

As we write this (19 October), time is running out for an agreement to be reached on the withdrawal of the UK from the EU. The situation remains fluid, with frequent contradictory announcements from both parties. Our 'base case' forecasts (set out on the next page) assume that a deal will be reached, allowing trade to continue on current terms during a transition period to end-2020, or beyond. However, it is likely that this will be achieved only by deferring substantive talks on future, permanent trading arrangements until after the UK's departure. Without further clarity, uncertainty will persist and this will act as a drag on UK economic growth through 2019 and into 2020. Despite the above, we acknowledge the possibility of a 'no deal' Brexit, either by the failure of the UK and EU to agree terms or by the UK parliament voting against it, has increased. This would likely see UK economic growth grind to a halt through much of 2019/20.

UK PROPERTY PERFORMANCE

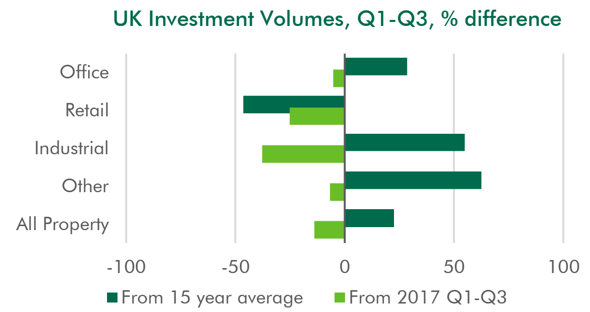
Capital values, at the All Property level, continued to rise in Q3, but the pace has slowed. At 0.4% quarter-on-quarter, growth was less than half that recorded in Q2. Excluding the period of disruption around the EU referendum, this is the weakest quarterly outturn since 2013. The slowdown was broad-based with only the office sector bucking the trend. If the recent trends persist, especially declines in the retail sector, the 2-year run of All Property capital growth could come to an end in Q4. Accentuated sectoral differences remain however.



Source: MSCI/IPD Monthly Index.

Although still strong, industrial rental growth appears to have passed its peak. From this point we expect more differentiation by location than we have seen over the past few years. The development pipeline is responding for larger warehouses in certain parts of the country, with supply-constrained urban locations continuing to outperform. We should also ask ourselves if affordability will become an issue in locations that have experienced rapid rental growth. Investment volumes have slowed sharply, although coming from record-breaking levels in 2017 they remain healthy by average standards. With more properties coming to the market in Q4, we are intrigued to see whether historically high pricing can be maintained. We have highlighted previously that investors are not sufficiently differentiating between assets of different quality, providing an opportunity to dispose of secondary properties at strong prices. This window is closing.

The spate of retailer CVAs and administrations has triggered fear in the investment market, with recent retail transaction volumes even lower than during the financial crisis. There is a considerable stock of retail property which owners would seek to exit, but their pricing aspirations – driven by historic book values – are disconnected from market conditions. Values in the sector have further to fall. As this unfolds we should be ready for mispriced opportunities. Careful consideration will be required to establish where occupier demand is sustainable and rents have found a firm floor. For now, identifying replacement tenants is often a difficult task.

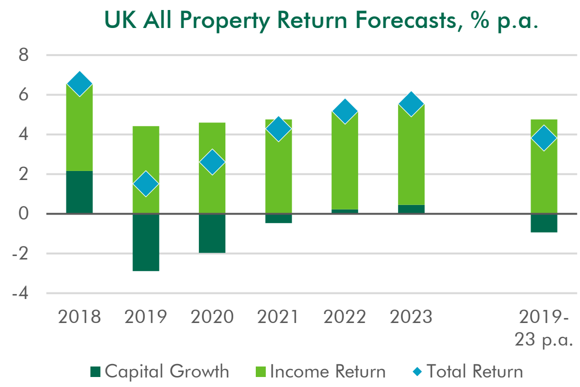


Source: Property Data.

The office sector, typically the most cyclical part of the market, is relatively stable at present. Take up for Q1-Q3 across the 'Big 6' regional cities was fractionally higher than the same period of 2017 and more than 50% above the 10-year average. This, along with attractive relative pricing, has kept investor demand strong for good quality assets, driving yield compression. In Central London take-up has been robust in 2018, although net absorption is still modestly negative on an annual basis, and the rapid expansion of serviced office operators complicates the picture. A common feature across the country is that demand is focussed on modern, efficient space. While new buildings experience strong pre-letting activity, vacancy rates are rising for second-hand space. In keeping with the retail and industrial sectors, property selection remains critical.

Rental growth across the alternative sectors has remained in positive territory, but returns continue to be driven by the investment market. During Q3 the 'other' sector saw initial yields compress by 19 bps, with only regional offices experiencing a larger shift. Fierce competition for property providing secure long income continues and will increasingly push investors into other non-traditional parts of the market, especially where these property types are supported by positive structural or demographics trends. One area that looks particularly attractive is affordable housing, offering the benefits of long, often index-linked, income from strong covenants and underpinned by a persistent demand-supply mismatch in the residential market.

PROPERTY MARKET OUTLOOK



Sources: MSCI/IPD, CBRE Global Investors.

Since our last commentary we have revised our forecasts and extended the horizon to end-2023. The impact has been a small downgrade to the 5-year All Property total return outlook, primarily driven by a more cautious outlook for the retail sector and 2018, a relatively strong year, moving into the rear view mirror. We are projecting UK property to deliver an average annual total return of 3.8% over the period 2019-23. Within this outlook, we expect modest All Property capital value falls in 2019/20 as a consequence of declining rents and weaker investor sentiment. In this environment good quality buildings in strong locations will prove most resilient. Attractive investment opportunities are likely to emerge from the coming uncertainty, so we should remain patient when deploying capital and focus on long-term sustainable income in the interim.

3. STRATEGY

Size	▪ Target size £330m – current size £310.5m. You have confirmed that you would like to increase your allocation to property from 10% to 11% of total assets which represents approximately £330m. ▪ The new allocation of approximately £55m is to target Secure Long Income. ▪ The longer term intention is to transition the portfolio gradually to a 50/50 split between Conventional property and SLI. ▪ Conventional and SLI portfolios' have had distinct benchmarks since 1st April 2018.
Performance objectives	▪ 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." ▪ Secure Long Income Portfolio: "To achieve a total return greater than, or equal to, Limited Price Inflation ("LPI") plus 2.0% p.a. measured over the long run (7-10 years) commencing 1 April 2018."
Income yield	▪ Strive for the Conventional portfolio income yield to exceed the IPD index income yield. ▪ Continue to focus on maintaining a low void rate and a resilient income yield. ▪ Ensure held properties / new SLI acquisitions have strong rental growth prospects, long leases and an element of indexation.

ALLOCATION

Property type	▪ Conventional portfolio: Remain well diversified as the portfolio transitions to a 50/50 split to SLI, with 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 15-20 assets with an average lot size of between £8m and £11m. ▪ 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. ▪ Secure Long Income portfolio: target lot sizes between £3m and £20m with an average lease length in excess of 15 years at purchase with approximately 70% of the portfolio having index linked rent reviews once fully invested.
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 Alternatives. ▪ Source suitable SLI investments that could be available in any sector.

OTHER RESTRICTIONS AND GUIDELINES

We have agreed with you to prepare a new IMA to reflect a revised target of 50% Conventional 50% SLI income to be transitioned over a medium term time horizon. The restrictions below are taken from the existing IMA.

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

VALUATION

Portfolio structure (Q3 2018)		
Direct portfolio (September 2018 Values)	**£270.3m**	87.1%
Conventional portfolio	£240.4m	
Secure Long Income portfolio	£29.9m	
Indirect assets (September 2018 Values)	**£40.2m**	12.9%
Total value of portfolio	**£310.5m**	**100%**

The direct property portfolio was valued independently by BNP Paribas on 30 September.

During the quarter, we completed the purchase Astra House in Harlow (£9.0m) for the SLI portfolio and eight properties staircased in the Derwent portfolio (£0.4m), which sits in the Conventional portfolio.

The indirect assets are valued at £40.2m (including the Fund's investment in Park Plaza, Waterloo), an increase of 2.5% over the quarter.

The overall value of the portfolio now stands at £310.5m, with approximately £19.5m remaining to invest to reach the target size of £330m.

RISK CONTROL MEASURES

In this section we present the structure of the Conventional and Secure Long Income portfolios separately.

THE CONVENTIONAL PORTFOLIO

Portfolio structure – (Direct property only)		Aim
Number of properties	25	15-20
Number of tenancies	77 with a further 3 units void	45-80
Net initial yield	4.5% p.a.	Above benchmark
Vacancy rate (% of rent)	2.4%	Below benchmark
Rent with +10 years remaining	17.2% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	5.9% of total rent	Minimum 10% of total rent
Largest property (% of direct value)	Woolborough Lane IE (8.9%)	Below 10%
Largest tenant (% of direct rent)	ACI Worldwide (8.7%)	Below 10%
Tenure (Freehold/Leasehold)	86% / 14%	Minimum 70% freeholds

PROPERTY / TENANT DIVERSIFICATION

AIM: To ensure portfolio has an appropriate number of properties and tenants to dilute asset specific risk.

The Conventional portfolio is well diversified with 25 properties and 80 lettable units. The largest direct property investment in the portfolio is Woolborough Lane Industrial Estate, Crawley and the largest tenant is ACI Worldwide EMEA Ltd.

ACTION: To maintain a diversified property and tenant mix.

NET INITIAL YIELD ("NIY")

AIM: To maintain a net initial yield above the benchmark.

	Conventional Portfolio	IPD Quarterly Universe
Initial yield p.a.	4.9%	4.5%
Income return over quarter	1.1%	1.1%

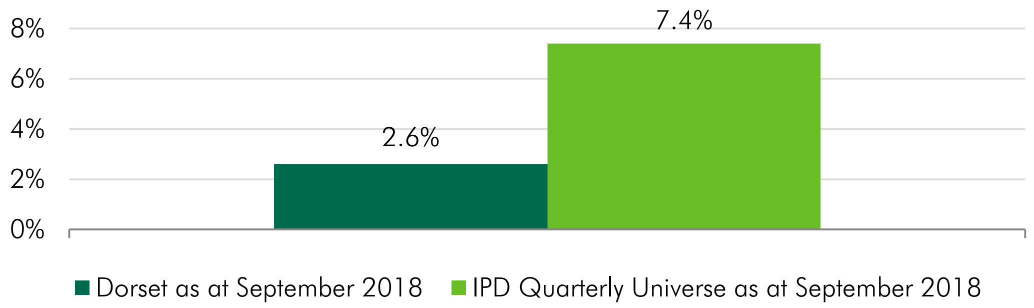
ACTION: The portfolio's NIY is currently 40bps ahead of the IPD Quarterly Universe Benchmark. We plan to maintain a yield advantage by:

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.

VACANCY RATE

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

Figure 5 Vacancy Rate



The portfolio's vacancy rate remained at 2.6% of rental value over the quarter and continues to be well below the market average of 7.4%. It comprises an industrial unit at the Apsley Centre in Staples Corner (0.4%) and another one at Sumner Road Road in Croydon (0.3%) and two floors at the office building in Aberdeen (1.9%). The Croydon unit has been let since the end of the quarter.

The vacancy rate is set to rise however following the adminstrations of Toys R Us and Maplin earlier this year accounting for a total prospective 4.2% increase in the void rate.

ACTION: To let vacant space through using best in class letting agents and proactively manage upcoming lease expiries.

LEASE LENGTH AND EXPIRY PROFILE

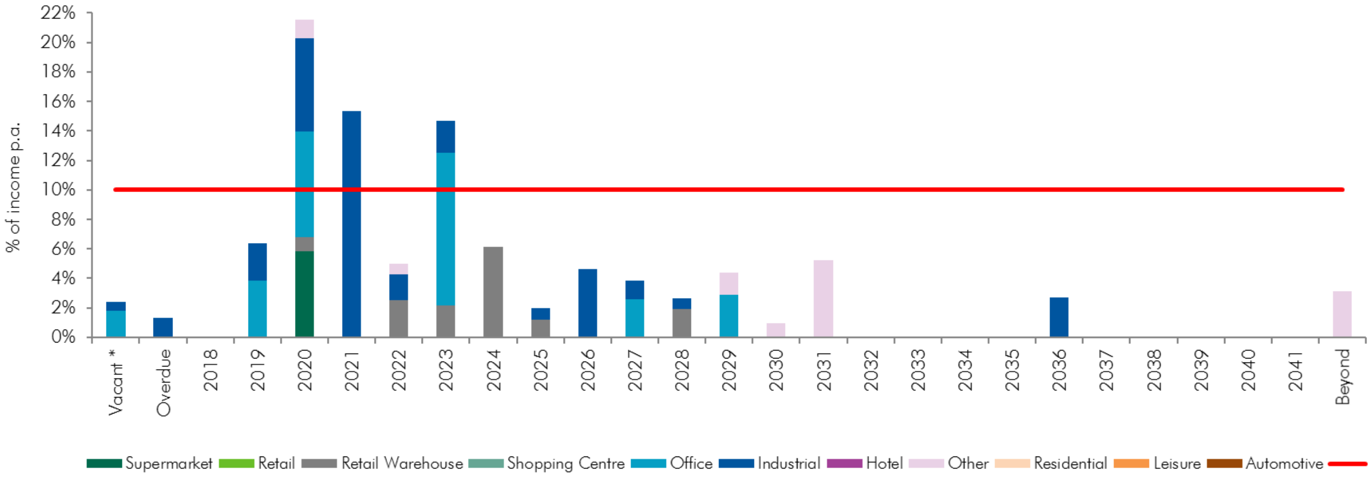
AIM: To maintain a well diversified lease expiry profile and keep the portfolio's average lease length in excess of the benchmark lease length.

UNEXPIRED LEASE TERM, YEARS

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	8.5	7.8	8.6
Benchmark	12.6	11.8	13.1

*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.

Figure 6 Lease Expiry Profile



* Vacancy rate expressed as percentage of ERV

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. The risk is however well diversified across 10 different units and we are already talking to the majority of tenants with leases that expire that year. Terms have been agreed for a new lease relating to 5.9% out of the 20.7% of income currently expiring in 2020.

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.

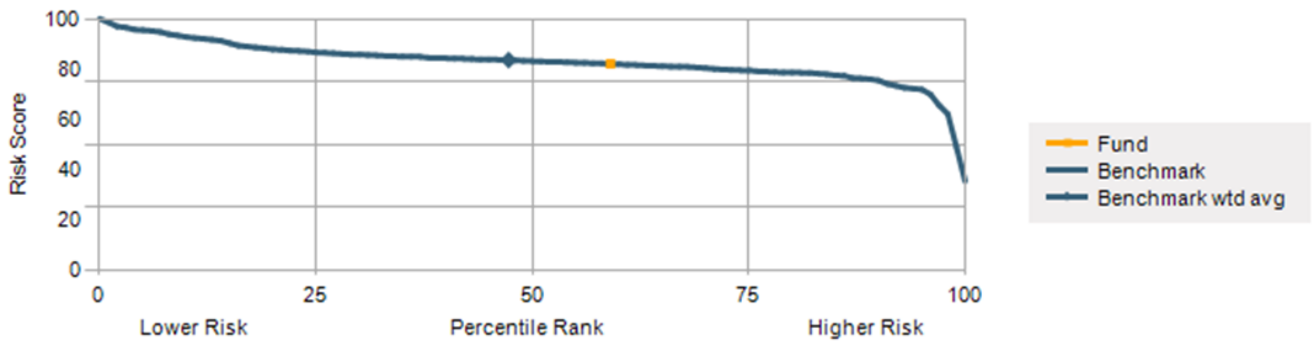
With the inclusion of Waterloo in the graph the proportion of income expiring beyond 2041 increases to 6.9%.

TENANT FINANCIAL STRENGTH

AIM: To maintain covenant strength better than the benchmark.

The graph below compares the covenant risk score of the Conventional portfolio compared to the Benchmark as at 30 September 2018. The portofio is now in the mid quartile with a Weighted Risk Score on the 59th percentile and is currently behind the benchmark (47th) 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: To maintain the weighting to Secure Long income within the Conventional portfolio in excess of 15% of that portfolio's 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 proportion of SLI within the Conventional portfolio is currently 13% of total income, this increases to 16% including Park Plaza, Waterloo.

% of Conventional portfolio income	Q3 2018
Open market income	87%
SLI	13%

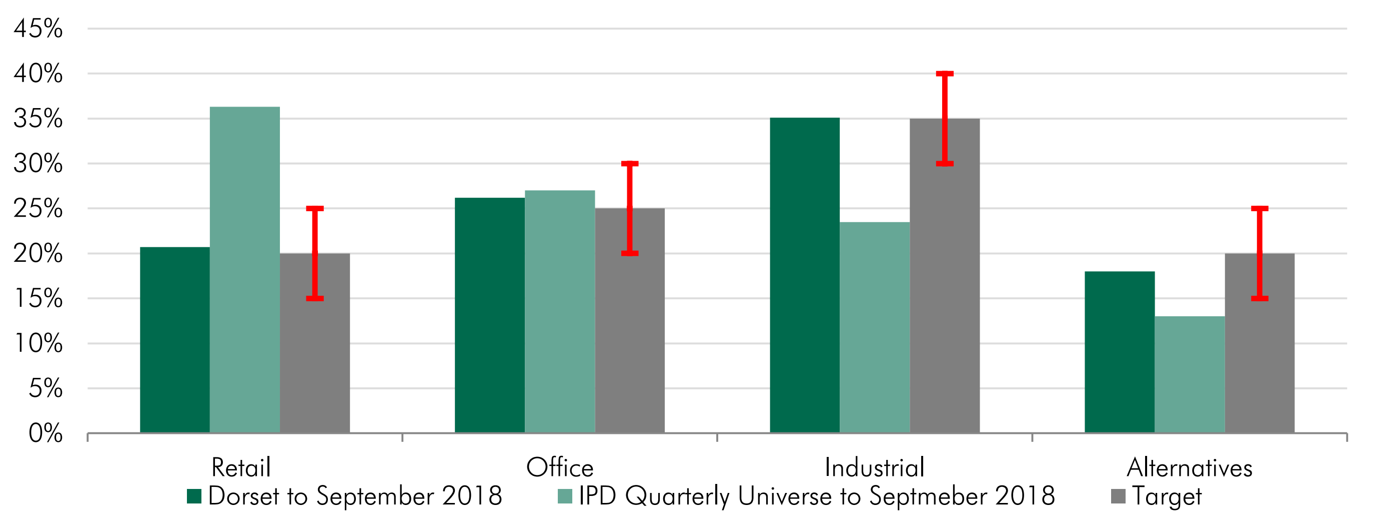
% of Conventional portfolio income – including Park Plaza, Waterloo	Q3 2018
Open market income	84%
SLI	16%

ACTION: Continue to monitor SLI ratio to Open Market income when considering transition towards 50/50 split of all assets between Conventionl property and SLI over the medium term.

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 Conventional portfolio's sector weightings are displayed above in comparison to the Benchmark with a target range shown in red reflecting our house view recommendations. The portfolio's sector split has continued to be beneficial with the low retail weighting and marginally underweight position to offices, given that overall these two sectors have been the poorest performing sectors over recent years. We plan to broadly maintain these weightings as we gradually transition the portfolio to 50% Conventional / 50% Secure Long Income.

Figure 9 Geographical Structure

London & SE	52.2%
Eastern	16.8%
South West	9.2%
Midlands	6.5%
North	8.5%
Rest of UK	6.8%

The geographical split of the Conventional portfolio is also well diversified, with a bias towards London and the South East where there is the greatest demand for land. There is also a large Eastern weighting; Cambridge falls into this region although 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 transactions maintain the geographical and sector diversity within the Conventional portfolio having due regard to the current point in the economic cycle.

DEVELOPMENT

AIM: To maintain development exposure below 10% of the value of the portfolio.

There is currently no speculative development taking place within the portfolio. The development at Cambridge Science Park progressed during Q3 with no major issues.

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.

THE SECURE LONG INCOME PORTFOLIO

	Fund	Aim
Number of properties	7	15-20
Number of tenancies	9	25+
Net initial yield	3.5%	2.5%+
Vacancy rate (% of rent)	0%	Below market average
Rent with +15 years remaining	100%	70%+
Largest property (% of direct value)	30.1% (Astra House, Harlow)	Below 15%
Largest tenant (% of direct rent)	36.8% (Ei Group Plc)	Below 15%
Tenure (Freehold/Leasehold)	100% / 0%	Minimum 70% freeholds

PROPERTY / TENANT DIVERSIFICATION

AIM: To ensure the portfolio has an appropriate number of properties and tenants to dilute asset specific risk.

The SLI portfolio currently has 7 properties and 9 lettable units. We plan to have between 15 and 20 properties once fully invested with over 25 lettable units to ensure the portfolio is sufficiently diversified. The largest property in the portfolio is Astra House, Harlow which accounts for 30.1% of value and the largest tenant is Ei Group Plc, representing 36.8% of the total rent roll. Ei Group is the tenant of all four of the portfolio's public houses. These percentages will fall as further capital is invested.

ACTION: To maintain a diversified property and tenant mix.

INDEXATION

AIM: For the portfolio's income to grow in line with LPI (defined as the percentage change in RPI, capped at 5% and collared at 0% p.a.) and to achieve the total real return objective of LPI + 2% p.a.

37% of the SLI portfolio's income is subject to reviews to open market rental value. These relate to the four London public houses, where historic rental growth has outpaced inflation and we expect this trend to continue; 36% of the income is subject to CPI linked reviews with a cap and collar at 3.5% p.a. and 0.5% p.a. respectively; 20% of the income is subject to uncapped reviews in line with RPI and the remaining 8% is tied to a rent review linked to the higher of open market or RPI but capped at 3.5% p.a. with a collar at 1.5% p.a.

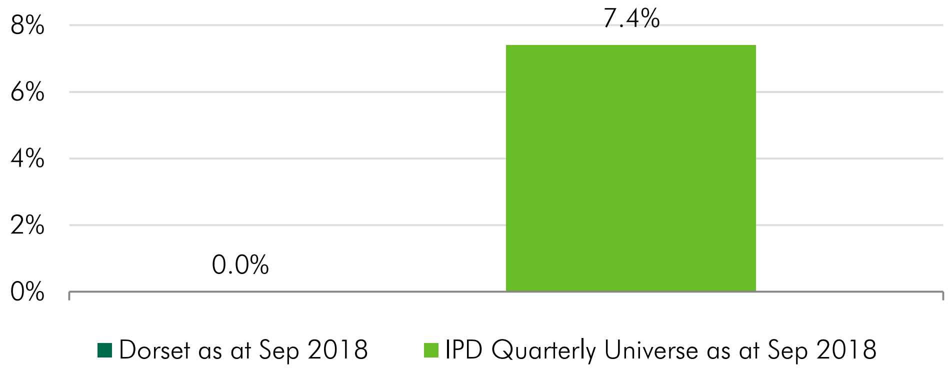
ACTION: To ensure the portfolio's income grows in line with LPI, to achieve the target real return and for at least 70% of the portfolio's income to be index linked once fully invested.

VACANCY RATE

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

The SLI portfolio currently has no vacancies. We carefully monitor all the tenants and will appoint letting agents where we suspect an upcoming vacancy.

Figure 10 Vacancy Rate



ACTION: Proactively manage upcoming lease expiries.

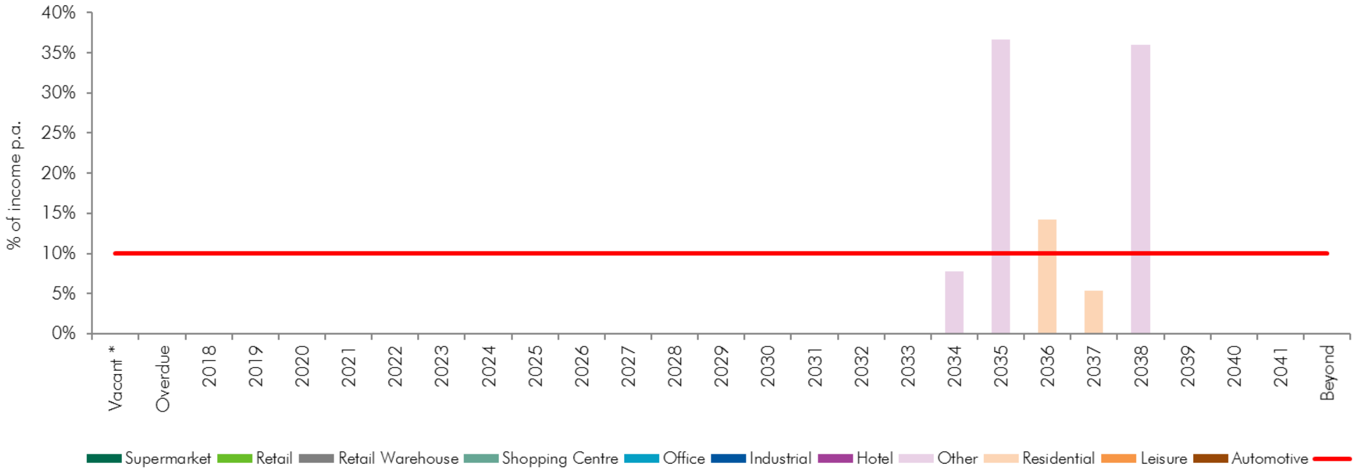
LEASE LENGTH AND EXPIRY PROFILE

AIM: To maintain an average unexpired lease term for the portoflio of at least 15 years.

UNEXPIRED LEASE TERM, YEARS

	Incl All Breaks	Excl. all breaks
Fund	23.1	17.4

Figure 11 Lease Expiry Profile



* Vacancy rate expressed as percentage of ERV

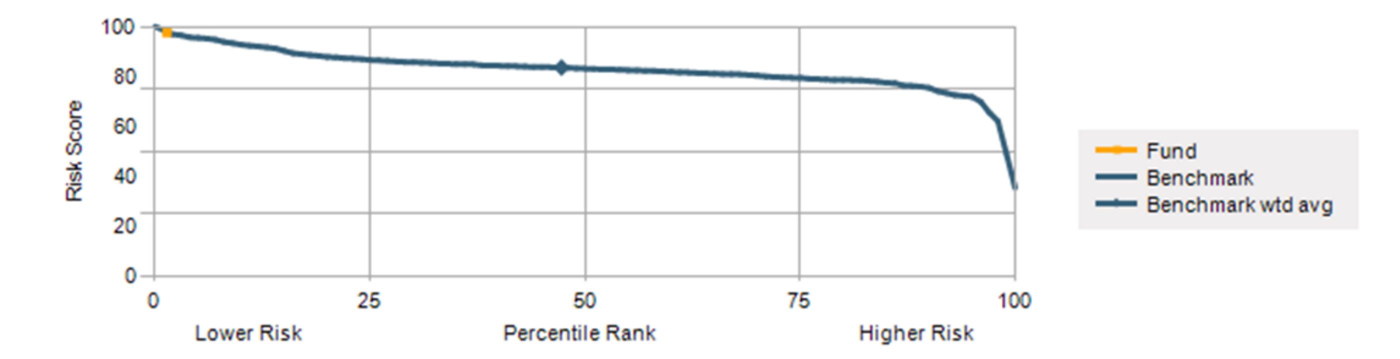
ACTION: Ensure the average unexpired lease term for the portoflio is at least 15 years.

TENANT FINANCIAL STRENGTH

AIM: To maintain covenant strength better than the IPD Quarterly Universe.

The graph below compares the covenant risk score of the SLI portfolio to the IPD Quarterly Universe as at 30 September 2018. The Weighted Risk Score is on the 2nd percentile and is well ahead of IPD (47th) demonstrating that the covenant strength of the portfolio is very strong.

Figure 12 Ranking Of Weighted Risk Score



ACTION: To maintain the low risk score of the portfolio with new purchases.

SECTOR AND GEOGRAPHICAL STRUCTURE

AIM: To ensure appropriate diversification by sector and geography.

100% of the portfolio is currently composed of alternative use properties, with public houses, a restaurant and a keyworker housing investment.

Figure 13 Geographical Structure

London & SE	48.7%
Eastern	30.1%
South West	0.0%
Midlands	0.0%
North	21.2%
Rest of UK	0.0%

49% of the SLI portfolio is in London, providing long term security and good prospects for higher value alternative uses in the future.

ACTION: To ensure appropriate diversificaiton with new purchases.

5. DIRECT PERFORMANCE - CONVENTIONAL PORTFOLIO

PERFORMANCE OBJECTIVE

The target for the Conventional portfolio 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.

Q3 2018	Portfolio	Benchmark	Relative
Capital growth	-0.2%	0.4%	-0.6%
Income return	1.1%	1.1%	0.0%
Total return	0.9%	1.5%	-0.5%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio underperformed the IPD Quarterly Universe by -0.5% over the last three months, with a total return of 0.9% against 1.5% for the Benchmark. The direct portfolio underperformed by -0.9% with a total return of 0.6% while the indirect holdings outperformed with a total return of 3.1%, 1.6% ahead of the IPD Quarterly Universe. The direct standing investments (properties held throughout the year, ignoring transactions and developments) performed in line with the IPD Quarterly Universe, also returning 1.5% over the quarter.

Industrials continued to be the market's best performing assets over the quarter while retail was the poorest given the challenges facing the sector. With a total return of 2.3% over the quarter, the industrials were the portfolio's best performing assets. The portfolio's retail recorded the lowest return delivering -0.4% over the quarter, reflecting the difficult market conditions.

The indirect outperformance was driven by capital growth at the Park Plaza hotel at Waterloo, which grew by 6.9% over the quarter. It provided a positive weighted contribution to overall performance of 0.4%.

The development at Cambridge Science Park dragged the overall performance of the portfolio over the quarter, providing a total return of -12.8% and a negative weighted contribution of -0.8%. This was the first quarter in which the valuers have split the asset into two separate holdings, which led them to focus on the value of the existing building which will become vacant early next year. The valuers have conducted an appraisal reflecting the costs of refurbishment which has resulted in a lower value than previously attributed. Work to the new building is on track and the investment is set to perform well.

12 months to Q3 2018	Portfolio	Benchmark	Relative
Capital growth	3.4%	3.7%	-0.3%
Income return	4.5%	4.5%	0.0%
Total return	8.0%	8.4%	-0.3%

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q3 2018	Portfolio	Benchmark	Relative
Capital growth	2.6%	2.6%	0.0%
Income return	4.8%	4.6%	0.2%
Total return	7.5%	7.4%	0.2%

Source: CBREGI and IPD Quarterly Benchmark Report

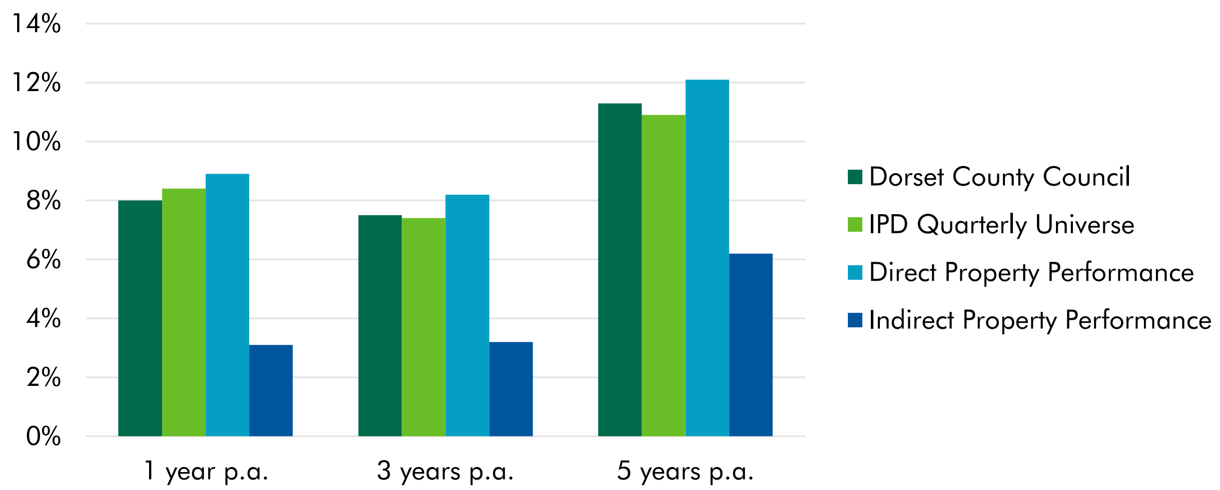
5 yrs to Q3 2018	Portfolio	Benchmark	Relative
Capital growth	5.8%	5.8%	0.0%
Income return	5.2%	4.8%	0.4%
Total return	11.3%	10.9%	0.4%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio is slightly behind the Benchmark over 1 year and outperforming over 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 purchase 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 slightly behind over 1 year and outperforming over 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.

DIRECT SLI PERFORMANCE

PERFORMANCE OBJECTIVE

The target is to achieve a total return greater than, or equal to, Limited Price Inflation ("LPI") plus 2.0% p.a. measured over the long run (7-10 years) commencing 1 April 2018.

Q3 2018	Nominal total return	RPI	Real total return	Nominal IPD Quarterly Universe
SLI Portfolio	-0.7	0.9%	-1.6%	1.5%

Source: CBREGI and IPD Quarterly Benchmark Report

This is the second quarter that the Secure Long Income portfolio has been reported separately from the Conventional portfolio.

The SLI portfolio generated a nominal total return of -0.7% over the quarter, equating to a real return of -1.6% (RPI was 0.9%). There was no capital growth with the performance coming from the income return of 0.8%. Returns are likely to be subdued while we build up the portfolio given the impact of transaction fees. This was a case in point for Quarter 3, where the transaction fees for the purchase of Astra House in Harlow dragged performance. The standing investments (ignoring transactions) produced a nominal return of 0.9% over the quarter, equating to 0% real.

6. 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	30 September 2018	GREEN	£17,068.97 (excludes £424,560.75 that relates to administrations)
	30 June 2018	GREEN	£4,845.94 (excludes £190,400.10 that relates to administrations)
	31 March 2018	GREEN	£1,868.38 (excludes £124,191.81 that relates to administrations)
	31 December 2017	GREEN	£4,022.88

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	30 September 2018	GREEN	(95.5% collected in 6 days, 96.8% by 15th day)
	30 June 2018	GREEN	(88.8% collected in 6 days, 98.3% by 15th day)
	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)

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	30 September 2018	GREEN	None currently outstanding.
	30 June 2018	RED	Payment outstanding due to query regarding completion monies.
	31 March 2018	GREEN	None currently outstanding.
	31 December 2017	GREEN	None currently outstanding.

7. ESG PROGRAMME

Environmental Compliance
With relevant and changing legislation, such as the CRC and ESOS.

Performance & Risk Mitigation
Managing strategic risks and enhancing value through improving low energy performance.

Strategy, Policy & Targets
Establishing portfolio wide policies & specific Fund targets and strategies.

Voluntary Reporting
Reporting on the Fund's progress against ESG objectives.

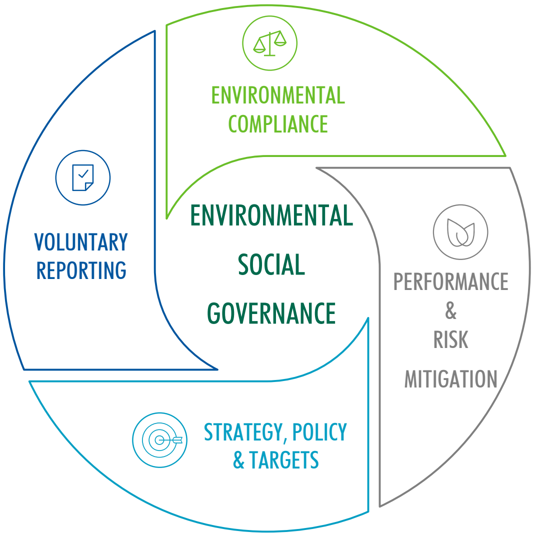


Figure 1 Change in level of risk across all units (left) and value (right) within the Dorset County Council

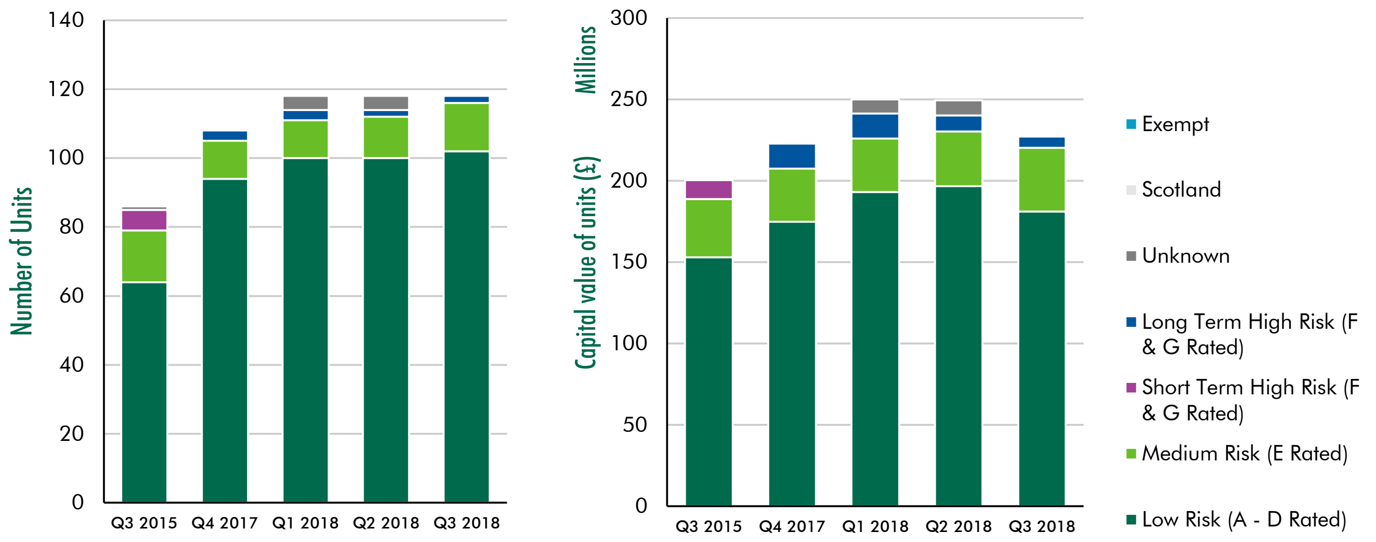
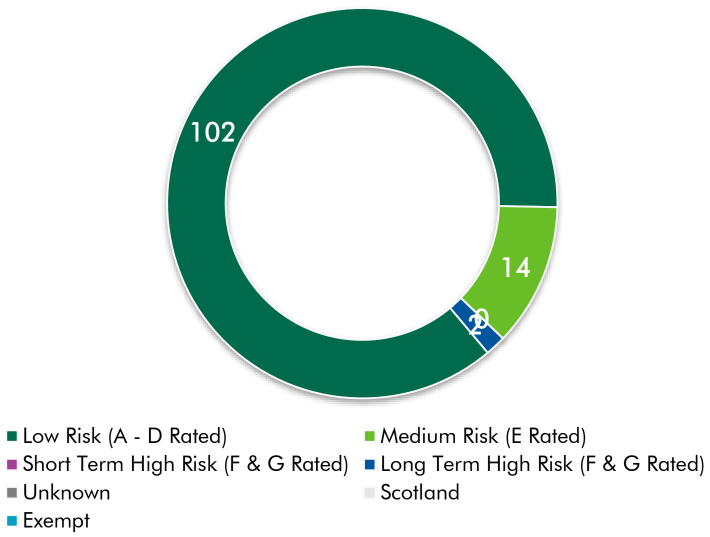


Table 1 Actions completed in Q3 2018

Portfolio/Asset	Unit	Action	Outcome
Apsley Centre, Apsley Way, Staples Corner, London	Unit D	Refurbishment Project	Improvement works to the unit included sustsinability input and significant improveents in the EPC rating. The unit is now a D rating (low risk category).

Figure 2 Fund Risk Management Action Plan



Action plan	Medium Risk	Short Term High Risk	Long Term High Risk
	No. of units		
High quality EPC			
Modelled EPC / tenant engagement	12		1
Refurbishment planned			1
Redevelopment planned			
Considering sale			

Table 2 Actions planned in Q4 2018

Portfolio/Asset	Unit	Action	Outcome
Portfolio	All	Annual ESG Report 2018	Issue fund's annual ESG report, including water and carbon footprints, case studies and key asset strategies.
All Sites	All	ESG +	Confirm / Amend ESG+ strategy following proposal review.
All Sites	All	Green lease clause review	Consultation regarding current green lease clauses with selected fund solicitors – potential amendments to wording of the clauses and their categorisatio (Basic, Intermediate, Leader).

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Pension Fund Committee

Dorset County Council

Date of Meeting	22 November 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 notes the progress establishing the Brunel Pension Partnership.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place.
Appendices	Appendix 1: Brunel Oversight Board 23 September 2018 - minutes
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. Background

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 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. Brunel Ltd received authorisation on 16 March 2018 from the Financial Conduct Authority (FCA) to act as a full scope investment firm, allowing it to provide advisory and discretionary investment management services to Dorset and the nine other client funds.

3. Portfolio Development and Implementation

Passive and Smart Beta Equities

3.1 Following a tender process under the LGPS National Framework for Passive Services, Brunel 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 were the largest incumbent passive equities manager across the ten client funds, which has helped towards keeping transition costs to a minimum.

3.2 Dorset's internally managed passive UK equities portfolio successfully transitioned to the Brunel portfolio 11 July 2018 and Dorset's global equities under the management of Allianz successfully transitioned to the Brunel Smart Beta portfolio 18 July 2018. This equates to approximately £700m of investments transferring to the pool's management, representing nearly a quarter of the Fund's total assets of £2.9bn.

Active Equities

3.3 Following the conclusion of the Passive and Smart Beta manager selection process, Brunel has turned its attention to the seven active equities portfolios, firstly UK Equities and Low Volatility Global Equities, with the other equities portfolios to follow.

3.4 The results of these two initial active equities concluded in September 2018, with transition to the new portfolios expected in November 2018. These will be the first Brunel portfolios managed through the Authorised Contractual Scheme (ACS).

3.5 Dorset has a target allocation to UK core equities of 6.25% (approximately £190m) but no allocation to Low Volatility Global Equities. The Fund's current investment with AXA Framlington will transfer in full to the Brunel portfolio.

3.6 In October 2018, Brunel issued their "Manager Search Launch Paper" for their Emerging Markets Equity portfolio. This document sets out the detailed timeline for the establishment of the portfolio, with final transitions not expected until September 2019. Dorset has a target allocation of 3.0% (approximately £90m) to emerging markets equities, and it is anticipated that the Fund's current investment with JP Morgan will transfer in full to the Brunel portfolio.

Private Markets

3.7 Work by Brunel establishing private markets' portfolios is progressing concurrently with public markets' activity. Following the meeting of the Committee in June, commitments of 2.0% (approximately £60m) to the Private Equity portfolio and 2.0% to the Secured Income portfolio were agreed.

3.8 Commitments to the private markets' portfolios are expected to be deployed by Brunel to underlying investments over a two year period ending March 2020, with an opportunity to 'top-up' initial commitments in April 2019. Thereafter, from April 2020, commitments to further two year investment cycles will be sought by Brunel, again with the opportunity to increase the commitment after the first year.

3.9 Private Equity, in particular, has proved challenging for the Fund to reach target allocation. Therefore, officers will need to regularly review and update the required levels of commitments to Brunel, alongside the legacy investments with the Fund's existing managers, HarbourVest and Aberdeen Standard (formerly Standard Life Capital).

3.10 In October 2018, Brunel made commitments to two funds as part of the Secured Income portfolio - the Aberdeen Standard Long Lease Property Fund and the M&G Secured Property Income Fund. Dorset's share of these commitments is £22m to each fund, leaving £16m uncommitted. Both funds have lengthy investor queues prior to drawdown, therefore the first anticipated drawdowns are not expected until spring 2019 and autumn 2019 respectively.

Other

3.11 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) / Authorised Contractual Scheme (ACS)

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. It was concluded that the most efficient solution is for Brunel to provide a vehicle itself, through a third-party provider, which will be used by investment managers to provide investment services to the client funds.

4.2 Brunel has appointed FundRock Management Company as its ACS Operator. Brunel will act as a Sponsor and Investment Manager of the ACS with FundRock responsible for meeting regulation requirements and contractual arrangements. The prospectus was submitted to the FCA in September 2018, and approval was received in October 2018.

5. 2019-20 Business Plan

5.1 The development of Brunel's business plan for 2019-20 has involved a detailed review of the assumptions in the FBC, resulting in a revised transition and resources plan to ensure the objectives of the original business case are achieved. The review has been subject to a high level of scrutiny by both the Client Group (CG), and the Brunel Oversight Board (BOB).

5.2 The outcome of the initial review of the FBC and considerations for future business planning were shared with BOB at the meeting on 23 September 2018 (see Appendix 1). This initial review highlighted greater than expected fee savings to date with lower than expected transition costs, but raised concerns with the deliverability of the original transition plan and the adequacy of resourcing.

5.3 Three potential delivery timeframe options for the transition of remaining assets were considered, and BOB supported taking forward the preferred option to develop a detailed proposal for the new business plan. This final detailed business plan was considered and supported by BOB at its next meeting, 1 November 2018.

5.4 The business plan uses the lessons learnt from the portfolios established to date to provide a clearer assessment of the resources, risk management and monitoring tools required across Brunel to deliver the remaining portfolios on a realistic and achievable timeline that remains acceptable to the Client Funds. The review also took into consideration the regulatory and monitoring requirements of operating an FCA authorised company and the systems and additional resources needed for 'business as usual'.

5.5 The revised transition plan is summarised below.

Portfolios	**Start Date**	**End Date**	**Fees Savings start**
Passive Equity	01/01/2018	31/07/2018	August 2018
UK Active Equities	01/10/2018	19/11/2018	December 2018
Low Volatility Active Equities	01/10/2018	19/11/2018	December 2018
Emerging Market Active Equities	15/10/2018	02/09/2019	October 2019
High Alpha Developed Active	31/12/2018	25/11/2019	December 2019
Liability Driven Investments	03/12/2018	12/08/2019	September 2019
Passive Indexed Linked Gilts	03/12/2018	12/08/2019	September 2019
Diversified Growth Funds	11/03/2019	23/12/2019	January 2020
Global Core Active Equities	27/05/2019	13/04/2020	May 2020
Sustaibale Active Equities	02/09/2019	03/08/2020	September 2020
Smaller Companies Active Equities	07/10/2019	24/08/2020	September 2020
Curreny Hedging	18/02/2019	24/06/2019	July 2019
Bond Strategy	11/11/2019	09/12/2019	January 2020
Multi Asset Credit	16/12/2019	20/07/2020	August 2020
Sterling Corporate Bonds	24/02/2020	28/09/2020	October 2020
Global Bonds	01/06/2020	19/04/2021	May 2021
Indexed Linked Gilts	01/06/2020	01/06/2020	July 2020
Hedge Funds	17/08/2020	22/03/2021	April 2021
Equity Protection	21/09/2020	28/06/2021	July 2021
Tactical Asset Allocation	21/09/2020	26/07/2021	August 2021

5.6 The budget for the current financial year and the next three years is set out below.

	2018-19 £000s	2019-20 £000s	2020-21 £000s	2021-22 £000s
Budget	7,795	10,427	10,405	10,292

5.7 Of the £2.6m increase in resources in 2019-20 from the 2018-19 forecast:

- £784k represents planned business development that was anticipated in the FBC, £958k represents the increase in Private Markets Administration (before the net of fee savings) agreed in the Special Reserve Matter approved August 2018,
- £632k for additional portfolio launch costs,
- £629k for regulatory & monitoring requirements,
- £728k for additional business as usual resources required and
- £268k for transitional resources,
- offset by the reduction in one-off costs in 2018-19 of £1,367k.

5.8 The figures for 2020-21 and 2021-22 allow for inflationary increases but also reflect reductions in the transitional resources and in the portfolio launch costs. Overall, these therefore show a net reduction each year.

5.9 Shareholders have now been asked to approve the 2019-20 Business Plan Special Reserved Matter by 7 December 2018.

6. Governance

6.1 Since the last meeting of the Committee, the Brunel Oversight Board (BOB) has met twice - 27 September 2018 and 1 November 2018. A copy of the minutes from the meeting on 27 September are attached at Appendix 1. The next meeting of the Oversight Board will be held at Brunel's offices on 31 January 2019, with the company's Annual General Meeting (AGM) held later that same day.

6.2 A number of client engagement events were held in November, open to all members of each client fund's Pension Fund Committee and Local Pension Board. Copies of the slides from these events will be circulated.

7. Key Measures of Success

7.1 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.

7.2 The Client Group are in the process of developing a suite of Key Performance Indicators to monitor performance in delivery of these key measures of success. It is anticipated that this work will be concluded prior to the next meeting of the Committee in February 2019.

8. Key Risks

8.1 Brunel Ltd identified a number of key risks to successful implementation, with the following risks still outstanding:

8.2 **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.

8.3 **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.

8.4 **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.

8.5 **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
November 2018

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Brunel Pension Partnership

BOB

Brunel Oversight Board Meeting

Minutes

Purpose:	**To review Brunel/Client progress agree next steps**
Date and time:	Thursday 27 September 2018, 10:30 – 13:00
Location:	Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU
Dial-in details:	Dial In: 0330 336 1949 | Participant Pin: 566525

Pension Committee Representatives		
David Veale	Avon	
John Chilver	Buckinghamshire	
Derek Holley	Cornwall	Phone
Ray Bloxham	Devon	
Peter Wharf	Dorset	Apologies
Joanne Segars	EAPF	Apologies
Hywel Tudor	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair - Apologies
Mark Simmonds	Somerset	
Tony Deane	Wiltshire	
Member representative observers		
Andy Bowman	*Scheme member rep.*	
Ian Brindley	*Scheme member rep.*	
Fund Officers and Representatives		
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	Phone
Mark Gayler	Devon	
David Wilkes	Dorset	Phone
Craig Martin	EAPF	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	Chair – CG
Nick Weaver	Wiltshire	
Jenny Devine	Wiltshire	
Nick Buckland	JLT – Client Side Executive	
Sophie McClenaghan	JLT – Client Side Assistant	Minutes
Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	
Matthew Trebilcock	Brunel, CRD	
Dawn Turner	Brunel, CEO	
Joe Webster	Brunel, COO	
Mark Mansley	Brunel, CIO	
Faith Ward	Brunel, CRIO	Item 5 only

David Anthony	Brunel, CFO	
Laura Chappell	Brunel, CCO	Item 4 only

Item	Agenda	Paper provided	Owner
1	Apologies and welcomes Confirm agenda Requests for AOB Any new declarations of conflicts of interest	Agenda C of Interests	Chair
	Apologies were received from Joanne Segars, Kevin Bulmer and Peter Wharf. NW introduced Jenny Devine who will be taking over from him at Wiltshire. No AOB was received. No new conflicts of interest were received.		
2	Review 18 July BOB minutes • Matters arising - SRMs	Minutes	Chair
	A query was received from HT around the level of detail included in the July minutes and whether the exact figures should be included. It was noted that the minutes were written to be publically available and as such, in some instances, are deliberately light in detail. Any supporting figures will be included in the supporting documentation. The July minutes were agreed and confirmed as final. <u>Matters arising</u> Two shareholder reserved matters requests (SRMs) were issued in July, both of which required 100% shareholder approval. 1. Private markets – approved 2. Remuneration policy – consisted of 4 items i. Maximum chair and NED payments – approved ii. Recognition awards - rejected iii. Salary caps linked to CPI - rejected iv. External review, once every 2 year – approved Brunel has confirmed it can continue to be operational for this year (to the end 31 March) without the two remuneration policy items having been approved.		
3	Pricing Policy	Report	DT/JW
	The original interim pricing policy expires in March 2019, however the review needs to be brought forward as the ACS is not included in the		

	current policy. The paper presented was designed to be futureproof by detailing the high level principles of the pricing policy rather than exact detail. MG noted that the original pricing policy was always intended to be an interim policy during the set up of Brunel. He confirmed that the CG had reviewed the document and believes the principles are fair and appropriate. It was queried whether the CG are happy with the definition of direct costs. MG and MS confirmed this has been reviewed by the CG. It is a requirement of the shareholders agreement that Brunel provide a pricing schedule to Clients for the following year by the end of February. The Clients will receive invoices to provide evidence of the Brunel costs. Investment management fees within the ACS will be will be charged as units but Clients will receive statements that will detail the amounts. The CG will bring the draft reporting templates to BOB before they are finalised. The costs will be reported in the business plan which will also come to BOB for approval. Track changes had not been used for this policy as this was a significant rewrite from the previous version; however, the main changes were highlighted in the cover report. **The BOB supported the recommendations included in the cover report.** **I. The Oversight Board support the revised Pricing Policy and the issuing of a Special Reserve Matter.**		
4	Business Plan • Draft Business Plan • Business Case Review • Transition Plan options	Report and presentation	DT/JW
	DT provided an overview of the business case review via a presentation. It was noted that the figures included in the report have been calculated using a sophisticated financial model. The FSG had not yet scrutinised and audited the model and they would be doing so the following week during a full day meeting. The original business case demonstrated that pooling would be advantageous to Clients. Brunel has updated the business case to reflect its position today, then it is evaluating how Brunel can proceed going forward. MS noted that the FSG has invited any additional CG members to attend the upcoming meeting, and that three additional CG members will be attending the FSG model validation session.		

	The UK active equities transition resulted in investment management fees of around 50% of the original estimate. Part of the reason for this high level of saving was the full procurement exercise that was undertaken. However because of this, where Brunel had originally estimated that each selection process would take 6 months per portfolio, it revised its estimates to around 9 months. This was a key learning point for future transitions. In addition to the desire to do a fully transparent procurement, FundRock, the ACS provider will require Brunel to undergo a significant level of due diligence. DT highlighted that in addition to the lack of resource identified within Brunel the underlying Funds have also struggled to meet timelines. The open, transparent tender process meant that Brunel can build up research on all managers in that area. Portfolios include a blend of managers so mitigate the risk of a manger underperforming. Brunel is using other companies' assessments such as Inalytics. MM was keen to point out that they didn't select a manager because of the lowest fee, the weighting is quite low for fees in the selection process, they attempt to find the best managers and then negotiate on fees. Brunel presented three potential options for the transition of assets two of which resulted in some delay in the remaining portfolios. Option 2 was highlighted as the favoured option. It was also noted that the UK and Low Vol portfolios were completed early, transitioning in November 2018 rather than in July 2019, as per the indicative timetable in the original business case. In addition the private markets portfolios have been brought forward vs the business case. Brunel doesn't believe option 3 is deliverable, as it will take time to get additional resource. Option 2 is indicative. Option 1 pushes out the business plan to 2024 which Brunel and the CG think is too far to produce the benefits. Option 2 is a halfway house but the assumptions are to be assessed by the FSG and then the timetable will be finalised. Brunel and the CG are looking for support from BOB that options 1 and 3 are not attractive and that the direction of travel that should be further explored is option 2. It was asked whether the right resource was available. DT responded that this was the issue with option 3, Brunel and the CG do not believe recruitment can happen fast enough to make option 3 feasible, however it is believed that option 2 is a reasonable lead time, and, to date. Brunel has not had any problems with recruitment. DH asked if next year there will be another set of delays. SC as Chair of the CG noted that the CG has emphasised to Brunel that the business plan in November needs to be a realistic timetable and therefore needs to include sufficient recourse. The UK and Low Vol portfolios are the first time the process has been thoroughly tested; previous timeframes have been	

based on estimates.

LC joined the meeting and provided an overview of the impact regulation has caused. MiFID II has put some robust and painful requirements around transparency on the entire firm in addition to the day to day work. The ACS vehicle also brings with it additional regulatory requirements; however this method reduces the tax burden significantly.

LC left the meeting.

A question was asked on "Overlay services", and these were described as bring more bespoke to individual funds such as LDI or TAA.

BOB agreed that option 2 is the favoured direction of travel and supported Brunel refining the detail with examination of the figures from the FSG, to be presented at the 1 Nov BOB meeting.

The timeline was highlighted as the new business plan being presented to the BOB meeting on 1 November, and provided it was agreed, the business plan will be incorporated in the engagement days 5, 6, and 7 Nov. this will provide addition opportunity for the shareholder reps to ask any questions.

A Special Reserved Matter Request will be issued after the engagement days on 8 November with shareholders having 20 business days to respond. It was emphasised that the agreement of this SRM is crucial to Brunel's on-going operation so Brunel requested that Funds raise any potential issues early.

It was requested that Brunel send this timetable to the shareholder reps notifying them of the process and indicating the significance. The notice should indicate that this was agreed in March.

Brunel

It was noted that it is the CG representatives' role to keep the shareholders informed throughout this process.

The BOB supported the recommendations included in the cover report.

I. **The Oversight Board note the figures included in this report are indicative and although they provide a robust view of the potential outcomes they still require the detailed assurance review by the Financial Services Group (FSG)**
II. **ii. The Oversight Board note the progress made on the full review of the Original Business Case.**
III. **iii. The Oversight Board note the lessons learnt from establishing the first three portfolios within the core markets and the implications for the core markets transition plan.**
IV. **iv. The Oversight Board noted the options under consideration and resolved to ask Brunel to incorporate a worked up option 2 into the Business Plan to be presented to the Oversight Board 01 November**

	2018.		
5	Stewardship policy	Paper	FW/MM
	FW joined the meeting and presented the Brunel policy. She highlighted that it had been written for multiple audiences which is why definitions are included in text boxes. The RI sub Group have extensively reviewed the policy but have not highlighted any fundamental issues. The policy will be published in November so FW asked for any comments by end October, however this is a dynamic document and will evolve over time. The policy goes above and beyond the UK Stewardship Code as Brunel is a global investor. ThePolicy incorporates issues from other regions, particularly any areas Brunel believes may be incorporated in the UK stewardship code in the next year. There will be a slight adjustment in the wording around the split voting to make it stronger. Stock lending won't be available until early 2019 so the policy will come out towards the end of the year. Brunel will provide a paper indicating the stock lending discussion factors for the end October. The stewardship policy and stock lending will be discussed at the November engagement days. FW is happy to draft the individual stewardship statement should Funds wish. IB requested that it was made clear that shareholder resolutions shouldn't attempt to influence the business plan of companies. FW agreed to make that reflection, but some judgement calls will be required.		Brunel
6	AOB Future meeting dates - 1 November 2018 - Agree next year dates Engagement days - Oxford - Mon 5 Nov - Bristol - Tue 6 Nov - Exeter - Wed 7 Nov		Chair
	MT attended the CPCG on 26 September 2018, and a meeting of Chairs of Funds had been scheduled by the LGA to look at Infrastructure. **MT noted that if Chairs haven't been invited they should ask their officers to contact Jeff Houston at the LGA.** **JLT and Brunel agreed to plan next year's BOB meeting dates.**		Chairs/ Officers JLT/ Brunel

	The engagement days are open to all attendees. **BOB members were encouraged to promote the dates to Committee and Board members.**	All

Produced: JLT on 02/10/2018

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Pension Fund Committee

Dorset County Council

Date of Meeting	22 November 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: • MHCLG policy consultation on technical amendments to the LGPS Regulations • Data Improvement Plan • Update - Annual Allowance 2018 • 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	That the Committee: i. Note and comment on the contents of the report. ii. Approve the proposed response to the consultation regarding early access to benefits for deferred members of the 1995 scheme. iii. Approve the Data Improvement Plan.
Reason for Recommendation	To update the Committee on aspects of Pensions Administration
Appendices	• Appendix 1 – Consultation LGPS Technical amendments • Appendix 2 – DCPF Common Data Quality Reports • Appendix 3 – DCPF Conditional Data Quality Report • Appendix 4 - DCPF Data Improvement Plan • Appendix 5 - Quarterly KPIs (August 18 – October 18)
Background Papers	• LGPS Regulations 2013 • https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/745340/Local_Government_Pension_Scheme_-_Technical_Amendments_to_Benefits.pdf
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. MHCLG policy consultation on technical amendments to the LGPS Regulations

2.1 MHCLG have opened an eight week policy consultation called 'LGPS: technical amendments to benefits', prompted primarily by recent legal judgements including the Supreme Court decisions last year in Walker v Innospec and Brewster. The policy consultation looks at three areas which are detailed below, the relevant document is attached as Appendix 1.

2.2 **Survivor Benefits** – following the successful legal challenge in the case of Walker v Innospec, the Government has decided that all public service pension schemes should implement changes to provide survivors of registered civil partners or same-sex marriage with benefits that replicate those to which a widow of a male member would be due. These changes will be implemented in the LGPS as though they had applied from the date of the civil partnership or same-sex marriage.

2.3 Prior to this judgement, pension schemes had been able to make use of a provision within the Equalities Act 2010 which allowed service accrued prior to 5 December 2005 to be disregarded in calculating the pension entitlement of a surviving civil partner or same-sex spouse.

2.4 Current LGPS regulations provide equal benefits for surviving partners in a civil partnership or same sex marriage of either sex, to those awarded to widowers. However, earlier regulations provided benefits based only on membership back to 1988. This will mean that LGPS administering authorities will need to revisit all awards previously made and pay any additional sums that may be due.

2.5 Interestingly there does remain differential treatment between widows and widowers in terms of benefits and this has been held as lawful by the Supreme Court in a long line of cases. The European Court of Justice judgement in Barber required schemes to provide equal survivor benefits for males who survive their female spouse in relation to service from May 1990 only. The LGPS meets this requirement, but it is not proposed at this point to equalise benefits for all males who survive their female spouse on the same basis as they are provided to females who survive their male spouse. The cost of doing this would be significant -in the region of £2.8bn across the different public sector schemes. Previous consultations on these issues have been conducted, with no final decisions made, the Government will respond on this matter separately in due course.

2.6 **Power to issue statutory guidance** – following successful legal challenges in the Brewster and Elmes V Essex cases, MHCLG wrote to funds asking them to review cases where non-award of a cohabiting partners pension may now be reversed considering these judgements. As a result of this, a further issue arose regarding the rights of children who were in receipt of a pension as these rights would be affected by changed rules allowing for payment of a cohabiting partner's pension.

2.7 MHCLG set out its views regarding the implications of this case in a letter dated 17 August 2017. However, that letter recognised that the Department's view had no legal force as the Secretary of State had no power to issue statutory guidance in this area. It would therefore be possible for different funds to reach different and inconsistent conclusions about the entitlements of beneficiaries which is contrary to the Government's view that the LGPS is a single scheme, administered locally.

2.8 Such issues are sensitive and to avoid funds taking different approaches in similar future circumstances, the government proposes to create a power to issue statutory guidance on the operation of the scheme's rules. The aim of this is to deliver greater standardisation of approach, and in particular how the interpretive duties under the Human Rights Act are met. An alternative would be to amend the rules of the scheme in relation to each judgement as it is made. This approach would be less flexible and would potentially take longer.

2.9 **Early access to benefits for deferred members of the 1995 scheme** – is a technical amendment to address the unintended consequence of the changes introduced in the Amendment Regulations effective from 14 May 2018 which aimed to allow all LGPS members the right to access their deferred pension from age 55.

2.10 These regulations excluded one group of deferred members, covered under the 1995 scheme rules, who if they did not take their benefits at age 55, would only be able to access their pension at 65, and not at any age in between, for example at age 60.

2.11 The technical amendment aims to correct this oversight and amend the regulations to fully achieve the initial policy aim which is to allow all deferred members the right to draw their pension from age 55, with the appropriate actuarial reductions.

2.12 It is my intention to respond to this consultation with full agreement to all three proposed areas of change, and with no further or additional comments**. I would ask for approval from the Pension Fund Committee and Local Pension Board to this course of action.**

3. Dorset Count Pension Fund – Data Quality and Data Improvement Plan

3.1 The necessity and importance of a good quality data and a Data Improvement Plan has been stressed by the Pensions Regulator (tPR), and following the second year in which we have commissioned Data Quality Reports, a Data Improvement Plan has been formalised. The continuing diversification of the employer base, the increasing number of payroll providers and ICT systems used to transfer information, present the Fund with significant operational challenges in meeting the statutory record keeping requirements.

3.2 The 2018 Data Quality reports, for both 'Common' and 'Scheme Specific' data, are attached at Appendix 2 and 3. This provides a summary of data integrity as at September 2018 and gives us a comparison with the position in August 2017. This shows an improvement in all areas tested.

3.3 The overall score of tests passed for common data held was 99.2%, an improvement over the 2017 rate of 98.8%. Seven of the eight categories met the highest benchmark of greater than 98% with three categories not recording a single failure. The one area not meeting the highest benchmark was member addresses held, which was 94.5%. The general quality of data tested at Dorset is of a high standard.

3.4 The overall score for the scheme specific data, (also known as conditional data), was 97.7%, an improvement over the 2017 rate of 92.7%.

3.5 The tPR is, from 2018, requesting data scores to be recorded on the annual scheme return. This return has now been submitted and the scores relevant for the DCPF are 97.8% for common data, and 88.8% for the scheme specific data. This figure represents the percentage of member records without a single common data failure.

3.6 Following on from these reports, a Data Improvement Plan has been drawn up to ensure that errors identified are addressed and cleared, and that a continuous programme of improvement is maintained over the coming year. Please see Appendix 4. **Approval for this is sought**.

3.7 In addition to regularly testing data, and setting improvement plans and targets, we are working with employers to ensure they understand their role in providing accurate and timely data.

4. Annual Allowance – 2018 Review

4.1 The Fund has a statutory duty to notify any member who exceeds the Annual Allowance (AA) by 5th October, after the end of the relevant financial year. The gradual reduction to the AA, (which is currently £40k) and the introduction in April 2016 of the Tapered Annual Allowance has led to increased complexities for the fund administrators and an increase in the number of members affected.

4.2 The number of members facing a tax charge is in the region of 28, an increase from the 2016/17 year where 17 members in total were subject to a tax charge. Additionally, we have identified 11 members who will definitely be subject to the Tapered AA, in increase from the 6 identified last year. These are members whose income exceeds approximately £125,000. Other members may fall subject to the Taper AA rules, but we cannot directly identify them.

4.3 The administration team face difficulties in implementing the increasingly complex pensions tax regime, particularly in regard to balancing the expectations of members, and the line that must be drawn in the provision of information and the potential interpretation that this could be seen as advice (we are not able to give any form of advice to members).

4.4 Members, once notified of their Pension Savings amount, are strongly advised to seek the guidance and expertise of a financial/tax advisor. Some members will try to avoid this because of the high costs involved, but there is nationally a shortage of suitable and able tax advisors to assist members. This issue has been discussed by the Scheme Advisory Board and needs to be addressed further to ease the risks and difficulties faced by members and administrators.

4.5 The fund has discussed ways in which we can assist members with Barnett Waddingham, whose tax advisory service the fund uses. As a result, we have commissioned Barnett Waddingham to produce a guide to completion of the self-assessment tax return. Once available we will issue this to all members who have exceeded the AA in 2017/18 (about 155 members). Although this only provides some limited assistance, it will hopefully be appreciated by members.

5. Key Performance Indicators and work backlogs

5.1 The Key Performance Indicators for the period August 2018 to October 2018 are attached at Appendix 5 and reflect the continued positive achievements of the section. This represents the ten key areas for the section but does not include all the work areas completed.

5.2 The Aggregation backlog work makes steady, but slow, progress. During the period August to October a further 356 cases were completed, with 1718 cases remaining.

Richard Bates
Pension Fund Administrator
November 2018

Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme: Technical Amendments to Benefits

Policy Consultation

October 2018
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London
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For all our latest news and updates follow us on Twitter: https://twitter.com/mhclg

October 2018

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Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on proposed amendments to the rules of the Local Government Pension Scheme. These amendments are necessary to respond to recent legal judgments and maintain existing pensions policy objectives.
Scope of this consultation:	MHCLG is consulting on changes that will affect members of the LGPS and those who may be entitled to survivor benefits from them.
Geographical scope:	These proposals relate to the Local Government Pension Scheme in England and Wales only.
Impact Assessment:	The government believes that any impact on protected groups as a result of these reforms would simply be a natural consequence of the composition of the local government workforce and does not believe that there would be a disproportionate impact on particular groups aside from as a consequence of this. How much individual members or their beneficiaries may benefit from these reforms will be determined by a combination of factors, including when they were employed, their pensionable earnings, the length of any pensionable service and the specific benefits of the scheme to which the deceased belonged. We do not hold data from which these costs could be modelled with any accuracy, however we do not anticipate that these extra costs will be material to the Scheme as a whole.

Basic Information

To:	This consultation will be of greatest interest to members of the the Local Government Pension Scheme, as well as those who might be entitled to survivor benefits from them. Any change to the Local Government Pension Scheme is likely to be of interest to other stakeholders as well, such as local pension fund administrators, those who advise them, other LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	LGF Reform and Pensions Team, Ministry of Housing, Communities and Local Government.
Duration:	This consultation will last for 8 weeks from 4 October 2018
Enquiries:	For any enquiries about the consultation please contact LGPensions@communities.gsi.gov.uk
How to respond:	Please respond by email to:

	LGPensions@communities.gsi.gov.uk Alternatively, please send postal responses to: LGF Reform and Pensions Team Benefits Consultation Ministry for Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF When you reply it would be very useful if you confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number If you are responding in writing, please make it clear which questions you are responding to.

Introduction – Purpose of the Reforms

The Local Government Pension Scheme is a statutory scheme established under the Superannuation Act 1972. Its rules and benefits are set out in regulations[1].

The legislation governing the LGPS has been changed at various points in time. This has generally been in order to maintain the affordability and effectiveness of the LGPS, as well as to reflect wider legal changes. Changes have also been necessary to reflect the changing composition and working practices of those delivering local public services.

Since the Human Rights Act 1998 came into force, LGPS funds also need to interpret those rules consistently with the human rights of scheme members. Recently there have been a number of challenges on grounds that the plain meaning of the rules can be inconsistent with the human rights of those affected by them.

The purpose of this consultation is to propose some changes to the scheme to accommodate judgments already made and to give some flexibility to respond to future developments.

A number of those challenges have focussed on the issue of survivor benefits. The Scheme provides a variety of insurance-style benefits on the death of a scheme member. The nature of these benefits has changed over time in line with societal developments and evolving family structures. For example, for all active members, the scheme now includes equal benefits for the partners of survivors irrespective of the legal form of their relationship (i.e. marriage, civil partnership or co-habitation).

As the scope of these benefits has expanded over the years to take in wider numbers of beneficiaries, so has the cost of providing them. To manage this cost, it is long-standing government policy that benefits should only exceptionally be improved retrospectively and that only members with active membership at the time the benefit is brought in should be entitled to them.

However, there are instances when the rules around benefits have to be redrawn, and this consultation covers a number of those.

[1] Principally the Local Government Pension Scheme Regulations 2013

Survivor Benefits

Amendment to benefits payable to same-sex married or civil partners

One successful legal challenge was brought in the case of Walker v Innospec[2]. Mr Walker was not a member of the LGPS, he was a member of a private defined benefit scheme. On 12th July 2017, the Supreme Court found that Mr Walker's male spouse was entitled to the same benefits which would be paid if Mr Walker had left a widow in an opposite sex marriage. The judgment meant that the survivor's pension would be calculated on all the years of Mr Walker's service with Innospec provided that, at the date of Mr Walker's death, they remained married.Prior to the judgment, pension schemes had been able to make use of a provision within the Equality Act 2010 which allowed service accrued before 5 December 2005 to be disregarded in calculating the pension entitlement of a surviving civil partner or surviving same-sex spouse.

The implication of this judgment for all pension schemes with similar benefits, like the LGPS, is that survivors of registered civil partnerships or same-sex marriages should be provided with benefits equal to those the scheme member would have left to an opposite sex surviving spouse. In the LGPS, surviving partners in a civil partnership or same sex marriage of either sex are all currently afforded benefits equivalent to widowers.

This change would be significant as earlier LGPS schemes, on which the pensions of certain members are still determined, recognise past service back to 1978 for widows of post-service marriages but only back to 1988 for widowers of post-service marriages.

The Government has decided that all public service pension schemes should implement changes to provide that survivors of registered civil partnerships or same-sex marriage will be provided with benefits that replicate those provided to widows. These changes will be implemented in LGPS as though they had applied from the date civil partnerships and same-sex marriages were implemented. Hence there will be a need for LGPS administering authorities to revisit all awards made under the current rules to partners affected and pay any additional sums that are due.

Many same-sex survivors of a public service pension scheme member will benefit from this change. How much they benefit will be determined by a combination of factors, including when the deceased was employed, their pensionable earnings, the length of any pensionable service and the specific benefits of the scheme to which the deceased belonged.

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[2] Judgment available at : https://www.supremecourt.uk/cases/uksc-2016-0090.html

This differential treatment between widows and widowers has been held to be lawful by the Supreme Court in a long line of cases. The European Court of Justice judgment in Barber required schemes to provide equal survivor benefits for males who survive their female spouse in relation to service only from May 1990. The LGPS meets this requirement, but it is not proposed at this point to equalise benefits for all males who survive their female spouse on the same basis as they are provided to females who survive their male spouse. The costs of doing so would be significant - £2.8bn across different public sector schemes. The government had separately consulted widely on this issue in the joint HMT and DWP review of survivor benefits in Occupational Pension Schemes: https://www.gov.uk/government/publications/occupational-pension-schemes-review-of-survivor-benefits. No final decisions have been made on these issues and the Government will respond on this matter separately and in due course.

Question One - Do you agree with this approach?

We intend to undertake separately a technical consultation on draft amendment regulations to give effect to this change in the current and previous Schemes.

Power to issue statutory guidance

A further successful challenge was brought in the very similar cases of Brewster[3] and Elmes[4]. In February of last year the Supreme Court handed down its judgment in the case of Brewster. The claimant, who was the unmarried partner of a deceased member of the Northern Irish Local Government Pension Scheme, successfully argued that the requirement for her partner to have provided a written nomination of her as the recipient of his survivor benefits was unlawful.

The LGPS in England and Wales maintained a similar nomination requirement for several years (between 2008 and 2014). Prior to 2008 no unmarried partners were recognised for survivor benefit purposes and from 1 April 2014 no nomination form was required to establish eligibility. The change in 2014 was made in part in response to legal action that was brought by the unmarried partner of a deceased scheme member, Ms Elmes. Her circumstances were almost identical to those in Brewster and the rules were changed in LGPS ahead of the judgment in Brewster. Ms Elmes' case was stayed behind Brewster and has since been settled in the claimant's favour.

On 17 August last year the Department wrote to funds asking them to review their records and see whether they now need to offer a survivor pension to partners whose claim for a benefit had been rejected at the time the nomination requirement was in force. However,

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[3] Judgment available at: https://www.supremecourt.uk/cases/uksc-2014-0180.html
[4] The judgment is not yet available

there will also be cases where as the fund judged that there was no eligible surviving partner any dependent children were given a larger pension than they would have received had there been an eligible partner. Accordingly, where a partner is now found to be eligible for a survivor benefit (which would be backdated to the scheme member's death) the children's pension would need to be reduced and, in theory, the overpayment recovered.

Although it was not necessary for this to be decided in the case before him, the Judge in Elmes queried what account would need to be taken by funds of the rights of the children affected.

The Department's view of the implications of this case was set out in the letter of 17 August 2017. However, that letter recognised that the Department's view had no legal force as the Secretary of State had no power to issue statutory guidance in this area. Accordingly it is possible for funds to reach different and inconsistent conclusions about to the entitlements of beneficiaries in identical positions.

This is contrary to the Government's view that the LGPS is a single scheme administered locally. It was always our intention that equivalent members' benefits should be the same everywhere. These issues are sensitive and to avoid funds taking different approaches, the government proposes to create a power to issue statutory guidance on the operation of the scheme's rules. The aim of this is to deliver greater standardisation of approach, in particular on how the interpretative duties under the Human Rights Act are met. An alternative would be to amend the rules of the scheme in relation to each judgment as it is made. Such an approach would be less flexible to inevitable changes in position as case law develops. It would also require a greater call on Parliamentary time.

Question Two - Do you agree with this approach?

We intend to undertake separately a separate technical consultation on draft amendment regulations to give effect to this change.

Technical Amendment

Early access to benefits for deferred members of 1995 Scheme

The Government consulted in 2016 on amendments to the LGPS regulations[5]. These proposals set out the Government's wish to remove the requirement for persons aged between age 55 and 60 to obtain their employer's consent before drawing their benefits early (with the appropriate actuarial reduction for early payment). This intention was restated in the Government response published earlier this year. In that response we said that we proposed to remove the need for an employer to give consent when a member who left the LGPS with deferred benefits prior to 1 April 2008, and is aged between 55 and 59, chooses early payment of their benefits.

Regulations were made on 17 April 2018 that were intended to have that effect but it has since become apparent that in relation to one group of members the Regulations have not had the intended effect. Our intention was that Regulation 24 of the 2018 Amendment Regulations [SI 2018/493] should modify the LGPS Regulations 1995 (as preserved) to provide that this option is extended to members over the age of 55 who left the LGPS with a deferred benefit under that scheme.

This has not been achieved because the 1995 Scheme rules were constructed differently from other Schemes. The 1995 Scheme provided that a person may elect for early payment of their benefits *within three months of attaining age 60*, or if later, the date on which they ceased to be employed in local government employment. The Amendment Regulations reduced the age at which that choice could be exercised to 55, but left this as a single, one-off point at which that flexibility could be exercised.

Successor LGPS schemes had adopted a different formulation and allowed members early access to their *benefits on or after* reaching the earliest age at which benefits could be drawn down early. This gave them an on-going flexibility to make an election at any time after having reached the revised minimum age.

The amendments made earlier this year have created a lacuna whereby members who left active membership of the LGPS prior to 1 April 1998 and who were aged between 55 and 60 are likely to have lost the option to elect for early payment of benefits. We therefore intend to amend the regulations again to fully achieve the initial policy aim, which is to allow all deferred members over the age of 55 to draw down their pensions early, with the appropriate actuarial reduction.

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5 https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

It is also proposed to allow anyone who has been prevented from getting early access to their pensions because of this oversight to be able to backdate their application to 14 May 2018. This facility will be available for 6 months from the coming into force of the amendment to the 1995 scheme rules.

Question Three - Do you agree with this approach?

We intend to undertake a separate technical consultation on draft amendment regulations to give effect to this change to the 1995 Scheme.

Equality Impact Assessment

Each of these measures is intended to increase equality of treatment between scheme members. They extend or clarify entitlements under the scheme for certain groups of members who previously have not had the benefit of them.

The government believes that any other impact on protected groups as a result of these reforms would simply be a natural consequence of the composition of the local government workforce and does not believe that there would be a disproportionate impact on particular groups aside from as a consequence of this.

Question Four – Do you agree with this assessment? Please identify any evidence you think would support your response.

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gsi.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
Setion 21 of the Public Service Pension Act 2013 requires the scheme authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty.

3. With whom we will be sharing your personal data
We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
a. to see what data we have about you
b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected
d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

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Local Government Pension Scheme Common Data Quality Report

Dorset Pension Fund

September 2018

Table of Contents

1 Executive Summary

1.1 Introduction

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they consider to be good practice for measuring the presence of member data. Specific targets were set for data TPR deemed as ‘common’ and Aquila Heywood has assisted customers in the collection and qualification of this data.

To assist customers in undertaking a practical assessment of their common data, Aquila Heywood offers a Data Quality service.

1.2 Data Quality Service

Working with Dorset Pension Fund (Dorset), Aquila Heywood has completed a review of Dorset’s common pension data in line with the guidance notes set down by TPR. Aquila Heywood’s understanding of the Local Government Pension Scheme data, benefit calculations, interfaces and processes, has assisted in the agreement of which items to test. The tests to satisfy each condition have been run and the results quantified to provide guidance on any corrective action required.

The service incorporates data items tested against the data conditions agreed with Dorset. To provide focus on the key areas of common data to be addressed, each data category is measured against an agreed benchmark.

1.3 Benchmark

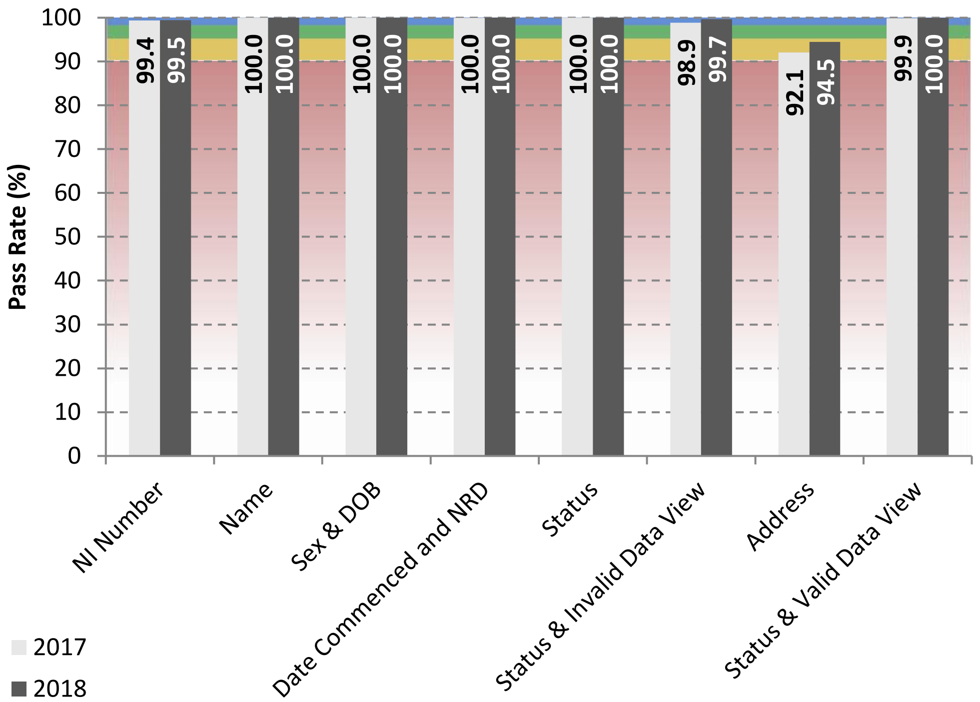
The benchmarks applied to the results presented in this report were agreed between Dorset and Aquila Heywood. The categories and thresholds are as follows:

Category	Pass Threshold
Blue	Pass rate >= 98%
Green	95% <= Pass rate < 98%
Amber	90% <= Pass rate < 95%
Red	Pass rate < 90%

These benchmarks are illustrated in the background of the results graph. TPR have set targets of 100% accuracy for data created after June 2010 and 95% accuracy for data created beforehand. The Aquila Heywood data quality service measures data as a whole as updates for many members are continuous and alter the last updated date on the system.

1.4 Summary of Common Data Results

The graph below indicates Dorset's performance for each data category against the agreed scheme benchmarks together with the results from the 2017 tests. The results presented herein are generated from data extracted from Dorset's Live Altair service on 24 August 2018 for all tests. The 2017 tests were generated from data extracted on 21 August 2017. The overall percentage of tests passed for Dorset's common data is **99.2%** an improvement over the 2017 rate of **98.8%**.



Seven of the eight categories met the highest benchmark of greater than 98% with three categories not recording a single failure. The sole category that did not meet the highest benchmark concerned **member addresses** at **94.5%**. The general quality of the common data tested at Dorset is of a high standard. The percentage of member records without a single common data failure is **97.8%** and this is the figure that TPR will be requesting on the scheme return.

The 2018 tests were executed across 114,501 member records, an increase of 5,303 records from the number tested in 2017.

2 Analysis of Common Data Results

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
NI Number Eligible for Testing: All members	114501 (+5303)	113875 (+5362)	99.5% (+0.08%)	Fail A: 0 Fail B: 603 Fail C: 23	There has been a small increase in the percentage of members that passed all tests in this category since 2017. There are 603 members with a temporary NI number to be addressed. A breakdown is as follows: - 4 are active members and require; - 3 are undecided leavers; - 211 have left the scheme; - 19 are deferred pensioners; - 13 are adult dependents; - 235 members are deceased; - 118 of the temporary NI numbers are recorded for frozen refund cases which may affect CEP payments; A further 23 members have an NI number with an incorrect format, 10 of which are leavers and 5 are deceased members. There are also 3 deferred, 2 adult dependents and 3 frozen refunds. Active, deferred, dependent and frozen refund members should be addressed with a high priority.

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Name Eligible for Testing: All members	114501 (+5303)	114501 (+5303)	100% (+0%)	Fail A: 0 Fail B: 0 Fail C: 0	All member records have valid name fields recorded for the second consecutive year.
Sex and Date of Birth Eligible for Testing: All members (Leavers and deaths excluded from test D)	114501 (+5303)	114501 (+5303)	100% (+0%)	Fail A: 0 Fail B: 0 Fail C: 0 Fail D: 0	All member records have a valid sex and date of birth recorded for the second consecutive year.
Date commenced and NRD Eligible for Testing: All members	114501 (+5303)	114495 (+5320)	100% (+0.02%)	Fail A: 1 Fail B: 5	There has been a small improvement in the pass rate since 2017. 1 leaver has a blank date joined fund. 5 members have an invalid date joined fund. The 1 active member should be addressed as soon as possible before the 2 leavers and 2 deceased members are investigated.
Status Eligible for Testing: All members	114501 (+5303)	114501 (+5303)	100% (+0%)	Fail A: 0 Fail B: 0 Fail C: 0	All member records have a valid and consistent status recorded for the second consecutive year.

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Status and invalid data view <u>Eligible for Testing:</u> All members	114501 (+5303)	114120 (+6144)	99.7% (+0.79%)	Fail A: 47 Fail B: 205 Fail C: 31 Fail D: 104	There has been a 0.79% improvement in the percentage of members to pass all tests in this category. 47 members have an Exit Details data view that is not in line with their status history. Similarly, 205 members have an unexpected Deferred Details data view without appearing to have been deferred at any point and 31 members have a Pension Details data view unexplained by their status history. 104 members have an explained dependent details data view. 6 deceased members have unexpected deferred and dependent data views. In total, 381 members have data views that are not expected for their status history. 54 of these cases are for leavers and 154 are deceased so need not be prioritised for correction. The 84 active members, 22 deferred members and 35 pensioners should be investigated at the highest priority to ensure correct benefits are calculated. The 16 cases awaiting processing and 17 frozen refund cases should be addressed soon afterwards.

<table>
<tr><th rowspan="2">Condition</th><th colspan="3">Qualifying Members</th><th rowspan="2">Areas for Review</th><th rowspan="2">Comments</th></tr>
<tr><th>Tested (change)</th><th>Passed (change)</th><th>Pass Rate (change)</th></tr>
<tr><td>Address

<u>Eligible for Testing:</u>
All members except leavers and deaths (status 3 and 7)</td><td>114501

(+5303)</td><td>108162

(+7633)</td><td>94.5%

(+2.40%)</td><td>Fail A: 564
Fail B: 58
Fail C: 5520
Fail D: 4047
Fail E: 133</td><td>Good progress has been made in correcting member addresses with an increase of 2.40% in the pass rate. There has also been an increase of 3300 in the number of members recorded as “gone away” and further work will be required to trace these members.

564 members have no address recorded and 58 members have an address record but the 1st line is blank.

5520 members are recorded as “gone away”. 4047 members have no Postcode recorded and a further 133 are in an incorrect format. Of the 4180 members either missing or holding an invalid postcode, 3983 are also recorded as “gone away”.

Some of the remaining members may be overseas without having the overseas indicator set.</td></tr>
</table>

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Status and valid data view <u>Eligible for Testing:</u> Members with deferred benefits or benefits in payment (Status 4, 5, 6, 7, 9 and T)	114501 (+5303)	114462 (+5380)	100% (+0.07%)	Fail A: 2 Fail B: 3 Fail C: 1 Fail D: 17 Fail E: 16 Fail F: 0	There has been a small increase in the percentage of members passing the tests in this category although 1 test (F) now records no failures where tests were previously failed. Another test (A) now has 2 failures where none were recorded previously. 23 members do not have data views that are expected for their status. As these data views reflect the member's benefit entitlement, these cases should be investigated as a priority. Most cases in this category are 17 deceased cases from active or deferred status that are missing exit details where death grant details are recorded. 6 of these were active members and 11 were deferred pensioners. There are 2 deferred members without a deferred details data view and 3 pensioners missing pension details that should be investigated as soon as possible. 1 dependent is also missing a dependent details data view. 16 deceased members who were pensioners do not have a date recorded for when the pension ceased.

3 Data Correction Plan

The table below provides Dorset with suggestions for resolving the issues identified. This table is deliberately high-level as the detail and dates should be agreed once the results have been thoroughly reviewed. This table represents a summary of the recommended actions outlined in Section 2.

Data Category	Recommendation	Suggested Priority
NI Number	• Obtain correct NI numbers for the members with temporary numbers or those in the incorrect format	• Low
Name	• No issues found	
Sex and Date of Birth	• No issues found	
Date commenced and NRD	• Investigate the 1 leaver case with a blank date joined fund as this could affect benefits • Correct the date joined fund for the 5 members affected starting with the 1 active member	• Low • **High**
Status	• No issues found	
Status and invalid data view	• Invalid data should be removed where necessary or the member status history corrected where appropriate. These cases should be treated as a high priority as the presence of the data may affect benefits	• **High**
Address	• Current addresses should be sought and uploaded for the members that failed this category	• Medium
Status and valid data view	• The 17 deaths from active and deferred status may be missing death grant data and should be investigated • The 16 pensioner deaths with missing cease dates should be investigated and corrected • The 6 members missing key data views for their status should be investigated as the highest priority	• Low • Low • **High**

4 Appendices

4.1 Appendix A – TPR Guidance

Data Field	TPR Comment
National Insurance Number	'TN' formats should be regarded as missing data. The final character of NI numbers is not essential.
Surname	Check that surname is present.
Forename(s) or initials	Forenames are preferable but initials are an acceptable alternative.
Sex	Check that sex is present.
Date of birth	Check that date of birth is present and consistent (earlier than date joined scheme, retirement, date of leaving). False dates should be classed as missing data.
Date pensionable service started/policy start date/first contribution date	For trust-based schemes this will be date pensionable service started. For contract-based schemes this will effective start date of the policy or the first contribution date, depending on the provider's requirements.
Expected retirement/maturity date (target retirement age)	This field may be derived or explicit; for most DB schemes it will probably be derived as the scheme's normal retirement date. Need to check that it is populated if that is a scheme/system requirement, that it is consistent with scheme rules and statutory requirements, and is later than date of birth and pensionable service date/first contribution date.
Membership status	Check that a current valid status is recorded for each member. This may be a dual status, eg active or deferred member with partial retirement. For contract-based schemes this may be 'active' or 'inactive'.
Last status event	Check that benefits taken are consistent with status, and, if status history is recorded, that the latest status is the same as the explicitly recorded current status.

Data Field	TPR Comment
Address	An address should be present for all members of all schemes. Because of DPA requirements an exception is permissible for active members of those trust-based schemes in which communication with members is normally sent via the employer. 'Gone away', 'unknown' or similar should be treated as missing data.
Postcode	Check that a postcode is present if address is not identifiable as being overseas. Will assist with valuations for actives, for whom storing full address may breach DPA principles.

4.2 Appendix B – Common Data and Fail Criteria

Common Data

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
NI Number <u>Eligible for Testing:</u> All members	NI Number (NI-NUMBER) is blank	NI number is temporary (commences TN) and is not a child pension (DEPND-TYPE = 'C')	NI number does not adhere to standard (Neither of the first two letters can be D, F, I, Q, U or V. The second letter cannot be O. Prefixes BG, GB, KN, NK, NT, TN (checked in fail B) and ZZ are not used. Suffix must be A,B, C or D. Characters 3-8 must be numbers)			
Tested: 114501	Failed: 0	Failed: 603	Failed: 23			
Name <u>Eligible for Testing:</u> All members	Surname (SURNAME) is blank	Forenames (FORENAMES) is blank	Initials (INITS) is blank			
Tested: 114501	Failed: 0	Failed: 0	Failed: 0			

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Sex and Date of Birth <u>Eligible for Testing:</u> All members *	Sex (SEX) is blank	Sex is not Male or Female	Date of Birth (DOB) is blank	Date of Birth is earlier than or equal to 01/01/1900 (* Leavers and deaths excluded from this test) (Status 3 and 7)		
Tested: 114501	Failed: 0	Failed: 0	Failed: 0	Failed: 0		
Date commenced and NRD <u>Eligible for Testing:</u> All members	Date Joined fund (DJF) is blank	Date Joined Fund is earlier than Date of Birth plus 15 years	NRD checks are not required as these are always calculated			
Tested: 114501	Failed: 1	Failed: 5				
Status <u>Eligible for Testing:</u> All members	Status (STATUSKEYF) is blank	Status is not 1-9, T or O	Status on member summary (STATUSKEYF) does not match that on basic details (STATUS[1])			
Tested: 114501	Failed: 0	Failed: 0	Failed: 0			

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Status and invalid data view Eligible for Testing: All members	Exit details should not be present unless status is 3, 7 or 9 or a previous status is 9 and the current status is 1, 2, 4, 5 or T	Deferred details should not be present unless status is 4 or a previous status is 4 and the current status is 1, 2, 3, 5, 7 or T	Pension details should not be present unless status is 5 or T or a previous status is 5 or T and the current status is 1, 2, 3, 4 or 7	Dependant details should not be present unless status is 6 or a previous status is 6 and the current status is 3 or 7		
Tested: 114501	Failed: 47	Failed: 205	Failed: 31	Failed: 104		
Address Eligible for Testing: All members except leavers and deaths (status 3 and 7)	Address record does not exist	Address record exists, but line 1 (ADD-LINE-1) is blank	Gone Away (ADD-GONAWY) indicator is set	If the address is not overseas, the Postcode (POSTCODE) is blank	If the address is not overseas, the Postcode is not the correct format (1st letter =Q, V or X, 2nd letter is I, J or Z, 3rd, 4th or 5th character is not a space)	
Tested: 114501	Failed: 564	Failed: 58	Failed: 5520	Failed: 4047	Failed: 133	
Status and valid data view Eligible for Testing: Members with deferred benefits or benefits in payment (Status 4, 5, 6, 7, 9 and T)	Status 4 does not have deferred details	Status 5 or T do not have pension details	Status 6 does not have dependant details	Status 7 or 9, with a previous status of 1 or 4 do not have exit details	Status 7 with a previous status of 5 should have a relevant date pension ceased	Status 7 with a previous status of 6 should have a relevant date pension ceased
Tested: 114501	Failed: 2	Failed: 3	Failed: 1	Failed: 17	Failed: 16	Failed: 0

Aquila Heywood

Local Government Pension Scheme
Scheme-specific Data Quality Report
Dorset Pension Fund

September 2018

Table of Contents

1 Executive Summary

1.1 Introduction

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they consider to be good practice for measuring the presence of member data. Specific targets were set for data TPR deemed as 'common' and Aquila Heywood has assisted customers in the collection and qualification of this data. TPR also outlined 'scheme-specific' data but did not set prescriptive targets as the data is deemed to be scheme-specific. The guidance did target Pension Scheme Trustees to ensure that 'reasonable endeavours' were undertaken to provide evidence of assessment and measurement, together with an action plan to meet the scheme specific targets.

To assist customers in undertaking a practical assessment of their scheme-specific data, Aquila Heywood offers a Data Quality service.

1.2 Data Quality Service

Working with Dorset Pension Fund (Dorset), Aquila Heywood has completed a review of Dorset's scheme-specific pension data in line with the guidance notes set down by TPR detailed in appendix A. Aquila Heywood's understanding of the Local Government Pension Scheme data, benefit calculations, interfaces and processes, has assisted in the agreement of which items to test. The tests to satisfy each condition have been run and the results quantified to provide guidance on any corrective action required.

The following terms should be understood to aid understanding of the conditions used and the results obtained:

- **Data condition** – identified TPR condition, for example check that an active member does not have a date of leaving
- **Data category** – grouping of relevant data conditions, for example **Member Benefits** (see section 1.4 below)
- **Data item** – item of data which forms part of a data condition for example 'date of leaving'

The service incorporates in the order of 100 individual tests against the data conditions agreed with Dorset. To provide focus on the key areas of scheme-specific data to be addressed, each data category is measured against an agreed benchmark.

1.3 Benchmark

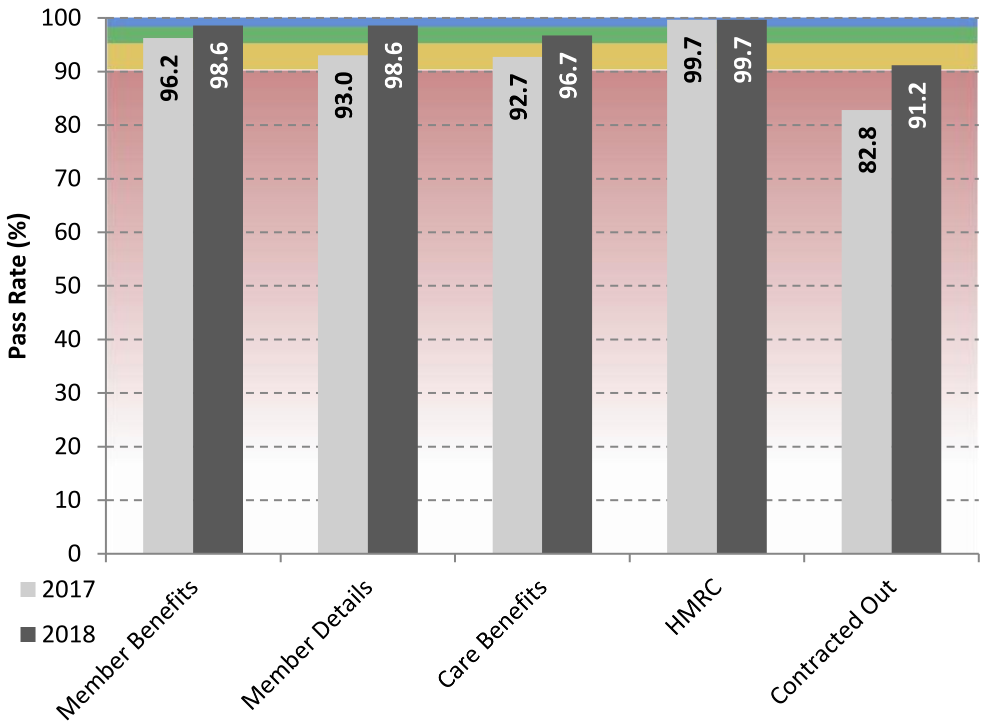
The benchmarks applied to the results presented in this report were agreed between Dorset and Aquila Heywood. The categories and thresholds are as follows:

Category	Pass Threshold
Blue	Pass rate >= 98%
Green	95% <= Pass rate < 98%
Amber	90% <= Pass rate < 95%
Red	Pass rate < 90%

These benchmark ranges are illustrated in the background of subsequent results graphs.

1.4 Summary of Scheme-specific Data Results

The graph below indicates Dorset's performance for each data category against the agreed scheme benchmarks together with the results from the 2017 tests. Also below is an explanation as to the data conditions relevant to each data category. The results presented herein are generated from data extracted from Dorset's Live Altair service on 24 August 2018 for all tests. The 2017 tests were generated from data extracted on 21 August 2017. The overall percentage of tests passed for Dorset's scheme-specific data is **97.7%** an improvement over the 2017 rate of **92.7%**. The percentage of member records without a single common data failure is **88.8%** and this is the figure that TPR will be requesting on the scheme return.



The total number of member records tested is 114,501, an increase of 5,303 records from the number tested in 2017.

1.4.1 Member Benefits Data

This category includes those data conditions for members that directly relate to the details of benefits in payment or to the calculation of benefits yet to be paid.

A total number of 56,842 members qualified for one or more checks as part of the in-scope conditions under this category, an increase of 2,527 on 2017. The Dorset Pension Fund set a minimum 90% benchmark target and achieved a **98.6%** pass rate, placing it in the highest Blue category. This pass rate is a **2.3%** improvement on 2017. The detailed analysis of each condition is in Section 2.1, but 7 of the 10 Data Conditions specified attained the highest benchmark category (Blue, >98%), down from 8 in 2017. The lowest scoring condition was **Transfer In Details 1**, where **94.1%** of members tested passed. This represents a **34.4%** improvement on 2017. Although many of the cases that failed this condition do not directly affect benefits being paid to members, these cases should be investigated to ensure service credits are correctly recorded. The condition that has dropped below the highest benchmark is **Tranches of Pension** with a score of **97.2%** (down from 98.1%) largely due to an increase in the number of members that do not have the latest Pensions Increase date recorded. The reasons for this should be investigated.

1.4.2 Other Member Data

This category includes those data items that may be used in the calculation of member benefits.

A total number of 77,078 members qualified for one or more checks as part of the in-scope conditions under this category, an increase of 1,968 on 2017. The Dorset Pension Fund set a minimum 90% benchmark target and achieved a **98.6%** pass rate, attaining the highest blue benchmark. This pass rate is a **5.6%** improvement on 2017. The detailed analysis of each condition is in Section 2.22 but six of seven individual scores attained the highest benchmark category (Blue, >98%). The lowest score was on the **Contributions** condition, where **92.5%** of members passed falling within the amber benchmark. This still represents a **35.7%** increase on 2017.

1.4.3 CARE Benefits

This category includes those data items required to calculate Career Average Revalued Earning (CARE) benefits.

A total number of 40,905 members qualified for the checks as part of the in-scope conditions under this category, an increase of 3,070 on 2017. The Dorset Pension Fund set a 90% minimum benchmark target and achieved a **96.7%** pass rate, placing CARE benefits in the green benchmark. This pass rate is a **4.0%** improvement on 2017. Failures in this category require investigation as CARE data directly affects member benefits.

As CARE revaluation is calculated for each member from a single factor table, the table itself is checked for a complete list of factors and was given a 100% pass. The detailed analysis of the conditions is in Section 2.3. Fails in this category directly affect the calculation of member benefits and so should be resolved as a priority.

1.4.4 HMRC

This category includes those values recorded as a result of the Finance Act 2004 as well as Pre A-Day limits.

A total number of 87,569 members qualified for one or more checks as part of the in-scope conditions under this category, an increase of 4,835 on 2017. The conditions within this category have been expanded for clarity and are detailed in Appendix B.

The Dorset Pension Fund set a 90% minimum benchmark target and achieved a **99.7%** pass rate placing the category in the highest blue category. This pass rate is less than 0.02% higher than 2017. The detailed analysis of each condition is in Section 2.4. The highest benchmark was achieved in 6 of the 7 categories. The **BCE 7 (Death Benefits)** condition attaining a pass rate of **88.2%** placing the condition in the red benchmark although this is **2.4%** higher than the 2017 score. The bulk of cases did not have a death grant recorded where one was expected.

1.4.5 Contracting Out

This category includes those data items required to meet scheme contracting out conditions.

A total number of 72,561 members qualified for one or more checks as part of the in-scope conditions under this category, an increase of 1,204 on 2017. The Dorset Pension Fund set a 90% minimum benchmark target and achieved a **91.2%** pass rate, placing Contracting Out in the amber benchmark. This pass rate is an **8.3%** improvement on 2017. The detailed analysis of each condition is in Section 2.35 but the highest individual score was achieved in the condition **Date Contracted Out**, where **99.8%** of members passed. The remaining three categories in Contracting Out were benchmarked as Red. Fails in this category are likely to have an impact on GMP Reconciliation and so should be resolved either in advance, or as part of the GMP Reconciliation process.

1.5 Other Information

The remainder of this report is split into the following sections:

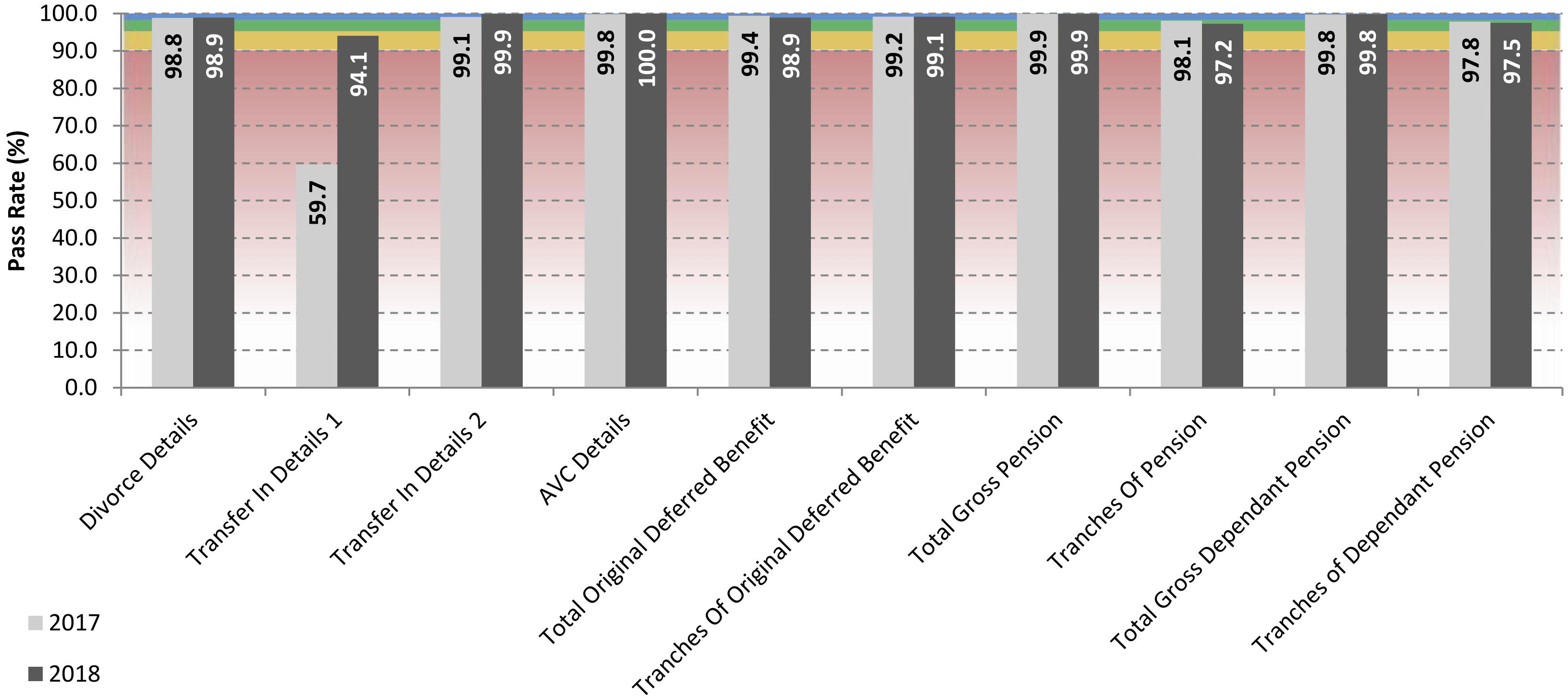
- **Scheme-specific Data Results** – results of each in-scope condition per category along with the number of members tested, main failures and suggested risks and actions
- **Appendices** – details to qualify failures against each condition, along with a list of TPR's guidance relating to the Local Government Pension Scheme

Where possible, Aquila Heywood has provided advice and suggested next actions to work with the Dorset Pension Fund in implementing a solution to any data anomalies. This document is the start point for Dorset data management policy and Aquila Heywood will agree with Dorset the appropriate frequency to repeat these conditions and demonstrate progress in scheme-specific data cleansing.

2 Scheme-specific Data Results

2.1 Member Benefits Data Category

2.1.1 Results



2.1.2 Analysis of Results

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Divorce Details <u>Eligible for Testing:</u> Status 1, 2, 4, 5 & T where Calculation Date (DVC-CALDTE) has a value	91 (+5)	90 (+5)	98.9% (+0.06%)	Fail A: 0 Fail B: 0 Fail C: 0 Fail D: 0 Fail E: 1 Fail F: 0	1 member has a blank pension debit amount.
Transfer In Details 1 <u>Eligible for Testing:</u> Status 1, 2, 4, 5 & T where transfer In details exist	7947 (+193)	7476 (+2850)	94.1% (+34.41%)	Fail A: 22 Fail B: 52 Fail C: 39 Fail D: 288 Fail E: 82 Fail F: 25	2657 member records have been corrected since 2017 leading to an improvement of 34.41% in the pass rate for this condition. 82 instances concerned invalid transfer types that do not match those calculations write-back. Most of these are recorded without an entry in the field but some also appear to be manual entries that have been used fewer than 3 times. This fault may lead to incorrect reporting but will not affect benefits for these members. There are also 39 failures where there is no service credit or pension credit recorded from the transfer that will require investigation. A common fail with 288 instances where there is a service credit, but no corresponding dates on the service history that should be investigated. There were 22 fails with a missing transfer date. A further 52 cases were missing the transfer value that were largely interfund transfers. 25 cases had a transfer date that was earlier than date joined fund. Again, providing service was recorded correctly on the service history, member benefits will be correct. Incorrect data may result in incorrect benefit calculations

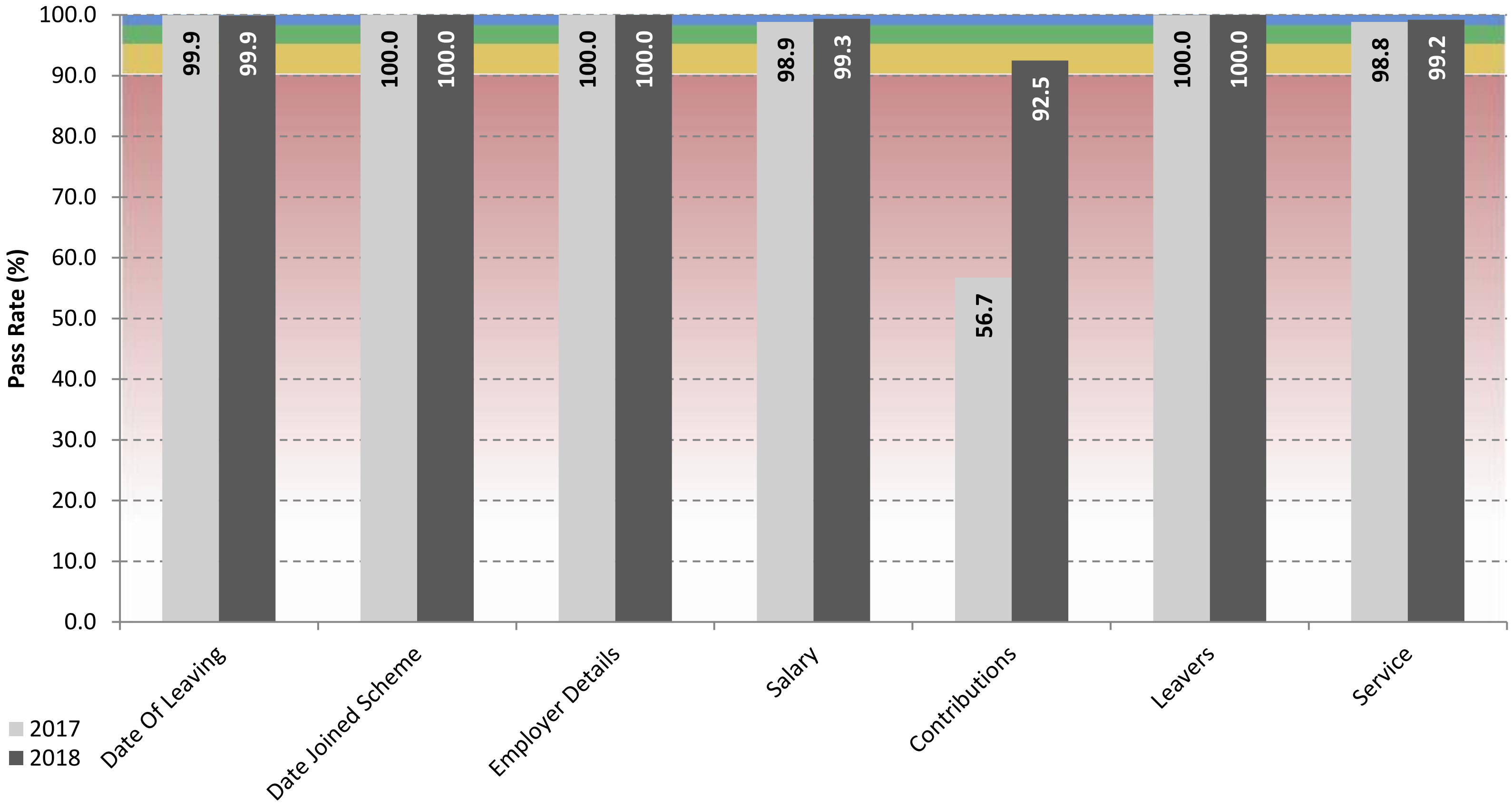
Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Transfer In Details 2 <u>Eligible for Testing:</u> Status 1, 2, 4, 5 & T where transfer In details exist	7947 (+193)	7941 (+260)	99.9% (+0.87%)	Fail A: 6	6 members are missing both the name and the location number of the previous scheme. In 2017, 80 transfers across 73 members had failed this test.
AVC Details <u>Eligible for Testing:</u> Status 1, 2, 4, 5 & T where AVC details exist	3792 (+193)	3791 (+198)	100% (+0.14%)	Fail A: 0 Fail B: 0 Fail C: 0 Fail D: 1	6 members failed tests in this condition in 2017. 1 member has an additional pension purchase contract without an amount of pension recorded. This case should be investigated as a priority as incorrect benefits may be calculated.

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Total Original Deferred Benefit Eligible for Testing: Status 4	23404 (+871)	23157 (+752)	98.9% (-0.49%)	Fail A: 17 Fail B: 9 Fail C: 17 Fail D: 8 Fail E: 3 Fail F: 236	The number of members failing tests in this condition has increased by 119 since 2017. 236 members do not have the latest Pensions Increase date recorded which is a significant increase over 2017. The reason for this should be investigated. 17 members are missing values for both the total initial and current pension. 9 members have an initial value below £1 of which 8 also have a current value below £1. 3 members have an invalid date from which pensions increase is calculated. These cases should be investigated ahead of producing deferred ABS.
Tranches of Original Deferred Benefit Eligible for Testing: Status 4	23404 (+871)	23204 (+855)	99.1% (-0.04%)	Fail A: 11 Fail B: 10 Fail C: 107 Fail D: 78 Fail E: 0 Fail F: 40	The number of members failing tests in this condition has increased by 16. 10 members had a total initial pension that did not equal the total of the protected, unprotected and tapered pensions. 40 members with pre-08 service did not have a scheme lump sum recorded. 107 failed with missing or small 60ths pension amounts, 78 with missing or small CARE pension amounts of which 33 also failed the 60th pension test. 11 members failed with a missing or small PEN tranche which is a mandatory amount. These cases should be investigated ahead of producing deferred ABS
Total Gross Pension Eligible for Testing: Status 5 & T	18963 (+1262)	18938 (+1260)	99.9% (+0%)	Fail A: 9 Fail B: 6 Fail C: 8 Fail D: 3 Fail E: 12	The number of members failing tests in this condition has increased by 2. 9 members are missing a value for the total initial pension of which 7 are also missing a current total pension and 1 has a current pension below £1. 1 member is only missing the current total pension. 6 members have an initial pension of less than £1 of which 2 also have a similar issue with the current pension There are 12 members with a date from which PI is calculated that is either missing of earlier than date joined fund. 3 of these members were also missing both total pensions

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Tranches of Pension Eligible for Testing: Status 5& T	18963 (+1262)	18440 (+1071)	97.2% (-0.88%)	Fail A: 9 Fail B: 0 Fail C: 0 Fail D: 9 Fail E: 508	332 members failed tests in this condition in 2017. There are now 523 members failing tests. 508 members do not have the latest Pensions Increase date recorded and this is 189 more than failed this test in 2017. The reason for this should be investigated. 9 members are either missing or have a small value in the PEN tranche which is mandatory. A further 9 members with 50/50 benefits recorded are either missing or have a small value in their CP50 tranche
Total Gross Dependant Pension Eligible for Testing: Status 6	2645 (+3)	2641 (+5)	99.8% (+0.08%)	Fail A: 2 Fail B: 2 Fail C: 1 Fail D: 0 Fail E: 1	4 members now fail tests in this condition. In 2017 there were 6. 2 members have no initial total pension, 1 of which is also missing a total current pension and has a missing date from which pensions increase is calculated. A further 2 members have an initial pension of less than £1.
Tranches of Dependant Pension Eligible for Testing: Status 6	2645 (+3)	2579 (-5)	97.5% (-0.3%)	Fail A: 2 Fail B: 64	The number of members failing tests in this condition has increased by 8. 2 members are missing the PEN tranche which is mandatory. 64 members have a last PI date earlier than the latest date processed by Dorset and should be investigated as a high priority to ensure correct benefits are in payment. 54 cases failed in 2017.

2.2 Other Member Data Category

2.2.1 Data Results



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2.2.2 Analysis of Results

Pension Credit members are excluded from tests in this category.

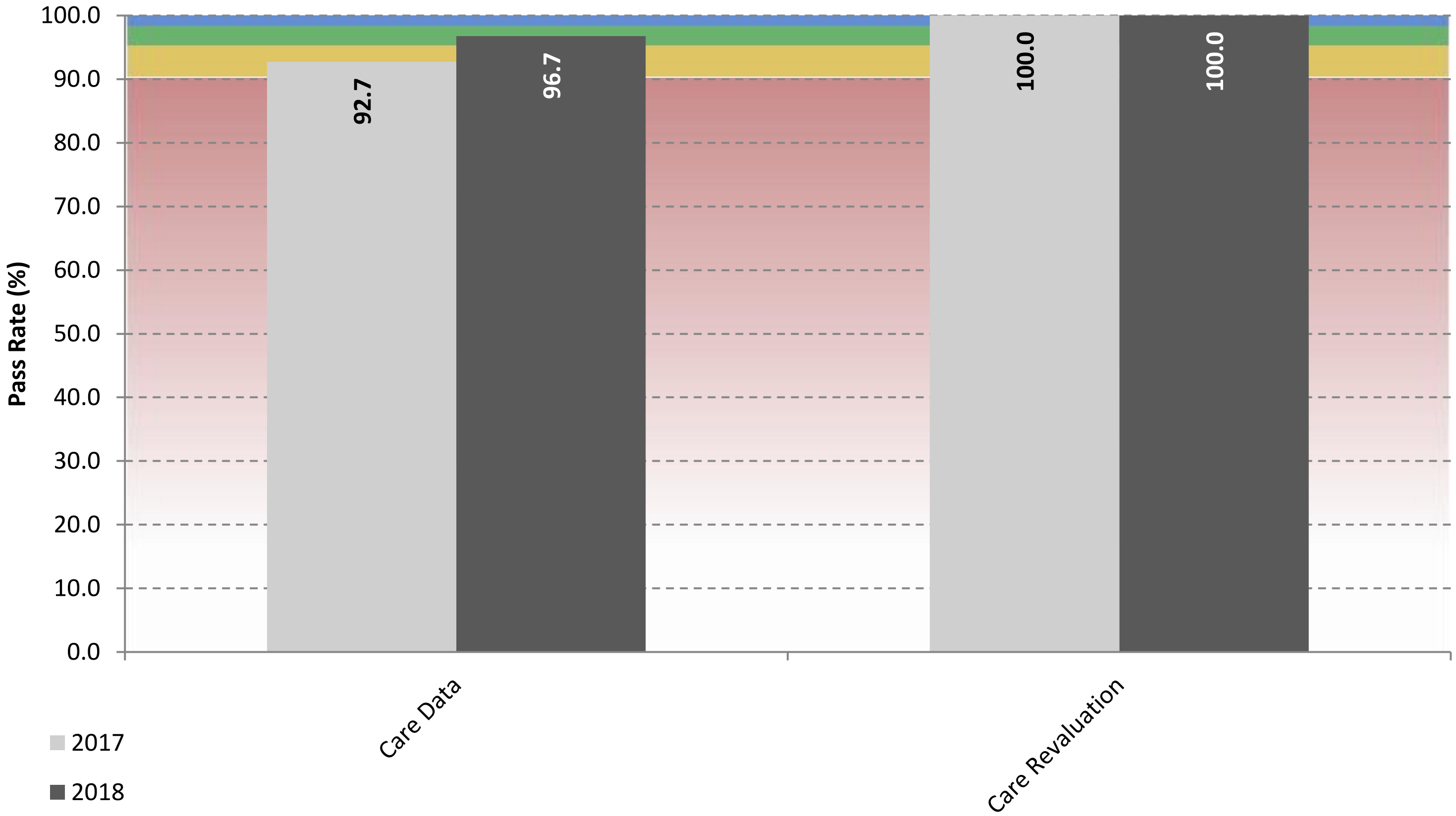
Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Date of Leaving Eligible for Testing: Status 1, 2, 4, 5, 9 & T	77078 (+1968)	76982 (+1924)	99.9% (-0.06%)	Fail A: 4 Fail B: 0 Fail C: 0 Fail D: 92	52 members failed tests in this condition in 2017. 4 non-active members are missing a date of leaving. 92 members are currently in active employment have a date left without a previous status 4 or 9. This is an increase on the 45 members in 2017 and the reason for this should be investigated.
Date Joined Scheme Eligible for Testing: Status 1, 2, 4, 5, 9 & T	77078 (+1968)	77076 (+1972)	100% (+0.01%)	Fail A: 1 Fail B: 1	6 members failed tests in this condition in 2017. 1 member is either missing one of the key service dates on the basic details or has one prior to 01/01/1900. This should be investigated immediately as it can affect benefits paid. 1 further member has a date joined fund prior to their 15th birthday.
Employer Details Eligible for Testing: Status 1, 2, 4, 5, 9 & T	77078 (+1968)	77075 (+1971)	100% (+0%)	Fail A: 0 Fail B: 3 Fail C: 0 Fail D: 0	6 members failed tests in this condition in 2017. 3 members have a date joined employer that is either blank or prior to 1900

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Salary (Final Salary members) <u>Eligible for Testing:</u> Status 1, 2, 4, 5, 9 & T	73468 (+860)	72977 (+1189)	99.3% (+0.46%)	Fail A: 186 Fail B: 0 Fail C: 188 Fail D: 15 Fail E: 17 Fail F: 297	The number of members failing tests in this condition has fallen from 820 to 491. Most of the members failing tests in this condition failed more than one test. 297 active members had a latest salary recorded that was earlier than the latest bulk update by Dorset and should be investigated to determine if they are still active members. Members with final salary service without a pay recorded annual benefit statements cannot be processed and therefore investigation should be made to ensure no members are affected in this way. 188 members either had no pay entries at all (test A), or had a blank pay as their latest entry (test C). 17 pensioners had a blank pensionable pay amount on their pension details. 15 members have a blank deferred pensionable pay value on their deferred details.
Contributions <u>Eligible for Testing:</u> Status 1, 2, 4, 5, 9 & T	77078 (+1968)	71268 (+28659)	92.5% (+35.73%)	Fail A: 5259 Fail B: 928	The number of failed tests in this condition has decreased from 32501 to 5810 representing an increase in the pass rate of 35.73%. 5259 are missing the rolled up contribution total. The bulk contribution totalling calculation will populate the rolled up contribution total where contributions exist. 928 members did not have a contribution posting for the latest bulk update by Dorset and these should be investigated to determine if they are still active members.
Leavers <u>Eligible for Testing:</u> Status 4, 5, 9 & T	46880 (+2893)	46872 (+2899)	100% (+0.01%)	Fail A: 7 Fail B: 0 Fail C: 1	14 members failed tests in this condition in 2017. 7 members are missing, or have an invalid date left, where one should be present. 1 other member has a date of leaving earlier than date joined fund. These should be investigated as a matter of priority as benefits can't be calculated correctly without this information.

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Service <u>Eligible for Testing:</u> Status 1, 2, 4, 5, 9 & T	77078 (+1968)	76461 (+2229)	99.2% (+0.37%)	Fail A: 617	878 members failed this test in 2017. 617 members have dates that suggest a change since joining the fund, but there is no service history to reflect the change

2.3 CARE Benefits

2.3.1 Data Results

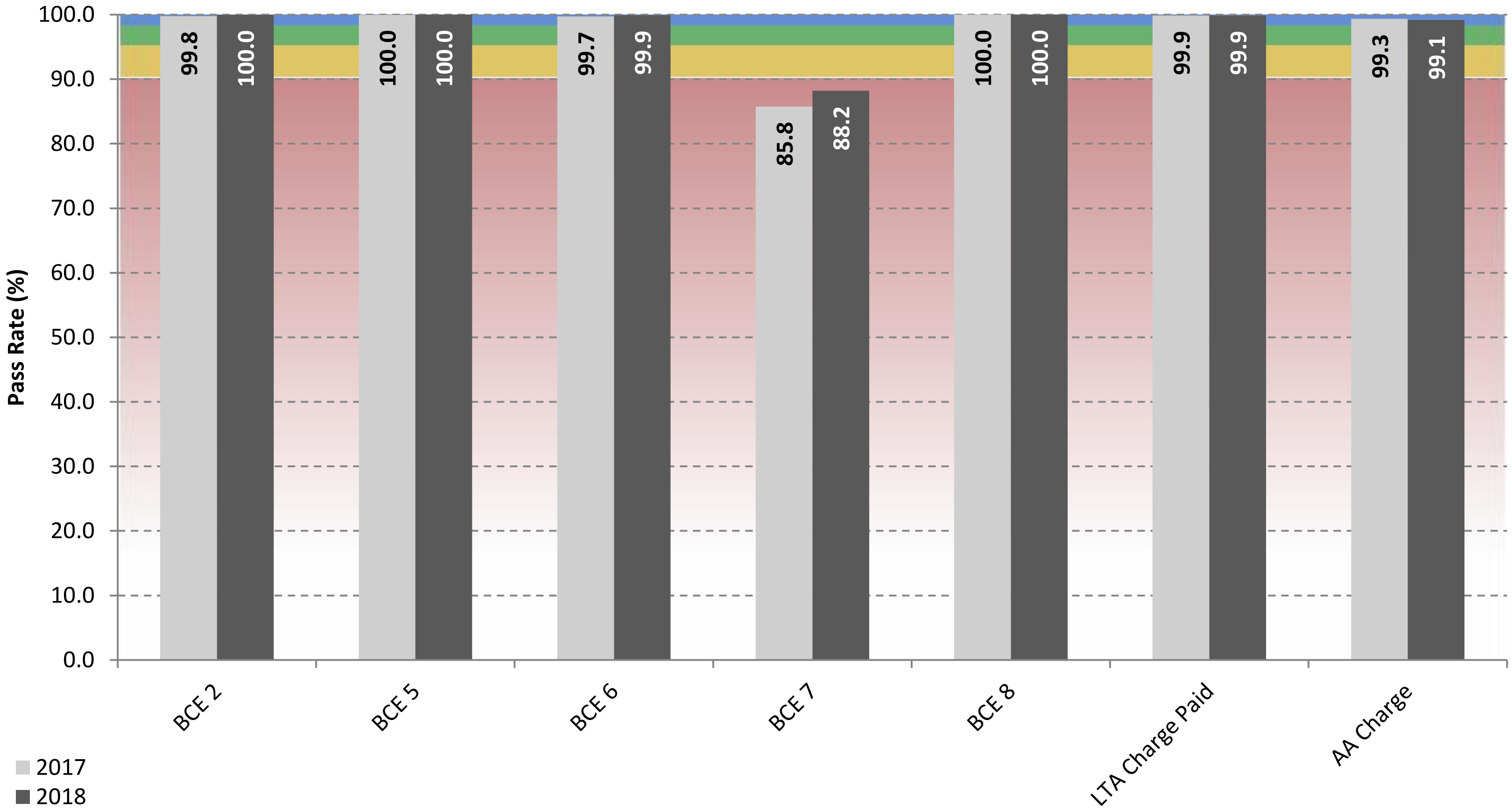


2.3.2 Analysis of Results

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
CARE data <u>Eligible for Testing:</u> Status 1, 2, 4, 5, 9 & T	40905 (+3070)	39573 (+4489)	96.7% (+4.01%)	Fail A: 845 Fail B: 850 Fail C: 182	The number of failed tests in this condition has fallen from 2751 to 1332. There are 845 members without CARE data where some is expected. Some of these members are frozen refund cases that will only require the CARE data if they choose to transfer. 850 members appear to be missing at least one year-end entry of CARE data. Some other members failing this test joined the fund in March and may not have been received payment in the scheme year of entry, but these cases represent a small proportion of the failed tests. 182 members have a contribution entry recorded for a year in which there are no CARE benefits recorded. This data is crucial to the calculation of member benefits and the employers with missing data should be reminded of the importance of providing this data as soon as possible. Annual Benefits Statements cannot be processed without this information.
CARE Revaluation <u>Eligible for Testing:</u> Revaluation Factor Table	1	1		None	The revaluation table is present and correct

2.4 HMRC

2.4.1 Data Results



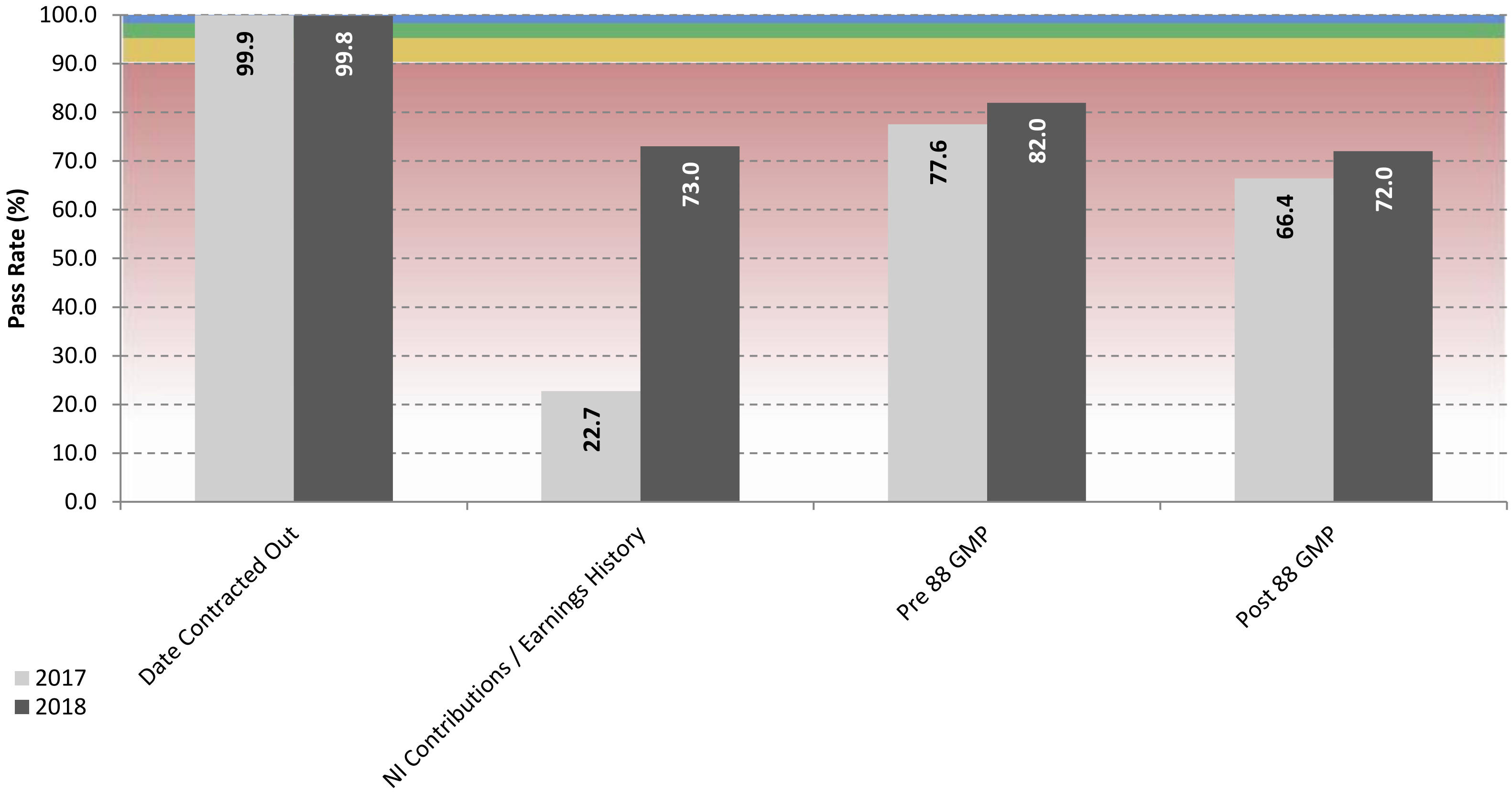
2.4.2 Analysis of Results

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
BCE 2 <u>Eligible for Testing:</u> Status 5 & T where Date Retired > 6/4/2006	12886 (+1429)	12880 (+1449)	100% (+0.18%)	Fail A: 6 Fail B: 0 Fail C: 0	26 members failed tests in this condition in 2017. 6 members have a crystallisation date that is either invalid or earlier than the date of leaving
BCE 5 <u>Eligible for Testing:</u> Status 4 & T	23410 (+872)	23406 (+873)	100% (+0.01%)	Fail A: 4	There are 4 deferred members over the age of 75. There were 5 in 2017.
BCE 6 <u>Eligible for Testing:</u> Status 5 & T members where Date Retired > 6/4/2006 and Age at Date Retired < 75	12880 (+1427)	12868 (+1446)	99.9% (+0.18%)	Fail A: 6 Fail B: 6 Fail C: 0	31 members failed tests in this condition on 2017 6 members have a crystallisation date that is either invalid or earlier than the date of leaving. 6 other members do not have a PCLS recorded despite having a lump sum on the pension details. The reasons for this should be investigated prior to looking at methods for populating the data
BCE 7 <u>Eligible for Testing:</u> Status 7 members where Date of Death (from Exit Details) is after 6/4/06 and within 5 years of Date Retired	254 (+15)	224 (+19)	88.2% (+2.41%)	Fail A: 30 Fail B: 0	34 members failed tests in this condition in 2017. 30 members have a death grant of zero where a value was expected. The reasons for this should be investigated prior to looking at methods for populating the data.

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
BCE 8 <u>Eligible for Testing:</u> Status 3 members where Date Left is > 6/4/2006 and there is a value in QROPS Transfer Date	36 (+1)	36 (+1)	100% (+0%)	Fail A: 0 Fail B: 0 Fail C: 0 Fail D: 0	All members tested passed all tests in this condition as they did in 2017. 1 more member was tested in 2018.
Lifetime Allowance Charge Paid <u>Eligible for Testing:</u> Status 5 & T where Date Retired is after 6/4/2006 (ignoring members where Date, Amount & Indicator) are ticked in either Enhanced Protection or Payment of PCLS Reportable Events (Reportable Events 1 & 2 on Crystallisation screen)	12885 (+1429)	12868 (+1428)	99.9% (+0.01%)	Fail A: 17	16 members failed tests in this condition in 2017. There has been an increase of 1 in the number of members failing the test, but the increase in the number of members tested means that the percentage of members passing the test has increased. There are now 17 members that exceeded the LTA that do not have a charge recorded
Annual Allowance <u>Eligible for Testing:</u> Status 1 members	25218 (-338)	25003 (-386)	99.1% (-0.2%)	Fail A: 214 Fail B: 1	167 members failed tests in this condition in 2017. There are 214 members without the latest AA data recorded that was processed by Dorset. 1 member has inconsistent scheme pays data recorded and should be addressed as soon as possible

2.5 Contracting Out

2.5.1 Data Results



2.5.2 Analysis of Results

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Date Contracted Out Eligible for Testing: Status 1, 2, 4, 5 & T members	72561 (+1204)	72444 (+1150)	99.8% (-0.07%)	Fail A: 117 Fail B: 0 Fail C: 0	63 members failed tests in this condition in 2017. 117 members now have a blank DCO and joined prior to 6/4/16
NI Contributions / Earnings History Eligible for Testing: Status 1, 2, 4, 5 & T members where NI-Table is not E and date contracted out is on or after 6/4/78 AND before 6/4/1997	15835 (+102)	11565 (+7991)	73% (+50.32%)	Fail A: 2 Fail B: 804 Fail C: 0 Fail D: 0 Fail E: 3699	The number of members failing tests in this condition has fallen from 12159 to 4270. This represents an increase in the pass rate of 50.32%. 2 members are missing a date of leaving 804 members do not have values that correspond with Period End Dates. In 2017, 11138 failed this test. A further 3699 members have neither a full NI earnings history nor a GMP recorded (Failed both C and D simultaneously). The number failing this test has decreased by 985. This data is key for correct assessment and payment of benefits
Pre 88 GMP Eligible for Testing: Status 4, 5 & T members where Contract Out SSPA75 is before 6/4/88	7452 (-131)	6110 (+228)	82% (+4.42%)	Fail A: 1339 Fail B: 14 Fail C: 2	The number of members failing tests in this condition has fallen from 1701 to 1342. There has also been an overall reduction in the number of members qualifying for tests in this condition. 1339 members that have left with pre-1988 service are missing a GMP at exit. 14 members have a negative value once Post 88 GMP at Exit is deducted from the total GMP. 2 members have a GMP that is not divisible by 52.

Condition	Qualifying Members			Areas for Review	Comments
	Tested (change)	Passed (change)	Pass Rate (change)		
Post 88 GMP <u>Eligible for Testing:</u> Status 4, 5 & T members where Contract Out SSPA75 is before 6/4/97 and Date Left is after 6/5/1988	14350 (+145)	10338 (+904)	72% (+5.63%)	Fail A: 3775 Fail B: 3669 Fail C: 2	The number of members failing tests in this condition has reduced from 4771 to 4012. 3775 members in this category are missing a value for GMP at exit and 3669 are missing a Post 88 GMP at exit. 3434 are missing both. 2 members have a post-88 GMP that is not divisible by 52

3 Data Correction Plan

The table below provides Dorset with suggestions for resolving the issues identified in Section 2 and a suggested priority. This table is deliberately high-level as the detail and dates should be agreed once the results have been thoroughly reviewed. The milestones represent a summary of the recommended actions outlined in more detail in Section 2.

Data Category	Milestone	Suggested Priority
Member Benefits	• Investigate the 1 incorrect divorce record	• **High**
	• Investigate incomplete Transfer In and AVC data with the very highest priority as benefits may be incorrect	• **VERY HIGH**
	• Correct deferred benefit cases prior to running deferred annual benefit statements	• **High**
	• Investigate defects in pension benefits that are linked to individual tranches	• **High**
	• Investigate cases with an incorrect pension increase effective date	• **VERY HIGH**
	• Investigate the 11 Pensioner and Dependant Pensioner cases with missing pensions as a high priority	• **High**

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Data Category	Milestone	Suggested Priority
Other Member Data	• Investigate the 96 cases with either an unexplained date of leaving present or a missing date of leaving • Investigate the 2 cases with an incorrect date for when they joined the Scheme • Investigate final salary pay issues prior to running annual benefit statements • Investigate cases with missing contributions prior to running annual benefit statements • Investigate the 8 cases where the date for leaving is either blank or incorrect • Investigate the 617 cases that appear to have a service change not reflected on their service history. Prioritise the 30 active members	• Low • **High** • **High** • **High** • **High** • **VERY HIGH**
CARE Data	• Investigate all data issues in this category by status prior to issuing annual benefit statements for that status. Pensioners should be investigated as soon as possible to ensure correct benefits are in payment	• **High**
HMRC	• Review criteria for testing HMRC data and ensure that current processes populate this data correctly in Altair • Investigate the 6 incorrect Crystallisation Dates • Investigate the 6 missing PCLS amounts • Investigate the 30 cases with missing death grant data • Investigate the 17 cases with incorrect Lifetime Allowance Charge data • Investigate the 215 cases with missing Annual Allowance data prioritising the 1 member with scheme pays.	• Medium • Medium • Medium • Low • **High** • **High**

Data Category	Milestone	Suggested Priority
Contracting Out	• Investigate the 117 cases with incorrect Date Contracted Out data • Investigate missing and incorrect data for NI contributions and earnings history • Review and update GMP values in conjunction with the GMP Reconciliation process • Obtain and upload GMP figures for the members with missing data as a high priority	• Medium • Medium • Medium • **High**

4 Appendices

4.1 Appendix A – TPR Guidance (In-Scope Tests)

Member Benefits

Condition	Status Tested	TPR Guidance
Pension Sharing Details	Active, Deferred, Pensioner	If a member has had a pension sharing order, check that full details of the benefits transferred to the ex-spouse/ex-civil partner are present.
Transfer In Details	Active, Deferred, Pensioner	If benefits have been transferred in, check that all relevant details are recorded. This will include (as a minimum) the details of the previous scheme, the amount of the transfer value (split between protected rights and non protected rights and, if relevant, split between the amount received in respect of the member and employer contributions and AVCs), benefits secured, (if relevant) contracting out details.
AVC Details	Active, Deferred, Pensioner	Check that there is a history of any AVCs paid, type of investment, current provider, and (if relevant) benefits being secured
Total Original Deferred Benefit	Deferred	Check that total original deferred benefit is present (either derived or explicit).
Tranches of Original Deferred Benefit	Deferred	Check that there is a breakdown of the various tranches of the total deferred benefit. This must identify tranches with different rates of increases either in deferment or in payment, and tranches with different contingent spouse's/civil partner's benefits. Likely to include such items as pre/post 1997 splits, pre/post 2005 splits, Barber splits, VFM underpin etc. Details of the date at that any tranche is payable, if different from the scheme's normal retirement date, will also be required. The sum of the individual components must equal any total deferred pension that is recorded on the system.
Total Gross Pension	Pensioner	Check that a total pension is present (either derived or explicit).

Condition	Status Tested	TPR Guidance
Tranches of Pension	Pensioner	Check that there is a breakdown of the various tranches of the total pension, identifying tranches with different rates of increase and contingent spouse's/civil partner's benefits. The sum of the individual components must equal any total pension that is recorded on the system.

Other Member Data

Condition	Status Tested	TPR Guidance
Date of Leaving	Deferred, Pensioner	For trust-based schemes, check that member has a date of leaving that is after date joined
Date Joined Scheme	Active, Deferred	Check that the date joined scheme is present, later than date of birth, and not earlier than date joined company. False dates should be classed as missing data.
Date joined employing company	Active, Deferred	For members of multi-employer schemes check that date joined employing company is present and is later than date of birth. False dates should be classed as missing data.
Salary	Active, Deferred	Check that there is at least one relevant salary within the last 12 months of membership.
Salary History	Active, Deferred	Check that a relevant salary exists for each of the last 5 renewal periods of membership and is greater than £1.
Contributions	Pensioner	For contributory schemes check that there is a contribution amount present for each year of active membership, or that a contribution total is present.
Date of leaving (date pensionable service ended)/ date last premium/contribution paid	Deferred, Pensioner	For trust-based schemes check that member has a date of leaving which is after date joined scheme, and that member status is not active if date of leaving is present.

CARE Data

Condition	Status Tested	TPR Guidance
Accrued benefit details	Active, Deferred, Pensioner	Check that accrued benefit details are present if they are updated and recorded annually. If benefits are calculated from first principles when member leaves, all relevant salary & contribution will be required instead.
Revaluation percentage	Global Table	Check that there is a history of revaluation percentage for the accrued pension for each relevant year, if benefits have not been not uprated and recorded annually.

HMRC

Condition	Status Tested	TPR Guidance
Benefit Crystallisation Event Details	Active, Deferred, Pensioner	Check that full details of the dates and amounts paid at each benefit crystallisation event, including details of LTA percentage used, are present.
Lifetime Allowance Charge Paid	Pensioner	Check that the date and amount of any lifetime allowance charge paid is present.

Contracting Out

Condition	Status Tested	TPR Guidance
Date Contracted Out	Active, Deferred, Pensioner	Check that this is present and not earlier than 06/04/1978.
N.I. History (Contracted Out earnings & contributions)	Active, Deferred, Pensioner	Check that members have a full contracted-out history during any period contracted out on a GMP basis. A verified GMP, agreed with NISPI, would be an acceptable alternative. Not required for reduced rate females.
Pre 88 GMP	Deferred, Pensioner	Check that a member with at least one month of pre 4/88 contracted out service has a pre 88 GMP. GMP must be divisible by 52. May be derived if total GMP and post 4/88 GMP are recorded.
Post 88 GMP	Deferred, Pensioner	Check that a member with at least one month of post 4/88 service contracted out on a GMP basis has a post 88 GMP. Can be derived or explicit.

4.2 Appendix B – Benefit Crystallisation Events (In-Scope)

Benefit Crystallisation Event	Description
BCE2	Where a member becomes entitled to a scheme pension, whether from a defined benefits arrangement or a money purchase arrangement.
BCE5	Test the level of entitlements not taken by a member at age 75 under a defined benefits arrangement, by measure of the level of benefits that would come into payment at that time, if drawn.
BCE6	A lifetime allowance test is triggered through BCE6 whenever a member becomes entitled under a registered pension scheme to: • A pension commencement lump sum paid before age 75, when uncrystallised benefits are drawn under an arrangement • A serious ill health lump sum paid before age 75, where the individual falls into serious ill health • A lifetime allowance excess lump sum where a chargeable amount has been identified because the individual's lifetime allowance has been fully used up.
BCE7	Where a relevant lump sum death benefit is paid on the death of the member.
BCE8	Where a member's benefits or rights are transferred to a qualifying recognised overseas pension scheme.

4.3 Appendix C – Conditions and Fail Criteria

Member Benefits

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Divorce Details Eligible for Testing: Status 1, 2, 4, 5 & T where Calculation Date (DVC-CALDTE) has a value	Value is missing in total pension debit (DVC-TOTINI)	Value prior to 01/12/2000 is present in calculation date (DVC-CALDTE)	Value prior to 01/12/2000 is present in Payment Date (DVC-PAYDTE)	CETV (DVC-TVAMT) is blank or 0)	Pension debit (DVC-CONAMT) is blank or 0	Percentage split (DVC-PCSPLT) is blank, 0 or over 100
Tested: 91	Failed: 0	Failed: 0	Failed: 0	Failed: 0	Failed: 1	Failed: 0
Transfer In Details 1 Eligible for Testing: Status 1, 2, 4, 5 & T where transfer In details exist	Date received (ADD-TV-DT) is blank or 0	Transfer Value is blank or 0 (ADD-TV)	Service (ADD-BD-CR) and transferred pension (ADD-RETP) are both blank or 0	If service (ADD-BS-CR) > 0, service history must be present. There must be a service history line that starts (HIST-START) on the same date as previous scheme from ADD-FROM)	Type (ADD-TYPE) is not valid ie CLUB, INTERFND, NON CLUB, PERSONAL, RESTITUTIO or some have INTRAFND	Date TV Received is invalid or < date joined fund (DJF)
Tested: 7947	Failed: 22	Failed: 52	Failed: 39	Failed: 288	Failed: 82	Failed: 25
Transfer In Details 2 Eligible for Testing: Status 1, 2, 4, 5 & T where transfer In details exist	Previous scheme name (ADD-PR-SCH) or employer reference (ADD-PR-EMP) must be present					
Tested: 7947	Failed: 6					

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
AVC Details Eligible for Testing: Status 1, 2, 4, 5 & T where AVC details exist	If AVC Details present then start date (AVC-START) must be present	If AVC Details present then contract end date (AVC-TE-DUE) must be present and equal to or later than AVC-START	If AVC Details present and type (AVC-TYPE) is A, B, G, L, P, R, S then added years (AVC-ADDY) must be greater than 0	If AVC Details present and type (AVC-TYPE) is H, M then pension (AVC-P75T) must be greater than 0 and less than or equal to the scheme maximum		
Tested: 3792	Failed: 0	Failed: 0	Failed: 0	Failed: 1		
Total Original Deferred Benefit Eligible for Testing: Status 4	No value in Initial Pension (DEF-TOT-IP)	The value in Initial Pension is between £0.01 and a small figure (default of £1.00) agreed with customer	No value in total current pension (DEF-TOT-CP)	The value in total current Pension is between £0.01 and a small figure (default of £1.00) agreed with customer	PI date (DEF-INC-DT) must be present and later than date joined fund (DJF)	Last PI date (DEF-PI-DT[1]) is earlier than last PI date processed by customer
Tested: 23404	Failed: 17	Failed: 9	Failed: 17	Failed: 8	Failed: 3	Failed: 236
Tranches of Original Deferred Benefit Eligible for Testing: Status 4	Member has no 'PEN' tranche (DEF-TYPE) or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer. (including negative values)	'PEN' + 'UPEN' + 'TAPE' does not equal Total Initial Pension	Member with service between 01/04/2008 (09 S&NI) and 31/03/2014 (15 S&NI) has no 'PN60' tranche or has one with a value less than a small figure (default of £1.00) agreed with customer	Member with post 31/03/2014 (15 S&NI) service has no 'CARE' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer	Member with CARE5050 or TVINLG50 CARE data has no 'CP50' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer	Member with pre 01/04/2008 (09 S&NI) service has no 'RA' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer
Tested: 23404	Failed: 11	Failed: 10	Failed: 107	Failed: 78	Failed: 0	Failed: 40

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Total Gross Pension <u>Eligible for Testing:</u> Status 5 & T	No value in Initial Pension (PEN-TOT-IP)	The value in Initial Pension is between £0.01 and a small figure (default of £1.00) agreed with customer	No value in total current pension (PEN-TOT-C)	The value in total current Pension is between £0.01 and a small figure (default of £1.00) agreed with customer	PI date (PEN-INC-DT) must be present and later than DJF	
Tested: 18963	Failed: 9	Failed: 6	Failed: 8	Failed: 3	Failed: 12	
Tranches of Pension <u>Eligible for Testing:</u> Status 5 & T	'PEN' tranche (PEN-TYPE) has a value less than or equal to a small figure (default of £1.00) agreed with customer	Member with service between 01/04/2008 (09 S&NI) and 31/03/2014 (15 S&NI) has no 'PN60' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer	Member with post 31/03/2014 (15 S&NI) service has no 'CARE' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer	Member with CARE5050 or TVINLG50 CARE data has no 'CP50' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer	Last PI date (PEN-PI-DT[1]) is earlier than last PI date processed by customer	
Tested: 18963	Failed: 9	Failed: 0	Failed: 0	Failed: 9	Failed: 508	
Total Gross Dependant Pension <u>Eligible for Testing:</u> Status 6	No value in Initial Pension (DEP-TOT-IP)	The value in Initial Pension is between £0.01 and a small figure (default of £1.00) agreed with customer	No value in total current pension (DEP-TOT-C)	The value in total current Pension is between £0.01 and a small figure (default of £1.00) agreed with customer	PI date (DEP-INC-DT) must be present	
Tested: 2645	Failed: 2	Failed: 2	Failed: 1	Failed: 0	Failed: 1	

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Tranches of Dependant Pension <u>Eligible for Testing:</u> Status 6	'PEN' tranche (DEP-TYPE) has a value less than or equal to a small figure (default of £1.00) agreed with customer	Last PI date (DEP-PI-DT) is earlier than last PI date processed by customer				
Tested: 2645	Failed: 2	Failed: 64				

Other Member Details

Pension Credit members are excluded from tests in this category.

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Date of Leaving Eligible for Testing: Status 1, 2, 4, 5 & T	A non-Status 1 member has a blank entry or an invalid date in Date Left (DATE-LEFT)	Date Joined Fund (DJF) is either blank or earlier than or equal to 1/1/1900	Date Joined Fund is later than or equal to Date Left if Date Left present	Date left is present for a status 1 member who does not have a previous status of 4 or 9		
Tested: 77078	Failed: 4	Failed: 0	Failed: 0	Failed: 92		
Date Joined Scheme Eligible for Testing: Status 1, 2, 4, 5, 9 & T	Any of Date Joined Scheme (DJF), Date of Birth (DOB) and/or Date commenced current service (DCCPS) Joined Fund are either blank or earlier than or equal to 1/1/1900	Date Joined Fund (DJF) is earlier or equal to Date of Birth (DOB) plus 15 years				
Tested: 77078	Failed: 1	Failed: 1				
Employer Details Eligible for Testing: Status 1, 2, 4, 5, 9 & T	Location (LOCATION) is blank	Date Joined employer (DT-JOIN-EM) is either blank or earlier than or equal to 1/1/1900	Date Joined employer must be earlier than date of birth (DOB) plus 15 years	Employment type (CLASS) is blank		
Tested: 77078	Failed: 0	Failed: 3	Failed: 0	Failed: 0		

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Salary (Final Salary members) <u>Eligible for Testing</u>: Status 1, 2, 4, 5, 9 & T	A member with pre-01/04/2014 (2015 in S&NI) service has an invalid or blank date in the latest instance of Pensionable remuneration (PEN-REM)	For non-status 1 or 2 members, the latest instance of Pensionable remuneration does not equal the member's DATE-LEFT	The latest instance of Pensionable remuneration contains a valid date (PEN-REM-DT) but there is no corresponding amount	Status 4 member does not have a value in DEF-PENREM or a value less than a small figure (default of £1.00) agreed with customer	Status 5 or T member does not have a value in PEN-PS-REM or a value less than a small figure (default of £1.00) agreed with customer	For status 1 members the latest pensionable remuneration date must be equal to or later than the customer's last posting date
Tested: 73468	Failed: 186	Failed: 0	Failed: 188	Failed: 15	Failed: 17	Failed: 297
Contributions <u>Eligible for Testing:</u> Status 1, 2, 4, 5, 9 & T	Total Paid Including Interest (TCI-TOTAL) is blank or less than a small figure (default of £1.00) agreed with customer	For status 1 members the latest date must be equal to or later than the customer's last posting date and have a corresponding figure				
Tested: 77078	Failed: 5259	Failed: 928		0		
Leavers <u>Eligible for Testing:</u> Status 4, 5, 9 & T	Date Left (DATE-LEFT) is either blank or is earlier than or equal to 1/1/1900	Date Joined Scheme (DJF) is either blank or is earlier than or equal to 1/1/1900	Date Left is earlier than Date Joined Scheme			
Tested: 46880	Failed: 7	Failed: 0	Failed: 1			
Service <u>Eligible for Testing:</u> Status 1, 2, 4, 5, 9 & T	If DCCPS > DJF, and DJF < 01/04/2014(15 S&NI)), service history must be present					
Tested: 77078	Failed: 617					

CARE Benefits

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
CARE data **Eligible for Testing:** All status 1 and status 2, 4, 5, 9 & T where Date Left is after 31/03/14 (31/03/15 in S&NI)	If member has post-31/03/2014 (2015 in S&NI) service then at least one of LGPSMAIN or LGPS5050 must be present if the member joined before the start of the current scheme year	Every 31/03 from later of DJF or 2015 (2016 in S&NI) to earlier of date-left or current date must be present as an end date on at least one of LGPSMAIN, LGPS5050, TVINLGMN or TVINLG50	If contributions at any 31/03 from later of DJF or 2015 (2016 in S&NI) to earlier of date-left or current date are > 0, there must be an entry on at least one of LGPSMAIN or LGPS5050 for the same date with a pay figure > 0			
Tested: 40905	Failed: 845	Failed: 850	Failed: 182			
CARE revaluation **Eligible for Testing:** Revaluation Factor Table	Every 31/03 from 2015 (2016 in S&NI) to date must be present on factor table 000/B/00/684/2014/0101 2012	The rates on the table do not match the record of HM treasury rates				
	Failed:	Failed:				

HMRC

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
BCE 2 <u>Eligible for Testing</u>: Status 5 & T where Date Retired > 6/4/2006	Crystallisation Date (CRYS-CRSYSD) is not a valid date or is earlier than date left	PLA Value (CRYS-PLA) is blank	PLA% (CRYS-PLAPC) is blank			
Tested: 12886	Failed: 6	Failed: 0	Failed: 0			
BCE 5 <u>Eligible for Testing</u>: Status 4 & T	Any member of these deferred statuses where the member is over the age of 75					
Tested: 23410	Failed: 4					
BCE 6 <u>Eligible for Testing</u>: Status 5 & T where Date Retired > 6/4/2006 and Age at Date Retired < 75	Crystallisation Date is not a valid date (CRYS-PPD) or is earlier than date left	PCLS amount (CRYS-PPA) is blank if PEN-TOT-AL is > zero	There is a date in Serious Ill Health Lump Sum Payment (CRYS-ILLD) but no corresponding amount (CRYS-ILLA) OR There is an amount in Serious Ill Health Lump Payment but no corresponding date			
Tested: 12880	Failed: 6	Failed: 6	Failed: 0			

Aquila Heywood

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
BCE 7 Eligible for Testing: Status 7 where Date of Death (from Exit Details) is after 6/4/06 and within 5 years of Date Retired	Total death grant (CDTC-TOTLS) is blank (To be checked in first run and removed if deemed not relevant.)	There is a value >0 in Total death grant but one or more of the following fields is blank or 0: Crystallised Value at Date of Death (CDTC-CVAL) Crystallised % Value at Date of Death (CDTV-CVALP)				
Tested: 254	Failed: 30	Failed: 0				
BCE 8 Eligible for Testing: Status 3 where Date Left is > 6/4/2006 and there is a value in QROPS Transfer Date	QROPS Transfer Date (CRYS-TFRD) is not a valid date or is earlier than date left	QROPS Transfer Amount (CRYS-TFRA) is blank	Date of Birth (DOB) is not a valid date	Age at QROPS Transfer Date is over 75		
Tested: 36	Failed: 0	Failed: 0	Failed: 0	Failed: 0		

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Lifetime Allowance Charge paid Eligible for Testing: Status 5 & T where Date Retired is after 6/4/2006 (ignoring members where Date, Amount & Indicator) are ticked in either Enhanced Protection or Payment of PCLS Reportable Events (Reportable Events 1 & 2 on Crystallisation screen)	Value in Used PLA% (CRYS-TPPC) is greater than 100% and there is no value in any of LTA Charge (CRYS-LTACH), 25% LTA Charge (CRYS-LTA25) or 55% LTA Charge (CRYS-LTA55)					
Tested: 12885	Failed: 17					
Annual Allowance Eligible for Testing: Status 1	Latest annual allowance PIP end date is earlier than the latest run by the customer	If a scheme pays indicator is ticked, the scheme pays amount is not present OR a scheme pays amount is present, but the scheme pays indicator is not ticked				
Tested: 25218	Failed: 214	Failed: 1				

Contracting Out

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Date Contracted Out **Eligible for Testing:** Status 1, 2, 4, 5 & T	Contract-Out SSPA75 is blank and DJF is prior to 6/4/16	Contract-Out SSPA75 is prior to 6/4/78	The date in Contract-Out SSPA75 is later than 5/4/16			
Tested: 72561	Failed: 117	Failed: 0	Failed: 0			
NI Contributions/Earnings History **Eligible for Testing:** Status 1, 2, 4, 5 & T where NI-Table is not E and date contracted out is on or after 6/4/78 AND before 6/4/1997	A Status 4 member is missing Date Left Active Service or a Status 5 member is missing both Date Left Active Service and Date of Retirement	For one or more of the Period End Dates, there is not a corresponding value in Amount	There is not a separate entry in Period End Date (NI) for each April 5th between Date Contracted Out and 5/4/97 (or Date Left/Date Ret if earlier for Status 4 & 5 respectively) (non-reportable – see fail E)	GMP is not present on the NI details for status 1 and 2 and on GMP details for status 4, 5 & T (non-reportable – see fail E)	Fail C and Fail D both occurred	
Tested: 15835	Failed: 2	Failed: 804	Failed: 0	Failed: 0	Failed: 3699	
Pre 88 GMP **Eligible for Testing:** Status 4, 5 & T where Contract Out SSPA75 is before 6/4/88	There is no value provided for total GMP at exit	Deducting Post 88 GMP at Exit from Total GMP at Exit results in a negative number	The result of deducting Post 88 GMP at Exit from Total GMP at Exit is not divisible by 52.			
Tested: 7452	Failed: 1339	Failed: 14	Failed: 2			

Condition	Fail A	Fail B	Fail C	Fail D	Fail E	Fail F
Post 88 GMP **<u>Eligible for Testing:</u>** Status 4, 5 & T where Contract Out SSPA75 is before 6/4/97 and Date Left is after 6/5/1988	There is no value provided for total GMP at exit	There is no value provided for Post 88 GMP at Exit	Post 88 GMP at Exit is not divisible by 52			
Tested: 14350	Failed: 3775	Failed: 3669	Failed: 2			

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Dorset County Pension Fund

Administered by Dorset County Council

DATA IMPROVEMENT PLAN

Written by Steph Ball
Pensions Systems Manager
November 2018

1. Introduction

The Pension Regulator acknowledges that complete, accurate records are a vital part of the administration function.

This document primarily aims to address key issues identified in the Dorset Pension Fund Annual Data Quality review.

The continuing diversification of the employer base, the increasing number of payroll providers and ICT systems used to transfer information present the Fund with significant operational challenges in meeting the statutory record keeping requirements.

2. Purpose

To record and plan the appropriate steps the Fund needs to take to tackle the errors raised in the review, and how to improve the data held.

To demonstrate how data issues during the Contracted-Out reconciliation exercise being undertaken with the HMRC, as a result of the introduction of the Single state pension are being corrected and how these will impact on the Fund's scores.

To ensure continued development of the appropriate technology to improve data quality standards, and the stream lining of operational processing.

To ensure the Fund and employers have a clear understanding of their respective roles and responsibilities, ensuring all parties are committed to continuing engagement to improve data quality and guarantee accurate record keeping

3. Key Objectives

- To ensure member records are maintained as accurately as possible resulting in benefits being paid correctly and on time
- To improve compliance with The Pensions Regulator (TPR) Code of Practice 14
- To increase number of up to date and accurate addresses held for Scheme members
- To decrease the number of records with no 'CARE' pay recorded
- To ensure data provided by employers is accurate
- To ensure errors flagged during the End of Year processes and annual Data Quality review are resolved
- To improve the data supplied to the Actuary at the 2019 Triennial Valuation ensuring accurate results and improving employer confidence in the assessment of assets and liabilities to ensure appropriate employers contributions rates are set

4. Expected Outcomes

Objective	How will this will be measured?	How long it will take to achieve?
1. To ensure member records are maintained as accurately as possible to ensure benefits are paid correctly and on time	• Improvement in our TPR data score for Common and Scheme Specific Data • Audit outcome • Data knowledge sharing with the Technical Teams on how the records should be maintained	Aug 2018 Ongoing
2. To improve compliance with The Pensions Regulators Code of Practice 14.	• Reduction in the number of amber rated priorities in the TPR Compliance Monitoring Document • Run Bulk consistency checks monthly • Ensure all Data Quality errors are cleared	October TPR return 2018 December 2019 March 2019
3. To decrease the number of 'gone away' addresses held for Scheme Members	• Member tracing analysis undertaken – TARGET • Number of Annual Benefit Illustrations (ABIs) issued each year to deferred members.	October 2018
4. To decrease the number of records with no 'CARE' pay recorded	• EoY Errors are addressed along with CMS errors • Improve the Academy and TUPE process, agree a consistent approach • Use SQL reporting tool to ensure all records have been captured in previous measures	By 2018 Data Quality Extract June 2019
5. To ensure information provided by employers is accurate	• EoY Errors are addressed by the employer • Closer working relationship with Employer payroll providers to ensure the required data is submitted • Consideration as to whether to charge fines to failing employers	Monthly June 2019 Ongoing June 2019
6. To ensure errors flagged during the EoY process and Data Quality are resolved	• On-line Data Checker • EoY Errors are addressed along with CMS • Improve the Academy and TUPE process, agree a consistent approach • Data Quality errors are cleared	Monthly June 2019 September 2018 March 2019
7. To improve the data supplied to the Actuary at the 2019 Triennial Valuation ensuring accurate results and improving employer confidence in the assessment of assets and liabilities to ensure appropriate employers contribution rates are set.	• A reduction in number of queries from the Actuary during the Triennial Valuation. • On-line Data Checker	April 2019 Monthly Ongoing

5. Scope and Prioritising

The data quality review in August 2017 split the review of data held into two categories;

- Common Data
- Scheme Specific Data

The review was carried out on the data held by the Fund on its scheme members in line with the guidance notes set by the TPR to identify whether data is present and accurate. The Common Data items are specific in the Pension Regulators guidance however, the Scheme Specific data items are not prescriptive but its data is key to running the specific Scheme and meeting legal obligations. The Pension Regulator does not set the data items for the Scheme Specific data as it is deemed to be identifiable and relevant to each individual Pension Scheme. However, illustration examples of the data required to run a Pension Scheme has been published by the Pension Regulator and these were taken into consideration by the Fund when agreeing Scheme Specific data to be checked.

The LGPS Scheme Advisory Board are now looking to assist administering authorities in meeting the Pension Regulators requirements for monitoring and improving data. This project will include the identification of scheme specific conditional data and the production of guidance for authorities and employers. Once the guidance has been received the Fund will update the Scheme Specific data tests previously run.

The data items tested for Common and Scheme Specific Data can be found below:

Common Data item	Membership type tested
NI number	All members
Name	All members
Sex and Date of Birth	All members
Date Commenced and NRD	All members
Status	All members
Status and invalid data view	All members
Address	All members
Status and valid data view	All members

Scheme Specific data category	Scheme Specific Data item	Membership type tested
Member Benefits Data	Divorce Details Transfer In Details 1 Transfer In Details 2 AVC Details Total Original Deferred Benefit Tranches Of Original Deferred Benefit Total Gross Pension Tranches Of Pension Total Gross Dependant Pension Tranches of Dependant	Status 1, 2, 4, 5 & T Status 1, 2, 4, 5 & T Status 1, 2, 4, 5 & T Status 1, 2, 4, 5 & T Status 4 Status 4 Status 5 & T Status 5 & T Status 6 Status 6
Other Member Data	Date Of Leaving Date Joined Scheme Employer Details Salary (Final Salary members) Contributions Leavers	Status 1, 2, 4, 5, 9 & T Status 1, 2, 4, 5, 9 & T Status 1, 2, 4, 5, 9 & T Status 1, 2, 4, 5, 9 & T Status 1, 2, 4, 5, 9 & T Status 4, 5, 9 & T

	Service	Status 1, 2, 4, 5, 9 & T
CARE Benefits	Care Data CARE Revaluation	Status 1, 2, 4, 5, 9 & T N/A
HMRC	BCE* 2 BCE* 5 BCE* 6 BCE* 7 BCE* 8 LTA* Charge Paid AA* Charge	Status 5 & T Status 4 & T Status 5 & T Status 7 Status 3 Status 5 & T Status 1
Contracted Out	Date Contracted Out NI Contributions / Earnings History Pre 88 GMP Post 88 GMP	Status 1, 2, 4, 5 & T Status 1, 2, 4, 5 & T Status 4, 5, & T Status 4, 5, & T

*BCE = Benefit Crystallisation Event

Data area	August 2017 data score	Aim
Common data	98.8%	100%
Scheme specific data	92.7%	100%

When tackling the data errors identified the following considerations will be used when making the decision on the errors to be worked on first:

- Priority identified on the error report
- Data improvement plan objectives

Data which has the greatest impact on member benefits will be looked at as a priority therefore any data errors highlighted on pensioner member records will be looked at first, followed by deferred and active members.

6. Results from 2018 Data Quality

The measures that were put in place prior to the Data Quality Review in August 2018 have shown a significant increase in our scores.

Data area	August 2018 data score	Aim
Common data	99.2%	100%
Scheme specific data	97.7%	100%

There are additional Key Objectives for the coming year;

- Contracted-Out test will be reviewed to gain a true reflection of errors due to the project currently taking place
- Missing CARE pay is due to the End of Year processes not loading CARE for Status 2s into Altair, this will be addressed with our third-party provider for End of Year 2019
- 421 records with ‘Exclude from Benefit Calculations’ ticked will be reviewed to check this is still valid

The Fund will continue with the measures in place to increase the data score for 2019.

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Dorset County Pension Fund KPI Report - CMS stats - All Teams	
Performance 2018/19 - report for period :	**August 2018 - October 2018**
Number of complaints received	**0**

Dorset County Pension Fund
Administered by Dorset County Council

Top 10 detail - cases completed on time	**Completed in period**	**Performance**	**KPI (days)**	**Cases completed on time or early**
Admissions (DR01 & DR01W)	3107	87.80%	30	2728
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)	280	98.93%	15	277
Transfers In Actual (DR02A & DR03A)	79	98.73%	20	78
Transfers Out (DR09E & DR10E)	99	91.92%	10	91
Transfers Out actual (DR09A & DR10A)	59	94.92%	10	56
Estimates Employee (DR08)	304	100.00%	15	304
Estimates Employer (DR22, DR22I, DR22R & DR22W)	94	100.00%	15	94
Retirements (DR14, DR14W & DR12 & DR12I & DR14I & DR22I, DR14T)	660	98.03%	5	647
Deferred Benefits (DR11 & DR11W)	610	94.75%	40	578
Refunds (DR16 & DR16W)	517	99.42%	15	514
Deaths (DR23)	79	100.00%	5	79
Correspondence (DR24 & DR24A)	2562	99.80%	30	2557
Total	**8450**	94.71%		**8003**

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Agenda Item 13

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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