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Agenda

Dorset County Council

Meeting:	Pension Fund Committee
Time:	10.00 am
Date:	27 February 2019
Venue:	Committee Room 2, County Hall, Colliton Park, Dorchester, DT1 1XJ

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

Notes:

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- **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 22 February 2019, and statements by midday the day before the meeting.

Mike Harries
Chief Executive

Contact: Liz Eaton, Democratic Services Officer
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Date of Publication:
Tuesday, 19 February 2019

1. **Apologies for Absence**

To receive any apologies for absence.

2. **Code of Conduct**

Councillors are required to comply with the requirements of the Localism Act 2011 regarding disclosable pecuniary interests.

- Check if there is an item of business on this agenda in which you or a relevant person has a disclosable pecuniary interest.
- Inform the Secretary to the Joint Committee in advance about your disclosable pecuniary interest and if necessary take advice.
- Check that you have notified your interest to your own Council's Monitoring Officer (in writing) and that it has been entered in your Council's Register (if not this must be done within 28 days and you are asked to use a notification form available from the clerk).
- Disclose the interest at the meeting and in the absence of a dispensation to speak and/or vote, withdraw from any consideration of the item.

Each Councils' Register of Interests is available on Dorsetforyou.com and the list of disclosable pecuniary interests is set out on the reverse of the form.

3. **Minutes** 5 - 12

To confirm and sign the minutes of the meeting held on 22 November 2018.

4. **Public Participation**

(a) Public Speaking

(b) Petitions

5. **Independent Adviser's Report** 13 - 16

To consider the quarterly report of the Independent Adviser on the economic and investment outlook.

6. **Fund Administrator's Report** 17 - 78

To consider the quarterly report of the Fund Administration for the period ending 31 December 2018, covering the funding position, asset allocation, investment performance, cash flow and other topical issues not covered separately on the agenda.

7. **The Brunel Pension Partnership - project progress report** 79 - 90

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

8. **Pension Fund Administration**

To receive an oral update from the Fund Administrator on Pensions Administration.

9. **Presentation from Wellington**

To receive a presentation from Wellington, one of the Fund's external investment managers.

10. **Treasury Management Strategy 2019-20** 91 - 104

To consider the annual report of the Fund Administrator on the Treasury Management Strategy for 2019-20.

11. **Dates of Future Meetings**

To confirm the dates for the meetings of the Committee in 2019-20:

19/20 June 2019	London (venue to be confirmed)
12 September 2019	County Hall, Dorchester
26/27 November 2019	London (Venue to be confirmed)
12 March 2020	County Hall, Dorchester

12. **Questions**

To answer any questions received in writing by the Chief Executive by not later than 10.00 am on 22 February 2019.

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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 Thursday, 22 November 2018

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

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

Manager and Advisor Attendance
Soraya Chabarek, CQS
Alan Saunders, Independent Advisor
Craig Scordellis, CQS

(Notes: These minutes have been prepared by officers as a record of the meeting and of any decisions reached. They are to be considered and confirmed at the next meeting of the Pension Fund Committee to be held on **Wednesday, 27 February 2019**.)

Apologies for Absence

44 Apologies for absence were received from Spencer Flower and Colin Jamieson.

Code of Conduct

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

Minutes

46 The minutes of the meeting held on 17 September 2018 were confirmed and signed.

Public Participation

47 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.

Manager Presentation from CQS

48 The Committee received a presentation from Soraya Chabarek and Craig Scordellis, CQS, the Fund's Multi Asset Credit (MAC) manager. The presentation covered the performance and outlook for Dorset County Pension Fund's investment in the CQS Multi Asset Credit Fund.

CQS were a credit specialist and didn't do anything else. Their fund was positioned defensively, and looked to lend to good businesses and to avoid defaults. Over the last six years there had been three defaults, but with very high recovery rates.

The objective of the CQS fund was to return cash plus 4-5% over a business cycle. Since inception in December 2017, Dorset's investment had performed below this target, but it had performed well against the market.

It was a very challenging environment for credit markets, as economies moved from a sustained period of Quantitative Easing (QE) to Quantitative Tightening (QT). CQS did not believe there was a systemic banking or default crisis as there had been in 2008, when many companies only just covered their interest costs with 'free cash'. This left them exposed to the risk of being unable to service their debt should interest rates increase and/or earnings growth decrease.

Whilst the level of defaults was expected to increase, CQS believed their process was designed to avoid lending to businesses that would default. Their fund was positioned to minimise the exposure to interest rate rises and to take advantage of opportunities in floating rate debt. It was a diversified fund with a maximum 1.2% exposure to any one company.

The CQS fund's highest exposure was to Senior Secured Loans, near the top of their allowable maximum exposure of 60%. These were loans to companies with credit ratings below BBB-. Such loans were higher up the capital repayment structure than other debt, so therefore had higher recovery rates in the event of default. They had floating rates of interest, so were less exposed to the risk of increases in interest rates.

The CQS fund's second highest exposure was to Asset Backed Securities (ABS), near the top of the allowable maximum exposure of 25%. This was lending to a securitised structure, where the investment was secured against physical assets such as property. Exposure to corporate bonds was relatively low, with the exposure to High Yield Bonds at an all-time low, as the presence of many retail investors in these markets had added volatility.

The Independent Advisor noted that the defensive positioning of the fund was one of the reasons for the selection of the manager in this asset class.

The Vice-Chairman asked how CQS could achieve their target over the longer term. CQS had been able to invest at low prices, therefore the cash returns from their holdings should be sufficient to meet their target, if markets stabilised. Capital preservation was the priority in current market conditions, and the key to long term performance was to avoid defaults. Since inception CQS had not met the target but they had made a positive return unlike most index tracker funds in credit markets.

In response to questions from members, it was confirmed that all debt was bought through banks not directly from companies, and that the allocation to Europe was higher than to the Americas because borrowing in Europe had been more conservative than in the US.
The Independent Advisor asked if the Committee should be concerned about the fall in lender protections from the rise of 'convenant-lite' and 'side-car' debt arrangements. CQS replied that loan market documentation had moved towards that for bonds, and this emphasised the need for detailed analysis of default risk and recovery rates. Awareness of how loan defaults in different jurisdictions could be treated was also a very important consideration.

Noted

Governance Compliance Update

49 The Committee received the annual update on governance compliance from the Governance Advisor. He was satisfied that since his last report in November 2017 governance standards had been maintained and improved upon.

The Local Pension Board (LPB) was operating effectively and in line with its responsibilities but there was pressure from the Pensions Regulator for quarterly meetings as a minimum. It was suggested that greater reference to the LPB could be incorporated into the Fund's risk register.

The Governance Adviser confirmed that the training received by LPB members was satisfactory. The Chairman re-iterated the invitation to LPB members to attend Committee meetings and training sessions.

The Fund's annual report for 2017-18 was compliant with the regulatory requirements and reflected good practice, although it was noted that the disclosure of compliance with Myners' principles was no longer a requirement. The Finance Manager added that CIPFA were consulting on changes to the guidance for preparing the annual report so some changes to the report for 2018-19 were expected.

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

The Vice-Chairman asked about the detailed governance issues to be resolved in relation to the investment pooling arrangements. The Finance Manager replied that whilst the overall governance framework for Brunel was in place, primarily through the Brunel Oversight Board and the Client Group, the detailed process for holding Brunel to account for the performance of their investment portfolios needed to be finalised.

A member asked about the impact of local government reorganisation in Dorset on the membership of the Committee. The Fund Administrator confirmed that Dorset Council would become the administering authority for the Fund. The draft constitution for Dorset Council would be produced shortly and this would include details of the membership of all committees, including the Pension Fund Committee.

Resolved

That officers provide an update on how the performance of Brunel portfolios will be monitored.

Independent Adviser's Report

50 The Committee considered a report by the Independent Advisor that gave his views on the economic background to the Fund's investments, and the outlook for the different asset classes. He highlighted the key risks for markets and concluded that it continued to be a time for a more cautious approach to investment decisions.

In the US, the Federal Reserve had acted a little slower in tightening monetary policy than previously expected, despite a tight labour market, and inflation predicted to rise. In the UK, the fiscal stimulus in the October 2018 budget had been received positively by markets but there was continued uncertainty about the outcomes of the Brexit process.

Equity markets had performed poorly since the end of September 2018. The consensus view was that corrections to valuations would be seen in 2020, but there was uncertainty over the timing and the degree by which markets would discount prices in advance. There were also risks in credit markets from deterioration in the quality of loans and an increased incidence of corporate failures.

It was recommended that the Fund should continue to de-risk by taking 1-2% out of equities back towards target allocation and allow cash balances to build-up in the short term. The Fund should also consider increasing its inflation hedging ratio to 50% but should pause there and not commit further collateral beyond that.

Noted

Fund Administrator's Report

51 The Committee considered a report by the Pension Fund Administrator on, and the asset allocation, valuation and performance of the Fund's assets up to 30 September 2018, and the latest indicative funding position. The value of the Fund's assets had briefly exceeded £3 billion at the end of September 2018, but the subsequent market correction meant that this had fallen back to £2.9 billion by the end of October 2018.

The funding update showed an improvement in the funding position from 83.2% at the last triennial valuation as at 31 March 2016 to an estimated 92.91% as at 30 September 2018. This was due to higher than expected increases in asset values in the intervening period.

The Independent Advisor noted the improved funding position for the Fund and the LGPS more widely. If the funding position in a corporate scheme exceeded 100% then that scheme would look to de-risk. He felt there needed to be more discussion and guidance about what the 'end-game' should be for LGPS funds.

The total return on investments was slightly ahead of the combined benchmark for the quarter, and broadly in line with the benchmark over all longer periods reported. Returns in the quarter were driven by gains in equities in overseas developed markets and private equities, with UK and emerging markets flat or negative.

The Fund was overweight in listed equities with 50.1% of assets by value at the end of September 2018 compared to the target of 45%. Officers would continue to sell equities back towards target. This would lead to higher cash balances in the short term until there were opportunities to invest in the more illiquid asset classes where the Fund was below target, namely property, private equity and infrastructure.

Performance by asset class and by manager was discussed. The underperformance since inception of Investec, one of the Fund's global equities managers, was highlighted. The performance over the last 12 months of JP Morgan, the Fund's emerging markets equities manager was also a concern. The Independent Advisor suggested that an additional comparison of Smart Beta performance against a passive Global Equities mandate would be useful.

The performance of CBRE was below benchmark for the quarter and year to date due to a change in treatment by the valuers of the 'old' Cambridge Science Park holdings. It was anticipated that this would be offset by an expected uplift in valuation of the 'new' Cambridge Science Park holdings when the development was complete. The Chairman highlighted that this investment in a development project was an exception to the Fund's general approach to property investment.

The Independent Adviser said that there were two ways of measuring the performance of CQS, the Fund's Multi Asset Credit (MAC) manager. Their performance was below target but better than the universe of their competitors.

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 improvements to reporting had also been made but some further changes were sought. A training session for the Committee with Insight would be arranged for 2019.

Officers agreed to amend the performance by asset class section of the report to include the value of Assets Under Management (AUM) for each investment manager.

The Chairman thanked officers for their organisation of the training days.

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 returns from the Smart Beta portfolio be compared to investment in a passive global equities mandate.
4. That future reports show the value of Assets Under Management (AUM) for each investment manager in the performance by asset class section.

The Brunel Pension Partnership - Project Progress Report

52 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.

The Fund's internally managed UK equities' portfolio and the Fund's global equities under the management of Allianz successfully transitioned to Brunel portfolios in July 2018. The Fund's allocation to active UK equities would transition to Brunel from the management of AXA Framlington before the end of November 2018.

In total, approximately £900 million of investments would then have transferred to Brunel's management in the first eight months of operation, representing 30% of the Fund's total assets. Fee savings to Dorset from the three transitions to end of November 2018 were estimated to be approximately £1.3m in a full year.

Emerging Markets equities was the next portfolio to be developed by Brunel. The Fund had a 3% (£90m) allocation to emerging markets under the management of JP Morgan. The expectation was that this would transition in full to Brunel, but with transition not expected to complete until September 2019.

In private markets, Brunel was still at the market research stage for Private Equity, but there had been good progress in Secured Income with two thirds of Dorset's allocation of 2% (£60m) committed to underlying funds. However, it was expected that it would be some time before these commitments were drawn down due to the nature of the asset class.

The FBC assumed that substantially all the new Brunel portfolios would be ready for investment within the first two years of operation. From the experience of the first transitions it was felt that this timetable was unrealistic. The level of resources needed by Brunel was also underestimated, with concerns from the clients that piecemeal increases to budgets were being sought by Brunel. Therefore, a full review of the FBC was required.

As a result of this review, the transition plan had been stretched to three years and it was proposed to increase Brunel's budget from £7.8m this year to £10.4m in 2018/19, with Dorset's share up from approximately £800k to £1m. Clients should now have a much greater level of certainty in the transition plan and funding requirements. Client priorities were also taken into consideration in the revised transition plan.

The Vice-Chairman asked for confirmation of the impact of extending the transition plan on the break-even point for Dorset from the pooling project, and that representatives from Brunel be invited to the next meeting of the Committee. The Chairman asked that minutes of the meeting of the Brunel Oversight Board on 1 November 2018 be circulated to members of the Committee as soon as they were available.

Resolved
1. That the progress in implementing the project be noted.
2. That officers provide a summary of fee savings achieved and transition costs incurred for the transitions to date.
3. That officers confirm the impact of extending the transition plan on the break-even point from the pooling project for the Fund.
4. That representatives from Brunel be invited to the next meeting of the Committee.
5. That the minutes of the meeting of the Brunel Oversight Board on 1 November 2018 be circulated to members of the Committee as soon as they were available.

Pension Fund Administration

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

The Ministry for Housing, Communities and Local Government (MHCLG) were consulting on three technical amendments to the LGPS regulations – (1) survivor benefits, (2) power to issue statutory guidance and (3) early access to benefits for deferred members of the 1995 scheme. Officers sought approval to respond with full agreement to all three proposed areas of change.

The 2018 data quality report showed that the quality of data tested was generally of a high standard and had improved since the 2017 report. A data improvement plan had been produced to address those areas where there were still some concerns. The Vice-Chairman asked that the Pensions Manager, and her team, be thanked for the good work that had been undertaken to improve the quality of the Fund's data.

The gradual reduction to the Annual Allowance and the introduction of the Tapered Annual Allowance had led to increased complexities and an increase in the number of members affected. As a result, Barnett Waddingham, the Fund's actuary, had been commissioned to produce a simple guide to completion of the self-assessment tax return for members affected.

Resolved
1. That the update on the administration of the Fund be noted.
2. That the proposed response to the consultation on technical amendments to the LGPS regulations be approved.
3. That the Data Improvement Plan be approved.
4. That the Pensions Manager and her team be thanked for the good work that had been undertaken to improve the Fund's data quality.

Date of Next Meeting

54 **Resolved**
That a meeting be held on the following date:

27 February 2019 County Hall, Dorchester.

Questions

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

Exempt Business

Exclusion of the Public
Resolved
That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the business specified in minute 56 because it was likely that if members of the public were present there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing that information.

Request of Employer to Exit the Local Government Pension Scheme (Paragraph 3)

56 The Committee considered a request from an employer to exit the Local Government Pension Scheme. The Scheme Member Representative asked if an Equalities Impact Assessment by the administering authority was required, and officers agreed to take internal legal advice on this point.

Resolved
That the Committee support the proposal from the employer to cease membership of the LGPS and agree a phased repayment of the deficit, subject to (1) certification by the Fund Actuary, (2) a legally binding agreement being in place, and (3) obtaining legal advice regarding the requirement for an Equalities Impact Assessment by the administering authority.

Meeting Duration: 10.00 am - 1.00 pm

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MJ HUDSON
Allenbridge

REPORT PREPARED FOR

Dorset County Pension Fund - Pension Fund Committee

February 2019

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INVESTMENT OUTLOOK

In retrospect, it was wise to take a cautious stance at the start of the last quarter. October had begun badly as we reported and markets weakened through to the end of December. Global equities, led by the US, fell over 10% in the quarter, offsetting the rise of Q3, and were 8% down for the calendar year. The UK market mirrored the broader picture. Something of a rally has started in January as the US Federal Reserve has indicated some moderation in the future path of interest rate increases. That mitigates in part the major monetary tightening implied by the end of QE in most economies, especially the US, with estimates of some $1 trillion drained so far from central bank balance sheets and thus from financial markets,

While global recession does not appear on the cards for 2019, there are increasing concerns over the European economy which has slowed sharply and over the credit led expansion in China where the authorities are attempting to reverse the slowing of the economy through central bank intervention. At the same time, there are hopes of better US-China dialogue on trade issues which have helped sentiment.

The Italian budget deficit situation has not escalated as feared but Brexit remains an ever present threat to UK and European markets at least. Parliament's rejection of Mrs May's EU agreement has created major uncertainty of course but recent parliamentary manoeuvres have raised hopes that a disorderly no deal exit can be avoided, the best indicator of which is the recovery of sterling against the dollar. While the current global equity rally may extend further, we would remain cautious in the light of all these risks until the impact on the global economy is clearer.

ECONOMY

The second half of 2018 has proved weaker than expected. In the US, the stimulus of the Trump tax cuts, which extended the long upswing in the business cycle, appears to be losing momentum but the economy has still been growing around 3%, which would be welcomed in the UK or Europe. A slowdown rather than recession can be expected for 2019. The Fed increased rates four times last year and has now indicated only two rises should be expected this year which will mean the federal funds rate not hitting 3%. While the economy is at full employment, inflation has not proved a problem at only 2% and the Fed, as ever, is sensitive to the reaction of financial markets to its draining of liquidity.

In Europe, Germany reported negative GNP in Q3 and is close to repeating that in Q4 so remarkably it is flirting with recession. Its reliance on the export sector is now hurting , notably through the major reduction in car sales in China. Growth in the Eurozone is still expected to be around 1-1.5% this year but the slowdown presents a challenge to the ECB which stopped its bond buying QE programme at the end of 2018. With the ECB balance sheet equivalent to some 40% of GNP, it can be seen what a substantial support the European economy has received. It hopes the current slowdown is a pause rather than the start of recession when it may be forced to resume the strategy.

Thanks to the consumer, the UK economy has held up reasonably well despite the adverse sentiment of the Brexit situation. It is hard to make economic forecasts when the political situation is so unclear but the consensus is for growth of some 1.0-1.5% this year, similar to Europe. A disorderly no deal exit could clearly threaten that, through confidence effects on spending and supply side disruptions impacting production. Good news though is that inflation is falling back to the 2% policy target while unemployment is now down to 4%, a considerable achievement and one now being reflected in real wage growth again with wages rising at 3%. Sterling is the best barometer of the expected economic consequences of Brexit. Currently back to $1.28, market forecasts range from $1.15 for a no deal exit to $ 1.35 in the event of a second referendum.

In China, the authorities are yet again trying to mitigate the effects of the slowdown they were previously trying to engineer by providing liquidity to banks and relaxing reserve requirements Basically, China is in a credit bubble with overall debt to GNP doubling to 270% in the last ten years. Bad debts are inevitably rising and bank provisions escalating, all of which could be tolerable if growth continues at 6% pa but not if it slows. This carries a risk to the rest of the world because China has been building up vast overseas surpluses. If it were forced to bring this back to support the domestic economy, this would act as another drain on global liquidity.

Finally, the dollar. This has been strong for the last year because of Fed tightening but the dollar is now beginning to trade sideways. This may help emerging markets, not just because of large dollar debts incurred by governments and corporate borrowers but it may assist capital flows back to emerging economies, subject to events in China described above.

MARKETS

As the introduction pointed out, last year was a bad year for risk assets with global and UK equities falling some 8% and Japanese and emerging markets falling close to 15%. Q4 saw US equities retreat 14%, making it the worst performing market but this partly reflected the major sell off in the so-called Fangs, the major IT stocks which fell some 20%. Credit markets also suffered globally with negative returns in both Q4 and for the year as a whole as credit spreads widened out. Government bonds like gilts rallied strongly in Q4 to produce slightly positive returns for the year.

Last quarter , we reported how in the US , both equities and bonds sold off together in October with 10 year treasury yields back to a more normal 3.25%. That has changed with bonds rallying and yields now down to 2.8%, reflecting partly changing perception on Fed strategy but also the usual flight to perceived safe assets. Much the same could be said of the UK where gilt yields are back down to some 1.15%.

While equities have recovered somewhat in January, we are not out of the woods yet. We have had another correction in this long bull market, the second of last year but it hardly has the feel of a bear market in terms of duration and extent. Growing perceptions of a major economic deterioration would take markets lower or a credit event in the US or China or even, conceivably, a disorderly no deal Brexit. At present, markets are divided on the former but inclined to take an optimistic view, are seemingly unconcerned about the second and uncertain how to jump on the third.

In the background, of course is this draining of global liquidity caused by the end of QE. That means there will be no buyer of last resort in credit markets in the event of bad news so risk assets have more downside risk than over the last few years. That said, valuation is not excessive as earnings have caught up with market prices to some extent but markets are assuming that GNP growth and earnings remain on an upwards path. With all these uncertainties, it seems wise to remain cautious.

That must surely be the case with UK assets. UK equities have the best dividend yield of all markets and could be said to be inexpensive compared to other markets but there is a reason for that. Markets have to assess the outlook for the domestic economy which will determine the outlook for small and mid-cap stocks but also for sterling which will impact FTSE 100 stocks with their large overseas earnings. Too hard to call! Yet again, though, UK commercial property has outperformed as an asset class with a return for 2018 of 6%. The outlook is for a lower return but still positive as the high yield offers protection against any slippage in capital values.

ASSET ALLOCATION

There have been no changes of significance since the last review although some cash has been raised out of our equity portfolio , reflecting a desire to trim overweight positions in the transition to pooling. No changes have yet been made to the liability hedge though that remains under review but some start has been made on the new private asset pool allocations.

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	27 February 2019
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 31 December 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 31 December 2018 is 91.3% and the average required employer contribution would be 20.2% of payroll assuming the deficit is to be paid by 2038. The value of the Fund's assets at 31 December 2018 was £2,844M compared to £2,854M at the start of the financial year. The Fund returned -0.3% over the financial year to 31 December 2018, which is below its strategic benchmark of 1.5%. Return seeking assets returned -0.5%, whilst the liability matching assets returned 0.8%.
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 points to highlight

1.1 The estimated funding level has improved from 83.2% at the last triennial valuation, as at 31 March 2016, to 91.3% as at 31 December 2018. This improvement is largely the result of the substantial appreciation in the value of the Fund's assets in 2016-17.

1.2 The Actuary has estimated that the average required employer contribution would be 20.2% of payroll compared 21.4% at the 31 March 2016 funding valuation.

1.3 The quarter saw large falls in all listed equities' markets, which drove a fall in the value of the Fund's assets of 6% from £3.02 billion at 30 September 2018 to £2.84 billion at 31 December 2018.

1.4 The performance return for the quarter was 5.9% compared to the combined benchmark return of 4.5%, which has had a negative impact on absolute and relative performance over the financial year to date and all longer periods.

1.5 As at 31 December 2018, 38.8% of the Fund's liabilities were hedged against inflation sensitivity.

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 31 December 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 31 December 2018; and
- estimated Fund returns based on Fund asset statements provided to 31 December 2018.

2.4 The results of this assessment indicate that the current projection of the funding level as at 31 December 2018 is 91.3% (92.9% at 30 September 2018) and the average required employer contribution would be 20.2% of payroll assuming the deficit is to be paid by 2038 (20.6% at 30 September 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.

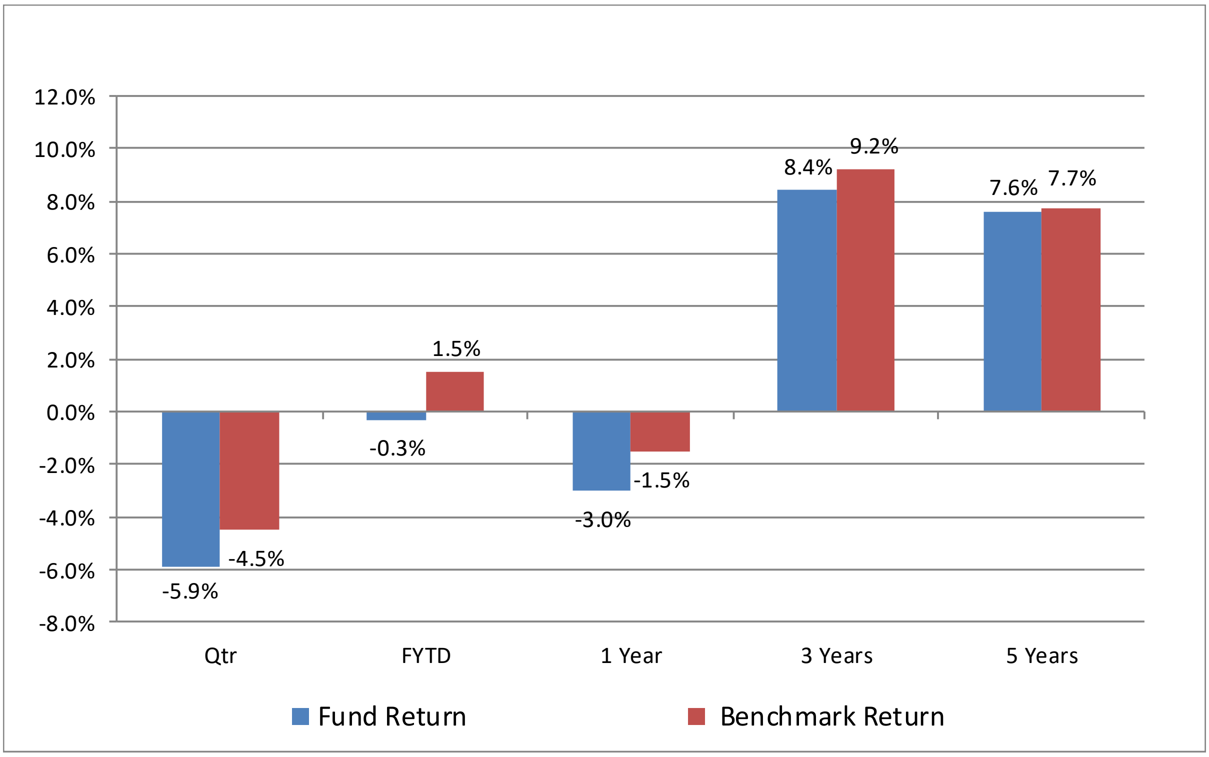
2. Asset Valuation

2.1 The table below shows the Fund's asset valuation by asset class at the beginning of the financial year and as at 31 December 2018, together with the target allocation as agreed at the meeting of the Committee, 13 September 2017.

		31-Mar-18		31-Dec-18		Target Allocation	
Asset Class	**Manager**	**£M**	**%**	**£M**	**%**	**£M**	**%**
UK Equities	Several	684.4	24.0%	596.1	21.0%	568.8	20.0%
Overseas Equities	Several	654.2	22.9%	635.4	22.3%	625.7	22.0%
Emerging Markets Equities	JP Morgan	103.2	3.6%	91.3	3.2%	85.3	3.0%
Total Listed Equities		***1,441.8***	***50.5%***	***1,322.8***	***46.5%***	***1,279.8***	***45.0%***
Corporate Bonds	RLAM	204.5	7.2%	203.5	7.2%	170.6	6.0%
Multi Asset Credit	CQS	136.2	4.8%	135.8	4.8%	142.2	5.0%
Diversified Growth	Barings	173.3	6.1%	166.0	5.8%	227.5	8.0%
Infrastructure	Several	106.6	3.7%	138.6	4.9%	142.2	5.0%
Private Equity	Several	76.5	2.7%	84.6	3.0%	142.2	5.0%
Property	CBRE	295.4	10.4%	317.5	11.2%	341.3	12.0%
Cash	Internal	40.0	1.4%	93.7	3.3%	-	0.0%
F/X Hedging	State Street	-	0.0%	- 1.0	0.0%	-	0.0%
Total Return Seeking Assets		**2,474.3**	**86.7%**	**2,461.5**	**86.6%**	**2,445.9**	**86.0%**
Liability Matching Assets	Insight	379.7	13.3%	382.6	13.5%	398.2	14.0%
Total Asset Valuation		**2,854.0**	**100.0%**	**2,844.1**	**100.0%**	**2,844.1**	**100.0%**

3. Investment Performance

3.1 The overall performance of the Fund's investments to 31 December 2018 is summarised below.



3.2 The Fund returned -0.3% for the financial year to 31 December 2018, underperforming its benchmark by 1.8%. Over the longer term, the Fund underperformed its benchmark over 3 years, returning an annualised 8.4% against the benchmark return of 9.2%, and underperformed over 5 years, returning an annualised 7.6% against the benchmark of 7.7%.

3.3 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. For the financial year to 31 December 2018, return seeking assets returned -0.5% against the benchmark return of 1.2%, and liability matching assets returned 0.8% against the benchmark return of 3.1%.

4. Performance by Asset Class and Investment Manager

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). On 21 November 2018, assets under the management of AXA Framlington transferred to the Brunel UK Equities Active portfolio. The performance of the Fund's external mangers is detailed in Appendix 1 and summarised in the tables below.

Brunel/LGIM Passive - £341.8m assets under management (AUM)

	Performance	Benchmark	Relative
Quarter	-10.2%	-10.2%	0.0%
Since inception	-11.6%	-11.6%	0.0%

Schroders - £51.9m AUM

	Performance	Benchmark	Relative
Quarter	-12.9%	-12.1%	-0.8%
Financial Year to Date	-7.2%	-7.8%	0.6%
12 months	-10.6%	-13.8%	3.2%
3 years p.a.	10.1%	3.9%	6.2%
5 years p.a.	9.8%	4.3%	5.5%
Since inception p.a.	10.0%	5.9%	4.1%

Global Developed Markets 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 - £196.9m AUM

	Performance	Benchmark	Relative
Quarter	-12.4%	-11.3%	-1.1%
Financial Year to Date	0.5%	1.9%	-1.4%
12 months	-5.9%	-3.0%	-2.9%
3 Years p.a.	9.6%	11.6%	-2.0%
Since inception p.a.	10.6%	11.4%	-0.8%

Wellington - £214.9m AUM

	Performance	Benchmark	Relative
Quarter	-13.0%	-11.3%	-1.7%
Financial Year to Date	0.7%	1.9%	-1.2%
12 months	-2.6%	-3.0%	0.4%
3 years p.a.	11.1%	11.6%	-0.5%
Since inception p.a.	12.0%	11.4%	0.6%

Brunel/LGIM Smart Beta - £136.7m AUM

	Performance	Benchmark	Relative
Quarter	-8.9%	-8.8%	-0.1%
Since inception	-6.2%	-6.0%	-0.2%

Brunel/LGIM Smart Beta (Hedged) - £118.2m AUM

	Performance	Benchmark	Relative
Quarter	-11.2%	-11.3%	0.1%
Since inception	-8.7%	-9.0%	0.3%

4.3 Relative performance in the quarter and the financial year to date was below the benchmark for both Investec and Wellington. Over twelve months both Wellington and Investec underperformed their benchmarks. Since inception in December 2015 Wellington are above their benchmark whilst Investec are underperforming their benchmark.

4.4 Please note that the Fund’s Global Equities managers have some exposure to UK equities (approximately 6-7% of assets under management).

Emerging Markets Equities - £91.3m AUM

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

	Performance	Benchmark	Relative
Quarter	-6.2%	-5.3%	-0.9%
Financial Year to Date	-11.6%	-7.2%	-4.4%
12 months	-13.6%	-9.3%	-4.3%
3 years p.a.	14.8%	14.7%	0.1%
5 years p.a.	6.9%	7.1%	-0.2%
Since inception p.a.	4.6%	4.8%	-0.2%

4.6 The final quarter of 2018 saw emerging markets further challenged after a tough year. There were significant falls in China, by far the largest of the emerging markets, driven by ongoing uncertainty around US tariffs and regulatory tightening concerns.

Corporate Bonds - £203.5m AUM

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	0.2%	0.1%	0.1%
Financial Year to Date	-0.5%	-0.8%	0.3%
12 months	-1.8%	-2.2%	0.4%
3 years p.a.	6.3%	5.4%	0.9%
5 years p.a.	6.9%	6.3%	0.6%
Since inception p.a.	8.3%	8.2%	0.1%

4.8 Absolute returns were positive for the quarter and for the financial year to 31 December 2018 and ahead of the benchmark for all longer 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) - £135.8m AUM

4.9 The performance of the Fund's external MAC manager, CQS, is summarised below.

	Performance	Benchmark	Relative
Quarter	-2.1%	1.2%	-3.3%
Financial Year to Date	-0.3%	3.5%	-3.8%
12 months	0.4%	4.7%	-4.3%
Since inception (Dec-17)	0.6%	4.7%	-4.1%

4.10 The benchmark for the CQS fund is cash (1 month LIBOR) plus 4% over the longer term.

Property - £317.5m AUM

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

	Performance	Benchmark	Relative
Quarter	0.9%	1.5%	-0.6%
Financial Year to Date	3.4%	5.1%	-1.7%
12 months	5.5%	7.1%	-1.6%
3 years p.a.	6.8%	6.9%	-0.1%
5 years p.a.	10.6%	10.6%	0.0%
Since inception p.a.	7.8%	7.8%	0.0%

4.12 The portfolio has underperformed the Investment Property Databank (IPD) benchmark over 1 year and 3 years and matched the index over 5 years.

Diversified Growth Funds (DGF) - £166.0m AUM

4.13 Diversified Growth Funds 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 objective of the Barings fund is to deliver 'equity like' returns (over the long term) but with about 70% of the equity risk. The manager seeks to achieve out performance against a cash benchmark by focusing on asset allocation decisions.

4.14 The performance for Barings is summarised below.

	Performance	Benchmark	Relative
Quarter	-7.1%	1.2%	-8.3%
Financial Year to Date	-4.2%	3.6%	-7.8%
12 months	-6.4%	4.8%	-11.2%
3 years p.a.	2.8%	4.6%	-1.8%
5 years p.a.	2.8%	4.6%	-1.8%
Since inception p.a.	3.5%	4.6%	-1.1%

4.15 The benchmark for the Barings fund is cash (3 month LIBOR) plus 4% over the longer term.

Private Equity

4.16 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 31 December 2018 and the total gains or losses, which includes the distribution plus the latest valuation.

Private Equity Commitments, Drawdowns and Valuations

Manager	Commitment	Drawndown		Distribution	Valuation	Gain
	£m	£m	%	£m	£m	£m
HarbourVest	110.0	75.3	68%	68.1	49.4	42.2
Aberdeen Standard	79.0	54.6	69%	53.4	35.2	34.1
Brunel	60.0	0.0	0%	0.0	0.0	0.0
Total	**249.0**	**129.8**	**52%**	**121.5**	**84.6**	**76.2**

4.17 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.

4.18 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 these investments 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.

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

HarbourVest - £49.3m AUM

	Performance	Benchmark	Relative
Quarter	2.6%	-10.2%	12.8%
Financial Year to Date	26.8%	-2.8%	29.6%
12 months	22.2%	-9.5%	31.7%
3 years p.a.	17.8%	6.1%	11.7%
5 years p.a.	18.9%	4.1%	14.8%
Since inception p.a.	11.2%	5.1%	6.1%

Aberdeen Standard - £35.2m - AUM

	Performance	Benchmark	Relative
Quarter	6.0%	-10.2%	16.2%
Financial Year to Date	25.2%	-2.8%	28.0%
12 months	29.4%	-9.5%	38.9%
3 years p.a.	15.2%	6.1%	9.1%
5 years p.a.	13.1%	4.1%	9.0%
Since inception p.a.	3.5%	5.6%	-2.1%

Infrastructure

4.20 As with Private Equity, Infrastructure is a long term investment that takes several years for commitments to be fully invested. The Fund has two external infrastructure managers, Hermes and IFM. Performance to date for each manager is measured against a 10% absolute annual return benchmark, and summarised in the tables below:

Hermes - £52.3m AUM

	Performance	Benchmark	Relative
Quarter	0.7%	2.5%	-1.8%
Financial Year to Date	-0.4%	7.5%	-7.9%
12 months	5.6%	10.2%	-4.6%
3 years p.a.	8.9%	10.1%	-1.2%
Since inception p.a.	8.6%	10.0%	-1.4%

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 - £86.2m AUM

	Performance	Benchmark	Relative
Quarter	3.6%	2.5%	1.1%
Financial Year to Date	17.2%	7.5%	9.7%
12 months	22.9%	10.2%	12.7%
Since inception p.a.	18.0%	10.0%	8.0%

4.22 During the quarter, IFM completed two acquisitions: a 37.5% stake in Global Container Terminals (GCT), an operator of four container terminals in Canada and the US, and a 50% stake in Impala Terminals (a diversified portfolio of base metal terminal infrastructure assets located in Peru, Spain and Mexico). Following the end of the quarter, IFM completed the acquisition of an additional 25% stake in VTTI.

4.23 The broader portfolio continued to deliver positive returns in local currency terms, with outperformance, in particular from Freeport Train 2, Indiana Toll Road and Mersin International Port. This performance was partially offset by negative yields from VTTI, Arqiva Limited, M6Toll and Vienna Airport.

Liability Driven Investment (LDI) - £382.6m AUM

4.24 The Fund's external LDI manager is Insight Investments. 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, and these changes have now been implemented.

4.25 LDI strategies allow pension schemes to continue investing in return-seeking assets while hedging out their liability risks through the use of leverage. As at 31 December 2018, 13.5% of the Fund’s assets were invested in the mandate but 38.8% of the Fund’s liabilities were hedged against inflation sensitivity i.e. if the value of the Fund’s liabilities increased by £100m (purely as a result of changes to inflation expectations), the value of the assets under management would be expected to increase by approximately £39m.

4.26 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.

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 31 December 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 %
Fixed Term Deposits		
Lloyds Banking Group	5,000	0.90%
Lloyds Banking Group	5,000	1.00%
Total Fixed Term Deposits	10,000	0.95%
Call Accounts		
National Westminster Bank	415	0.15%
Svenska Handelsbanken	5,000	0.68%
Total Call Accounts	5,415	0.64%
Money Market Funds		
Aberdeen Standard	15,000	0.74%
BNP Paribas	15,000	0.77%
Federated Prime Rate	15,000	0.74%
Deutsche	11,000	0.73%
Goldman Sachs	15,000	0.69%
Total Money Market Funds	71,000	0.73%
Holding Accounts		
HSBC Custody Accounts	-	0.00%
Property Client Account	582	0.00%
State Street Custody Accounts	6,713	0.75%
Total Holding Accounts	7,295	0.69%
Total Cash / Average Return	**93,710**	**0.75%**

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.

Summary Cashflow for the Financial Year to 31 December 2018

	£M	£M
Cash at 1 April 2018		**40.0**
Less:		
Property Transactions (net)	22.1	
Infrastructure Drawdowns (net)	19.6	
Currency Hedge (net)	25.9	
		67.6
Plus:		
Private Equity (net)	10.2	
UK Equity transactions (net)	7.0	
UK Passive Internally Managed Disinvestment (net)	30.0	
Allianz Disinvestment (net)	34.2	
AXA Framlington Disinvestment (net)	10.0	
LGIM UK Passive (net)	15.0	
Net Contributions	14.9	
		121.3
Cash at 31 December 2018		**93.7**

6. Implementation of changes to Strategic Asset Allocation

6.1 At its meeting on 13 September 2017, the Committee agreed a number of changes to the strategic asset allocation of the Fund. The following paragraphs summarise progress in implementing these changes.

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

6.3 The increased allocation to Diversified Growth Funds (DGF) has been met in part by investing a further £50M in the Baring Dynamic Asset Allocation Fund in February funded by partial disinvestment from the internally managed UK equities portfolio. This leaves the current allocation to DGF as 5.8% against the revised target of 8%, and the current allocation to UK Equities as 21.0% 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. On 21 November 2018, assets under management of external UK Equities manager AXA Framlington were transferred to the Brunel UK Equities Active portfolio. As part of these transitions there were disinvestments of £30M from the self-managed UK Equities portfolio, £35M from the Allianz portfolio, and £10M from the AXA Framlington pooled fund, followed by a further £15M disinvestment from the LGIM passive equities fund.

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
February 2019

Dorset County Pension Fund Committee 27 February 2019

Listed Market Equities

1. Equity Markets Performance

1.1 The quarter to 31 December 2018 was not good for equity markets. Investors have had to contend with rising US central bank interest rates, a sharp slowdown in Eurozone business confidence, weaker Chinese growth and rising geopolitical concerns (including Brexit, Italian budget issues and the ongoing trade conflict between the US and China).

1.2 Over the quarter to 31 December 2018, US equities declined, with especially large falls in December due to fears over economic momentum and slower earnings growth. The US-China trade dispute also continued to hamper investor optimism.

1.3 In the Eurozone it was a poor quarter for equities with the MSCI EMU index falling 12.7%. Worries over rising US interest rates, trade tariffs, slower Chinese growth and Brexit continue to combine to form a difficult environment for higher risk assets like shares.

1.4 In the UK, many UK domestic-focused sectors also performed poorly as worries of a “no deal” exit from the EU intensified after the UK published its draft EU Withdrawal Agreement, which triggered another period of intense political uncertainty.

1.5 The FTSE100 suffered its worst year in a decade as economic worries, Brexit uncertainty and the trade war between the US and China worried investors. The FTSE100 fell 12.5% during 2018, its biggest annual decline since 2008 and hit a two year low.

1.6 In the US, the major stock indexes posted their worst yearly performances since the financial crisis of 2008.The S&P 500 and the Dow Jones fell for the first time in three years, whilst the Nasdaq fell, ending a six-year winning streak. 2018 was a year fraught with volatility, characterised by record highs and sharp reversals. 2018 also marked the first time ever that the S&P 500 posted a decline after rising in the first three quarters.

1.7 The tables below show the performance of UK and World indices over three and twelve months to 31 December 2018.

Three months to 31 December 2018

Country	Index	30/09/2018	31/12/2018	% Change
UK	FTSE100	7,510.2	6,728.1	-10.4
UK	FTSE250	20,307.0	17,502.1	-13.8
UK	FTSE350	4,180.7	3,722.2	-11.0
UK	Small Cap	5,822.0	5,177.2	-11.1
UK	Small Cap ex Investment Trusts	7,709.4	6,779.0	-12.1
UK	All Share	4,127.9	3,675.1	-11.0
Japan	Nikkei225	24,120.0	20,014.8	-17.0
US	Dow Jones	26,458.3	23,327.5	-11.8
Hong Kong	Hang Seng	27,788.5	25,845.7	-7.0
France	Cac 40	5,493.5	4,730.7	-13.9
Germany	Dax	12,246.7	10,559.0	-13.8
China	Shanghai Composite	2,821.4	2,493.9	-11.6

Twelve months to 31 December 2018

Country	Index	31/12/2017	31/12/2018	% Change
UK	FTSE100	7,687.8	6,728.1	-12.5
UK	FTSE250	20,726.3	17,502.1	-15.6
UK	FTSE350	4,277.0	3,722.2	-13.0
UK	Small Cap	5,911.9	5,177.2	-12.4
UK	Small Cap ex Investment Trusts	7,864.1	6,779.0	-13.8
UK	All Share	4,221.8	3,675.1	-12.9
Japan	Nikkei225	22,764.9	20,014.8	-12.1
US	Dow Jones	24,719.2	23,327.5	-5.6
Hong Kong	Hang Seng	29,919.2	25,845.7	-13.6
France	Cac 40	5,312.6	4,730.7	-11.0
Germany	Dax	12,917.6	10,559.0	-18.3
China	Shanghai Composite	3,707.2	2,493.9	-32.7

1.8 There was negative performance from the UK markets in the three months to 31 December 2018. The FTSE100 was the best performer falling 10.4% (782 points). The FTSE250 was the worst performing UK index falling 13.8% (2,805 points) over the same period. In comparison, performance from major world indices were equally poor with the Hang Seng the best performing index despite falling 7.0% (1,943 points), whilst the Nikkei225 fell 17.0% (4,105 points) over the same period. The Dow Jones fell 11.8% (3,131 points) in the three-month period to 31 December 2018.

1.9 Over the twelve-month period to 31 December 2018, there was negative performance from the major UK indices. The Small Cap was the best performer falling 12.4% (735 points), whilst the FTSE250 was the worst performing UK index falling 15.6% (3,224 points). The FTSE100 fell 12.5% (960 points) over the same period. In comparison, there were negative returns from major world indices. The Dow Jones was the best performing index despite falling 5.6% (1,392 points), whilst the Shanghai Composite was the worst performing index falling 32.7% (1,213 points) over the same period.

2. Market Review

2.1 Global equities tumbled, posting their worst quarterly return since September 2008 and ending 2018 in negative territory. Concerns about slowing global growth weighed heavily on the markets. China's economy grew at the slowest pace in a decade, and economic growth in the Eurozone slowed sharply.

2.2 The US and China trade tariffs were suspended in December 2018 as the two countries aimed to reach a trade agreement within ninety days.

2.3 Every sector retreated over the quarter, with the exception of utilities, which benefitted from their defensive credentials. Energy shares came off worse of all due to falling oil and gas prices.

2.4 The oil market ended a 2 1/2-year recovery for oil prices with geopolitical issues having weighed on the market throughout 2018. US crude closed at $45 a barrel, its first annual loss and biggest yearly drop since 2015.

2.5 On the monetary front, the US Federal Reserve, raised interest rates by 25 basis points, to the highest level in a decade stating future increases could come at a slower pace amid concerns about global growth. The European Central Bank concluded its asset purchase program but announced that it will continue its reinvestment policy for an extended period after the first interest rate rise, slated for the first half of 2019.

UK Equity performance for the period ending 31 December 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). On 21 November 2018, one of the two UK Equity managers, AXA Framlington was transferred in full (sale proceeds £177M) to the UK Equities Active Brunel portfolio. The Fund still has one UK equity active manager in 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 (£564.3M at 31 December 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 five managers as at 1 April 2018 and 31 December 2018.

	In-House	AXA	Schroders	LGIM	Brunel	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Valuation 01-Apr-18	401,402	190,746	55,096	0	0	647,244
Investment	0	0	0	434,849	177,044	611,893
Disinvestment	-434,849	-187,044	0	-46,999	0	-668,892
Change in Valuation	33,807	-3,702	-3,987	-46,041	-5,984	-25,907
Valuation 31-Dec-18	360	0	51,109	341,809	171,060	564,338

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 31 December 2018.

	Schroders	LGIM
Quarter to Date		
Performance	-12.9%	-10.2%
Benchmark	-12.1%	-10.2%
Relative Return	-0.8%	0.0%
Financial Year to Date		
Performance	-7.2%	-
Benchmark	-7.8%	-
Relative Return	0.6%	-
Twelve Months to Date		
Performance	-10.6%	-
Benchmark	-13.8%	-
Relative Return	3.2%	-
Three Years p.a.		
Performance	10.1%	-
Benchmark	3.9%	-
Relative Return	6.2%	-
Five Years p.a.		
Performance	9.8%	-
Benchmark	4.3%	-
Relative Return	5.5%	-
Since Inception		
Performance	10.0%	-11.6%
Benchmark	5.9%	-11.6%
Relative Return	4.1%	0.0%

Global Equities performance for the period ending 30 December 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, managed by Legal & General Investment Management (LGIM). 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 31 December 2018.

	Allianz £000s	Investec £000s	Wellington £000s	LGIM £000s	JPM £000s	Total £000s
Valuation 01-Apr-18	281,878	195,927	213,503	0	103,281	794,589
Investment	0	0	0	275,115	0	275,115
Distribution	-310,115	0	0		0	-310,115
Increase in Valuation	28,679	988	1,375	-20,210	-11,941	-1,109
Valuation 31-Dec-18	442	196,915	214,878	254,905	91,340	758,480

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 31 December 2018.

	Investec	Wellington	LGIM Smart Beta	LGIM Smart Beta (Hedged)	JPM
Quarter to Date					
Performance	-12.4%	-13.0%	-8.9%	-11.2%	-6.2%
Benchmark	-11.3%	-11.3%	-8.8%	-11.3%	-5.3%
Relative Return	-1.1%	-1.7%	-0.1%	0.1%	-0.9%
Financial Year to Date					
Performance	0.5%	0.7%	-	-	-11.6%
Benchmark	1.9%	1.9%	-	-	-7.2%
Relative Return	-1.4%	-1.2%	-	-	-4.4%
Twelve Months to Date					
Performance	-5.9%	-2.6%	-	-	-13.6%
Benchmark	-3.0%	-3.0%	-	-	-9.3%
Relative Return	-2.9%	0.4%	-	-	-4.3%
Three Years to Date					
Performance	9.6%	11.1%	-	-	14.8%
Benchmark	11.6%	11.6%	-	-	14.7%
Relative Return	-2.0%	-0.5%	-	-	0.1%
Five Years to Date					
Performance	-	-	-	-	6.9%
Benchmark	-	-	-	-	7.1%
Relative Return	-	-	-	-	-0.2%
Since Inception					
Performance	10.6%	12.0%	-6.2%	-8.7%	4.6%
Benchmark	11.4%	11.4%	-6.0%	-9.0%	4.8%
Relative Return	-0.8%	0.6%	-0.2%	0.3%	-0.2%

8.2 Investec underperformed its benchmark over three months by 1.1% and by 1.4% over the nine months to the 31 December 2018. Wellington underperformed their benchmark by 1.7% over three months and by 1.2% over nine months. Over the twelve-month period to 31 December 2018 Wellington outperformed its benchmark by 0.4% while Investec underperformed by 2.9%. Since inception, Wellington has outperformed their benchmark by 0.6%, whilst Investec has underperformed by 0.8%.

8.3 JP Morgan have underperformed their benchmarks for the quarter, financial year to date and over twelve months. The performance matched the benchmark over three years and underperformed by 0.2% over 5 years and since inception.

9. Manager Commentaries (Active Mandates)

9.1 Schroders

The fund underperformed its FTSE Small Cap (ex-investment companies) benchmark over the period of three and twelve months but outperformed over three and five years. Mobile advertising platform provider Taptica International was the single largest detractor. It performed poorly after the CEO stepped down having been found liable for statements made in relation to the sale of a previous business venture. However, the company published a broadly in-line year-end trading update, which revealed it is on course to meet full-year market expectations for EBITDA growth.

Cosmetics supplier Warpaint London and multi-channel women's fashion retailer QUIZ performed poorly after both companies warned on profits, related to poor trading in the UK. They were among a number of the UK consumer focused names which performed poorly over the period. This was partly a result of the extreme negative sentiment towards domestically focused areas of the market, and there have been encouraging signs by some reassuring Christmas trading updates since the start of 2019.

On the positive side, world-leading manufacturer of industrial foam products Zotefoams delivered double-digit share price gains following news of very strong third quarter sales growth. Growth was driven by a near doubling in sales of the group's more profitable high-performance product range. Meanwhile, globally diversified retailer of proprietary audio recording devices Focusrite was another top contributor after its full-year results confirmed another year of strong revenue and profits growth.

The underweight position in oil and gas producers (and zero weighting in highly financially leveraged UK-focused oil producer Enquest) was a positive for performance against the backdrop of very weak crude oil prices. It was also beneficial not owning oil, equipment and services business Gulf Marine Services, which warned it was likely to breach its banking covenants.

A new position was initiated in casual dining group Restaurant Group. The company announced the acquisition of UK and international operator of Asian themed restaurants Wagamama in the period. As a result of a poor reception to the deal a deeply discounted rights issue was participated in to help fund the purchase. A new holding in specialist pet supplies retailer Pets at Home was initiated after it dropped out of the FTSE250. Also purchased was a new stake in AIM-quoted producer and supplier of graphene-based products Directs Plus. Holdings were sold in marine service specialist James Fisher & Sons and Alpha Financial Markets Consulting, a specialist provider of consultancy services to the asset and wealth management industries.

Due to the uncertainty around Brexit, international investors remain nervous about investing in UK Quoted companies. In recent months pessimism towards UK equities has once again surpassed levels seen in the wake of the global financial crisis, according to Bank Of America Merrill Lynch's (BoAML) survey of global assets allocators' weighting in the country. Between November and December the number of respondents who reported being underweight in UK equities rose 12%, from 27% to 39% to hit the second since highest level since BoAML began its survey. Sentiment towards domestically focused areas of the market has been particularly poor. However, UK nominal wages have continued to rise (up 3.3% in the three months to October 2018, the fastest rate since November 2008) while a moderation in inflation has seen the return of real wage growth – historically there has been a positive correlation between real wage growth and real retail sales.

Since the period end, a number of consumer-facing companies have published reassuring Christmas trading updates – specialist retailers have delivered mid to high single-digit like-for-like sales growth, while trading of some of the worst afflicted retailers does not appear to have deteriorated more than feared. Rents and rates (significant cost components of bricks and mortar retailers) are falling, a trend market participants have overlooked as they've focused on the online threat, which in many cases has now been addressed.

9.2 **Investec**

The portfolio lagged its performance comparison index over the quarter. Fundamentals have largely been overshadowed by significant shifts in sentiment in the quarter, mostly linked to the US-China trade war and the fear that the US Federal Reserve will raise rates too aggressively. Amid the uncertainty, the screening part of the 4Factor process presented the portfolio with a significant headwind as each of the four factors underperformed. The technical and earnings components of the screen were especially challenged.

Financials detracted over the quarter after several holdings across the sector were caught up in the sell-off triggered by the latest Federal Reserve rate rise. Across the portfolio, this most directly impacted US large cap banks Citigroup and Goldman Sachs. The position in Goldman Sachs was also impacted by a potential link to an on-going corruption scandal in Malaysia, after the firm and two former employees were indicted in connection with irregularities at the country's 1MBD sovereign wealth fund.

Returns were also challenged by holdings in the consumer discretionary sector, especially US jeweller Tiffany and car parts supplier Delphi. Tiffany faced a Chinese customs crackdown on luxury overseas purchases by Chinese travellers, which negatively impacted spending by this high-growth market segment. Delphi was also affected by upheaval in China, where a sharp deterioration in demand from Chinese carmakers caused the firm to issue a profits warning and materially trim its forward guidance.

The oil price sell-off led to several holdings across the energy sector giving back some of the outperformance of previous quarters, especially Australian exploration firm Santos and US refiner Valero. An underweight exposure to utilities, which were relatively resilient amid the market volatility, also weighed on relative returns.

On the other hand, holdings across the healthcare sector boosted returns after US giants Merck and Eli Lilly both reported very positive organic growth figures. The latter's shares were additionally lifted by the company's reiterated commitment to divest its underperforming animal health division.

In information technology, the portfolio benefitted from a rally in chipmaker Broadcom, which reported better-than-expected results amid ongoing demand for chips to power cloud-based data centres. Recent comments from Broadcom's management team also helped placate some of the lingering scepticism over the firm's recent acquisition of business IT firm Computer Associates. The portfolio's lack of holding of chipmaker NVIDIA also contributed to outperformance in technology: shares in the firm retreated after it reduced its forecasts in the period.

Alongside Broadcom, Spanish utility Iberdrola was the portfolio's most significant stock-level performance contributor as the firm received a string of analyst upgrades in the early days of December, which helped its shares capitalise on the improving market sentiment towards the sector amid market turmoil.

Purchases for the Quarter ended 31 December 2018 include:
Anthem: US health insurance company. Anthem has a unique dominant position in thirteen states where it operates. Coming out of the failed Cigna acquisition, Anthem has flexibility to deploy capital for share purchases and Merger & Acquisitions, while a growing government business is offsetting pressures in its commercial book. Recent acquisitions expanded the company's presence in the fast-growing Medicare Advantage market. Anthem's new CEO is starting to deliver, while a lack of exposure to the pharmacy benefits management business makes it less exposed than its peers to potential changes to drug pricing. From a valuation point of view, Anthem offers similar growth to peer United Health, but at a significant discount.
Ingersoll-Rand: Irish-American manufacturing firm. Ingersoll Rand is a good quality company, with leadership positions in heating, ventilation and air conditioning (HVAC) in markets that are benefitting from sustained structural and cyclical demand growth. Revenues are better protected from the cycle than peers and relative to history given high aftermarket exposure and strong replacement demand. Despite this, Ingersoll trades at a discount to both pure HVAC and diversified industrial peers.
Medtronic: US medical device manufacturer. Medtronic has exposure to all the major sector growth markets. The company lost momentum due to acquisition integration issues. Now the completed integration revenue is set to accelerate, supported by a robust pipeline. Significant operating margin improvement is achievable for the years to come, which should offer the potential for significant upside to earnings consensus.

Sales for the Quarter ended 31 December 2018 include:
Alibaba Group: Chinese e-commerce giant. The group has suffered downgrades driven by investment into lower return areas and losses at Ant Financial. The company is accelerating its strategy into "new retail" by investing in bricks and mortar stores both organically and through acquisitions, which is creating uncertainty on estimates and returns, while also driving earnings downgrades.
DXC Technology: US IT services firm. While DXC is delivering on its earnings expectations and has crystallised value through the spin of Perspecta, to perform from here in line with our investment case it would need to demonstrate a return to top line growth and a fall-off in restructuring charges. Recent results showing decelerating bookings growth, alongside evidence of continuing staff turnover, call both these points into question.
Parker-Hannifin: US motion and control technologies manufacturer. The company earnings beat expectation and management raised forward guidance in a quarter where peers have struggled. However, with the purchasing manager index continuing to weaken, the stock is struggling to break out of the broader maturing cycle, leading us to question the conviction of future advances or in the value of holding the stock through the next downturn. This is still a solid company, but following the price bounce on the results and a valuation that is looking reasonable, exiting the holding appeared prudent.

9.3 Wellington

The Global Research Equity portfolio underperformed the index during the quarter, as a result of challenging performance specifically in October and November. In general, the more defensive stocks performed well as investors flocked to safety-oriented equities. The trend was evidenced in the portfolio as modest underweights to large cap higher dividend yielding stocks weighed on relative performance. These slight style exposures compounded the challenged stock selection during this period.

This effect was particularly noticed in the healthcare and consumer staples, where the impact of the underweight positions was significant. Underweight positions continue to be maintained to companies in these sectors including Johnson and Johnson, Merck, Pfizer, Proctor & Gamble, Coca Cola and Pepsi as there are more compelling investment opportunities elsewhere. Positive stock selection in communications services and real estate was a partial offset to negative selection in health care, consumer staples and information technology.

Within health care, aside from not holding Merck and Roche, which negatively impacted relative results, the stock selection was most challenged by Allergan, which declined materially this quarter. The company reported solid earnings this quarter; however, the market continues to show some uncertainty in the company's outlook. The stock is liked and the core growth drivers for the next 5-10 years remain in place. The valuation is undemanding and the pipeline is underappreciated.

Within consumer staples, in addition to avoiding Proctor & Gamble, which proved unfavourable to returns this quarter, the positions in British American Tobacco, Altria and Coty weighed on relative results. British American Tobacco was negatively impacted by the Food and Drug Administration's recent regulatory pivots increased markets concerns that US tobacco companies are seeing a more challenging environment than previously experienced. From a valuation perspective, the stock is cheap and are closely monitoring business and industry fundamentals and evaluating the risk/reward profile of the stock. For Altria, in addition to potentially greater regulatory headwinds, the company is working through Merger & Acquisitions activity, also weighing on the stock price. In the case of Coty, a beauty company that develops, manufacturers and markets beauty products, the stock has been volatile this year and detracted from relative results this quarter. The market has yet to reward the turnaround of Proctor & Gamble's assets acquired in late 2016, and the integration challenges and mixed quarterly results have hampered the company since then. Synergies from Proctor & Gamble's beauty acquisition look to be coming through and several important brands are on their way back to growth in the US.

Stock selection within information technology also challenged relative results this quarter, in particular Flex and Advanced Micro Devices. Advanced Micro Devices is a semiconductor company operating in two segments: computing and graphics, and enterprise, embedded and semi-custom. The stock price retreated in October along with the broader semiconductor industry as volatility spiked and resulted in a sell-off due to rising interest rates, geopolitical tensions and some likely crowding concerns in tech stocks. Though the stock struggled this quarter, primarily in October, Advanced Micro Device's share price has risen significantly this year and remains among the top relative contributors in the portfolio in 2018. The position has been maintained as the belief that Advanced Micro Devices will continue to make progress towards expanding margins and gaining market share across PCs, graphics and servers. Flex Designs, manufactures and services consumer electronics for original equipment manufacturers. Leadership changes and incentive re-alignment are underway and there is a renewed focus on free cash flow growth. Given current valuations, the stock has an ability to recover with strong execution of its core business.

Within communication services, strong stock selection in diversified telecom services companies Verizon Communications and BT Group, as well as selection in wireless telecommunications services company, Millicom, supported relative returns. In the case of Verizon, the company reported a strong set of results and the stock is seen as an attractive investment given lower competitive intensity, service revenue growth, lower capital expenditure and a relatively inexpensive valuation. Millicom was also a strong contributor to relative results this quarter with revenue trends remaining strong and capital expenditure stable. There is high conviction in the stock given good fundamentals and a compelling valuation.

Tower stocks remain compelling within the real estate sector and American Tower was a standout performer this quarter. The company has an attractive combination of a disciplined management team that is focused on generating above market risk adjusted returns and a culture that encourages innovation to drive future growth. Despite reporting strong results, there is an additional upside for the stock given US growth reacceleration, its international business reverting to double-digit growth and its innovation platform boosting returns.

9.4 **JP Morgan**

Global Market Review: The final quarter of 2018 saw markets further challenged after a tough year where the asset class ultimately delivered double-digit declines (-14.6% USD). The three months to the end of December saw a 7.5% decline, with October the worst month for global markets since May 2012. Performance across the asset class was very conflicting, with China falling double digits given ongoing uncertainty around US tariffs added to regulatory tightening concerns. Turkey bounced into positive territory, reflecting the gains on the Lira as political tensions fade. In Latin America, the victory of Jair Bolsonaro in the Brazilian Presidential elections caused the market to perform strongly in anticipation of pro-market reforms while Mexico was one of the weakest markets globally as current losses accentuated concerns about rising economic policy uncertainty from the incoming AMLO administration.

3 Month review: During the summer of 2018, emerging markets equities pre-empted the growth scare that impacted global markets in the most recent quarter. China/US trade frictions exacerbated that volatility as markets discounted both a trade war and a slowdown as the Chinese authorities were initially focused on deleveraging the economy with the brake on growth that implies. This proved to be a significant infection point for emerging markets; cheaper, cyclical stocks struggled in the face of lower growth, and market leadership switched from higher quality, growth businesses to defensive and under-owned stocks. This was a challenging period for the GEM Diversified strategy which invests in cheaper assets with positive trends, and was reflected in weak stock selection even as country positioned aided performance.

Technology stocks were the biggest stock level detractors. Primarily driven by Taiwan with its heavy exposure to Apple and smartphone components. This quarter results were largely as expected and a few of the largest detractors, including Samsung and Globalwafers, hit record revenue and profits. However, Samsung mentioned the “psychological overhang” of trade tensions as a factor pushing out demand. Many companies expressed a more positive outlook for 2019, once destocking runs its course.

The overweight position in Brazil was the largest contributor. The three leading banks rose between 20% and 50% during October as markets responded positively first to the convincing lead in the first-round voting and subsequent election of Jair Bolsanaro. Markets will ultimately judge right-wing Bolsanaro on his ability to pass legislation limiting the fiscal cost of pensions.

12 Month Review: The strategy underperformed driven by stock selection, notably in Asia. The strategy enjoyed strong performance in 2017 and the first quarter of 2018, benefiting from the ongoing cyclical recovery in emerging markets. Since then, however, the resumption of dollar strength and a shift in investor focus to the risks to the global economy have led to significant pressure on the markets and stocks most favoured by the process.

The process looks for attractive combinations of value and momentum, for both markets and stocks. This leads to take overweight positions in cheap markets with positive trends. Occasionally, the value signal reaches extreme levels that drive the final result, leading to build exposures in markets such as Russia and Turkey when the news-flow can be quite negative. This year has been one of those times.

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

Market Outlook: US growth was expected to come off the boil and move back to trend, but not fall into recession and there is optimism that, while it was painful for emerging market equities, it clears the way for improved performance in 2019. Valuations remain attractive and domestic earnings continue to grow. Nonetheless, as the global cycle matures portfolio activity has been focused on looking for relative value, reducing banks in Brazil after the post-election rally, adding Mexico where the collective view of analysts is more positive today than any point in the last five years, and adding to onshore Chinese A-share after their dramatic falls in 2018.

The portfolios are continuing to tilt in favour of attractively-valued markets and stocks. Efforts are focussed on avoiding the potential for value traps, rotating the portfolio towards stocks with positive earnings trends. We are adding at the margin to more defensive sectors and keeping cash available to exploit opportunities that may emerge in this period of heightened volatility.

It is never easy to experience periods of meaningful underperformance. However, when the strategy experienced sharp drawdowns in prior periods (2008 and 2018), performance recovered over subsequent quarters by staying true to the philosophy and process, while managing risks tightly.

David Wilkes
Finance Manager (Treasury and Investments)
February 2019

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ASSET MANAGEMENT

DORSET COUNTY PENSION FUND

Quarterly Report 31 December 2018

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PORTFOLIO REVIEW

Fund performance objective

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

Fund asset allocation

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

Portfolio value

	Portfolio total (£m)
31 December 2018	**203.52**
30 September 2018	203.19
Change over the quarter	0.33
Net cash inflow (outflow)	0.00

Executive summary

Performance

- The Fund gave a gross return of 0.28% over the quarter, compared with a benchmark return of 0.16%.
- Sterling investment grade credit lagged behind UK government debt in the fourth quarter, the third quarterly underperformance of 2018; respective all-maturities returns were 0.14% and 1.92%. Widening credit spreads, volatile equities markets and slumping oil prices spurred investor demand for the security of government bonds and curbed buying of corporate debt. The average sterling investment grade spread widened by 31 basis points (bps) to 1.51% by the end of the period. The Fed raised its key interest rate for a fourth time in 2018, and the ECB confirmed the end of its monetary stimulus after December.
- The Fund outperformed the broader sterling credit market, with positive effects from our structured exposure offset by our overweight in financials and underweight in supranationals.

The economy & bond markets

- Global growth has slowed more than expected in recent months; the composite Purchasing Managers' Indices indicator continues to signal expansion, but is below levels seen earlier in 2018. Export orders have led the fall in business surveys this year, following a sizable pick-up in trade in 2017, and the strong dollar, high oil prices (for most of the year) and rising interest rates have proved a challenging backdrop for some economies. Worries related to Brexit, Italy and global trade tensions have kept firms more cautious than they would otherwise be. Some countries have faced one-off issues that curbed activity, e.g. the UK (bad weather) in the first quarter and Germany (disruptions related to the automotive industry) in the third quarter.
- While Brexit has dominated headlines in the UK during 2018, economic growth is likely, ultimately, to have averaged below pre-crisis norms. This reflects factors including a lack of spare capacity (limiting the room for non-inflationary further growth), still weak real income growth, and a drag on investment and exports reflecting uncertainty around Brexit and global growth.
- The fourth quarter was generally positive for government bonds. A backdrop of soft, albeit still positive economic data, a collapsing oil price and trade tensions led to a general 'risk off' environment. Most government bond markets subsequently enjoyed strong returns – particularly in December. Credit markets underperformed, with investment grade spreads wider in the major markets of the US, Europe and UK.

PORTFOLIO REVIEW

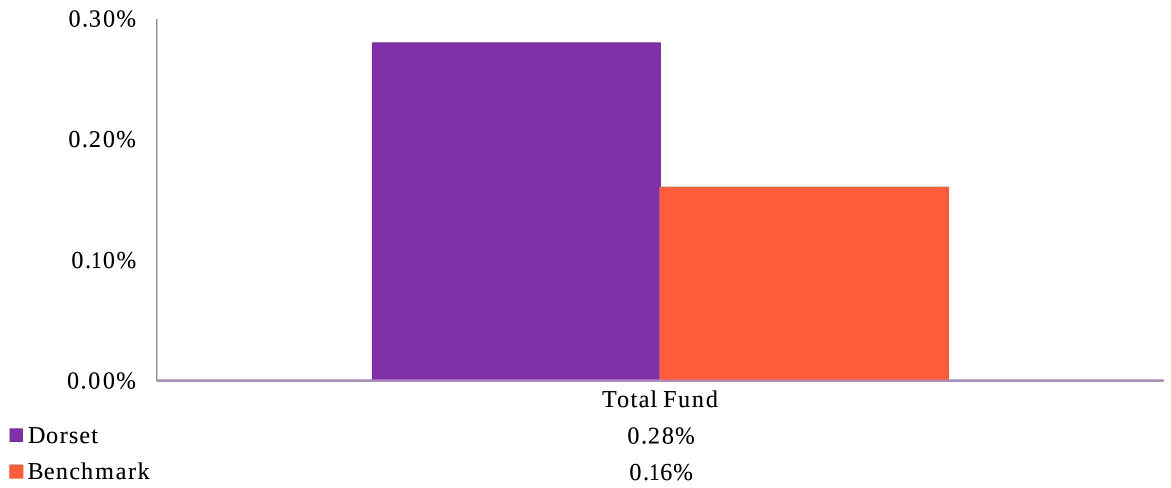
Investment outlook

- We are cautious on the global economic outlook, rather than pessimistic - we are not forecasting a 2019 recession. World growth has lost more momentum than expected, US interest rates have been hiked further, financial conditions have tightened and trade tensions could easily revive. However, US fiscal policy remains supportive for now, China has eased policy and the oil price has dropped. Our central case remains relatively benign, but we expect growth to bump lower in 2019 as business cycles mature and policy support fades.
- We have lowered our growth forecasts slightly and now expect global growth closer to 3.4% by the end of next year (previously forecasting it towards the bottom of a 3.5%-4.0% range), reflecting the fact that momentum has slowed more than expected in 2018's second half.
- We expect the Fed to keep raising rates at a gradual pace, stopping near a neutral level after two more 25bp hikes. We anticipate a BoE rate increase in May 2019, assuming a Brexit withdrawal deal is reached, with subsequent rises once every three quarters. December is the final month of the ECB's monetary stimulus; we expect rates to rise very gradually, with the first hike late in 2019's third quarter. We anticipate further easing by China's central bank as the economy shows more signs of slowing. In Japan, meaningful policy tightening still seems a long way off.

FUND PERFORMANCE

Performance

	Fund (%)	Benchmark* (%)	Relative (%)
Q4 2018	0.28	0.16	0.12
Year-to-date	-1.52	-2.23	0.71
Rolling 12 months	-1.52	-2.23	0.71
3 years p.a.	6.34	5.38	0.96
5 years p.a.	7.13	6.26	0.87
Since inception p.a. 02.07.2007	7.56	6.22	1.34



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]	99.7	98.9
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	0.0	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.3	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	9.8 years	10.0 years
Gross redemption yield[3]	3.63%	3.00%
No. of stocks	186	717
Fund size	£204.8m	-

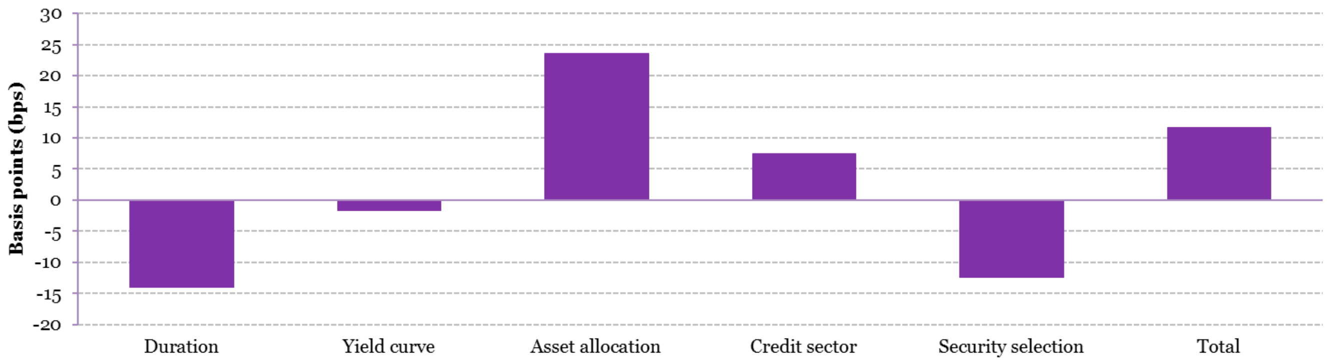
Source: RLAM, Launch date: 20.07.2007.

[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 4 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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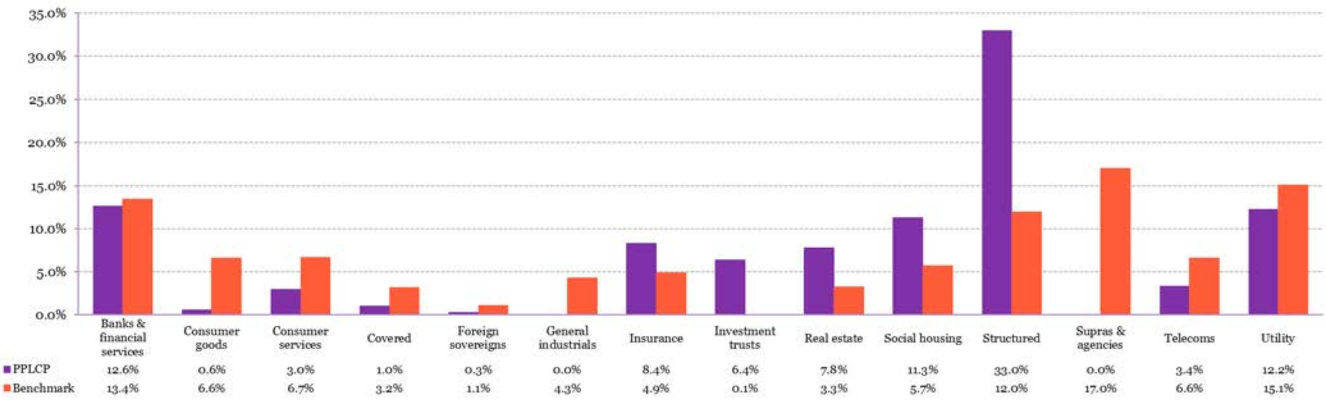
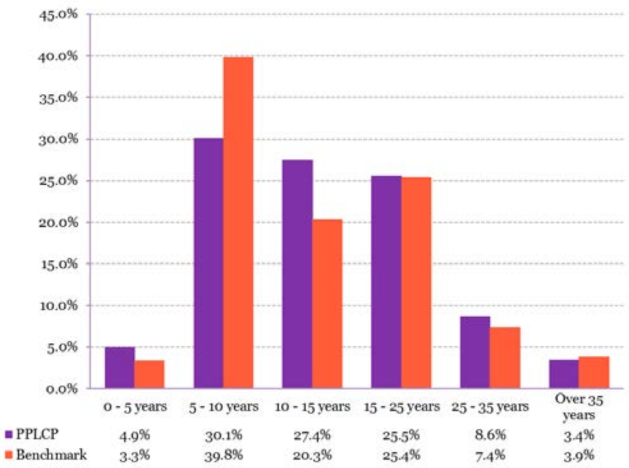
RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Sector breakdown

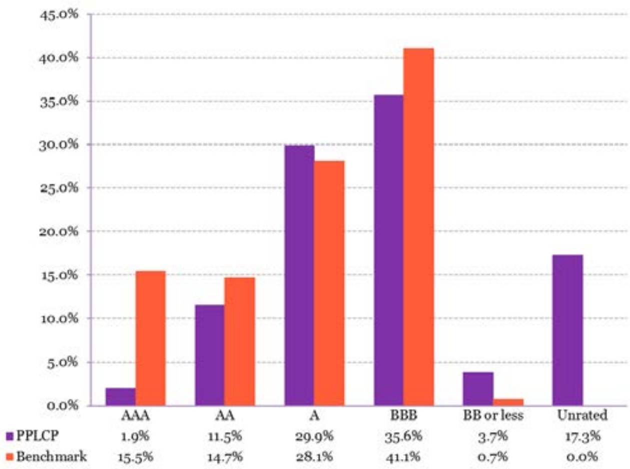


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio

Maturity profile



Credit breakdown



Ten Largest Holdings

	Weighting (%)
HSBC Bank 5.375% 2033	2.0
Finance for Residential Social Housing 8.368% 2058	1.5
Exchequer Partnership 5.396% 2036	1.3
Equity Release 5.7% 2031	1.3
Prudential Plc 5.7% VRN 2063	1.3
Innogy Finance 6.125% 2039	1.3
Annes Gate Property 5.661% 2031	1.3
Thames Water Utilities 2 7.738% 2058	1.2
Électricité De France 6% 2114	1.2
Barclays Plc 3.25% 2033	1.1
Total	**13.5**

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

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 underweight position in supranationals versus corporate issues.	Supranational debt, one of 2017's weakest sectors, outperformed the wider sterling credit market for a third quarter in 2018, as credit spreads widened and investors avoided risk. Supranationals outperformed for 2018 as a whole.	The fund's substantial underweight position in supranationals was disadvantageous for relative performance.
Sector	We continued to see value in financials (banks and insurers), and to favour subordinated debt over senior bonds.	The fund retained its overweight exposure to subordinated financial debt and reduced the allocation to senior issues, moving the latter position further below benchmark.	Within financials, senior issues outperformed as subordinated bonds lagged behind. This reflected investor risk aversion and weakness in the subordinated debt of General Electric, a significant component of credit indices.	The above benchmark position in subordinated financial debt and underweight holding of senior issues detracted from returns. In the case of GE, this effect was increased by the overall above benchmark exposure to the company.
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.	Within secured and structured sectors, which typically comprise longer dated bonds and span a wide range of industries, ABS outperformed and real estate was in line with the broad market.	Above benchmark exposure to secured and structured debt was broadly positive for relative performance. Security selection had an additional strong positive impact.
Ratings	We believed lower rated credit bonds offered better value than AAA and AA rated securities. Credit ratings, while useful, are not a complete assessment of creditworthiness and value.	We maintained the bias towards lower rated debt, 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 expanded.	Lower rated debt lagged behind AAA and AA rated bonds, as investors shied away from risk. High yield bonds markedly underperformed 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 detracted from relative performance during the quarter. The allocation to sub-investment grade debt had a negative impact on returns. Exposure to unrated bonds had a small positive impact upon relative performance over the quarter, helped by the increase in the size of the holding.
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 fell by 30 basis points (bps), declining throughout the period and reversing the third quarter's rise.	The short duration position had a negative impact upon relative performance.

ROYAL LONDON

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Fund activity

- Sterling investment grade credit issuance was very subdued during the quarter, amounting to less than half of the year-earlier level. For all of 2018, sterling credit issuance fell by about a quarter from the prior year.
- A small allocation to UK government debt was used to manage cash. The fund had no exposure to gilts at the end of the quarter.
- By credit sector, the largest changes over the quarter were reductions in exposures to banks and covered bonds.
- Secured and structured sectors continued to be significant sources of new issue activity. The fund took part in **Income Contingent Student Loans**, the government's second securitisation of student loan debt, buying bonds from the A2 (fixed rate) tranche. Purchases also included long-dated secured debt of **Southern Housing Group**, as social housing associations continued to tap the credit market for financing, and a 'green' structured issue from utility **Anglian Water**.
- While financial companies were less active than in earlier quarters of 2018, the fund participated in an issue of new long-dated subordinated debt by insurer **Legal & General**. In other sectors, purchases encompassed senior unsecured bonds of German auto manufacturer **Volkswagen**, which raised £800 million and €4.25 billion across six tranches, and real estate investment trust **Digital Realty Trust**, which operates data centres around the world.
- In the secondary market, selling took place across a wide variety of holdings in order to maintain the shape of the fund while managing liquidity to cover the outflow referenced previously. Sales included financials **Barclays**, **Citigroup** and **Aviva**; utilities **Severn Trent**, **Cadent** and **Innogy**; social housing organisations **Places for People** and **Housing Finance Corp.**; and covered bonds of **Commonwealth Bank of Australia** and **Lloyds Bank**. Exposure to **General Electric** was increased. In switching trades, the fund achieved higher yields by moving between issues of financials **Standard Chartered** and **Clydesdale Bank**.
- Financial **Standard Life Aberdeen** repurchased subordinated debt above prevailing market levels.

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 2019.
- 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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Financial Statements

Portfolio Valuation

Trading Statement

Portfolio Valuation

As at 31 December 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										
	85,166,628	GB00B1ZB3X88	RLPPC Over 5 Year Corp Bond Pen Fd	2.38971	107,749,621.05	203,523,542.40	0.00	203,523,542.40	0	100.0
				Funds Held total	**107,749,621.05**	**203,523,542.40**	**0.00**	**203,523,542.40**		**100.0**
				Grand total	**107,749,621.05**	**203,523,542.40**	**0.00**	**203,523,542.40**		**100.0**

ROYAL LONDON

Trading Statement

For period 01 October 2018 to 31 December 2018

Dorset County Pension Fund

Acquisitions

Funds Held

Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
04 Oct 2018	Acquisition Rebate	65,169.44	RLPPC Over 5 Year Corp Bond Pen Fd	2.39	155,858.59
				Funds Held total	**155,858.59**
				Acquisitions total	**155,858.59**

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DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT
Q4 2018

Dorset County Council ('DCC') property portfolio provides diversified exposure to good quality real estate located throughout the UK, across a range of sectors including offices, industrial, retail and alternatives. The allocation to property has increased from 10% to 11% of DCC's total assets which represents approximately £330m. The new allocation is to target Secure Long Income ('SLI') property beyond which the intention is to transition the portfolio gradually to a 50/50 split between SLI and Conventional properties.

£317.5M
Capital Value
(Combined Dorset Portfolios)

37
Assets

£12.5M
To Invest

	CONVENTIONAL	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	IPD Quarterly over 5 years	LPI +2% p.a.
Capital Value (Dec 2018)	£284.5m	£33.0m
Number of assets	28	9
Number/value of purchases during quarter	-	2 (£3.1m)
Number/value of sales during quarter	£0.2m	-
Net initial yield (p.a.)	4.4%	3.9%
Average unexpired lease term (to break)	8.8 years (8.2 years)	44.3 years (21.8years)

COMBINED VALUATION	
Direct Property (Dec 2018 values)*	£277.7m
Indirect Assets (Dec 2018 values)**	£39.8m
Total Portfolio Valuation	£317.5m

PERFORMANCE***	CONVENTIONAL	SLI	COMBINED	IPD QUARTERLY UNIVERSE
Q4 2018	1.7%	0.6%	1.6%	0.9%
12 months to Dec 2018	6.9%	-	6.1%	6.2%
3 yrs to Dec 2018 (p.a.)	7.2%	-	7.1%	6.6%
5 yrs to Dec 2018 (p.a.)	10.7%	-	10.7%	10.1%

CBRE GLOBAL INVESTORS

ECONOMIC AND PROPERTY UPDATE

UK ECONOMIC OUTLOOK

The UK economy has lost momentum since mid-2018. In November, the three-monthly rate of GDP growth was 0.3%, half the rate of growth recorded through Q3. GDP growth is expected to be 1.3% for 2018 as a whole, the weakest rate of growth in almost a decade. It is not all bad news however. The economy continues to create jobs and tightening labour markets are leading to improved wage growth. The recent sharp fall in the oil price will help inflation to ease back, supporting consumer spending power, and following October's Budget, there will also be a looser fiscal stance.

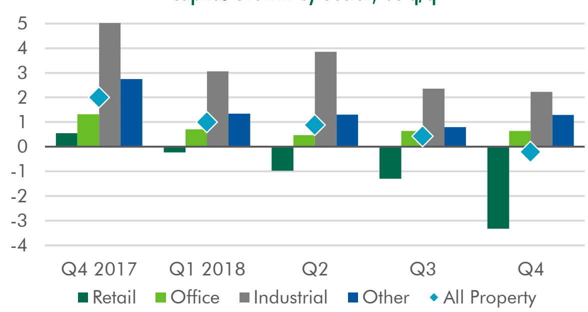
Of course, the outlook is heavily dependent on the outcome of Brexit negotiations. Our 'base case' is that a Withdrawal Agreement, in some form, will be approved by the UK government allowing the UK to leave the EU in an orderly manner and trade to continue on current terms during a transition period to end-2020, or beyond. However, the chances of an extension to the Article 50 deadline being required to achieve this have increased. Whilst not our base case, a disorderly "no deal" Brexit still cannot be ruled out.

UK PROPERTY PERFORMANCE

Capital values, at the All Property level, fell marginally in Q4 2018, the first fall since the aftermath of the EU referendum in 2016. All Property rental growth also turned modestly negative in Q4, the first quarterly fall since 2012. The weaker economic backdrop and political uncertainty have both played a part in this, but at present there is such variety in the conditions facing each sector that talking about commercial property in aggregate is somewhat misleading.

It is **retail** rents that have dragged the All Property average into negative territory. Rental values in the retail sector fell by 1.5% q/q in Q4, a clear deterioration from the falls of c.0.5% q/q seen in the previous two quarters. Although Christmas trading was not as bad as some had feared, retailer profitability remains under pressure. We should expect further CVAs and administrations, with a few sizeable retailers looking precarious. Against this backdrop retail rents will continue to fall and liquidity in the investment market will remain limited. Until recently, retail yields varied significantly depending on the quality of location, but latterly fear has spread to the wider market. As a result, clearing prices are now falling regardless of quality and this will slowly feed through to valuations. As this unfolds there will be mispriced opportunities. There is still sustainable occupier demand in some retail locations, although establishing which is a challenge.

Capital Growth by Sector, % q/q

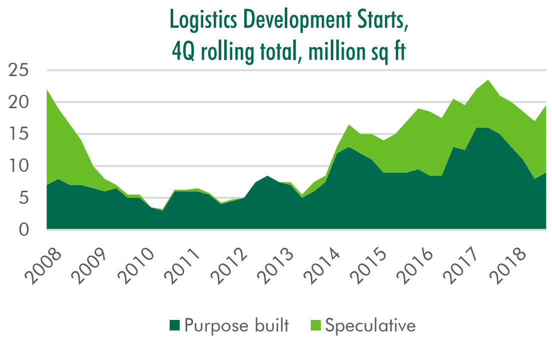


Source: MSCI Monthly Index.

By contrast, **office** rents grew by 0.6% q/q in Q4, an improvement from rates of c.0.3% q/q recorded earlier in the year. This growth was led by markets outside of London and the South East, which appear least exposed to Brexit-specific risks and where new development has been limited. In fact, 2018 was amongst the strongest years on record for office leasing activity across the regional cities. This is not benefitting all office property equally however, with tenants increasingly discerning and focussed on well specified space. This can be seen in availability statistics for the 'big 6' regional cities. The total amount of available office space across these markets has been trending down since 2012, and in the latest data just 15% of this space was new, compared to an average of 26% over the past 10 years. The same trend is apparent in the Central London office market, and consequently we expect to see a greater divergence in performance dependent upon asset quality.

ECONOMIC AND PROPERTY UPDATE

The **industrial** sector remains the stand out performer. Rental growth stood at 1.1% q/q in Q4, a slight acceleration from Q3 and a return to the rates seen in H1 2018. It is striking just how widespread rental growth continues to be, across geographies and size bands. We expect growth to slow through 2019, particularly for large logistics warehouses where there has been a supply response (see chart). Occupier demand will moderate as ecommerce continues to be a positive for the sector, but manufacturers and the UK's small businesses face headwinds. Where there is competition from other land uses acting as a constraint on new supply, this shift need not cause too much concern. However, where supply does respond there will be a gradual realisation that ambitious rental growth expectations may not be met. We have already seen a softening of investor demand for secondary industrial assets in recent weeks.

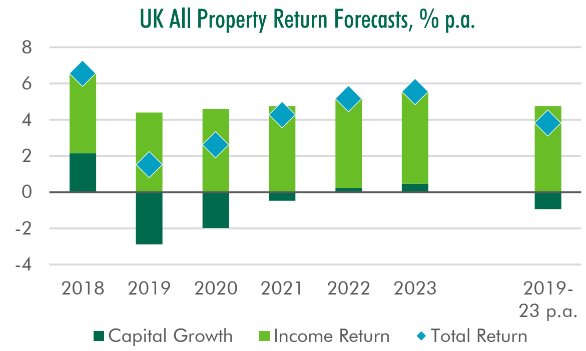


Source: Gerald Eve.

Overall investment activity slowed slightly in 2018, but the 'other' sector bucked the trend, with volumes higher than 2017. The strength of investment activity in the 'other' sector reflects perceived structural trends benefiting certain asset types, often 'beds' related, and demand for secure long income streams. This is increasingly pushing investors into other non-traditional parts of the market, but the impact is also visible in the retail market. Retail yields were almost universally moving out in Q4, but for supermarkets with long index-linked leases there was yield compression. The latest data available from the CBRE Long Income Index (Q3 2018) shows long income property has continued to outperform the wider commercial property market, as it has done since the EU referendum. With economic uncertainty persisting and index-linked gilt yields falling back in recent months, this outperformance is likely to continue.

PROPERTY MARKET OUTLOOK

Our forecasts are unchanged from last quarter, although it is worth reiterating that they are dependent on a Brexit deal being agreed and the UK leaving the EU in an orderly way in 2019. We expect modest All Property capital value falls in 2019/20 driven by declining rents and weaker investor sentiment. The retail sector is leading in this process, with capital values down more than 5% in 2018. Some segments of the market may continue to see values increase in 2019, industrial and some parts of the 'other' sector for example, but we expect the late cycle to catch up with them in 2020. In this environment good quality buildings in strong locations will prove most resilient.



Sources: MSCI, CBRE Global Investors.

Through this period of uncertainty attractive investment opportunities are likely to emerge, with some assets discounted unfairly. We should remain patient when deploying capital and focus on long-term sustainable income in the interim. We are projecting UK property to deliver an average annual total return of 3.8% over the period 2019-23. Income returns will continue to be the mainstay of performance, so quality of income and underlying occupier appeal will be critical.

STRATEGY

Size	▪ Target size £330m – current size £317.5m. DCC has increased its allocation to property from 10% to 11% of total assets which represents approximately £330m. ▪ The new allocation is targeting Secure Long Income. ▪ The longer term intention is to transition the portfolio gradually to a 50/50 split between Conventional property and SLI, the SLI property held within the Conventional portfolio is to be included in the 50:50 allocation.
Performance objectives	▪ Conventional and SLI portfolios' have had distinct benchmarks since 1st April 2018. ▪ Conventional 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 return to exceed the IPD benchmark income return. ▪ Continue to focus on maintaining a low void rate and a resilient income yield. ▪ Ensure SLI held properties / new 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. ▪ SLI portfolio: target lot sizes between £3m and £20m with an average lease length in excess of 15 years at purchase with at least 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

New IMA being drafted to reflect the revised target of 50% Conventional 50% SLI with the transition to take place 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.

DORSET COUNTY COUNCIL CONVENTIONAL PORTFOLIO

QUARTERLY REPORT
Q4 2018

The DCC Conventional mandate commenced in 1993 and the target is to achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006. The portfolio provides diversified exposure to good quality commercial real estate located throughout the UK across a range of sectors.

PERFORMANCE

Q4 2018 (%)	Portfolio All Assets	IPD Quarterly Universe	Relative
Capital return	0.7	-0.2	0.9
Income return	1.0	1.1	-0.1
Total return	1.7	0.9	0.9

12 months to Dec 2018 (%)	Portfolio All Assets	IPD Quarterly Universe	Relative
Capital return	2.4	1.7	0.8
Income return	4.4	4.4	-0.1
Total return	6.9	6.2	0.7

3 years to Dec 2018 (% p.a.)	Portfolio All Assets	IPD Quarterly Universe	Relative
Capital return	2.4	2.0	0.4
Income return	4.7	4.6	0.1
Total return	7.2	6.6	0.6

5 years to Dec 2018 (% p.a.)	Portfolio All Assets	IPD Quarterly Universe	Relative
Capital return	5.4	5.1	0.3
Income return	5.1	4.8	0.3
Total return	10.7	10.1	0.6

The Conventional portfolio outperformed the IPD Quarterly Universe by 0.9% over the last three months of 2018, with a total return of 1.7% against 0.9% for the Benchmark. The direct properties performed strongly, with a total return of 2.1% over the quarter, while the indirect holdings dampened performance with a return of -0.3%.

The key driver of direct performance was the new office development in Cambridge, which provided a total return of 11.0% and made a weighted contribution of 0.6% to the portfolio over the quarter. This however effectively counteracted a poor Q3 for the asset, which was the first time the valuers had split the asset into two separate holdings. Work to the new building has completed since quarter end, and we expect more performance to come in 2019.

Stripping out Cambridge, the direct standing investments (properties held throughout the year, ignoring transactions and developments) had a healthy quarter, outperforming the Benchmark by 0.6% with a total return of 1.4% against 0.8%.

Industrials continued to be the market's best performing assets over the quarter while retail was again the weakest given the significant challenges facing the sector. Reflecting the wider market, the portfolio's industrials were the best performing assets with 2.1% while the retail had the lowest return with -1.5%.

The portfolio's indirect underperformance was the result of valuation falls at the shopping centres which make up the Lend Lease and Standard Life holdings. The NAV of both fell by approximately 1.6% over the quarter.

The portfolio is outperforming the Benchmark over 1, 3 and the target 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.

CBRE GLOBAL INVESTORS

CONVENTIONAL PORTFOLIO INFORMATION

PORTFOLIO INFORMATION (DIRECT PROPERTY ONLY)

	Q4 2018	Aim
Direct value	£244.7m	
No. of properties (avg. value)	25 (£9.8m)	15-20
No. of lettable units (direct avg. value)	81 (£3.0m)	45-80
Vacancy rate (% ERV)	2.1%	Below benchmark
Avg. unexpired lease term (to break)	8.8 years (8.2 years)	Exceed benchmark
Net Initial yield (p.a.)	4.4%	Below benchmark
Rent with +10 years remaining	20.3% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	9.4% of total rent	Minimum 10% of total rent
Largest Asset	Woolborough Lane IE, Crawley (9% of portfolio value)	Below 10%
Largest Tenant	ACI Worldwide (9% of direct rent)	Below 10%
Tenure (Freehold/Leasehold)	86% / 14%	Minimum 70% freeholds

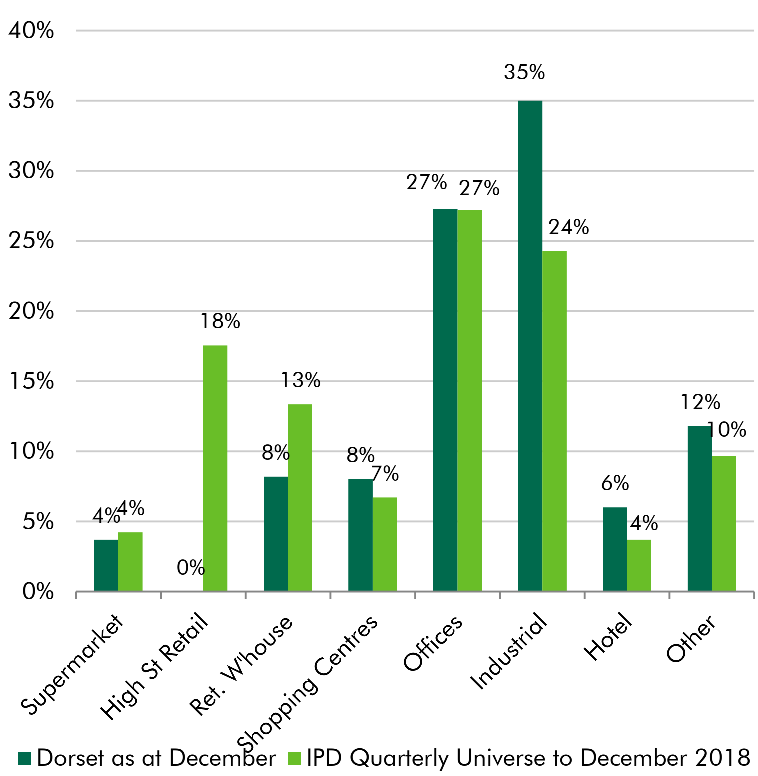
Dunbeath Court, Swindon

TRANSACTIONS

Q4 2018	
Direct Purchases	£0m
Direct Disposals	£0.2m
Money available to invest	£0m

CONVENTIONAL PORTFOLIO ANALYSIS

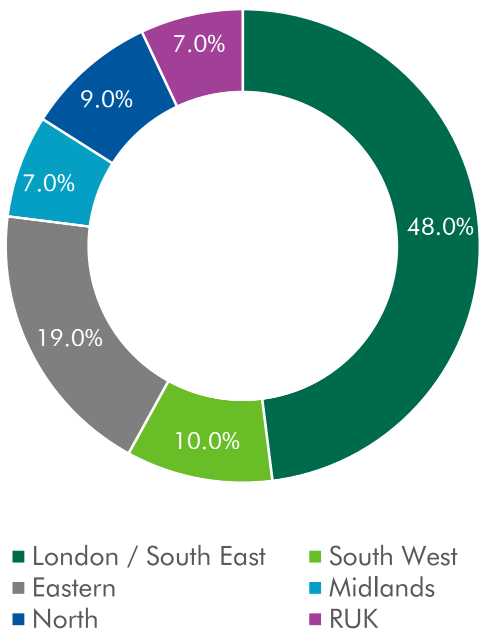
PORTFOLIO SECTOR WEIGHTINGS – ALL ASSETS



The Conventional portfolio's sector weightings are shown in comparison to the Benchmark. The portfolio's sector split has continued to be beneficial with low exposure to retail, while it has an overweight weighting to the industrial, hotel and alternative sectors which have all been performing strongly. The relative weighting to offices is broadly neutral.

We plan to maintain these weightings as we gradually transition the portfolio to 50% Conventional/ 50% SLI.

GEOGRAPHICAL STRUCTURE – DIRECT ONLY



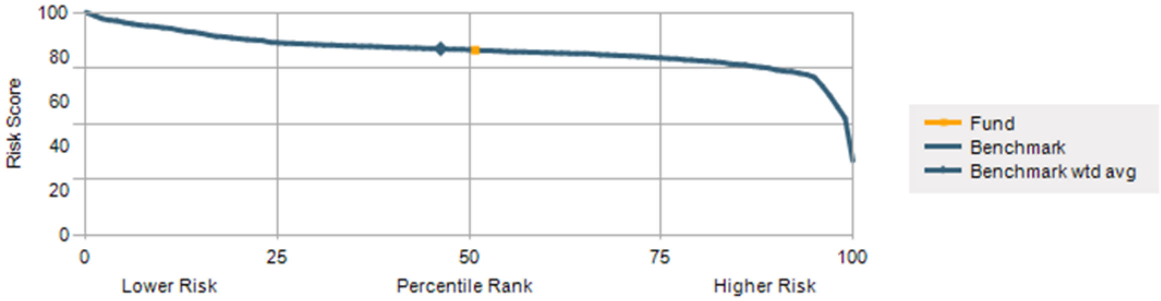
The geographical split of the Conventional portfolio is also well diversified, with a bias towards London and the South East where there is the greatest demand for land. There is also a large Eastern weighting; Cambridge falls into this region, although it has historically performed more like the South East market and is therefore considered a positive risk when compared to the Benchmark.

CONVENTIONAL PORTFOLIO INCOME QUALITY

TOP 5 TENANTS BY SIZE OF RENT	CURRENT RENT P.A.	% OF TOTAL RENT	TERM CERTAIN REMAINING (YRS)	IPD IRIS Risk Band
ACI Worldwide Ld	£1,020,000	9.0%	5.2	Negligible
WPP Group Ltd	£836,000	7.2%	1.8	Negligible
Tesco Ltd	£680,000	5.8%	16.5	Low
Booker Ltd	£659,750	5.6%	2.5	Negligible
Reg Vardy (Property Management) Limited	£633,835	5.4%	6.0	Negligible

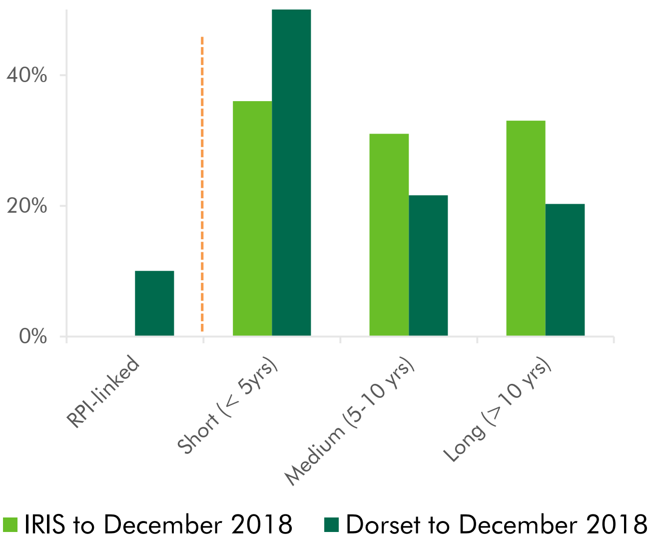
The five largest tenants in the portfolio are considered by IPD IRIS to be strong, with a rating of either Negligible or Low risk.

The graph below compares the covenant risk score of the Conventional portfolio with the Benchmark as at 30 December 2018. The portfolio has a Weighted Risk Score on the 51st percentile and is currently behind the Benchmark (46th) showing that the covenant risk of the portfolio is marginally above the average Benchmark risk. The graph is relatively flat however, with small movements in risk profile dramatically impacting the rise score. The portfolio has improved from 59th last quarter, largely due to the renewal of Tesco's lease in Sheffield (5.8% of total rent).



INCOME STRUCTURE

LEASE LENGTH (% OF TOTAL PORTFOLIO INCOME)



% of Conventional portfolio income	Q4 2018
Open market income	87%
SLI	13%

CONVENTIONAL PORTFOLIO INCOME MANAGEMENT

8.8 YEARS

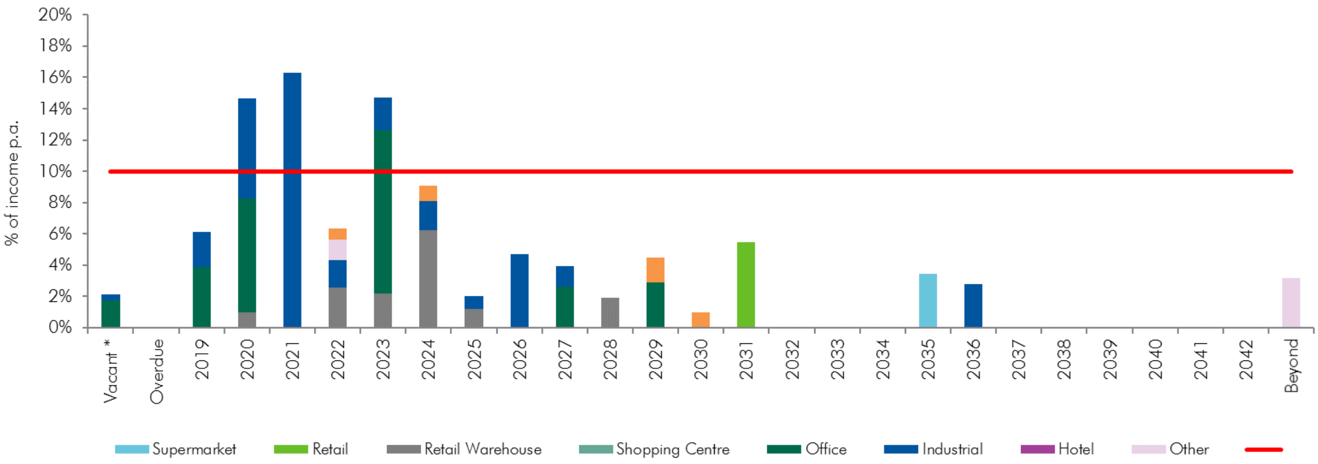
Average unexpired lease term to expiry
(IPD benchmark is 13.4 years to expiry)

8.2 YEARS

Average unexpired lease term to break
(IPD benchmark is 12.1 years to break)

The average lease length of the Fund is in a reasonable position relative to the Benchmark. These figures exclude indirect assets. The Park Plaza in Waterloo indirect asset, if included, would increase the average unexpired lease term of the portfolio to over 15 years.

DISTRIBUTION OF PORTFOLIO'S LEASE EXPIRIES (PERCENTAGE OF INCOME PER ANNUM)



* Vacancy rate expressed as percentage of ERV

The main risks are the expiry spikes in 2020, 2021 and 2023. The risks in these years are however well diversified across a number of different units and properties. In 2020, the risk is spread across 9 units at 8 properties. We are already speaking with the majority of tenants with leases that expire that year.

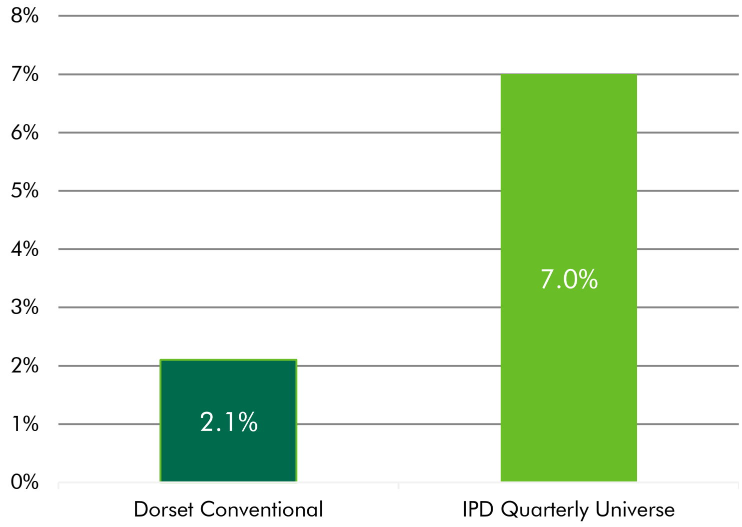
In 2019, the leases on 6 units are due to expire accounting for 6.1% of total rent. The table below shows the 5 largest of these ranked by rent and at this stage, we are only expecting WorldPay to vacate (3.9% of total rent), whilst we are currently unsure of the intentions of Star-Images Enterprises Ltd (0.4%).

2019 TOP 5 LEASE EXPIRIES		TYPE	CURRENT RENT P.A.	% OF INCOME
WorldPay Ltd	Likely to leave	Lease Expiry	£450,000	3.9%
Business Installations Limited	Likely to stay	Lease Expiry	£63,440	0.5%
Youngs Extract Supplies Ltd	Likely to stay	Lease Expiry	£50,996	0.4%
Star-Images Enterprises Ltd	May vacate	Lease Expiry	£48,500	0.4%
The BSS Group Plc	Likely to stay	Break	£48,279	0.4%

Likely to stay   May vacate   Likely to leave

CONVENTIONAL PORTFOLIO INCOME MANAGEMENT

VACANCY RATE AS AT DECEMBER 2018



The portfolio's vacancy rate decreased to 2.1% from 2.6% of rental value over the quarter following a letting at the industrial estate in Croydon. It continues to be well below the market average of 7.0%, as measured by IPD/MSCI.

The vacancy rate comprises two floors at the office building in Aberdeen (1.8%) and an industrial unit at the Aspley Centre in Staples Corner (0.3%).

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

CURRENT VACANCIES

VACANCIES	SECTOR	% OF TOTAL RENTAL VALUE	RENTAL VALUE P.A.	COMMENTS
Pilgrim House, Aberdeen	Office	1.8%	£276,100	Marketing two floors
The Apsley Centre, London	Industrial	0.3%	£54,400	Marketing – good interest
Total		2.1%	£330,500	

DORSET COUNTY COUNCIL SECURE LONG INCOME PORTFOLIO

QUARTERLY REPORT
Q4 2018

The SLI portfolio commenced in 2017 and 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. SLI property means assets which feature average unexpired lease terms of at least 15 years at the time of purchase with financial security by virtue of the financial strength of the tenant and the property's underlying value.

PERFORMANCE

Q4 2018	Nominal total return	RPI	Real total return	Nominal IPD Quarterly Universe
SLI Portfolio	0.6%	0.5%	0.1%	0.9%

This is the third quarter that the SLI portfolio has been reported separately from the Conventional portfolio.

The SLI portfolio generated a nominal total return of 0.6% over the quarter, equating to a real return of 0.1% (RPI was 0.5%). Returns are likely to be subdued while we build up the portfolio given the impact of transaction fees. This was evident during Quarter 4, where the transaction fees associated with the purchase of shared ownership and social rented units dragged performance by -0.4%. The standing investments (ignoring transactions) produced a nominal return of 1.0% over the quarter, equating to 0.5% real.

CBRE GLOBAL INVESTORS

SLI PORTFOLIO INFORMATION

FUND INFORMATION

	Q4 2018	Aim
Market value	£33.0m	50% all assets
No. of properties (avg. value)	9 (£3.7m)	15-20
No. of lettable units (avg. value)	12 (£2.8m)	25+
Vacancy rate (% ERV)	0%	Below market average
Avg. unexpired lease term (to break)	44.3 years (21.8 years)	15 years+
Net Initial yield (p.a.)	3.9%	3.0%+
Largest Asset	Astra House, Harlow - £9.0m (27.3% of portfolio value)	Below 15%
Largest Tenant	EI Group Plc (32.6% of portfolio rent)	Below 15%

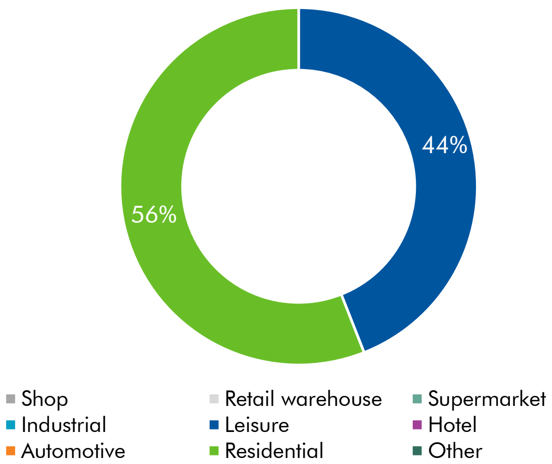
Red Lion, London SW1

TRANSACTIONS

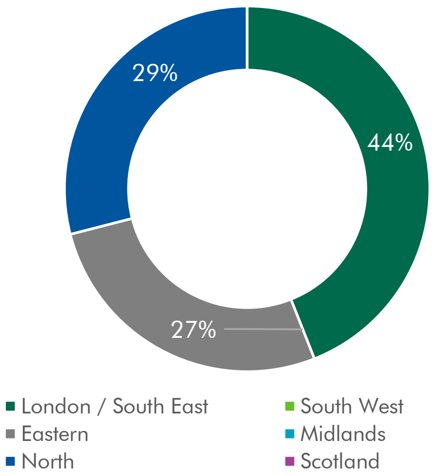
Q4 2018	
Direct Purchases	£3.1m
Direct Disposals	£0m
Money available to invest	£12.5m

GEOGRAPHICAL AND SECTOR BREAKDOWN

SECTOR WEIGHTING (% OF TOTAL VALUE)



GEOGRAPHICAL STRUCTURE (% OF TOTAL VALUE)



100% of the portfolio currently comprises alternative use properties, with public houses, a restaurant, shared ownership and social rented housing. Just under half the total value is located in the London and the South East, where there is the greatest demand for land.

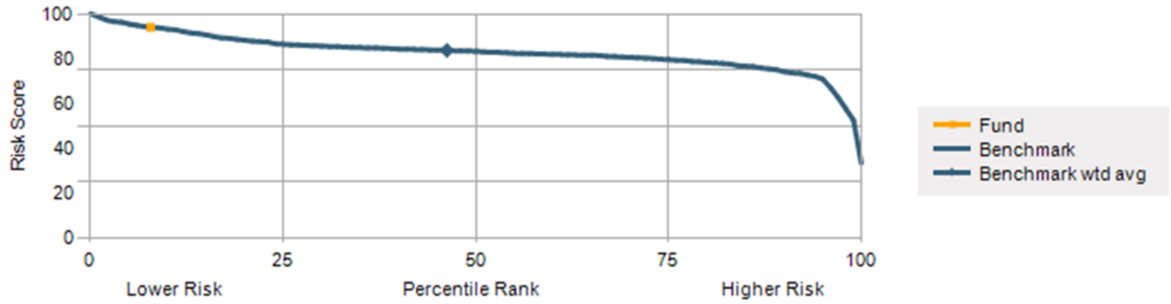
SLI PORTFOLIO INCOME MANAGEMENT

TOP 5 TENANTS BY SIZE OF RENT	CURRENT RENT P.A.	% OF TOTAL RENT	LEASE TYPE	TERM CERTAIN REMAINING (YRS)	IPD IRIS Risk Band
Ei Group Plc	£445,000	32.6%	Market Rent	16.0	Negligible
Mears Housing Management Ltd	£437,000	32.0%	CPI	19.7	Low
East Cheshire National Health Service Trust	£253,346	18.6%	RPI	17.9	Negligible
Plexus Housing Association (Tranche 2 only)*	£113,543	8.4%	CPI	21.9	n/a
Casa Cruz London Ltd	£93,885	6.9%	RPI	15.6	Low

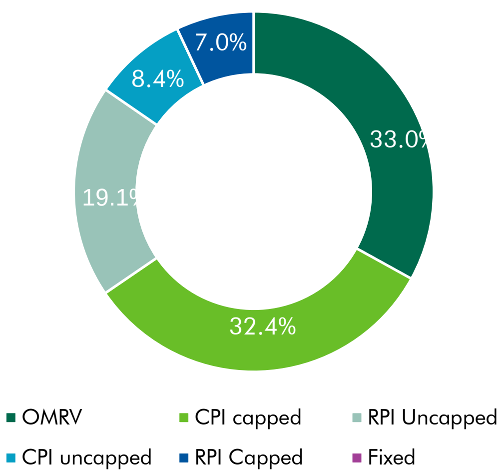
*Plexus also have a lease over the shared ownership in Tranche 1, which represents 1.5% of total rent. This lease has just under 250 years remaining and RPI linked reviews but the income is derived from the individual sub-lessees.

The five largest tenants in the portfolio are ranked above by % of total rent. Four out of the five are considered by IPD IRIS to be strong, with a rating of either Negligible or Low risk. IRIS does not provide a rating for Plexus, but we understand the housing association to be a reasonable covenant.

The graph below compares the covenant risk score of the SLI portfolio with the IPD Quarterly Universe as at 30 December 2018. The Weighted Risk Score on the 8th percentile and is well ahead of IPD (46th) demonstrating that the covenant strength of the portfolio is very strong.



Weighting by review structure (% of total value)



Our objective is for the SLI 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. We plan to have at least 70% of the portfolio's income index linked once fully invested.

33% of the portfolio's income is subject to reviews to Market Rent. These relate to the four London public houses, where historic rental growth has outpaced inflation and we expect this trend to continue; 32.4% is subject to CPI linked reviews with a cap and collar of 3.5% p.a. and 0.5% p.a. respectively; 19.1% of the income is subject to uncapped reviews in line with RPI; 8.4% is uncapped CPI and the remaining 7.0% is tied to a rent review linked to the higher of Market Rent or RPI but capped at 3.5% p.a. with a collar at 1.5% p.a.

SLI PORTFOLIO INCOME MANAGEMENT

44.3 YEARS

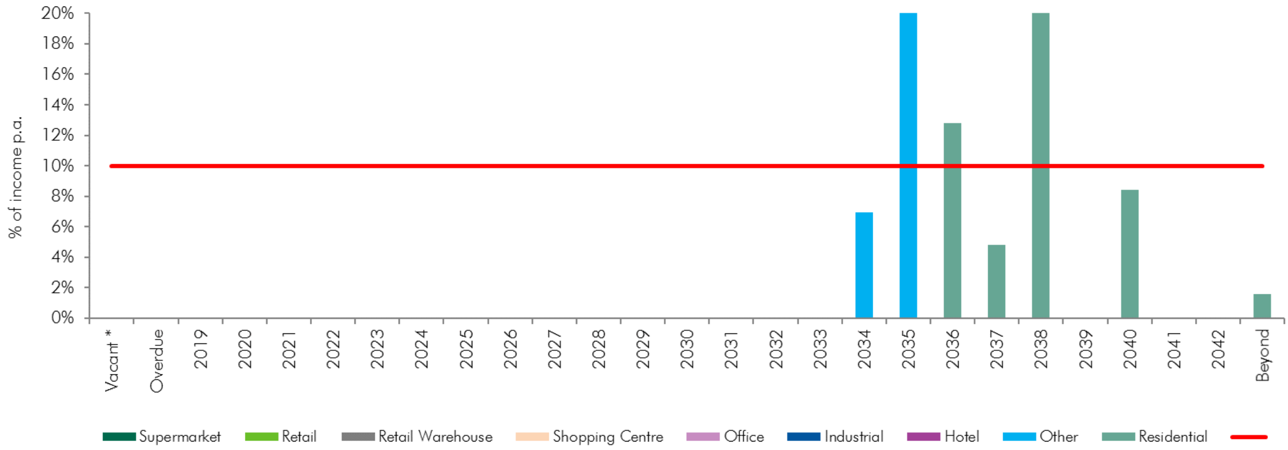
Average unexpired lease term to expiry

21.8 YEARS

Average unexpired lease term to break

The average lease length of the Fund is 44.3 years to expiry and 21.8 years to break. We plan to maintain an average unexpired lease term for the portfolio of at least 15 years.

DISTRIBUTION OF PORTFOLIO'S LEASE EXPIRIES (PERCENTAGE OF INCOME PER ANNUM)



* Vacancy rate expressed as percentage of ERV

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ESG PROGRAMME

The Dorset County Council (Fund) has developed an enhanced ESG⁺ strategy framed around three key Environmental, Social and Governance (ESG) material issues: Carbon, Compliance and Transparency. ESG⁺ builds on the long-standing Core ESG programme and will be delivered over a three-year implementation period starting in Q1 2019 with a target of attaining CBRE Global Investors (CBRE GI) Silver status.

AMBITION

The Fund has proposed an ESG strategy to achieve Silver status on CBRE Global Investors proprietary scale by 2021.

TRANSPARENCY

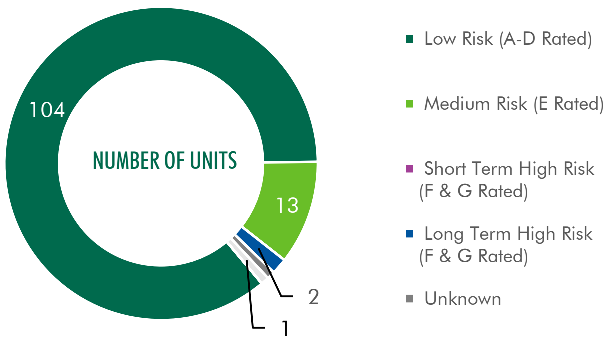
The three ESG Pillars of Carbon, Compliance and Transparency, further underpinned with related 'second tier' issues, form our key performance indicators (KPI).

These are now included as appropriate in our Investor, Investment Committee and Oversight reports, as well in the dedicated ESG reports published on our website.

COMPLIANCE

Our long-running risk management programme is incorporated within the Compliance Pillar, future-proofing our portfolio.

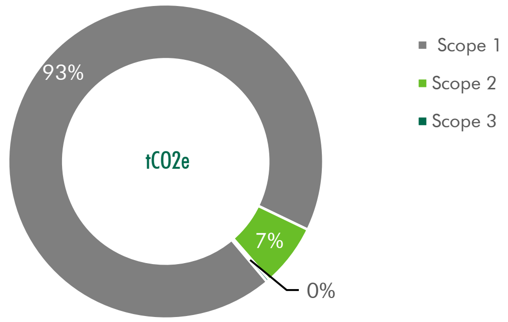
COMPLIANCE RISK PROFILE



CARBON

Carbon actions are focused on our key assets, improving their performance, delivering reduced operational costs and increasing marketability.

CARBON FOOTPRINT



Scopes 1 and 2 come from direct operations under landlord control, such as on-site plant and purchased energy respectively. Scope 3 above relates to water and waste under landlord control.

ACTION PLAN 2019

ACTION	PORTFOLIO-LEVEL	ASSET-LEVEL			
ESG Reporting: separate annual aggregated ESG Report	x		x		
Green Leases: audit, implementation and monitoring	x	x	x	x	x
Green Refurbishment and Fit-Out (RFO) Guide: implementation and monitoring	x	x		x	x
Tenant Engagement: satisfaction survey, data collection, information leaflets and advice	x		x		x
Energy Performance Assessment: high quality and modelled EPCs, and ESG audits		x		x	x
Sustainable Buildings: improvement projects and certification, and carbon footprinting	x	x	x	x	x

2 Modelled EPCs were produced for this portfolio

1 asset has been improved through refurbishment and fit-out

1 asset has been removed from high risk causing an overall reduction of 1%

5 new EPCs have been produced; the current coverage is 100%

Total scope 1 and scope 2 carbon emissions were 163.10 tCO2e

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ESG STRATEGY

CBRE Global Investors (CBRE GI) seeks to be the global leader in the real estate investment management industry by offering a broad and deep investment platform that consistently delivers world-class investment results and exceptional client service. Responsible Environment, Social and Governance (ESG) practices are fundamental to our business strategy.

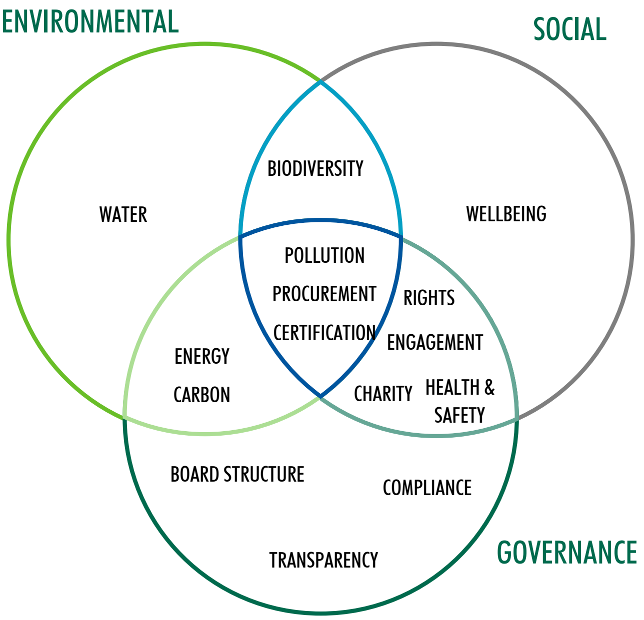
ESG AMBITION

Embedding ESG strategies into the heart of our business benefits our investors, key stakeholders and the wider community whilst enhancing financial returns and preserving the value of the underlying investments.

The Dorset County Council (Fund) has updated and enhanced its individual ESG strategy to ensure that we continue to make progress in this area. We refer to our enhanced ESG strategy as ESG+, and our proposed ambition is to reach CBRE GI Silver status by end of 2021, targeting industry best practice in order to futureproof the portfolio from ESG non-compliance risk.

At the start of the ESG+ process, CBRE GI outlined its ambition to become a leader in the ESG arena. This strategy assumes that our competitors will also continue to improve and therefore we have ambitious yet realistic plans for implementation.

The Fund has identified its material ESG issues through collaboration with its key stakeholders, culminating in the materiality matrix below. This matrix was developed in line with Global Reporting Initiative (GRI) guidance.



CBRE GLOBAL INVESTORS ESG AMBITION FRAMEWORK

Through the ESG materiality assessment, CBRE Global Investors have identified several issues of particular interest to our stakeholders on a UK house level: Rights (human, employee and consumer), Health and Safety, and Procurement.

As part of our drive for continual improvement and to ensure we continue to employ first-class responsible investment practices, relevant procedures and policies will be reviewed and enhanced in the coming years.

While a materiality matrix has been used to formulate our Fund strategy, it is important to note that ESG issues are inter-connected and inter-dependent; therefore, positive action will bring positive results across the spectrum.

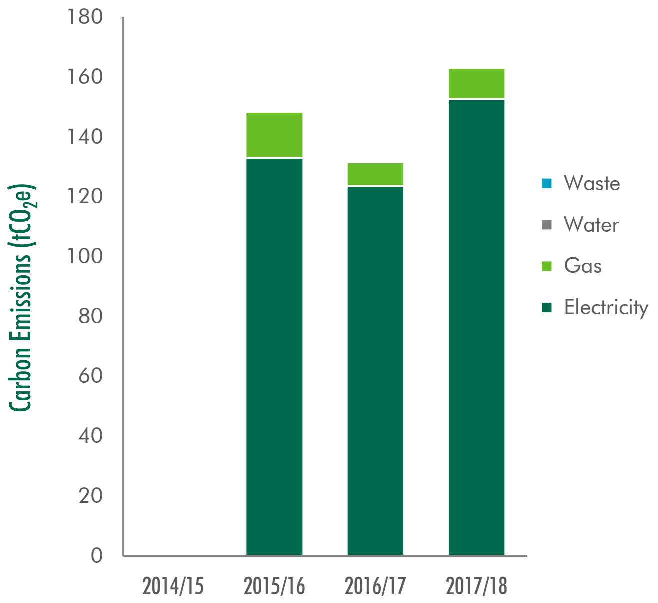
Finally, our ESG+ strategy is clear to all stakeholders. It has ambitious targets, but also has the flexibility to accommodate internal or external changes, such as asset type mix or regulatory shifts respectively.

ESG PILLAR	KEY PERFORMANCE INDICATORS
Carbon	Energy, Water, Waste, Tenants (Scope 1, 2 and 3)
Compliance	Energy Ratings, Green Leases, Health and Safety Policy, Procurement Policy
Transparency	Building Certifications, Stakeholder Engagement including Wellbeing, Data Coverage, Benchmarking and Reporting

CARBON

With the world, including the global real estate sector, committed to rapidly reducing and ultimately eliminating carbon emissions by the end of the century, we as a responsible investor have our part to play. The CBRE Global Investors ESG strategy will ensure that we align ourselves to the best available scientific advice on transitioning to a low-carbon economy.

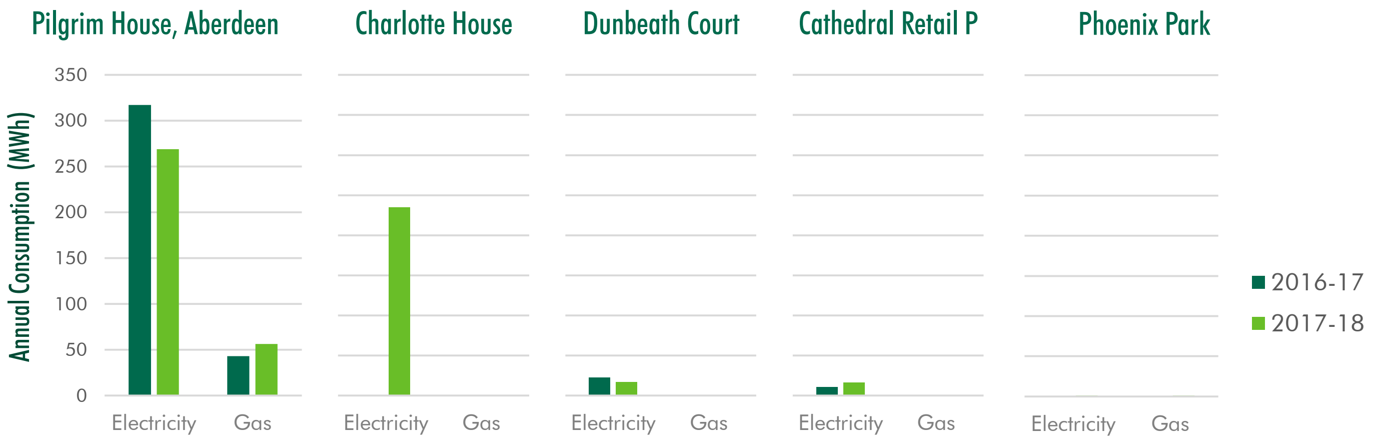
LANDLORD'S TOTAL ANNUAL CARBON FOOTPRINT



SUPPLY	SCOPE	CONSUMPTION	CARBON EMISSIONS (TCO_{2E})	% ANNUAL CHANGE
Gas	1	57	10.54	32%
Electricity	2	539	152.56	23%
Water	3	474	0.50	12%
Waste	3	0	0	0%
TOTAL			163.60	

Scopes 1 and 2 come from direct operations under landlord control, such as on-site plant and purchased energy respectively. Scope 3 relates to upstream and downstream indirect operations, such as tenant-controlled energy use or operational waste. Data is reported for the fiscal year (1st April to 31st March) in line with The Carbon Reduction Commitment (CRC) taxation scheme. Carbon footprints are calculated using the location based emissions factors provided by the Department for Environment, Food and Rural Affairs (DEFRA).

Only landlord's consumption data is included in the carbon footprint calculation. The landlord is often responsible for energy supply either to tenants as part of the service charge, or to vacant units. Water and waste trends show discrepancies due to lower quality of the available data, which is usual for the industry. Only waste data provided by waste management contractors is reported, this is only available from 2016/17 and so waste data is absent from the 2014/15 and 2015/16 carbon footprints.



Pilgrim House has the largest landlord consumption due to the fact that it is a large office space and as the space is multi-let tenancy the common areas will all be paid for by the landlord as well as vacant units during the reporting year. The gas increase from 2016-17 is linked with the colder winter months and the increased heating requirements.

The remaining top consuming sites have seen minimal changes in consumption between reporting years.

Building on the above long-term data collection and reporting, the next step involves analysis of the Dorset County Council's historic Scope 1 and 2 carbon footprint using Science Based Targets Sectoral Decarbonisation Approach modelling tools and verifying our targets. We will also undertake a full Scope 3 feasibility study including boundary setting.

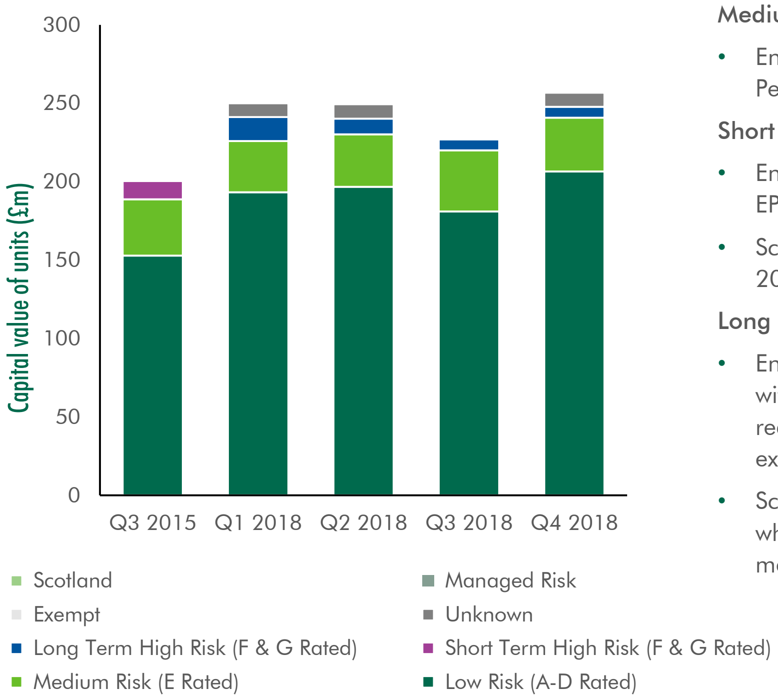
COMPLIANCE

CBRE GI is firmly committed to conducting business with the highest integrity and in compliance with the letter and spirit of the law. We recognise our responsibilities in relation to national and European legislative requirements and aim to ensure 100% compliance with relevant and changing legislation, such as the CRC Energy Efficiency Scheme and ESOS.

ENERGY PERFORMANCE

The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 introduced Minimum Energy Efficiency Standards (MEES) in line with Energy Act 2011, and came into force on 1st April 2018. From April 2023, the scope will extend to existing leases. CBRE GI's ESG approach includes a comprehensive risk management programme, with a focus on MEES compliance.

CHANGE IN LEVEL OF RISK BY VALUE



Medium Risk

- England and Wales – units with E rated Energy Performance Certificates (EPC)

Short Term High Risk

- England & Wales – units with unknown, F or G rated EPCs, requiring action before 2023 due to lease events
- Scotland – units or sites over 1,000m² which do not meet 2002 Building Regulations

Long Term High Risk

- England & Wales - units with unknown EPC rating, units with F or G rated EPCs which are scheduled for redevelopment or sale before 2023, or have a lease expiry after 2023 without breaks
- Scotland – adjacent units over 1,000m2 when combined which the fund does not intend to sell and which do not meet 2002 building regulations.

RISK MITIGATION STRATEGY FOR MEDIUM / HIGH RISK UNITS

	Medium Risk	Short Term High Risk	Long Term High Risk
ACTION		No. of units	
High Quality EPC	0	0	0
Modelled EPC / Tenant Engagement	13	0	1
Refurb / Sale Planned	0	0	1

GREEN LEASES

Green leases are essential in protecting against future environmental risks, reflecting market practice and improving the sustainability credentials of the portfolios. During 2017 CBRE GI, in partnership with our legal and sustainability advisors, have developed our own set of green lease clauses.

In line with our overall strategy, the green lease categories follow the Bronze-Silver-Gold grading: starting from the risk management approach, to the aspirational tenant/landlord collaboration on sustainability performance.

The Dorset County Council will undertake an audit of historic leases to identify green clauses and will continue to monitor ongoing progress. In line with our Silver ESG ambition, we will aim for Silver green leases, while maintaining Bronze as a minmum standard for all new and renewed leases.

TRANSPARENCY

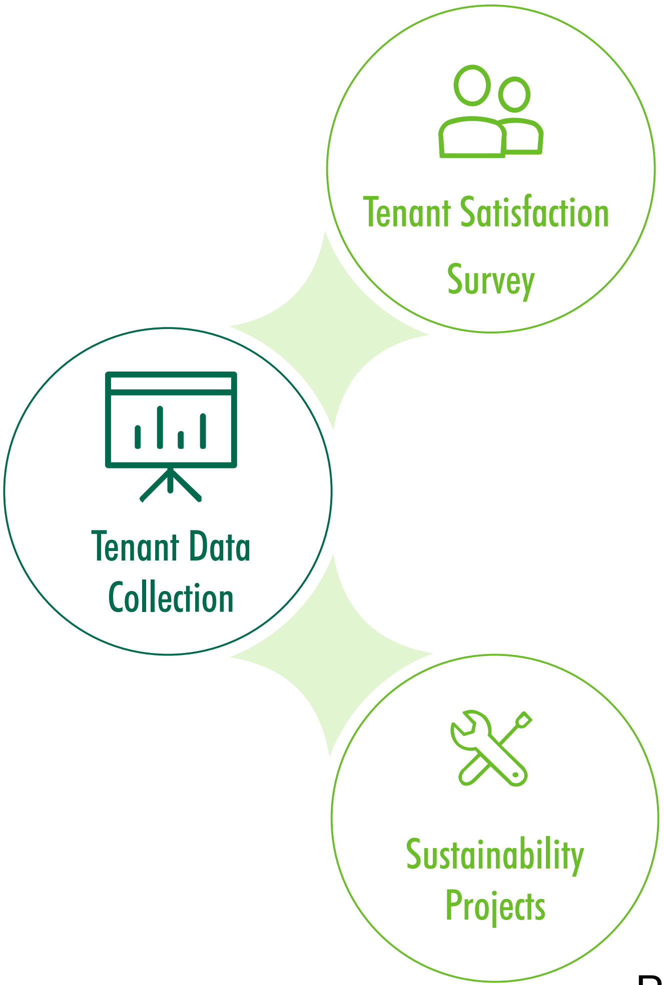
VOLUNTARY REPORTING

Voluntary Reporting is a key element of our ESG programme. Fund-level ESG reports are produced on a quarterly and annual basis, communicating our ESG performance to our key stakeholders and contributing to ESG performance disclosure improvement across the industry.

Communicating our ESG strategy and actions is not only important reputationally, but also drives improvements and provides confidence to the management, trustees, potential investors, tenants and other stakeholders. In addition to this first annual UK Separate Accounts report, we account for the ESG performance of each of our funds in regular fund-level reporting.

Regular reporting ensures that fund managers are consistently updated on the ESG performance of their funds and the actions that are recommended for the forthcoming period. It also facilitates effective communication of ESG performance to investors, thereby enabling increased stakeholder engagement with ESG performance.

CAMBRIDGE SCIENCE PARK



STAKEHOLDER ENGAGEMENT

Along with investors, the tenants are key stakeholders to our business. It is therefore imperative to develop and maintain a positive and collaborative relationship with this stakeholder group. By facilitating relationships between the property managers and tenants, and recognising the importance of factors such as lease events, a tenant's business priorities and running costs, these stakeholders' needs can be better understood. We complement these findings with satisfaction surveys and performance data collection, so that we can provide accurate advice that is bespoke to each asset and tenant's individual requirements.

Our stakeholder engagement approach takes three key paths to provide a holistic and well-rounded interaction with all tenants:

- **Tenant Satisfaction Survey** - A survey aligned to relevant industry best practice is sent out at least biannually to better understand the tenant's overall experience and identify any issues and opportunities.
- **Tenant Data Collection** – To identify improvement areas, it is important to gather not only the landlord data, but also as much as information as possible from our tenants. This will ensure that trends and patterns in consumption data are identified.
- **Projects** – Projects that are fully or part funded by tenants must have an appropriate return on investment and a solid business case. Recommendations and costing are provided, as well as funding advice.

APPENDIX

ESG INITIATIVES 2018

ACTION	NUMBER	EXAMPLES			
Energy Performance Assessment: high quality and modelled EPCs, and ESG audits	5	EPC surveys completed at units to confirm actual EPC rating and identify improvement measures where required.	x		
Green Refurbishment and Fit-Out (tenanted sites)	1	LED lighting projects with sensors/timers completed in common areas at several sites.	x		x
Sustainable Buildings including green building certification	1	BREEAM rating identifies a number of ESG criteria throughout assets which must meet standards in order to become certified.	x	x	x

CASE STUDY

ASSET DETAILS

Location	Apsley Centre (Unit D)
Sector	Industrial
Tenancy	Multi-let
Area	14,174 ft^2

SUSTAINABILITY

Energy rating	EPC D
Certification	N/A
Lighting and HVAC	LED and heating upgrades

CHALLENGE

The industrial units were in a condition that required some upgrades and with the EPC's due to expire later in 2019 it was seen as an opportunity to improve the assets and secure a low risk rating for a further 10 years until 2029.

SOLUTION

As part of upgrades across the site Unit D required extensive works which was agreed with the tenant. As part of the ongoing works the energy and sustainability team were brought in to identify improvement opportunities which would improve the EPC rating of the asset.

RESULT

Works have now been completed in line with the advice that the team provided and we are due to have a revised EPC carried out in Q1 2019 to confirm the rating and ensure the risk of non compliance is mitigated.

ACTIONS COMPLETED IN Q4 2018

SITE	UNIT	ACTION	OUTCOME
Pendragon, Glasgow	Unit 1	Modelled EPC	The modelled EPC will outline the requirements for the unit to be upgraded to a minimum E rating and ensure compliance.
Pendragon, Glasgow	Unit 2	Modelled EPC	The modelled EPC will outline the requirements for the unit to be upgraded to a minimum E rating and ensure compliance.
Apsley Centre	Unit D	Refurbishment ongoing	The ongoing refurbishment at unit D should improve the rating of the asset and secure a low risk rating.
ESG+ Signoff	All Sites	Signoff off ESG+	Signoff of the ESG+ proposal will provide a great platform to begin works and put together a schedule of works for 2019-21.

ACTIONS PLANNED IN Q1 2019

SITE	UNIT	ACTION	OUTCOME
Apsley Centre	Unit D	EPC	A revised EPC to confirm the rating is required post refurbishment
Tesco, Sheffield	Whole Site	Tenant Engagement	An ongoing relationship with workman provides an opportunity to get in front of the tenant and engage with Tesco's to improve the asset as part of their corporate social responsibilities.
All Sites	All	ESG+ Strategy	ESG+ Strategy proposal to be agreed ahead of 2019 implementation

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CBRE GLOBAL INVESTORS

Pension Fund Committee

Dorset County Council

Date of Meeting	27 February 2019
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 1 November 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

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.

3.3 Following the conclusion of the Passive and Smart Beta manager selection process, Brunel 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 in November 2018. These are 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 £175m) but no allocation to Low Volatility Global Equities. The Fund's current investment with AXA Framlington has now transferred to the Brunel portfolio.

3.6 This equates to approximately £800m of investments transferring to the pool's management, representing nearly 30% of the Fund's total assets of £2.8bn.

3.7 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 £85m) to emerging markets equities, and it is anticipated that the Fund's current investment with JP Morgan will transfer to the Brunel portfolio.

3.8 In January 2019, Brunel issued their "Manager Search Launch Paper" for their High Alpha Equity portfolio. This document sets out the detailed timeline for the establishment of the portfolio, with final transitions not expected until November 2019. Dorset has a target allocation of 4.25% (approximately £120m) to emerging markets equities, and it is anticipated that this will be funded by partial disinvestment from the Fund's current investments under the management of Investec and Wellington.

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 were not expected until spring 2019 and autumn 2019 respectively. However, in January 2019, £2.9m was drawndown against Dorset's commitment to the Aberdeen Standard Long Lease Property Fund.

Liability Driven Investment (LDI)

3.11 Discussions have begun between Brunel and the three clients who have allocations to LDI and in January 2019, Brunel issued their "Manager Search Launch Paper" for their LDI portfolio.

Other Portfolios

3.12 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.

3.13 Fee savings in a full year from the assets that have transferred to date are estimated at approximately £1.2m, compared to the Fund's share of Brunel's annual running costs of £1.0m in 2019-20. As more assets transition to Brunel's management fee savings are expected to increase.

5. Transition Plan

5.1 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

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 working with Brunel to agree 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 shortly.

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
February 2019

Brunel Pension Partnership

BOB

Brunel Oversight Board Meeting

Minutes

Purpose:	**To review Brunel/Client progress agree next steps**
Date and time:	Thursday 1 November 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	
Ray Bloxham	Devon	
Peter Wharf	Dorset	Apologies
Joanne Segars	EAPF	Apologies
Hywel Tudor	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair
Mark Simmonds	Somerset	Phone
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
Jenny Devine	Wiltshire	
Nick Buckland	JLT – Client Side Executive	
Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	
Matthew Trebilcock	Brunel, CRD	
Dawn Turner	Brunel, CEO	
Mark Mansley	Brunel, CIO	
David Anthony	Brunel, CFO	
Alice Spikings	Brunel, Client Relations	Minutes

Item	Agenda	Paper provided	Owner
1	Election of Chair and Vice-Chair		NB
	NB reminded members of the process for election of Chair and Vice-Chair and invited nominations for the role of Chair. RT put himself forward to continue in the role, and his nomination was agreed and seconded. With no further nominations being received a vote was taken and RT was unanimously elected a Chair. RT thanked the Board for the confidence show in him to continue in the role. RT invited nominations for the role of Vice-Chair. KB expressed his desire to continue in the role and this was agreed and seconded. As no further nominations were received a vote was taken and KB was elected by unanimous vote. KB thanked the Board for their support.		
2	Confirm agenda Requests for AOB (Urgent or for information) Any new declarations of conflicts of interest		Chair
	The agenda for the meeting was confirmed and there were no new declarations of interest or additional items of business received.		
3	Review 27 September BOB minutes • Matters arising - SRMs	Minutes	Chair
	The minutes of the meeting on 27 September were agreed by the Board. All ongoing or outstanding items were either complete or elsewhere on the agenda for the meeting, with one exception: MT updated BOB the on the result of the Special Reserve Matter 9 – Pricing Policy. The SRM was approved by 100% of the shareholder representatives.		
4	Business Plan	Report	DLG/DT/SC
	DLG introduced the Brunel Business Plan and highlighted a number of the changes that had happened since the Original Business Case was developed: • The Assets Under Management had increased to nearly £30bn • Estimated level of savings had increased. Actual savings from initial transitions were higher than estimates. • Level of work involved in the creation and transition of each portfolio had been under-estimated. To do the work effectively and with the appropriate level of detail it was taking longer. • The investment team therefore needed to strengthen its level of resource to ensure it is able to deliver. DLG reminded BOB of the discussions at the last meeting around the options available for the transition and that in reality the "best " option involved a lengthened transition and additional resource, and that the		

Business Plan was built on this assumption.

DLG concluded by suggesting a small amendment to the wording of the recommendations to keep them consistent with that of the Special Reserve Matter. This amended wording was supported.

ST supported the proposals within the Business Plan and commented that the Brunel Board had been scrutinising the plans and had spent a good deal of time questioning the robustness of the plans and ensuring that the additional resource required was enough to deliver the transition plan.

It was highlighted that the Client Group had undertaken a significant amount of work to analyse the assumptions and calculations within the proposals. MS was invited to comment in his role as Chair of the Client Group's Financial Sub-group (FSG), which had undertaken a substantial proportion of the assurance work.

MS commented on the detail of the work that had been undertaken. He concluded that following the exercise, the FSG and Client Group felt that they had been provided with sufficient information on the non salary budgets to conclude that all major budget increases were supported by detailed and robust costings, and appeared to be justified by business need.

Hence overall he summarised that the FSG and Client Group were able to give a high level of assurance to BOB on the detailed budget proposals for 2019/20.

DH thanked MS for the assurance and commented that he was generally happy with the proposals. He asked for clarity around the proposal to allow for movement in budgets between year's, and what would get reported to BOB. DT confirmed that the move to allow over and underspends to be carried forward from one financial year to the next would allow for flexibility around particular projects if there was either slippage, or delivery was ahead of schedule. She also confirmed that in the regular budget updates to BOB it would be highlighted if this was likely to happen, and it would also be reported where any issues have arisen that previously would have resulted in a Special Reserve Matter.

This was supported generally amongst the Board, and there were further clarification questions around the recommendations, and also the ability for Brunel to recruit the right calibre of staff in the future. The responses received assured BOB on these points.

SC was invited to comment, and he confirmed that the Client Group was supportive of the proposals, and that he felt giving Brunel the ability to carry-forward over and underspent positions was sensible and allowed them to take a longer term view over projects.

RB commented that he felt that it was essential for Brunel to have the correct level of staffing to enable the proper due diligence on fund manager appointments. He was happy with the proposals and revised timetable. In addition to this comment there were questions around whether the proposed staffing level was enough. DT commented that with what was known at the moment she was content that they would be.

On being asked further whether she could guarantee not coming back in the next year's business plan for more budget DT said she could not as there may be changes that are not known yet and she gave three

	examples: increase in demands from funds following triennial valuation, regulatory or legislative changes, and understanding of needs as we move further into business as usual. The was accepted as a fair statement and that the rules of engagement if this were to happen were clear and that this would require a Special Reserve Matter. Given the increases in the resourcing levels within Brunel SC was asked whether he felt there was enough resource amongst the clients, in particular within the Client Group. He responded that it was on the agenda to be discussed at the next meeting in the next couple of weeks, and that he would report back to the next BOB meeting. In concluding DT commented that the process of review of the financial aspects of the business plan had been very thorough and she wished to highlight the work that MS had undertaken in leading the work of the FSG. The Chair thanked MS for his work. **BOB supported the recommendations (as amended) included in the cover report.** **I. The Oversight Board support the Business Plan and detailed budget for 2019/20 and draft budgets for 2020/2021 and 2021/22, to be issued as a Special Reserve Matter (SRM).** **II. The Oversight Board support the proposal that underspends from delayed activity in a year, or overspends by bringing activity forward can be managed by Brunel in consultation with the Client Group rather that through an in year SRM if the impact was to exceed the 5% tolerance. If this did occur it would be included with the regular reporting to BOB.** **III. The Oversight Board notes the current expenditure forecast of £7.795m which is £267k above the 5% budget tolerance within the current Business Plan, and endorses the request for an SRM to approve this additional expenditure funded from the £570k underspend in 2017/18.** **IV. The Oversight Board endorse the Business Case Review in the context of the savings generated to date from the first three tenders and set out in detail within the main report.**		
5	Client Oversight & Assurance	Presentation	SC
	SC took BOB through a presentation to show where the Client Group were involved in the process of the creation of portfolios, to enable the appropriate levels of assurance to be gained, and given to BOB. The presentation detailed a number of papers that will be issued by Brunel during the portfolio creation and implementation process. SC highlighted a number of areas where there would be input from clients (in the form of the Client Group as a whole) into the process. It was commented that the there were a couple of key points within the process where there were specific “Client Group touch-points”. SC commented that these points were not for individual clients to be		

	expressing specific views on individual manager appointment; it was to allow the Client Group, as a whole, to assess whether the work that Brunel has done gave any reason to stop the process i.e. • Was there anything which the clients felt that the portfolio launch process would not deliver to the specification He also highlighted that if at this stage the Client Group felt that there was an issue that hadn't been dealt with by Brunel it would be classed as a formal complaint under the FCA rules. He therefore felt that this was a situation that would be extremely unlikely to arise. There was a specific question to clarify what was meant by the statement on Slide 3 around an individual Fund's fiduciary duty, and the potential need for action ahead of a Brunel portfolio being available. MT clarified that the comment around additional costs being incurred referred to the potential transition costs of needing to move twice, and not any additional charge to be levied by Brunel. He highlighted that the robust transition plan that was now in place should allow Fund to plan. There were questions around the process, and assurance was taken form the work that Brunel and the Client Group had undertaken to develop the formal set of procedures. There were no requests to amend the framework presented and that this would now be presented by one of the fund's officers as part of the engagement day presentation taking place next week on 05, 06 and 07 November in Oxford, Bristol and Exeter respectively.		
6	Brunel Update Report	Paper	MT
	MT summarised the quarterly Brunel update report, and highlighted a couple of specific points: • He updated BOB on a telephone conversation that he and SC had with Teresa Clay from the MHCLG by way of follow up to the autumn update. He assured BOB that positive feedback was received, specifically with regard to governance structure being used by Brunel. There were also positive comments around the work that was being done in Private Markets. • MT highlighted the engagement days that were being held in the next week and encouraged BOB members to ensure that their own Funds had good attendance. This was the opportunity for Fund's to ensure their officers, committee and board members that weren't involved pooling on regular basis were acting in an informed way.		
7	Shareholder NED update	Paper	ST
	ST presented his update report, and commented that most of his comments had already been discussed as part of the other discussions around the Business Plan. He highlighted the importance to the Partnership has a whole of the Business Plan being agreed, and commented that he		

	felt a little nervous around the progress of the Special Reserve Matter through the shareholder representatives. When asked about this comment he asked that BOB members, who weren't shareholder representatives to highlight the importance of this at a local level and he also acknowledged that different funds operate in different ways and have different decision making processes. He finished by saying that his nervousness really stemmed form the importance of the Business Plan being agreed.		
8	AOB		Chair
	There was no additional business other than to confirm the dates of the engagement days, to be held in Oxford, Bristol and Exeter, and to confirm the dates for BOB meetings in 2019: • Thursday 31st January • Tuesday 30th April • Thursday 25th July • Thursday 26th September • Tuesday 5th November. It was highlighted that all key dates for Brunel meetings in 2019 were contained in an Appendix to the Business Plan report. This being the final item on the agenda, the meeting was closed at 12.58pm		

Produced: JLT on 27/11/2018

Pension Fund Committee

Dorset County Council

Date of Meeting	27 February 2019
Officer	Pension Fund Administrator
Subject of Report	**Treasury Management Strategy 2019-20**
Executive Summary	This report revises the previously approved Treasury Management Strategy for 2018-19, approved by the Pension Fund Committee in March 2018. Although the Pension Fund has no strategic allocation to Cash, cashflows need to be managed to ensure there is sufficient liquidity to meet liabilities as they fall due and to invest any surplus balances appropriately. The Treasury Management Strategy (TMS) provides the framework within which officers must manage these cashflows and cash investments. The TMS for the Fund broadly follows the TMS of the administering authority for the Fund, where applicable. In relation to counterparty risks and limits, this strategy continues to be consistent with that of the administering authority.
Impact Assessment: *How have the following contributed to the development of this report?**	Equalities Impact Assessment: N/A
	Use of Evidence: The use of evidence and information sources to support the Treasury Management Strategy is set out in detail in the main body of this report.
	Budget / Risk Assessment: N/A
Recommendation	That the Committee approve the Treasury Management Strategy for 2019-20.

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

Dorset County Pension Fund - Treasury Management Strategy

1. Background

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

1.2 The Treasury Management Strategy provides the framework within which officers must manage these cashflows and investments, and follows broadly the strategy of the administering authority for the Fund, where applicable. As a result of local government reorganisation in Dorset, with effect from 1st April 2019 Dorset Council will replace Dorset County Council as the administering authority for the Fund.

1.3 The strategy set limits on the amount and length of time that cash can be invested with specific counterparties, to a maximum of two years. This is to reflect the fact that there is not a strategic allocation to cash and investing cash sums for more than this period would be contrary to the Fund's investment strategy.

1.3 In relation to counterparty risks and limits, this strategy continues to be consistent with that of the administering authority. This report revises the previously approved Treasury Management Strategy for 2018-19, approved by the Pension Fund Committee in March 2018.

2. Treasury Management Advisers

2.1 Dorset County Council currently uses Link Asset Services (formerly Capita Asset Services) as its treasury management advisers. Dorset Council has appointed Arlingclose as its treasury management advisers, with effect from 1st April 2019.

2.2 Treasury management advisers provide a range of services which include:

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

2.3 Whilst the advisers provide valuable support to the internal treasury function, the final decision on treasury matters remains with the administering authority on behalf of the Fund.

3. Economic Outlook and Prospects for Interest Rates

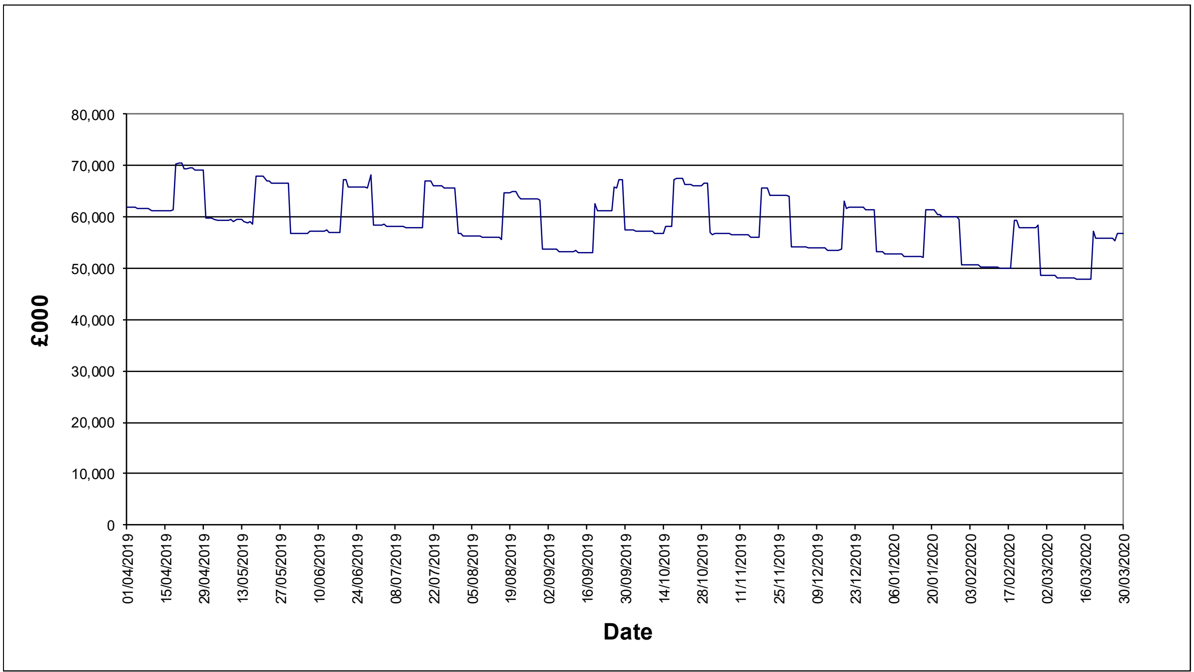
3.1 Part of Link's service is assist the administering authority to formulate a view on interest rates. The following table shows Link's most recent forecast for UK Bank Rate, short term investment returns (LBID) and borrowing rates from the Public Works Loans Board (PWLB).

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
3 month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%
6 month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%
12 month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
5 Yr PWLB	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10 Yr PWLB	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%
25 Yr PWLB	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.00%	3.40%	3.40%
50 Yr PWLB	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%

3.2 This forecast was produced prior to the Monetary Policy Committee (MPC) meeting 7 February 2019. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, such as the terms on which the UK leaves the European Union, may also have a major impact.

4. Cashflow Forecast 2019-20

The Fund's cash balances will fluctuate throughout the year as income is received and expenditure is made. The chart below shows the projected cashflow forecast for 2019-20 which is based on high level estimates, historic trends and other information. This cashflow forecast is reviewed and updated as necessary on a daily basis through the year.



5. Annual Treasury Management Investment Strategy

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

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

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

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

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

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

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

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

Richard Bates
Pension Fund Administrator
February 2019

APPENDIX 1

Dorset County Pension Fund - Investment and Credit Worthiness Policy

1. Introduction

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

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

2. Cash Investments Policy

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

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

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

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

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

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

3. Creditworthiness Policy

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

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

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

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

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

Security

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

i. Sovereign Ratings

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

ii. Counterparties with Good Credit Quality

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

Table 1 Counterparty Ratings

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

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

iii. Part Nationalised Banking Groups

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

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

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

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

v. Major UK Banks

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

vi. Use of Additional Information other than Credit Ratings

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

Liquidity

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

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

i. Fixed Term Investments

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

ii. Call Deposits

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

iii. Time and Monetary limits applying to Investments

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

Table 3 – Time and Monetary Limits

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

iv. Longer Term Instruments

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

Table 4 Time Limits for Investments over 365 days

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

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

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

ANNEX A

Investment Policy - Treasury Management Practice 1

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

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

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

Annual Investment Strategy

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

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

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

Strategy Guidelines

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

Specified Investments

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

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

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

Non-Specified Investments

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

The Monitoring of Investment Counterparties

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

Summary of Investment Criteria

APPENDIX 2

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