Public Document Pack

Pension Fund Committee

Date:	Thursday, 20 June 2019
Time:	10.00 am
Venue:	Insight Investment, 160 Queen Victoria Street, London, EC4V 4LA

Membership: (Quorum 3)
Ray Bryan, Andy Canning, Howard Legg, Mark Roberts, Peter Wharf and Andrew Turner

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Chief Executive: Matt Prosser, South Walks House, South Walks Road, Dorchester, Dorset DT1 1UZ (Sat Nav DT1 1EE)

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A G E N D A

Page No.

1 ELECTION OF CHAIRMAN FOR THE MEETING

To elect a Chairman for the meeting.

2 APOLOGIES

To receive any apologies for absence.

3 DECLARATIONS OF INTEREST

To receive any declarations of interest.

4 TERMS OF REFERENCE

The Pension Fund Committee is primarily responsible for exercising all functions of the Council as the administering authority of the Dorset Pension Fund. The committee will consist of 9 Members comprising 5 Members appointed by Full Council (not more than 2 being also appointed to Cabinet); 3 persons nominated by the Bournemouth Christchurch and Poole Council and 1 person nominated by the unions who have membership that includes officers.

5 PUBLIC PARTICIPATION

To receive questions or statements on the business of the committee from town and parish councils and members of the public.

6 PENSIONS ADMINISTRATION 5 - 42

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

7 INDEPENDENT ADVISER'S REPORT 43 - 46

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

8 PRESENTATION FROM BRUNEL PENSION PARTNERSHIP

To receive a presentation from Brunel Pension Partnership, the Fund's investment pooling manager.

9 FUND ADMINISTRATOR'S REPORT 47 - 120

To consider the report of the Fund Administrator. This includes an update on the funding position, the value and performance of investments, the cash position and other topical issues.

10 INVESTMENT POOLING PROGRESS REPORT 121 - 140

To consider a report by the Fund Administrator on progress to date on the Investment Pooling Project.

11 DATES OF FUTURE MEETINGS

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

12 September 2019	County Hall, Dorchester
27 November 2019	London (venue to be confirmed)
12 March 2020	County Hall, Dorchester

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Dorset Council

Pension Fund Committee

Pensions Administration

Date of Meeting: 20 June 2019

Lead Officer: Pensions Fund Administrator

Executive Summary:

This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund. It contains updates on the following:

- Public Sector Exit Cap consultation
- Consultations on LGPS regulatory changes
- MHCLG Policy consultation on LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk
- LGPS Scheme Advisory Board Update
- Key Performance Indicators and work backlogs

Equalities Impact Assessment:

N/A

Budget:

N/A

Risk Assessment:

Having considered the risks associated with this decision, the level of risk has been identified as:
Current Risk: N/A
Residual Risk N/A

Other Implications:

N/A

Recommendation: It is recommended that the Committee note and comment on the contents of the report.

Reason for Recommendation:
To update the Committee on aspects of Pensions Administration

Appendices:
- Appendix 1 – LGPC Exit Cap consultation briefing summary
- Appendix 2 - Employer costs of early release
- Appendix 3 - LGPS Fair Deal Consultation response
- Appendix 4 – SAB Guidance, Cost Cap & Valuation
- Appendix 5 - Good Governance Review
- Appendix 6 - KPIs (November 2018 – May 2019)

Background Papers:

- LGPS Regulations 2013
- HM Treasury Consultation on Exit Payments
- MHCLG Consultation on Fair Deal
- MHCLG Consultation on changes to Valuation cycle and the Management of Employer Risk

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1. Background

1.1 This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund.

2. Consultation on Public Sector Exit Cap

2.1 The government first announced plans to cap exit payments in the public sector in 2015. The cap was legislated for in the Enterprise Act 2016, which amends the Small Business, Enterprise and Employment Act 2015, but required secondary legislation to be introduced.

On 10 April 2019 HM Treasury (HMT) launched a consultation, which closes on 3 July 2019, on draft regulations, guidance and Directions to implement the cap. The cap will apply to all public sector employers and is to be implemented in two stages. Local Government employers will be covered in the first stage.

2.2 The exit payment cap is set at £95,000 and the regulations do not include provision for this to be index-linked. Redundancy payments (including statutory redundancy payments) severance payments, pension strain costs and other payments made as a consequence of termination of employment are included in the cap.

The pension strain costs can be high and occur because of the pension being paid early at an unreduced rate. This amount is commonly unknown to the retiring member as it is a payment made by the employer direct to the pension fund as compensation for the resulting increased pension costs.

Pension costs / payments related to death in service or ill health retirement, pay in lieu of holiday and payments resulting from a court or tribunal order, are excluded for the purposes of these regulations.

2.3 **Applying the cap in the LGPS** - It is not yet clear how an LGPS members' benefits will be adjusted where the cap has been exceeded. We do know that the statutory element of the redundancy payment cannot be reduced. So, if the cap is exceeded, it will be other elements of the exit payments that must be reduced to achieve the £95,000 limit. We understand that the intention is that the members' benefits will be reduced to remain within the limit with the option to buy-out some or all of the reduction.

Amendments to the LGPS regulations will, therefore, be necessary to facilitate these changes, and guidance from the Government Actuary's department will also be required.

2.4 Relaxing the cap - There are circumstances where the cap must be (mandatory cases) or may be (discretionary cases) relaxed by the decision maker.

2.5 **Appendix 1** is the LGPC consultation briefing summary. **Appendix 2** is a chart complied by the fund actuaries showing the potential strain costs that might arise from early retirement (e.g. Redundancy) for members retiring early at age 55 taking into account different pay levels.

2.6 **The response from the Dorset county Pension fund is currently being prepared, and members are being asked how they would wish to be involved in preparing the response.**

3. Consultations on LGPS regulatory changes

3.1 There have been two consultations on regulatory changes to the LGPS, which have closed recently; the Dorset County Pension Fund (DCPF) responded to both consultations.

3.2 The DCPF responded to the consultation on the **Implementation of Late Retirement Factors** on 15 June 2019. This consultation covered only one minor area of change which proposed a new methodology of implementing new late retirement factors, prompted by issues caused by the previous change. The previous change created a cliff edge and had little preparation time for administrators and scheme members.

The aim of the proposed changes was to reduce the volatility of the factors and resulting uncertainty for members.

The DCPF supported these changes and requested a longer lead in time to assist with communications and the necessary software changes.

3.3 The second consultation was more significant in its range and impact. This was the **LGPS Fair Deal - Strengthening pension protection Consultation**, and the DCPF submitted a response on 4 April 2019. This is attached at **Appendix 3**.

3.4 The new regulations aim to strengthen the pensions protections for members following an outsourcing or re-tender. The consultation was particularly aimed at those with an interest in the obligations that apply when a service or function is outsourced from an LGPS employer, including employees, outsourcing employers and service providers.

3.5 The proposals introduce the concept of a 'Fair Deal' employer (which is wider than the definition of a best value authority) and 'protected transferred' who as a consequence of being employed by a Fair Deal Employer will retain the right to participate in the LGPS for a s long as they are wholly or mainly employed on the outsourced service. This importantly includes subsequent transfers).

3.6 The provision for 'deemed employers' is to be utilised as an alternative to the admitted body status currently used. Under the 'deemed employer' route, the original outsourcing employer remains the employer for pension purposes. This is likely to cause some issues, and potentially an additional burden on the outsourcing authority. I have concerns that the responsibilities, and potential costs, might not be fully understood by the outsourcing body. However, this may assist situations where the outsourcing authority finds it hard to attract tenders, as it essentially shares the pension risk.

3.7 The proposal also removes the option for a broadly comparable scheme.

3.8 An additional element to the proposed new regulations concerns amalgamated bodies. Exit debts, triggered by Regulation 64, will automatically transfer to the successor body unless there is a specific reason not to do so.

3.9 The intention of these proposals is in part to simplify participation of the LGPS and to help facilitate risk sharing. However, I have doubts whether this hoped for outcome will be achieved. It remains the case that, despite concerted efforts to engage and educate employers regarding outsourcing, a lack of understanding, and an inadequate level of engagement with pension issues, continues.

4. MHCLG Policy consultation on LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk

4.1 MHCLG has released a consultation, which closes on 31 July 2019 looking at changing the valuation cycle from three to four years, further amendments to the payment of exit payments/credits, and whether employers in the higher and further education sector in England should continue to be obliged to offer LGPS membership to non-teaching staff.

4.2 It includes proposed changes as follows:

- Move the valuation from a three to a four year cycle
- Provide options for the transitional period from 2019 to 2024 with a preferred option for a valuation in 2022. The 2019 valuation would therefore set contributions for April

2020 to March 2023, and the 2022 valuation would set contributions for the 2 years to March 2025.
- Give funds the power to take interim valuations, in full or in part.
- Provide flexibility to alter employer contribution rates mid valuation.
- Add more flexibility with exit payments, such as deferred employer status where employers defer exit payments and provide an ongoing commitment to meet their existing liabilities, in agreement with the fund.
- Restrict exit credits where risk sharing has been in place.
- Allow Further Education Corporations, Sixth Form College Corporations in England to decide whether to admit employees into the scheme in future.

4.3 **The response from the Dorset county Pension fund is currently being prepared, and members are being asked how they would wish to be involved in preparing the response.**

5. LGPS Scheme Advisory Board (SAB) for England and Wales

5.1 The LGPS SAB is a body set up under both the LGPS regulations and Section 7 of the Public Service Pensions Act 2013. Its purpose and role is to encourage and assist with best practice, increase transparency and to coordinate technical and standards issues. Below is a summary of some of the current issues being looked at. Further information is available on the SAB website.

5.2 McCloud judgement - new SAB advice On 14 May the SAB published an advice note which covered the implications of the McCloud case and the Cost Cap process in regard to the 2019 fund valuations.

5.3 This advice sets out the proposed approach to the 2019 valuation and confirms that if there is no outcome by 31 August that the scheme benefit design to be used should be as it is currently set out. But in setting the employer contribution rates the Administering Authority should, with their Actuary, consider the additional allowance to be made. The guidance note is attached at **Appendix 4**.

5.4 **Good Governance Project –** previously named the separation project, this new initiative, aims to identify relevant issues concerning delivery of LGPS administration and governance within local authority structures. Hymans Robertson have been commissioned to undertake this project for the SAB. Full details are contained in **Appendix 5**

5.5 The project is intended to help and assist with the successful management of potential conflicts of interest arising between a pension fund and its parent local authority and is not to be taken as a criticism of elected members, section 151, or other officers.

5.6 Hymans Robertson launched a national governance survey, which closed on 31 May 2019, amongst other initiatives to gain as many views as possible from those working within the LGPS.

5.7 **Responsible Investment Guidance** – The SAB concurred with the recommendation from the Investment, Governance and Engagement committee ("Investment Committee") that this guidance should be web based.

5.8 The SAB also agreed the recommendation from the Investment Committee that a paper to be submitted by UNISON based on the report they commissioned from ShareAction on ESG policies, in particular, on climate change risk, should be considered by the board at a future date.

5.9 **Cost Cap** – the SAB intends to invite the Minister responsible for the LGPS to discussions about an alternative cost management package, and to seek agreement that the SAB should be included in any future discussions surrounding the remedy package should the McCloud judgement stand.

5.8 This follows communications from the Civil Service Pension Scheme's SAB to their Minister setting out an agreed package to recover their cap breach of 5.4%. The Civil Service Pension Scheme asked that the process, despite being paused, should be allowed to proceed as far as possible.

5.9 The LGPS scheme remains in a state of abeyance waiting for the McCloud outcome, which is likely to have significant impacts either way.

6. Key Performance Indicators and work backlogs

6.1 The Key Performance (KPI) Indicators for the period 1 November 2018 to 31 May 2019 covering the period to date are included. Future reports will revert to the standard three month format.

6.2 The KPIs for this period are attached at **Appendix 6** and reflect the continued positive achievements of the pension administration team. This represents the ten key areas but does not include all the work areas completed.

6.2 The Aggregation backlog work makes steady, but slow, progress. We now have 631 cases remaining.

Aidan Dunn
Pension Fund Administrator
20 June 2019

Exit payments cap

In 2015 the government first announced plans to introduce a cap on exit payments in the public sector. The cap includes any pension strain cost. The cap was legislated for in the Enterprise Act 2016, which amends the Small Business, Enterprise and Employment Act 2015, but required secondary legislation to be introduced.

On 10 April 2019, HM Treasury opened a consultation on draft regulations, Directions and guidance to implement the exit cap. The consultation will run for 12 weeks and closes on 3 July 2019. The LGA will be responding formally to the consultation ahead of the 3 July deadline.

This document has been produced by the LGPC Secretariat and provides a summary of the consultation and the proposed regulations for LGPS administering authorities and local government employers.

Consultation documents

HM Treasury (HMT) published the following consultation documents on 10 April 2019:

1. **Consultation document - 'Restricting exit payments in the public sector: consultation on implementation of regulations'**
   The consultation document sets out what types of public sector exit payments the regulations apply to, summarises the proposed regulations and the reasons for introducing these regulations. Details of how to respond are included, and information concerning how respondents' data will be processed.

2. **Draft regulations - 'Annex A: The Restriction of Public Sector Exit Payments Regulations 2019'**
   'The Regulations' include:
   - the bodies whose exit payments are covered by the cap
   - what constitutes an exit payment and what is exempt
   - the requirement for individuals and public sector bodies to report and record information about exit payments and
   - the circumstances in which the cap must be relaxed and the process for approval in situations where the cap may be relaxed.

3. **Schedule – 'Annex B: £95k cap on exit payments in the public sector schedule (draft)'**
   'The Schedule' sets out public sector authorities and public sector offices that may be affected by the exit payment cap. There are circumstances where the cap must or may be waived. Where relevant, the Schedule specifies what body is the sponsoring department who would be responsible for approving the relaxation of the cap.

4. **Guidance – 'Annex C: Restriction of public sector exit payments: guidance on the 2019 regulations'**
   'The Guidance' sets out more information on how the legislation should be implemented, and particularly gives more information about the process to follow when a public sector body wishes to relax the restriction.

5. **HMT Direction – 'Mandatory HM Treasury directions'**
   'The Directions' describe when the exit payment cap must be relaxed, in what circumstances it can be relaxed and when HMT approval is required.

There are occasions when the contents of the consultation documents contradict each other, there are contradictions within a single document and there are differences in the wording of the Regulations, the Enterprise Act 2016 and the Small Business, Enterprise and Employment Act 2015. The Guidance states that 'Where there is any discrepancy between the regulations and the guidance, the regulations prevail'. This is the approach followed in producing this document. Any area of significant difference in the consultation documents, draft regulation or existing legislation is highlighted.

What is the level of the cap?

The exit payment cap is set at £95,000. Although regulation 153A(9) of the Small Business, Enterprise and Employment Act 2015 allows for Regulations to be introduced which change the cap, under the proposed Regulations there is no provision for the cap to be index-linked.

In relation to those employed in local government, it should be noted that the group who are most likely to be affected by the cap are those over age 55 who are members of the LGPS (or another public sector pension scheme).

Who is covered by the Regulations?

The cap will apply to the whole of the public sector, but is being implemented in two stages. At the first stage the Regulations will apply to exit payments made by:

- local authorities
- the UK Civil Service
- the NHS in England and Wales
- academy schools
- police forces (including civilian staff)
- Fire and Rescue Authorities

where they fall within the responsibility of the UK government regarding employment.

Schedule 2, Part 1 of The Local Government Pension Scheme Regulations 2013 lists the employers who must enrol employees into the Local Government Pension Scheme. The majority of employers listed in Part 1 of Schedule 2 are in scope of the exit payment Regulations. The main exceptions being housing management companies, further and higher education corporations and sixth form college corporations who are not covered by the Regulations.

LGPS administering authorities may wish to check whether any of their Schedule 2 Part 3 employers are listed in the Schedule.

Devolved administrations

Wales

Although most employers in scope of the exit payment cap perform devolved functions, public sector compensation **is not** a power that has been devolved to the Welsh Assembly. The exit payment Regulations therefore do apply in Wales to local authorities, schools, fire and rescue authorities, NHS Trusts etc. with the exception of 'relevant Welsh exit payments' which are payments made to holders of these offices:

- member of the National Assembly for Wales
- the First Minister for Wales
- Welsh Minister appointed under section 48 of the Government of Wales Act 2006
- Counsel General to the Welsh Government
- Deputy Welsh Minister

- member of a county council or a county borough council in Wales
- member of a National Park Authority in Wales
- member of a Fire and Rescue Authority in Wales.

Scotland
The Regulations do not apply to exit payments made by the Scottish Corporate Body or by any authority which wholly or mainly exercises functions within devolved competence (within the meaning of section 54 of the Scotland Act 1998).

The Regulations apply to payments made to non-ministerial office holders and staff of the Scottish Administration.

Northern Ireland
The Regulations do not apply to payments made by Northern Irish authorities which wholly or mainly exercise devolved functions.

Public sector bodies not covered by the cap
A newly created public sector body will not be covered by the cap until it is added to Schedule 1. The government expects all public sector bodies not covered by the Regulations – whether they are new or established bodies – to restrict exit payments voluntarily.

The Regulations will be extended to the rest of the public sector at the second stage, with a limited number of exemptions.

The government has proposed that the Secret Intelligence Service, the Security Service, the Government Communications Headquarters and the Armed Forces should be exempt from the cap due to the unique demands and features of careers in these fields.

The Scottish Parliament, Northern Ireland Assembly and Welsh Assembly could introduce regulations which restrict the exit payments made by those public sector bodies in Scotland, Northern Ireland and Wales respectively, which are not covered by these Regulations.

What is an exit?
The Regulations apply where there has been a 'relevant public sector exit' which occurs when an employee leaves the employment of a public sector authority listed in the Schedule, or when a holder of a public sector office listed in the Schedule leaves office.

In the LGPS there are other events which can lead to a pension strain cost which are **not** exits and which therefore are **not** covered by the Regulations:

- Early payment of deferred benefits and all or part of the early payment reductions are waived
- Flexible retirement – providing the member's pay reduction is achieved by changing the employee's contract.

If a LGPS member takes flexible retirement and the pay reduction is achieved by ending their current employment contract and starting a new one then an exit has occurred and the exit payment restrictions would apply.

Although the Guidance and Regulations concentrate on specific exits such as redundancy, because of the wide nature of the definition of exit, we will need to ensure that there are no other circumstances in which payments are made under the scheme which may be caught.

Payments included in the cap

The cap will apply to payments of the following types, but see also the list of exclusions which follows:

a) any payment on account of dismissal by reason of redundancy – including a statutory redundancy payment
b) any payment made to reduce or eliminate an actuarial reduction to a pension on early retirement or in respect to the cost of a pension scheme of such a reduction not being made [pension strain costs]
c) any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement
d) any severance payment or ex gratia payment
e) any payment in the form of shares or share options
f) any payment on voluntary exit
g) any payment in lieu of notice due under a contract of employment [but only if it exceeds a quarter of the employee's annual salary – see the next section]
h) any payment made to extinguish any liability to pay money under a fixed term contract
i) any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office [this will include pay in lieu of notice which is due other than under a contract of employment].

The following payments are **not exit payments** for the purposes of the Regulations:

a) any payment made in respect of death in service
b) any payment made in respect of incapacity as a result of accident, injury or illness
c) certain payments made to retiring firefighters – separate guidance will be issued to cover the position for firefighters
d) a specific service award paid to a member of the judiciary
e) a service payment made in respect of annual leave due under a contract of employment
f) any payment made in compliance with an order of any court or tribunal
g) a payment in lieu of notice due under a contract of employment that does not exceed one quarter of the relevant person's annual salary.

What payments are included in the calculation of an exit payment is subject to change. If HMT becomes aware of payments being made to exiting employees or office holders that are not currently defined as exit payments then it is likely that these payments will be added to the above list.

Where an exit payment exceeds the cap, the employer or the body responsible for determining the remuneration payable to the holder of a public office covered by these regulations must reduce the exit payments until the cap is satisfied. Any statutory redundancy entitlement under the Employment Rights Act 1996 cannot be reduced.

Multiple exit payments
If an individual becomes entitled to more than one exit payment within 28 days, the Regulations prescribe the order in which those exits are treated to have occurred based on the date of exit, salary, hours worked and length of service. The cap applies to the total of the two (or more) exit payments. However, because the statutory redundancy payment cannot be reduced, there may be occasions when an employee receives two or more exit payments within 28 days and the total of those exit payments exceeds the cap. It is the individual's obligation to inform their other public sector employers if they receive an exit payment.

The employer has an obligation to ensure that any exit payment they make does not exceed the exit cap, or if it does exceed the cap that it is compliant with HMT Directions on relaxation. Employers must put processes are in place to request information about any recent or pending public sector exit payments before making such a payment to an exiting employee or office holder.

Pension strain cost

HMT's assumption is that employers will, where possible, cap the redundancy lump sum and allow individuals to receive the pension top up in full. There is no requirement for employers to follow this process, which means that the Regulations as they stand allow employers to restrict any of the elements that make up the exit payment (other than any statutory redundancy payment) in any order.

In a pension scheme which allows partial reduction, if the exit payment cap would otherwise be breached and the exit payment includes pension strain costs, retirement benefits would be reduced to a level which means the cap is not breached. The individual would have the option of buying out some or all of that reduction.

If the Regulations prevent an exit payment being made (because the pension strain cost exceeds the cap and the pension scheme rules do not allow partial reduction, for example) then a cash payment, not exceeding the cap must be paid to the individual.

The position for the LGPS
Paragraph 5 of Schedule 6 to the Enterprise Act 2016 amends the Local Government Pension Scheme Regulations 2013 to allow:

- partial reduction of a member's pension benefits where otherwise the exit payment cap would be breached and
- a scheme member to pay a charge to buy out some or all of that reduction

These changes do not come into effect until HMT issue a commencement order. The effect of the exit payment Regulations on the LGPS is dependent on whether they are enacted before or after the LGPS regulations changes set out in the Enterprise Act come into force.

1. **LGPS Regulations are unchanged**
   If an exit payment includes pension strain cost and would exceed the cap, it is unclear whether the pension could be paid under regulation 30(7)(b) of the LGPS Regulations 2013 if the strain cost referred to in regulation 68(2) cannot be paid in full. It is our understanding that the intention is for the member to receive a fully reduced pension in this circumstance, plus the cash alternative of the strain cost (up to the maximum allowed by the cap). Changes to the LGPS regulations would be required to introduce the option for a member who is made redundant or leaves on the grounds of business efficiency at age 55 or over to defer payment of their pension.

2. **LGPS Regulations amended to allow partial reduction**
   If an exit payment includes pension strain cost and would exceed the cap, then the member's benefits would be reduced to such a level that the exit payment cap is not breached. The member would have the option of paying extra to buy-out some or all of the reduction.

   The proposed regulation changes do not introduce the option to defer payment of pension benefits in the event of a LGPS member who is over age 55 being made redundant or leaving on the grounds of business efficiency. As the regulations

currently stand, a LGPS member whose exit payment has been capped would be forced to accept a reduced pension.

If the option to defer payment of LGPS benefits on redundancy or retirement on business efficiency grounds at age 55 or over is introduced, then a member who exercises the option to defer could be paid the cash alternative to the pension strain cost (up to the maximum allowed by the exit payment cap).

In order to implement partial reduction in the LGPS, guidance from the Government Actuary's Department (GAD) on partial reductions and on the cost of buying out those reductions would be required. Detailed information concerning the method of calculating the partial reduction in a members' benefits, the method and calculation for buying out the reduction – particularly the calculation which would be involved in working out the reduction to apply where some but not all of the reduction has been bought out, and the deadline that applies to an election to make such a payment would be required. It is likely that changes to the LGPS regulations and new statutory guidance would be required to effect this change.

The Regulations do not specify how to calculate the strain cost related to the early payment of a pension on an unreduced basis. The LGPS Regulations state that this strain cost is to be 'calculated by an actuary appointed by the administering authority' and the Guidance says that it 'may be the amount as calculated by the scheme actuary'. Currently, the method of strain cost calculation is formulated locally based on the demographic make-up of the LGPS members in an administering authority. Demographic differences across the country mean that strain cost and the implications for the exit cap could differ widely for LGPS members in different geographical areas, even if they are similar in other respects such as age, salary level and length of pension scheme membership.

If there is no change to the current position then the calculation of the strain cost element of an exit payment will differ between LGPS administering authorities. The benefit of this approach is that the strain cost reflects the best estimate of the cost of paying the pension early, based on actuarial assumptions and the demographics of members participating in the LGPS in a particular administering authority. The main disadvantage is that a member may be affected by the cap based on the calculation adopted by one administering authority who would not be affected had the strain cost been calculated by another administering authority.

An alternative would be for GAD to introduce a standard method of calculating pension strain cost in the LGPS. This would have the advantage that the application of the exit payment cap would be equitable and consistent across the entire scheme. Significant demographic differences exist across the country. The use of a single method of strain cost calculation could result in strain costs being overpaid by certain employers, which may lead to a reduction in employer contribution rates. In other administering authorities the strain cost paid by employers would not reflect the 'true' cost of paying the pension early and consequently could lead to increased employer contribution rates. In these circumstances the exit payment may not reflect the actual cost to the employer of releasing a LGPS pension early.

Relaxation of the restriction on exit payments

HMT Directions set out the circumstances in which the exit payment restrictions must be relaxed – mandatory cases – and the circumstances when they may be relaxed – discretionary cases.

The HMT Directions do not apply to exit payments made by a devolved Welsh authority.

The ‘Decision Maker’ is the person who exercises the power to relax the exit payment restriction. This power generally rests with a Minister of the Crown but can be delegated in respect of exit payments made by certain public sector bodies. This is covered further in the next section.

The power to relax the exit payment cap can be exercised in respect of an individual, or in exceptional circumstances in respect of a group of employees, for example where redundancies occur as a result of specific workforce reforms.

Mandatory cases
The exit payment restriction must be relaxed in the following circumstances:

- Where the obligation to make the payment arises as a result of the applying TUPE regulations
- Where the payment relates to a complaint that an Employment Tribunal (ET) has the jurisdiction to consider. This is limited to complaints under whistleblowing or discrimination legislation and the employer believes, on the balance of probabilities, that an ET would find in favour of the complainant
- Certain exit payments made by the Nuclear Decommissioning Agency

Discretionary cases
The exit payment restriction may be relaxed if the Decision Maker is satisfied that:

- not exercising the power would cause undue hardship
- not exercising the power would significantly inhibit workforce reform *
- an agreement to exit was made **and** the exit was planned to occur before the Regulations came into force, the exit was delayed and the reason for that delay was not attributable to the employee or office holder.

* There is a difference in the wording of the consultation documents here. HMT Directions refer only to ‘workforce reform’, but the Guidance specifies ‘urgent’ workforce reform.

Section 4.5 of the Guidance states that ‘the reasons for exercising a power to relax the cap should relate directly to a relaxation category’, but section 5.1 says that the cap can be relaxed ‘outside of the circumstances outlined in HMT directions…’. The Regulations support the position that the exit payment restriction can be relaxed for reasons other those set out in the Directions with HMT consent. It is possible that there may be changes in later versions of the Regulations, Directions or Guidance which may affect the rules concerning relaxation on grounds other than those currently listed in the HMT Directions.

The power to relax the cap
Generally, the power to exercise the cap lies with a Minister of the Crown, the ‘Decision Maker’, but this is delegated to certain other public sector bodies.

Payment made by:	**Power to relax restrictions delegated to:**
A devolved Welsh Authority	Welsh Ministers
A local authority in England	The full council of that local authority
A fire and rescue authority	The fire and rescue authority
The Greater London Authority	The London Assembly

Depending on who is the 'Decision Maker' and whether the exit payment is being restricted on mandatory or discretionary grounds, HM Treasury approval may also be required before the exit payment restriction can be relaxed.

The consultation documents do not agree on when certain types of approval are required. Table 1 on page 9 sets out our interpretation of the information provided in the consultation documents.

The relevant public sector employer is responsible for ensuring that any exit payment does not exceed the cap, or if it does that the relaxation of the cap has been done in compliance with HMT Directions or with HMT consent.

If an exit payment is made in excess of the cap which is not compliant with HMT Directions, the employer must make an assessment on whether to pursue repayment through the courts. Sanctions may also be imposed on the employer (or, if appropriate the sponsoring department) by HMT.

Recording and reporting exit payments

The Regulations impose responsibilities on Decision Makers, employers and employees related to exit payments.

Employee: requirement to inform
An employee with multiple employments in the public sector who receives an exit payment in respect of one employment is required, as soon as is reasonably practicable, to inform all other public sector authorities by whom he or she is employed about that exit payment in writing. Specifically, the amount and type of exit payment, who will be paying it and the date they left employment or ceased to hold office to which the exit payment relates.

Decision Makers and employers: Duties to keep records
The Regulations require that the person who exercises the power to relax the restriction must keep a written record, for three years from the exit date, of:

a) the fact that the power has been exercised
b) the name of the person in respect of whom the power was exercised
c) the amount and type of the exit payment in respect of which the power was exercised
d) the date on which the power was exercised
e) the reasons why the power was exercised.

The relevant public sector authority must publish the details from c), d) and e) at the end of each financial year.

Although it is not required by the Regulations, the Guidance includes a recommendation that employers record instances when an exit payment is capped.

Table 1: The power to relax restrictions on exit payments

Employer [1] making the exit payment	Decision Maker	Type of case	Consent of HM Treasury required?
Local authority in England A fire and rescue authority The Greater London Authority	Full council of that authority The fire and rescue authority The London Assembly	Mandatory	No
		Discretionary	Yes [2]
Any other public sector body covered by the Regulations	Minister of the Crown	Mandatory	No
		Discretionary	No [3]
All of the above	As above	Outside of circumstances outlined in HMT Directions	Yes
A devolved Welsh authority	Welsh Ministers	All – HMT Directions do not apply	No

[1] or a body responsible for determining the remuneration payable to the holder of a public sector office listed in Schedule 1

[2] The Guidance states that the sponsoring department would have to approve the business case supporting the relaxation of the exit cap as well as HMT. The requirement for this additional approval is not reflected in the wording of the Regulations or the HM Directions.

[3] The Guidance suggests that HM Treasury approval is required where the Decision Maker is a Minister of the Crown, but this is not reflected in the Regulations or the HMT Directions.

The Scottish Parliament, the National Assembly for Wales or the Northern Ireland Assembly may enact regulations to restrict exit payments made by devolved bodies that are not covered by the Regulations. If they do so, any power to relax the restrictions would lie with Scottish, Welsh or Northern Irish Ministers. The HMT Directions would not apply.

The Consultation

The consultation invites responses from:

- employing bodies within scope and out of scope of the Regulations
- employees
- bodies representing those employers or employees
- academics with expertise in this area
- public and private sector pay, pension, remuneration and HR professionals
- anyone else who might be impacted by this consultation

to the following questions:

1. Does draft schedule 1 to the regulations capture the bodies intended? If not, please provide reasons.

2. Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.

3. Do you agree with the exemptions outlined? If not, please provide evidence.

4. Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.

5. Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?

6. Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.

7. Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?

8. Are you able to provide information and data in relation to the impacts set out above?

Responses can be submitted:

Online: https://www.smartsurvey.co.uk/s/QABLW/

By email: ExitPaymentCap@treasury.gov.uk with the subject heading 'Consultation on Exit Payment Cap'

In writing: Workforce, Pay & Pensions Team
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ.

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Employer cost of early release of benefits at age 55

Introduction

We have been requested by Jeff Houston to estimate the strain cost arising from the early retirement of an LGPS member at age 55.

For the purposes of our calculations, we have used a dummy male LGPS member with a date of birth of 31 March 1962 (i.e. will retire at age 55 on 31 March 2017).

These figures are purely for illustration purposes - they are based on the assumptions summarised below.

In particular, the figures give a general idea of the combination of length of service and salary that will lead to a member's early retirement being affected by the proposed £95k cap on public sector exit payments.

Method

For the purposes of our calculations, we have generated a set of example augmentation and early retirement cost factors, based on an "average" LGPS member.

These factors have been generated on a unisex basis and are based on the assumptions below.

Assuming full time continuous employment up to the date of early retirement, we have estimated the LGPS benefits payable to the dummy member and the strain arising from early payment at age 55.

Assumptions

Discount rate	5.0%
Salary increases	3.8%
Pension increases	2.0%
Mortality:	S1PA tables, CMI 2013 with 1.5% p.a. long term rate of improvement

Results

Strain cost arising

	Pay									
Service Yrs	£10,000	£15,000	£20,000	£25,000	£30,000	£40,000	£50,000	£75,000	£100,000	£150,000
2	£2,864	£4,295	£5,727	£7,159	£8,591	£11,454	£14,318	£21,477	£28,636	£42,954
5	£6,334	£9,501	£12,668	£15,835	£19,002	£25,336	£31,670	£47,505	£63,340	£95,010
10	£11,235	£16,852	£22,470	£28,087	£33,704	£44,939	£56,174	£84,261	£112,348	£168,521
15	£14,561	£21,841	£29,122	£36,402	£43,682	£58,243	£72,804	£109,206	£145,608	£218,412
20	£15,563	£23,344	£31,126	£38,907	£46,688	£62,251	£77,814	£116,721	£155,628	£233,442
25	£17,904	£26,857	£35,809	£44,761	£53,713	£71,618	£89,522	£134,283	£179,044	£268,566
30	£20,246	£30,369	£40,492	£50,615	£60,738	£80,984	£101,230	£151,845	£202,460	£303,690
35	£22,588	£33,881	£45,175	£56,469	£67,763	£90,350	£112,938	£169,407	£225,876	£338,814

As shown in the table above, the higher the length of service and the higher the salary, the more likely an early retirement strain will exceed the proposed £95k exit payment cap.

Please note that these results are based on the assumptions as set out above and are for illustrative purposes only.

We would be happy to answer any questions.

Graeme D Muir FFA
Partner, Barnett Waddingham LLP

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Unclassified

Dorset County Pension Fund
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Telephone: 01305 228524
We welcome calls via text Relay

Email: karen.gibson@dorsetcouncil.gov.uk
Website: www.dorsetforyou.gov.uk

LGF Reform and Pensions Team
Ministry of Housing, Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Date: 4 April 2019
My ref: KG
Your ref:

Dear Sirs

Local Government Pension Scheme (LGPS); Fair Deal – Response to Policy Consultation

I write in relation to the above topic; this response is from the Dorset County Pension Fund, on the proposed amendments to the LGPS, introducing Fair Deal protections into the Scheme.

Please find general comments and relevant regulation responses to the questions proposed in the Consultation.

Question 1: Do you agree with the definition of Protected Transferees?

In principle we agree with the definition.

Further clarity will be required in regard to the retention of the protection. The term 'wholly or mainly' needs clear definition. The definition needs also to protect members, in that this should not be open to misinterpretation or manipulation, otherwise the policy intention may not be met. We should also ensure that any new definition provides equal or better protection than under previous regulations.

Question 2: Do you agree with the definition of a Fair Deal Employer?

In principle we agree with the definition.

It would be preferable to include higher and further education establishments, firstly because it seems right to protect the pension entitlements of as many LGPS members as possible, and also to retain access to the LGPS for future employees. This not only provides good pension provision but ensures overall membership does not decrease.

DofE guidance for academies is crucial, as is confirming the position of foundation and voluntary schools.

Question 3: Do you agree with these transitional measures?

We are in agreement with, and supportive of the proposed transitional measures.

Question 4: Do you agree with the calculation of inward transfer values?

We are in agreement with the proposed calculation of inward transfer values.

Question 5: Deemed Employer Status proposals

In principle we agree with the proposals on deemed employer status.

Whilst this may appear a good solution to the current problems faced within funds with increasing numbers of admission agreements, and the difficulty sometimes faced by employers finding contractors to bid for contracts within local authorities because of the high pension risks and costs, there are a number of problems with this solution which I have summarised below.

- *There is a choice about this option, and out-sourcing authorities may not want the deemed employer approach because of the additional administrative burden on them, and potential financial risks.*
- *My experience is that employers rarely fully understand the LGPS, its provisions and financial risks. I am therefore concerned that they will not adequately understand this option. How would we define 'full regard'? And what would the consequences be where full regard was not given?*
- *In out-sourcing contracts, employers generally want as little further involvement as possible. In general, resources within local government are stretched to breaking point, and where there is a choice between the two, they may simply want the option with the least impact on them, (less on-going administration, resource etc) i.e a traditional admission agreement. We could therefore find it's not a popular choice.*
- *Please note the current position for us is that despite enormous efforts in terms of employer communications, we still have employers (usually schools) who do not consult us ahead of out-sourcing services and for who setting up an admission agreement is an after-thought. The ambition to achieve prior engagement at the tender stage, and in discussions over financial contracts etc is unlikely to be achieved in all cases. The change in the LGPS (Amendment) Regulations 2018 which permits an admission agreement to be backdated to the start of a contract where for example, late notification caused a delay in completing the admission agreement process, was not helpful in this respect. It effectively said this was acceptable.*
- *It is not clear that this change will decrease the administrative burden, or current challenges in this area, faced by administering authorities.*
- *It is not clear where the division of responsibility lies between the contractor and out-sourcing employer. Does this extend to decisions made by the deemed employer? I am thinking about possible IDRP cases, Discretion policies, provision of data etc. Who would be responsible for data provision and poor quality data?*

Question 6: What should advice from the scheme advisory board contain to ensure that deemed employer status works effectively?

This is key to these proposed changes achieving positive change from these regulations. I have listed some key areas of concern for us that we would expect to see covered;

- *Clear definition of Deemed Employer*
- *Clear, and detailed, definition of the pension responsibilities of the Deemed Employer, the Fair Deal Employer and the administering authority. This would include data provision,*

financial reporting, contribution payments, application of discretion policies, clear roles for IDRP and all other day to day activities and processes associated with LGPS administration
- *The requirements on the Fair Deal employer in relation to tender exercises and contracts so that it is clear what considerations need to be given to the LGPS from the start of the process. This would include financial details of the pass-through arrangement, contribution rates, pension responsibilities etc*
- *What would be really helpful is some form of consequence to parties involved in not complying with the regulatory requirements*

It would also be helpful to include admission bodies equally within any guidance.

Finally, I would like to understand if this is purely guidance, in which case our ability to ensure compliance may be limited. it is important to consider the type of employers taking on local authority contracts, some of whom present administering authorities with issues affecting data, member benefits and the souring costs to us of legal advice.

Question 7: Should the LGPS Regulations 2013 specify other costs and responsibilities for the service provider where deemed employer status is used?

We think it would be helpful for the responsibilities of service providers to be specified within the regulations as this gives strength to our position, but not necessarily costs.

Question 8: Is retention of admitted body status and inclusion of risk sharing within admission agreements the right approach?

It would be very helpful to administering authorities that where an admission agreement is entered into, any risk sharing agreement is included.

We remain concerned that employers will not be keen to use the Deemed Employer route for reasons set out previously. Ideally the Deemed Employer would be the only option.

Consideration may be given to admission agreements only being available to employers over a certain size and/or contract length.

Question 9: What further steps can be taken to encourage early consideration of pension issues?

As mentioned previously, this remains an issue for us despite concerted efforts to educate employers. The primary area where issues arise is with schools and especially academies.

It is our view that early engagement with the administering authority is essential and helps to ensure contracts remain operational and problem free. We have pushed this message home repeatedly, and we offer an excellent level of support to our employers, with partial but not total success.

A stronger approach is therefore needed and the only route to prevent and deter is financial penalties where the regulatory requirements have not been sufficiently met. Key to this being achieved is clearly defined responsibilities, and a clear method of determining when requirements have not been met.

Could the regulations be changed to include a requirement on employers to inform the administering authority of the out-sourcing of services?

Question 10: Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by our Fair Deal proposals?

It would be preferable to ensure all LGPS employees are covered by these new provisions. Currently certain groups are excluded. This may be unavoidable, but we should be satisfied that those not able to benefit from this better level of protection are not predominantly female and/or lower paid as this might be the case.

<u>Transferring Pension Assets and Liabilities</u>

Question 11: Is this the right approach?

Yes, this approach is right and addresses several immediate issues for us.

Question 12: Do the draft regulations effectively achieve our aims?

We consider the draft regulations to broadly achieve the aims.

Question 13: What should guidance issued by the *Secretary of State* state regarding the terms of asset and liability transfer?

We feel an actuarial perspective is required in relation to this, our only comment is that consideration must be given to equitable treatments of Funds.

Yours faithfully,

Karen Gibson
Pensions Manager
Dorset County Pension Fund

Guidance for the 2019 Valuation in respect of cost cap process and the McCloud and Sargeant age discrimination case (McCloud)

1. The Local Government Pension Scheme Advisory Board (SAB) is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113.

2. The purpose of the Board is to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues.

3. It will consider items passed to it from the Ministry for Housing, Communities and Local Government (MHCLG), the Board's sub-committees and other stakeholders as well as items formulated within the Board. Recommendations may be passed to the MHCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.

4. This guidance is published under Regulation 110 *(3) The Local Government Pension Scheme Advisory Board also has the function of providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and any connected scheme and their pension funds*

Purpose of this guidance

5. Due to the pause of the cost cap process (both HMT and SAB) and the uncertain outcome of the McCloud case there is a scheme liability which is unknown in both scale and timing. A survey of administering authorities undertaken by the SAB in February and March 2019 indicated very strong support for SAB guidance on the approach to be taken with regard to this liability in the 2019 valuation process.

Cost Cap

6. Both the HM Treasury employer cost cap and the SAB cost management process are currently paused pending the outcome of McCloud. At the time of pausing a package of improvements costed at an average of 0.9% of payroll had been recommended. Depending on the profile of the membership of individual LGPS employers the impact on contributions could have varied widely.

7. Depending on the McCloud judgement and the cost of any remedy the following outcomes will be possible.

   - The proposed changes to the scheme as a result of the cost cap will be unnecessary, (should the remedial actions proposed by the Employment Tribunal to address the McCloud judgement match or exceed the costs of benefit improvements required under the cost cap or;
   - Should the McCloud judgement not stand, the cost cap changes will need to be reviewed to allow the impact to be backdated to 1 April 2019 in line with Government commitments or;
   - Should any McCloud remedy cost less than cost cap then further changes to the scheme may be required backdated to 1st April 2019

McCloud

8. Both the timing and the outcome of the age discrimination case McCloud and Sargeant are currently unknown. The potential impact on all public service pension schemes is significant should the 2018 Court of Appeal's finding that protections for those within 10 years of retirement are unlawful be upheld. If, however, the finding is not upheld then the cost cap process will restart.

9. More information on the McCloud case can be found on the Cost Management page of the SAB website http://www.lgpsboard.org/index.php/structure-reform/cost-management

Proposed approach to the valuation

10. Given the unknown nature in the scale and timing of any impact on liabilities as a result of Cost Cap and McCloud the following approach to the 2019 valuation is advised; That -

    I. If there is no finalised outcome on Cost cap/McCloud (in the form of a formal notification by MHCLG to administering authorities including a commitment by government to detailed benefit changes) by 31st August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.

    II. In setting employer contributions for 2020 each administering authority should, with their Actuary, consider how they approach (and reflect in their Funding Strategy Statement) the risk and potential extra costs around this matter in the same way as they would for other financial, employer and demographic risks. This should be to allow employers to be aware of and make provision for the potential cost even though any additional contributions may not commence until after the outcome is known.

    III. Once the outcome of Cost cap/McCloud is known and appropriate benefit changes are made, administering authorities should re-visit employer contributions under such statutory guidance or provision in regulation as may be available at that time. Authorities are referred to the proposals for interim valuations and revisiting employer contributions in the consultation entitled Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk published 8th May 2019 https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk

    IV. At present the impact on exit payments and credits is unknown. Therefore authorities should take account of regulatory requirements, FSS provisions and discuss the approach to be taken with their actuaries. It may be for example that for some employers any impact from either McCloud or Cost Cap would be immaterial and therefore no change to calculations is required. For others it may be that a level of prudency could be in included in calculations to ensure that the fund is not adversely affected by the outcome of this process. Authorities are referred to the proposed changes to exit credits in the consultation entitled Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk published 8th May 2019.

V. In order to provide some assistance for authorities in assessing the potential impact of McCloud the SAB have commissioned GAD to estimate both an overall scheme McCloud cost and a 'worst case' McCloud scenario on a range of pay assumptions. These figures will be published on the SAB website as soon they become available.

Accounting provision

11. CIPFA have provided a separate note on accounting for McCloud/Cost Cap which can be found at https://www.cipfa.org/services/networks/pensions-network/documents-and-guidance/mccloud-briefing-note

SAB Secretariat
14.5.2019

Contact jeff.houston@local.gov.uk or robert.holloway@local.gov.uk or liam.robson@local.gov.uk

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Good Governance Review:

Proposed Models for Survey & Proposed Assessment Criteria

Summary

Stage 1 fact-find: An initial fact-finding stage involving a sample of key stakeholders from across the LGPS has been completed. This has drawn out important issues, themes and ideas for improving LGPS governance and has helped inform the proposed options for consultation and the criteria we propose to assess them.

Stage 2 survey: The survey will invite stakeholders to comment on proposed governance models and how they measure against proposed assessment criteria as follows.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
Conflict	The model minimises S151 officer conflicts (including in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy)
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representative)
Clarity	The model delivers clarity of accountability and responsibility for each relevant role
Consistency	The model minimises dependence on goodwill and relationships to deliver statutory responsibilities
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

Proposed models: The models proposed for the survey are summarised below. Only models that maintain the link to local democratic accountability are in scope.

Option 1 – Improved practice: Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund.

Option 2 – Greater ring fencing of the LGPS within existing structures: Greater separation of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 – Joint Committee (JC): Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - Combined Authority (CA): Establish a CA, a local authority in its own right and a separate legal entity which exists for the sole purpose of administering an LGPS fund.

Next steps and timescales: We will conduct an extensive online survey asking for views from over 300 pension fund officers, S151s, elected members, democratic services officers, local pension board chairs, trade unions and others on the range of models above. Every fund will be invited to respond. The survey will be supplemented with phone interviews, face to face meetings with stakeholders, workshops, conferences, webinars and conversations with professional bodies such as CIPFA and the Association of Democratic Services Officers (ADSO). The survey will run from mid-April to the end May and the findings will form the basis for the final report to be brought to the SAB in July. Legal input on the models will be obtained before final SAB decisions in the autumn.

Purpose

This paper:

- Updates the SAB on progress to date in the Good Governance Review;
- Provides a time table and approach for the completion of the exercise; and
- Asks members of the SAB to approve:
    - the suggested range of options on which further views should be sought; and
    - the assessment criteria which should be applied to the agreed options.

Background

In January 2019 the SAB commissioned Hymans Robertson to facilitate a review of governance models for the LGPS. The purpose of the exercise is to consider means of further raising standards of governance across the LGPS in a way that means conflicts of interest are identified and managed effectively and that the Scheme remains appropriately resourced, able to deliver its statutory functions and meet regulatory obligations. It was stipulated that any models under consideration would retain current links to local democratic accountability.

Agreed approach and work to date

Following discussions with the Board's secretariat the following approach was agreed.

Fact Find

An initial fact find questionnaire issued to a sample of key LGPS stakeholders in a range of roles and representing different types of LGPS funds in terms of size, geography and governance models. The purpose of the fact find was to help identify issues that should be addressed and ideas for improved governance models. This has helped inform the proposed models for the survey and the proposed assessment criteria.

The fact find questionnaire was issued to a sample of:

- Heads/Directors of Pensions at county councils, metropolitan districts Welsh funds and "non-standard" administering authorities;
- Section 151officers at county councils, London boroughs and at councils that are not LGPS administering authorities;
- Heads of pension functions and pension administration managers at county councils;
- Union representatives; and
- LGPS advisors (non Hymans Robertson).

Completed questionnaires, on occasion supplemented with a follow up telephone call, were received from more than 10 individuals.

The questions asked in the fact find are set out below.

1. Please give examples of any barriers in the investment, funding, administration and governance of the LGPS that you have experienced or witnessed.
2. Please give examples of potential issues in those same areas that you believe could arise should the same high levels of professionalism, non partisanship, focus and expertise not be available to the authority in the future.

3 Are the existing local governance arrangements effective in addressing both current barriers and potential future issues?

4 What changes to existing local or scheme wide governance arrangements do you believe would help address the situations described above more effectively?

5 What changes in the LGPS's existing governance structure do you believe would enable the scheme to evolve to best meet the challenges of the future?

A summary of some of the key themes from the fact find, grouped according to role, is provided below.

	Examples of Barriers (existing and potential)	Are current arrangements effective?	Respondents' ideas for change
S151 of administering authorities	Lack of continuity leads to lack of expertise in committee members. Shortage of skills and expertise in investment and funding. Engagement, participation of smaller employers. Conflict of interest between fund and council	Yes. Given pooling further structural change would not be welcome.	Committees to have independent members. More structured training. Less local discretions – more national scheme.
S151 non administering authority	Some Heads of Fund/151s lack experience and subject matter expertise. Lack of engagement and understanding. Perception amongst other Employers that the Administering Authority is not neutral or that it is not behaving completely fairly or properly	Structure only goes so far. There is a disparity at present between funds that could be addressed through improved expertise, engagement and accountability.	Clarify on role of Pension Board. Improved information flow. LGPS management to be added to the CIPFA training syllabus "Tight ringfencing of the Pensions function with a senior (not middle ranking) officer directly responsible for all pension related staff. This senior role should have no non Pension functions." "The issue of neutrality and failing to properly engage with Employers is likely less pronounced and indeed potentially non existent when there is a clear division between an Administering Authority and the Pension Fund."

Head of fund/pension manager	Restrictions on recruitment and pay policy	Reliance on goodwill and relationships between officers / S101 committee / S151 officers.	Find ways of reducing dependence on goodwill and relationships to get good outcomes Independent assessment of resources needed to meet statutory and regulatory (TPR) standards Greater ring-fencing of budgets and resourcing policy from administering authority Council
Advisors	Focus on cost only. Council policies can hamper funds.	Some funds work well, but not effective overall.	Pension Committee approval of budget and other policies eg. Recruitment, pay (adopt or develop their own) Fund specific S151 officer. Conflicts of interest policy Own audit/accounts Increased ring-fencing of pensions function
Trade Unions	Fundamental barriers exist	No - major huge conflicts of interest in decision making.	Root and branch reform needed "We believe that there should be LGPS pension authorities with no less than £100bn of assets under management." "create LGPS pension authorities - separated from the sponsors." "There should be in-house asset management teams" Governance Boards would be composed of 50% eer reps and 50% member reps

Criteria

For any suggested model, survey respondents will be asked to quantitively assess the extent to which the model meets the suggested criteria. In addition, respondents will be offered the opportunity to add a free text comment to explain or further comment on how they feel the model operates under that criterion.

The suggested criteria for the survey are:

Criterion	Explanation	Quantitative Assessment
Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.	1 Strongly Disagree 5 Strongly Agree
Conflict	The model minimises S151 officer conflicts (including in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy)	1 Strongly Disagree 5 Strongly Agree
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representative)	1 Strongly Disagree 5 Strongly Agree
Clarity	The model delivers clarity of accountability and responsibility for each relevant role	1 Strongly Disagree 5 Strongly Agree
Consistency	The model minimises dependence on goodwill and relationships to deliver statutory responsibilities	1 Strongly Disagree 5 Strongly Agree
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.	1 Strongly Disagree 5 Strongly Agree

There are two further criteria which we believe are important, but which are excluded from the survey.

- **Democratic Accountability** - Under the scope of this work, we have only been asked to consider models which maintain the democratic accountability of the LGPS. Therefore, this is not included as a criterion within the survey as all models considered maintain this link.
- **Legislative Change Required** – We understand that the degree of required legislative change will be a consideration of SAB and MHCLG when they evaluate options for change. However, the changes to legislation required to implement each model are not subjective and will be advised, where required, by Eversheds later in the process. Therefore, we do not intend to include this as a criterion within the survey.

Governance Models

It is proposed that the following outline LGPS governance models be taken forward for further consideration. In practice, there are elements within each model which may be adjusted and the final design of each model may be refined based on comments from the survey phase.

Option 1 – Improved practice

Under this model, guidance or amendments to the Local Government Pension Scheme Regulations 2013 are used to enhance the existing LGPS governance arrangements by making more explicit recommendations regarding the operation of the local funds. For example:

- SAB guidance on minimum expected levels of staffing and resourcing;
- SAB guidance on representation on pension committees and expected levels of training for those on pension committees and officers with an LGPS role. Additional guidance could also be considered on the best practice for pension boards;
- Legal clarification on the fiduciary and statutory duties of key individuals within LGPS funds; and
- LGPS regulations set out enhanced process for consulting on FSS and ISS to ensure greater voice for the full range of employers in the fund.

Option 2 – Greater ring fencing of the LGPS within existing structures

Under this model there would be greater separation of pension fund management from the host authority. The measures suggested would promote the understating that the pension fund budget is different from other areas of the council's budget in that it is funded directly from the pension fund and impacts the long term, but not short term, budgets of all participating employers, not just the administering authority.

Features

- The pension fund budget is set at the start of the financial year with reference to its own business plan and service needs.
- Any charges to the fund in respect of support services provided by the host authority, for example legal support, HR and procurement is included in the budget up front.
- Pension fund related expenditure then comes directly from the fund. This removes the common practice whereby pension fund expenditure is paid though the host authority's revenue account to be recharged at a later date.
- The section 151 of the administering authority would retain responsibility for the pensions function but recommendations on budget (including administration resources required to meet TPR standards) would be made by a pension fund officer to the pensions committee which would be responsble for agreeing the budget. (Alternatively, the pension fund could have a separate s151 officer to reduce conflicts currently faced by s151s.)*
- The pension committee would be responsible for agreeing the budget as well as approving any changes to that budget during the financial year.
- The cost of staffing would be met through the fund including any additional costs such as market supplements or redundancy strain.
- Changes to the Audit and Accounting Regulations 2015 could be considered to make the fund accounts legally separate and subject to a separate audit.

In addition to the budget related aspects outlined above further steps could be taken which would give funds greater autonomy over employment policies. The model is analogous to the fund being treated as an internal business unit of the council.

- Staff will continue to be employed by the host council but polices over certain HR matters such as recruitment and the payment of market supplements will be delegated to the pension committee.
- Decisions over other matters pertinent to the fund, for example investment in new administration technology, would also lie with the pension committee.
- Decisions around the structure of the pension function would be for the fund's management team to make with the approval of the pension committee.*

  ** Further consideration is required as to whether these practices could simply be encouraged by regulatory bodies or whether it is possible and/or desirable to find a mechanism by which these could be mandated.*

Option 3 – use of new structures: Joint Committees (JC)

Joint Committees (JCs) are common and well understood within local government but have not, to date, been used to deliver the LGPS function.

Features

- The scheme manager function and all LGPS decision making, which currently sits with the administering authority, would be delegated to a section 102 JC. The committee would comprise all the local authorities who currently participate in the fund as employers.
- Consideration could be given to the representation of other employers and scheme members on the JC.
- Assets and liabilities still sit with the existing administering authority.
- Employment of staff and contractual issues dealt with through a lead authority or a wholly owned company. This could be codified within an Inter Authority Agreement (IAA).
- The IAA would stipulate that the budget will be agreed by the JC. s151s of the constituent local authority employers retain a fiduciary duty to the local taxpayer but the IAA would distance them legally from budget setting responsibilities in respect of the pensions function.

Option 4 – use of new structures: Combined Authorities (CA)

Currently only the South Yorkshire Pension Fund uses a combined authority model to deliver the LGPS.

Features

- Set up an independent structure with the scheme manager function and all decision making passing to the Combined Authority (CA), which would be a local authority in its own right and a separate legal entity. The CA would exist for the sole purpose of administering an LGPS fund and would not have other responsibilities.
- The CA is comprised of councillors from the constituent local authorities in the fund.
- Employment of staff and contractual issues dealt with by the CA.
- Assets and liabilities transferred to the CA.
- Separate accounts based on CIPFA guidance.
- Funded by an element of the contribution rate and by a levy on constituent authorities.

- Officers in CA are responsible only for the delivery of the LGPS function.

Approach to seeking views

It is proposed that that views should be sought on each of the models outlined within this document. This will be done by means of an online questionnaire, the results of which will not be attributable. The questionnaire will be structured in the following way.

- A summary of the main issues and concerns raised during the fact find stage.
- An explanation of the governance models on which views are sought.
- An explanation of the criteria to be considered when commenting on the governance model options.
- Respondents will then be asked how each of the criteria is met by the proposed models.

Respondents would also be asked if there are any issues, criteria or models that have not been raised that should be considered.

To ensure a wide a range of opinions is captured we will work with LGA and CIPFA to ensure that the questionnaire is sent directly to the section 151 and at least one senior pensions officer at each fund plus the chairs of the pension committee and local pension board. In addition, we will proactively seek the views of other stakeholders including monitoring officers, employer and member representatives, and advisors during the survey period. At least 300 questionnaires will be issued and the survey will be heavily promoted so that anyone with an LGPS role who is not contacted directly can participate.

We will be hosting a series of connected events including at least 2 workshops and a webinar.

We will also actively engage with relevant professional bodies such as CIPFA and Association of Democratic Services Officers (ADSO).

Timescales

Subject to the SAB approval, we will launch the survey in the week beginning 15th April 2019 and close the survey on 31 May 2019. We will prepare a summary of results for the SAB meeting in July.

Recommendations

The Board is asked to:

- Note the progress to date in delivering the Good Governance Project;
- Approve the criteria outlined in section 1.3.2 to be used in the next stage;
- Approve the models outlined in section 1.3.3 which will form the basis of the next information gathering stage; and
- Approve the approach outlined in section 1.4 for gathering views on the potential options.

Prepared by:-

John Wright, Catherine McFadyen & Ian Colvin

For and on behalf of Hymans Robertson LLP

Dorset Council KPI Report - CMS stats - All Teams	
Performance 2018/19 - report for period :	1 November 2018 - 31 May 2019
Number of complaints received	**0**

Top 10 detail - cases completed on time	**Completed in period**	**Performance**	**KPI (days)**	**Cases completed on time or early**
Admissions (DR01 & DR01W)	2946	96.74%	30	2850
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)	347	99.42%	15	345
Transfers In Actual (DR02A & DR03A)	124	99.19%	20	123
Transfers Out (DR09E & DR10E)	213	99.06%	10	211
Transfers Out actual (DR09A & DR10A)	124	100.00%	10	124
Estimates Employee (DR08)	525	99.81%	15	524
Estimates Employer (DR22, DR22I, DR22R & DR22W)	249	100.00%	15	249
Retirements (DR14, DR14W & DR12 & DR12I & DR14I & DR22I, DR14T, DR12A, DR14A)	1404	99.15%	5	1392
Deferred Benefits (DR11 & DR11W)	1841	98.75%	40	1818
Refunds (DR16 & DR16W)	1727	96.93%	15	1674
Deaths (DR23)	186	100.00%	5	186
Correspondence (DR24 & DR24A)	1823	99.95%	30	1822
Total	**11509**	**98.34%**		**11318**

MJ HUDSON
Allenbridge

REPORT PREPARED FOR

Dorset County Pension Fund - Pension Fund Committee

JUNE 2019

MJ HUDSON
Allenbridge

Alan Saunders, MJ Hudson Allenbridge
alan.saunders@mjhudson.com

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INVESTMENT OUTLOOK

The first quarter of 2019 staged a strong recovery in markets which reversed the sell-off of Q4 2018. As at end April, global equities were up some 13% year to date in sterling terms, with the UK not far behind, despite all the background noise over Brexit. The decision by the Federal Reserve to pause its monetary tightening has been key to this better tone as markets relax about the risks of recession.

There is no doubt that global growth is slowing if not at a rate to suggest falling output levels, though Europe is still a risk. Trade tension is back with the US and China escalating tariffs in a manner which must damage world trade. Oil prices are also rising with Brent up to $70/bbl as the US takes on Iran again, a situation which may also escalate..

Geopolitical issues rarely trouble markets, perhaps complacently. The current US president is engaged in challenging the post-war consensus over the use of multilateral institutions to foster global trade and growth in favour of an America first policy. Together with the rise of political populism, manifest in the European elections, this challenges many of the presumptions on which equity markets and risk assets are priced. Rising geopolitical risk combined with late cycle economics and fully priced assets suggest further recovery from current levels might be hard to achieve. We should remain cautious.

ECONOMY

The Fed "pivot" in January was confirmed in March , ie that rates would be kept on hold and, further, that balance sheet reduction would end in September .With the stimulus of the tax cuts now exhausted and inflation remaining subdued at 2%, it is possible even to contemplate a rate cut at some stage, though not for some time. Many have argued that the inverted yield curve in the US is a harbinger of recession but there is not much economic support for that at present, given current economic data.

In the UK, GNP recovered in Q1 though that has been ascribed in part to inventory build in anticipation of a hard Brexit. While deadlines for Brexit have been pushed back to end October, we are no nearer an outcome and now face the prospect of a new PM. There was a lot of discussion about a

customs union in the cross-party talks though they came to nothing. The proposals on the table exclude services which count for almost half UK exports. While we could therefore pursue trade deals in services, if we entered into a customs union, they are very hard to negotiate Now, following the European election, , no-deal Brexit is back on the table, which would be unwelcome to markets. Meanwhile, the Chancellor's latest budget shows how strong the fiscal position now is, with the public sector deficit down to 1% of GNP, from 10% in 2009. This suggests scope to offset any damage to the economy caused by a hard Brexit, should that remain a risk. At the same time, the BoE is clearly not pressing ahead with the promised rate increases.

Germany too produced a positive Q1 after two quarters teetering on the edge of recession. However, all is not right, with manufacturing orders down as the auto industry still suffers from the slowdown in China and elsewhere. Italy remains a challenge with the populist government threatening to overturn the rule book and push the fiscal deficit over 3% GNP. The tension between North and South in Europe over burden sharing is not going to disappear. The latest issue is the German push to appoint the Bundesbank president Wiedmann to replace Draghi at the ECB. This is challenging as Wiedmann has consistently opposed the policy of QE in Europe.

Elsewhere, Japan is still benefitting from the BoJ remaining accommodating but remains in low growth mode. China is reporting weakening output levels and sales so it is possible the authorities will turn on the stimulus again, earlier than they would wish as they attempt to reduce the excessive leverage of the economy. The latest round of US tariff increases comes therefore at a bad time. In emerging markets more broadly, political risk seems to be reducing – with Modi reelected recently in India - and currency volatility diminishing as the dollar stabilises so domestic economies could begin to pick up. Even so, countries like Brazil and South Africa disappoint by past standards.

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MARKETS

Last year equities sold off in two phases to produce a negative return of 8% globally though such a retreat fell someway short of a classic bear market. Already this year, equities have staged a sharp bounce back with most markets, including the UK, showing around 12-13% returns to end April. This has been mirrored in credit markets with corporate bond spreads narrowing in again, notably in high yield markets.

It would be an overstatement to say that this recovery reflected a return to a risk-on attitude among investors. It is more of a relief rally caused by the end of the monetary tightening phase in the US and a feeling, perhaps now under challenge, that other major risks such as Brexit and trade tensions were dimishing as threats. Wall St has led the way as usual with the S&P showing spectacular gains since end December, fuelled by recovery in technology stocks. There still remain doubts over the high ratings of the so-called FANGS, demonstrated by the cool market reaction to Uber's market debut. The market recovery was also led by industrial and cyclical stocks, in the UK as well, suggesting fears of recession were quite pronounced at the end of the year .

Markets are now treading water, assailed by the new standoff with China and continuing Brexit fears. Nor is there much support from the corporate sector. US earnings are averaging under 5% growth , German companies seem challenged and some UK companies are beginning to cut their dividends after many years of rising payouts. We are in classic late cycle territory with a ten year bull markets that is showing signs of fatigue and a business cycle that is flatlining, even if the upturn has hardly got under way in Europe.

Most recently, there have been signs of weakness in emerging markets again , with China off 15% from recent highs. The reason seems to be the steady rise of the dollar which tightens global liquidity and revives concerns over the large amount of dollar debt held by EM corporations and countries, much of which is short term and needs to be rolled over.

In this uncertain phase for markets, it is no surprise that government bonds have been sought as a safe haven with US yields back down to 2.4% from over 3% last year and less volatile gilt yields back at 1.1%, all for ten year bonds. The carry offered by corporate bonds has led to spread tightening as buyers return but also to the BoE warning about the risks of credit defaults and further downgrades of investment grade bonds to junk status .The UK remains a high risk in this respect though any mark down in sterling over Brexit will provide relief to overseas earners who of course dominate the FTSE 100 index. UK property has held up surprisingly well but will not be immune to bad domestic news.Overseas buyers may come in if sterling falls, as was the case three years ago.

There seems therefore more downside than upside risk to assets at present but a real bear market seems improbable, absent a financial crisis or move back into recession, both of which seem doubtful. The attitude of the central banks to such concerns will be critical. Can they really expand their balance sheets much further given little scope to reduce interest rates, except in the US? Are surplus countries like Germany prepared to relax fiscal policy? A cautious stance still seems advisable.

ASSET ALLOCATION

Reflecting that note, more cash has been raised out of equities, timed happily after the recent rally so that we are normalising around the longer term strategic benchmark. Absolute return funds such as DGFs have disappointed recently and shown they are not immune to market setbacks though of course they are less volatile than equites. The forthcoming valuation will be important in resetting the discount rate used to value liabilities. That in turn will determine the return required of our assets and perhaps lead to another assessment of the appropriate investment strategy.

RFOR FURTHER INFORMATION

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

Pension Fund Committee

Fund Administrator's Report

Date of Meeting: 20 June 2019

Lead Officer: Aidan Dunn, Executive Director Corporate Development

Executive Summary:

The purpose of this report is to update the Committee on the Pension Fund's funding position, and the valuation and overall performance of the Fund's investments as at 31 March 2019. 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 funding level is estimated to have improved from 83.2% at the last triennial valuation, as at 31 March 2016, to 91.3% as at 31 December 2018. This estimated improvement is largely the result of the substantial appreciation in the value of the Fund's assets in 2016-17. This is only a draft position, and the actuary is now working on the full assessment of the funding position for the triennial valuation as at 31 March 2019.

The value of the Fund's assets at 31 March 2019 was £3,023M compared to £2,854M at the start of the financial year. The quarter saw large rises in all listed equities' markets, which drove a rise in the value of the Fund's assets of 6.3% from 31 December 2018. This rise erased the falls of the previous quarter when the value of the Fund's assets fell by 5.8%.

The Fund's investments returned 6.0% over the financial year to 31 March 2019. This was below the combined benchmark of 7.4%, but above the discount rate (or target rate of return) of 5.4% assumed by the actuary at the last valuation.

As at 31 March 2019, 41% of the Fund's liabilities were hedged against inflation sensitivity.

Equalities Impact Assessment:

Not applicable.

Budget:

Not applicable.

Risk Assessment:

The Fund assesses the risks of its investments in detail, and considers them as part of the strategic allocation. In addition, risk analysis is provided alongside the quarterly performance monitoring when assessing and reviewing fund manager performance.

Other Implications:
None
Recommendation: That the Committee: i) Review and comment upon the activity and overall performance of the Fund. ii) Note the progress in implementing the new strategic asset allocation. iii) Note the publication of the draft (unaudited) Pension Fund accounts for 2018-19.
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 target.
Appendices: Appendix 1: Listed Equities Report Appendix 2: Corporate Bonds Report (RLAM) Appendix 3: Multi Asset Credit (CQS) Appendix 4: Property Report (CBRE) Appendix 5: Liability Driven Investment (Insight) Appendix 6: Draft Pension Fund Accounts 2018-19
Background Papers:
Officer Contact Name: David Wilkes, Senior Finance Manager (Treasury and Investments) Tel: 01305 224119 Email: investments@dorsetcouncil.gov.uk

1. Funding Update

1.1 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.

1.2 As at 31 March 2016, the Fund had a funding level of 83.2% i.e. the assets were 83% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used.

1.2 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.

1.3 As the actuary is now working on the full assessment of the funding position as at 31 March 2019, their latest indicative assessment is based on the position as at 31 December 2018. 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.

1.5 The results of this assessment indicated that the current projection of the funding level as at 31 December 2018 was 91.3%. However, the final position at 31 March 2019 will depend on the assumptions adopted as part of the 2019 valuation process.

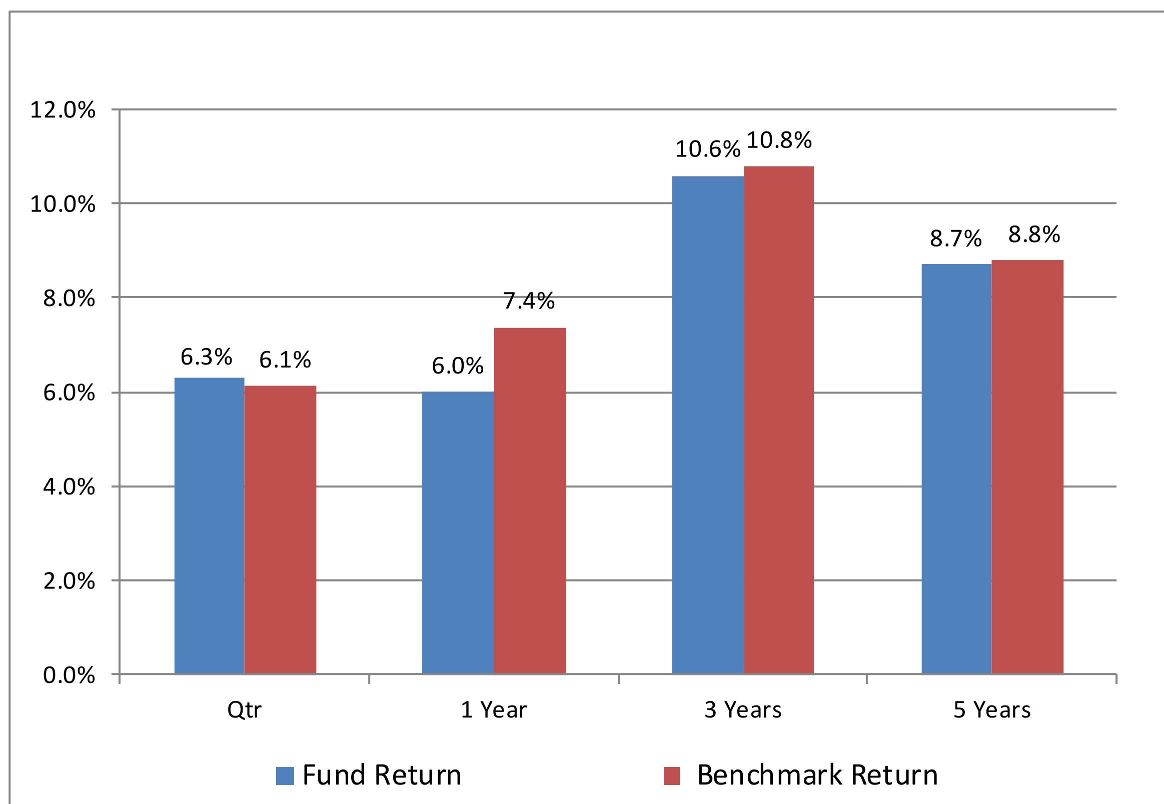
2. Asset Valuation Summary

2.1 The table below shows the Fund's asset valuation by asset class at the beginning of the financial year and as at 31 March 2019, together with the target allocation as agreed at the meeting of the Committee, 13 September 2017.

	31-Mar-18		31-Mar-19		Target Allocation	
Asset Class	**£M**	**%**	**£M**	**%**	**£M**	**%**
UK Equities	684.4	24.0%	643.0	21.3%	604.7	20.0%
Overseas Equities	654.2	22.9%	703.0	23.3%	665.2	22.0%
Emerging Markets Equities	103.2	3.6%	98.2	3.2%	90.7	3.0%
Total Listed Equities	***1,441.8***	***50.5%***	***1,444.2***	***47.8%***	***1,360.6***	***45.0%***
Corporate Bonds	204.5	7.2%	214.4	7.1%	181.4	6.0%
Multi Asset Credit	136.2	4.8%	139.7	4.6%	151.2	5.0%
Diversified Growth	173.3	6.1%	176.1	5.8%	241.9	8.0%
Infrastructure	106.6	3.7%	138.7	4.6%	151.2	5.0%
Private Equity	76.5	2.7%	80.3	2.7%	151.2	5.0%
Property	295.4	10.4%	323.3	10.7%	362.8	12.0%
Cash	40.0	1.4%	105.1	3.5%	-	0.0%
F/X Hedging	-	0.0%	0.7	0.0%	-	0.0%
Total Return Seeking Assets	**2,474.3**	**86.7%**	**2,622.5**	**86.7%**	**2,600.3**	**86.0%**
Liability Matching Assets	379.7	13.3%	401.1	13.3%	423.3	14.0%
Total Asset Valuation	**2,854.0**	**100.0%**	**3,023.6**	**100.0%**	**3,023.6**	**100.0%**

3. Investment Performance Summary

3.1 The overall performance of the Fund's investments to 31 March 2019 is summarised below.



3.2 The Fund returned 6.0% for the twelve months to 31 March 2019, underperforming the combined benchmark by 1.4%. Over the longer term, the Fund underperformed its benchmark over 3 years, returning an annualised 10.6% against the benchmark return of 10.8%, and underperformed over 5 years, returning an annualised 8.7% against the benchmark of 8.8%.

3.3 The Fund's relative underperformance partly a result of the high cash balances which we have allowed to develop as part of cautious approach to current market outlook. It is also in part driven by the performance of managers who have 'cash plus' or 'absolute return' benchmarks which are not directly linked to market returns, particularly over the shorter term.

4. Implementation of changes to Strategic Asset Allocation

4.1 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.

4.2 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 7.1% against the revised target of 6%.

4.3 The increased allocation to Diversified Growth Funds (DGF) was met in part by investing a further £50M in the Baring Dynamic Asset Allocation Fund in February 2018 funded by partial disinvestment from the then internally managed UK equities portfolio. This leaves the current allocation to DGF as 5.8% against the revised target of 8%.

4.4 The allocation to Listed Equities reduced from 50.5% at the beginning of the financial year to 47.8% as at 31 March 2019, compared to the target of 45%. In July 2018, the internally managed passive UK equity portfolio, and the global equity investments managed by Allianz transitioned to Brunel portfolios managed by Legal and General Investment Management (LGIM) in July 2018. In November 2018, assets under management of external UK Equities manager AXA Framlington were transferred to the Brunel UK Equities Active portfolio.

4.5 As part of these transitions there were disinvestments of £37M from the self-managed UK Equities portfolio, £34M from the Allianz portfolio, and £10M from the AXA Framlington pooled fund, followed by a further £15M disinvestment from the LGIM passive equities fund.

4.6 Since the end of March there have been further disinvestments from listed equities portfolios of £50M- £25M from Brunel's UK active portfolio, £5M from Brunel's LGIM smart beta global equities portfolio, £10M from Investec and £10Mfrom Wellington. These disinvestments will reduce the Fund's allocation to listed equities to approximately 46% (based on current asset values).

4.7 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 £1.2M being invested in January 2019, with a further 2.0% commitment to the Brunel Secured Income portfolio of which £2.9M was also invested in January 2019. Drawdowns against commitments will be funded from cash balances and/or further disinvestment from equities and corporate bonds.

4.8 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.

5. Performance by Asset Class and Investment Manager

UK Equities

5.1 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 - £374.0m assets under management (AUM)

	Performance	Benchmark	Relative
Quarter	9.4%	9.4%	0.0%
Since inception	-3.3%	-3.2%	-0.1%

Schroders - £52.0m AUM

	Performance	Benchmark	Relative
Quarter	1.8%	5.1%	-3.3%
12 months	-5.6%	-3.1%	-2.5%
3 years p.a.	10.9%	5.9%	5.0%
5 years p.a.	9.8%	4.9%	4.9%
Since inception p.a.	9.9%	6.2%	3.7%

Global Developed Markets Equities

5.2 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 - £219.8m AUM

	Performance	Benchmark	Relative
Quarter	11.6%	9.9%	1.7%
12 months	12.2%	12.0%	0.2%
3 Years p.a.	13.7%	14.4%	-0.7%
Since inception p.a.	13.4%	13.7%	-0.3%

Wellington - £238.0m AUM

	Performance	Benchmark	Relative
Quarter	10.8%	9.9%	0.9%
12 months	11.6%	12.0%	-0.4%
3 years p.a.	15.1%	14.4%	0.7%
Since inception p.a.	14.6%	13.7%	0.9%

Brunel/LGIM Smart Beta - £149.2m AUM

	Performance	Benchmark	Relative
Quarter	9.2%	9.2%	0.0%
Since inception	2.4%	2.7%	-0.3%

Brunel/LGIM Smart Beta (Hedged) - £131.8m AUM

	Performance	Benchmark	Relative
Quarter	11.6%	11.1%	0.5%
Since inception	1.9%	1.1%	0.8%

5.3 Relative performance in the quarter and the financial year to date was above the benchmark for both Investec and Wellington. Over twelve months Investec

outperformed their benchmark by 0.2%, whilst Wellington underperformed by 0.4%. Since inception in December 2015 Wellington are above their benchmark whilst Investec are underperforming their benchmark.

5.4 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 - £98.2m AUM

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

	Performance	Benchmark	Relative
Quarter	7.5%	7.4%	0.1%
12 months	-4.9%	-0.3%	-4.6%
3 years p.a.	14.6%	14.4%	0.2%
5 years p.a.	9.1%	8.9%	0.2%
Since inception p.a.	5.6%	5.7%	-0.1%

5.6 The quarter to 31 March 2019 saw emerging markets outperform its benchmark after a tough year. There were strong performers by both China and Russia with Turkey being one of a few countries to decline over the period.

Corporate Bonds - £214.3m AUM

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

	Performance	Benchmark	Relative
Quarter	5.3%	5.4%	-0.1%
12 months	4.8%	4.5%	0.3%
3 years p.a.	7.0%	5.9%	1.1%
5 years p.a.	7.5%	6.8%	0.7%
Since inception p.a.	8.7%	8.5%	0.2%

5.8 The manager was below benchmark for the quarter but above benchmark over one year and all longer periods.

Multi Asset Credit (MAC) - £139.7m AUM

5.9 The performance of the Fund's external MAC manager, CQS, is detailed in Appendix 3 and summarised below.

	Performance	Benchmark	Relative
Quarter	2.9%	1.2%	1.7%
12 months	2.6%	4.8%	-2.2%
Since inception (Dec-17)	2.6%	4.7%	-2.1%

5.10 The target for the CQS fund is cash (1 month LIBOR) plus 4% over the longer term, and this is used as the benchmark for the investment.

Property - £3203m AUM

5.11 The performance of the Fund's external Property manager, CBRE, is detailed in Appendix 4, and summarised below.

	Performance	Benchmark	Relative
Quarter	2.0%	0.9%	1.1%
12 months	5.4%	6.0%	-0.6%
3 years p.a.	6.9%	6.8%	0.1%
5 years p.a.	10.3%	9.7%	0.6%
Since inception p.a.	7.9%	7.8%	0.1%

5.12 The portfolio has underperformed the Investment Property Databank (IPD) benchmark over one year but outperformed over three and five years.

Diversified Growth Funds (DGF) - £176.1m AUM

5.13 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.

5.14 The performance for Barings is summarised below.

	Performance	Benchmark	Relative
Quarter	6.1%	1.2%	4.9%
12 months	1.6%	4.9%	-3.3%
3 years p.a.	5.2%	4.6%	0.6%
5 years p.a.	4.1%	4.6%	-0.5%
Since inception p.a.	4.3%	4.6%	-0.3%

5.15 The target for the Barings fund is cash (3 month LIBOR) plus 4% over the longer term and this is used as the benchmark for the investment.

Private Equity

5.16 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 March 2019 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	107.3	74.9	70%	68.8	46.9	40.9
Aberdeen Standard	76.6	53.4	70%	54.9	32.1	33.5
Brunel	60.0	1.5	3%	0.0	1.3	-0.2
Total	**243.9**	**129.8**	**53%**	**123.6**	**80.3**	**74.2**

5.17 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.

5.18 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.

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

HarbourVest - £46.9m AUM

	Performance	Benchmark	Relative
Quarter	-2.8%	9.4%	-12.2%
12 months	23.3%	6.4%	16.9%
3 years p.a.	15.4%	9.5%	5.9%
5 years p.a.	18.3%	6.1%	12.2%
Since inception p.a.	10.8%	5.7%	5.1%

Aberdeen Standard - £32.1m - AUM

	Performance	Benchmark	Relative
Quarter	-4.3%	9.4%	-13.7%
12 months	19.7%	6.4%	13.3%
3 years p.a.	10.7%	9.5%	1.2%
5 years p.a.	11.0%	6.1%	4.9%
Since inception p.a.	3.1%	6.2%	-3.1%

Infrastructure

5.20 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. The target for each manager is a 10% absolute annual return and this is used at the benchmark for these investments. Performance is summarised in the tables below:

Hermes - £51.9m AUM

	Performance	Benchmark	Relative
Quarter	-0.9%	2.4%	-3.3%
12 months	-1.2%	10.0%	-11.2%
3 years p.a.	6.8%	10.0%	-3.2%
Since inception p.a.	7.8%	10.0%	-2.2%

5.21 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 - £86.8m AUM

	Performance	Benchmark	Relative
Quarter	0.7%	2.4%	-1.7%
12 months	18.0%	10.0%	8.0%
3 years p.a.	16.7%	10.0%	6.7%
Since inception p.a.	16.7%	10.0%	6.7%

5.22 During the quarter, IFM completed two acquisitions: a 25% stake in VTTI B.V. from Buckeye Partners for US$487.5 million and executed an agreement to acquire a 30% stake in Deepwater Container Terminal Gdansk, the largest container terminal in Poland.

5.23 The broader portfolio continued to deliver positive returns in local currency terms, with outperformance, in particular from Impala Terminals, Vienna Airport, VTTI and Manchester Airports Group. This performance was partially offset by negative yields from Arqiva Limited, and Colonial Pipeline Company.

5.24 The investments with IFM are denominated in US dollars but performance is measured in sterling, therefore currency movements can contribute to volatility in performance.

<u>Liability Driven Investment (LDI) - £401.1m AUM</u>

5.25 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

5.26 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 March 2019, 13.3% of the Fund's assets were invested in the mandate but 41.1% 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.

5.27 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.

5.28 The performance of the manager is detailed in Appendix 5 and summarised below.

	Performance	Benchmark	Relative
Quarter	5.8%	5.2%	0.6%
12 months	8.6%	8.4%	0.2%
3 years p.a.	22.1%	16.1%	6.0%
5 years p.a.	9.9%	8.9%	1.0%
Since inception p.a.	12.7%	11.3%	1.4%

6. Cash and Treasury Management

6.1 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 March 2019 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	11,298	0.20%
Svenska Handelsbanken	10,000	0.68%
Total Call Accounts	21,298	0.43%
Money Market Funds		
Aberdeen Standard	15,000	0.78%
BNP Paribas	15,000	0.80%
Federated Prime Rate	15,000	0.78%
Deutsche	4,800	0.75%
Goldman Sachs	8,650	0.71%
Total Money Market Funds	58,450	0.77%
Holding Accounts		
State Street Custody Accounts	14,800	0.70%
Property Client Account	567	0.00%
Total Holding Accounts	15,367	0.67%
Total Cash / Average Return	**105,115**	**0.70%**

6.2 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 March 2019

	£M	£M
Cash at 1 April 2018		**40.0**
Less:		
Property Transactions (net)	25.9	
Infrastructure Drawdowns (net)	18.9	
Currency Hedge (net)	23.5	
		68.3
Plus:		
Private Equity (net)	11.8	
UK Equity transactions (net)	7.0	
UK Passive Internally Managed Disinvestment (net)	36.6	
Allianz Disinvestment (net)	34.2	
AXA Framlington Disinvestment (net)	10.0	
LGIM UK Passive (net)	15.0	
Net Contributions	18.8	
		133.4
Cash at 31 March 2019		**105.1**

7. Pension Fund Accounts 2018-19 (Appendix 6)

7.1 Dorset County Council draft unaudited accounts for 2018-19, including the Pension Fund accounts, were approved for publication by the Chief Financial Officer 3 May 2018. The statutory deadline for publication of the draft accounts is 31 May each year.

Dorset County Pension Fund Committee 20 June 2019

Listed Market Equities – Performance Summary

1. Equity Markets Performance

1.1 The quarter to 31 March 2019 was a more positive one for equity markets as they made gains, offsetting falls from the previous three months and rebounding from a weak end to 2018 as concerns over the China-United States dispute eased (although perhaps temporarily) and major central banks grew more accommodative.

1.2 US equities recovered from a weak October to December 2018 quarter to post significant gains in the quarter ending 31 March 2019. January 2019 was especially strong, as the Federal Reserve confirmed it would adjust planned interest rate rises to compensate for deteriorating economic momentum and the US government shutdown ended.

1.3 In the Eurozone equities enjoyed strong gains in the quarter ending March 2019, recovering falls in the previous quarter. Stock markets were supported by central banks stepping away from tighter monetary policy. The European Central Bank said that interest rates would remain at current levels at least until the end of the year.

1.4 In the UK, there were strong performance of the UK's technology sector and consumer goods companies, including the FTSE100's tobacco and beverage sectors. A number of lowly-valued, domestically-focused areas bounced back strongly following the delay to Brexit beyond March 2019.

1.5 The FTSE100 rose 3.2% between 1 April 2018 to 31 March 2019 despite Brexit uncertainty and the trade war between the US and China worried investors but they were in line with global equities.

1.6 In the US, the S&P 500 rose 7.3% over the twelve-month period to 31 March 2019.

1.7 The tables below show the performance of UK and World indices over three and twelve months to 31 March 2019.

Three months to 31 March 2019

Country	Index	31/12/2018	31/03/2019	% Change
UK	FTSE100	6,728.1	7,279.2	8.2
UK	FTSE250	17,502.1	19,117.5	9.2
UK	FTSE350	3,722.2	4,033.1	8.4
UK	Small Cap	5,177.2	5,466.4	5.6
UK	Small Cap ex Investment Trusts	6,779.0	7,127.7	5.1
UK	All Share	3,675.1	3,978.3	8.3
Japan	Nikkei225	20,014.8	21,205.8	6.0
US	S & P 500	2,506.9	2,834.4	13.1
Hong Kong	Hang Seng	25,845.7	29,051.4	12.4
France	Cac 40	4,730.7	5,350.5	13.1
Germany	Dax	10,559.0	11,526.0	9.2
China	Shanghai Composite	2,493.9	3,090.8	23.9

Twelve months to 31 March 2019

Country	Index	31/03/2018	31/03/2019	% Change
UK	FTSE100	7,056.6	7,279.2	3.2
UK	FTSE250	19,460.5	19,117.5	-1.8
UK	FTSE350	3,941.2	4,033.1	2.3
UK	Small Cap	5,593.1	5,466.4	-2.3
UK	Small Cap ex Investment Trusts	7,354.9	7,127.7	-3.1
UK	All Share	3,894.2	3,978.3	2.2
Japan	Nikkei225	21,454.3	21,205.8	-1.2
US	S & P 500	2,640.9	2,834.4	7.3
Hong Kong	Hang Seng	30,093.4	29,051.4	-3.5
France	Cac 40	5,167.3	5,350.5	3.5
Germany	Dax	12,096.7	11,526.0	-4.7
China	Shanghai Composite	3,168.9	3,090.8	-2.5

1.8 There was positive performance from the UK markets in the three months to 31 March 2019. The FTSE250 was the best performer rising 9.2% (1,615 points). The Small Cap excluding Investment Trusts was the worst performing UK index despite rising 5.1% (349 points). The FTSE100 rose 8.2% (551 points) over the same period. In comparison, performance from world indices were equally positive. The Shanghai Composite was the best performer rising 23.9% (597 points). The Nikkei225 was the worst performer despite rising 6.0% (1,191 points). The S&P 500 rose 13.1% (328 points) over the same period.

1.9 Over the twelve-month period to 31 March 2019, there was mixed performance from the major UK indices. The FTSE100 was the best performer rising 3.2% (223 points). The Small Cap excluding Investment Trusts was the worst performing UK index falling 3.1% (227 points). In comparison, performance from world indices were equally mixed. The S&P 500 was the best performing index rising 7.3% (194 points). The Dax was the worst performer falling 4.7% (571 points) over the same period.

2. Market Review

2.1 Global equities rose to their best quarterly return since September 2009. Markets were buoyed by productive trade negotiations between the US and China, and by dovish rhetoric from the major central banks.

2.2 The US delayed its plan to increase tariffs on US$200 billion of imports from China amid constructive dialogue between US and Chinese trade representatives on key issues and growing optimism that the two countries can ultimately reach a trade agreement.

2.3 Brexit risks increased after Parliament rejected prime Minister Theresa May’s deal for the third time, raising the prospect that Britain could depart the European Union without a withdrawal agreement.

2.4 On the monetary front, the European Central Bank surprised markets by keeping interest rates low, sharply cutting growth forecasts and announcing an extended liquidity policy. The US Federal Reserve left short-term interest rates unchanged and indicated that rates will likely remain unchanged throughout 2019.

UK Equity performance for the period ending 31 March 2019

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, Schroders.

3.2 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 (£613.6M) at 31 March 2019) are shown in the table at paragraph 4.1.

3.3 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 March 2019.

	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	33,447	-3,702	-3,063	-13,836	10,552	23,398
Valuation 31-Mar-19	0	0	52,033	374,014	187,596	613,643

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 March 2019.

	Schroders	LGIM
Quarter to Date		
Performance	1.8%	9.4%
Benchmark	5.1%	9.4%
Relative Return	-3.3%	0.0%
Twelve Months to Date		
Performance	-5.6%	-
Benchmark	-3.1%	-
Relative Return	-2.5%	-
Three Years p.a.		
Performance	10.9%	-
Benchmark	5.9%	-
Relative Return	5.0%	-
Five Years p.a.		
Performance	9.8%	-
Benchmark	4.9%	-
Relative Return	4.9%	-
Since Inception		
Performance	9.9%	-3.3%
Benchmark	6.2%	-3.2%
Relative Return	3.7%	-0.1%

Global Equities performance for the period ending 31 March 2019

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 March 2019.

	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	28,237	23,838	24,669	5,936	-5,104	77,576
Valuation 31-Mar-19	0	219,765	238,172	281,051	98,177	837,165

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 March 2019.

	Investec	Wellington	LGIM Smart Beta	LGIM Smart Beta (Hedged)	JPM
Quarter to Date					
Performance	11.6%	10.8%	9.2%	11.6%	7.5%
Benchmark	9.9%	9.9%	9.2%	11.1%	7.4%
Relative Return	1.7%	0.9%	0.0%	0.5%	0.1%
Twelve Months to Date					
Performance	12.2%	11.6%	-	-	-4.9%
Benchmark	12.0%	12.0%	-	-	-0.3%
Relative Return	0.2%	-0.4%	-	-	-4.6%
Three Years to Date					
Performance	13.7%	15.1%	-	-	14.6%
Benchmark	14.4%	14.4%	-	-	14.4%
Relative Return	-0.7%	0.7%	-	-	0.2%
Five Years to Date					
Performance	-	-	-	-	9.1%
Benchmark	-	-	-	-	8.9%
Relative Return	-	-	-	-	0.2%
Since Inception					
Performance	13.4%	14.6%	2.4%	1.9%	5.6%
Benchmark	13.7%	13.7%	2.7%	1.1%	5.7%
Relative Return	-0.3%	0.9%	-0.3%	0.8%	-0.1%

8.2 Investec outperformed its benchmark over three months by 1.7% and by 0.2% over the twelve months to the 31 March 2019. Wellington outperformed their benchmark by 0.9% over three months but underperformed by 0.4% over twelve months. Since inception, Wellington has outperformed their benchmark by 0.9%, whilst Investec has underperformed by 0.3%.

8.3 JP Morgan have outperformed their benchmark for the quarter by 0.1% but underperformed by 4.6% over twelve months. JPMorgan outperformed the benchmark by 0.2% over the 3 and 5 years. Since inception JP Morgan have underperformed their benchmark by 0.1%.

9. Manager Commentaries (Active Mandates)

9.1 **Schroders (UK Smaller Companies)**

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. Shares in casual dining specialist Restaurant Group de-rated following news of the untimely departure of the company’s dynamic CEO. Full-year results were broadly in line with expectations and Wagamama, the recently acquired UK and international operator of Asian themed restaurants, continues to trade well.

Specialist plastics maker Carclo issued a significant profit warning in January due to challenges in its LED technologies division. There was some positive news from the group’s smaller aerospace division, which has continued to perform slightly ahead of expectations and well ahead of the prior year. This position now accounts for less than 0.3% of the total portfolio. Biotechnology company Oxford BioDynamics

retreated to similar levels as this time last year due to concerns around profitability. Hampering profitability is management's drive to increase investment into revenue-generating research and other projects spanning various fields such as immune-oncology, fibrosis and thyroid cancer.

On the positive side, specialist builder of affordable housing MJ Gleeson performed well on the back of robust interim results. Mobile advertising platform provider Taptica International bounced back following a very poor performance in the previous quarter as the market welcome its acquisition of AIM-quoted peer RythmOne. Meanwhile, supplier of technology and resources to the education sector RM performed well on the back of solid full-year results.

The holding in Tax Systems was sold following a recommended bid approach for the supplier of corporation tax software and services. The successful investment in Strix was sold, who are the global leader in kettle safety controls. A new holding in fashion retailer Superdry following their demotions from the FTSE 250 index was purchased. A new position in high technology products and services supplier Oxford Instruments was acquired.

9.2 **Investec (Global Equities)**

The quarter to 31 March 2019 was very positive for the performance of the fund and it outperformed the index. The outperformance was largely due to strong stock picking. After a very volatile closing few weeks of 2018, analysts believe that valuations across the portfolio were oversold, giving conviction to keep the portfolio's position.

The quarter was especially good for returns in the consumer staples sector. A large part of this contribution was due to 'premiumisation' of Chinese consumer spending. Several unique opportunities have arisen, with Chinese pork producer WH Group benefiting from the de-escalation of trade tensions with the US.

Returns by Chinese financials AIA rallied on news that regulators had accepted the company's request to expand into a further three regions. Returns in the sector were also enhanced by a rebound from US banking giant Citigroup.

The fund benefited from solid results from cloud infrastructure provider VMware and payment processor Worldpay, which both demonstrated their ability to capture the structural growth opportunities presented by the growing reliance of internet and digital services. Worldpay attracted a takeover bid from competitor FIS, cementing its position as one of the quarter's best performing holdings.

On the negative side, some setbacks across the materials sector were experienced as US chemical firm DowDuPont and fertiliser company Mosaic both retreated amid concerns about slowing demand in their respective markets. DowDuPont was sold and the holding in Mosaic was reduced to reflect a lower conviction after recent setbacks.

Healthcare was also a negative performer as proposed changes to the US's drug pricing framework led several insurance and benefit managers to perform less well. There was relative underperformance from Cigna and United Health but both firm's holding will still be held and will assess the likely impact the regulation could have on each stock's 4Factor credentials.

9.3 **Wellington (Global Equities)**

The portfolio outperformed the index over the quarter performing 10.8% against its benchmark of 9.9%.

Strong selection in information technology and real estate was partially offset by selection in healthcare and communication services. On a regional basis, strong stock selection in North America and Developed Europe & Middle East ex UK was partially offset by selection in Japan and United Kingdom.

Within information technology and real estate, the top relative contributors were overweights to SS&C Technologies and American Tower, respectively. Within healthcare and communication services, the top relative detractors were overweights to Eisai and BT Group respectively.

SS&C Technologies shares rose as the company reported strong quarterly results driven by earlier-than-expected cost synergy realisation from recent acquisitions. American Tower reported strong fourth quarter 2018 results due to increased use of mobile data which drove demand for tower space. Shares in Eisai declined during the quarter after the company terminated two Phase 3 clinical trials of aducanumab in Alzheimer's disease. Competitive broadband prices and regulatory headwinds continue to pressure BT Group's share price.

9.4 **JP Morgan (Emerging Market Equities)**

Global Market Review: The quarter to 31 March 2018 brought a new wave of optimism, with Emerging Markets equities rallying strongly. The sell-off in the quarter was driven largely by concerns about the potential for an escalation in the trade war between the US and China, fears that higher interest rates could damage the US economy and broader worries about a slowdown in global growth. In response to these concerns, the Federal Reserve gave investors hope that a recession could be avoided in the short term and boost sentiment around global equities.

By market, China was one of the strongest performers, given the progress on trade talks and concrete plans by the Chinese authorities to stabilise growth. Russia outperformed, again through improving sentiment, this time relating to sanctions. Turkey was one of a handful of countries to decline over the period, with concerns resurfacing relating to president Erdogan's handling of the economy.

3 Month review: The portfolio marginally outperformed its benchmark over the three month period, with stock selection detracting to relative returns while country allocation contributed. Performance was led by stock selection in Russia, where Lukoil was among the top contributors in the period, after the company announced strong quarterly results. The stock was further boosted by guidance from management that they will introduce changes to the dividend policy which could increase dividend per share.

Stock selection in the financial sector also aided relative performance, specifically driven by stock picks in China, including exposure to China Merchants Bank.

Korea was the single largest detractor in the period, as this cyclical market has lagged Emerging Markets overall year to date, despite very attractive valuations, as investors worried about global growth. Moreover, the market was dragged down by corporate earnings downgrades, especially in the semiconductor sector. Being overweight proved a negative on performance, as Emerging Markets overall produced roughly double the return of Korea in the quarter.

12 Month Review: The portfolio underperformed its benchmark over the twelve month period, with stock selection weighing on relative performance, while country allocation had a neutral effect. Stock selection in Taiwan proved to be a drag on relative returns, led by stocks that have exposure to the Apple supply chain. The portfolios exposure to Global Wafers, a global leader in semiconductor technology, weighed on relative performance during the period, as the stock fell over 35% (in USD terms) on the back of slower than expected demand as a result of softer global growth.

Stock selection in China was a key detractor to relative performance. US-China trade tensions and disappointing smartphone demand significantly dampened investors' confidence, particularly hurting the Apple supply chain names. Additionally, the exposure to Baidu, weighed on relative returns, as internet names broadly traded down with US FAANG stocks towards the end of 2018, without any fundamental news flow.

On the positive side, the portfolio's exposure to Brazil, boosted relative returns as the election of Jair Bolsonaro drove the Brazilian market higher in the last quarter of 2018 and the beginning of 2019, on elevated hopes for market-oriented reforms.

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. Defensive sectors are being added to at a margin 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)
June 2019

ASSET MANAGEMENT

DORSET COUNTY PENSION FUND

Quarterly Report 31 March 2019

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CONTENTS

PORTFOLIO REVIEW 3
FUND PERFORMANCE 5
RLPPC OVER 5 YEAR CORPORATE BOND FUND 6
FURTHER INFORMATION 10
RLAM TEAM 11
FINANACIAL STATEMENTS 13

ROYAL LONDON

PORTFOLIO REVIEW

Fund performance objective

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

Fund asset allocation

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

Portfolio value

	Portfolio total (£m)
31 March 2019	**214.35**
31 December 2018	203.52
Change over the quarter	10.83
Net cash inflow (outflow)	0.00

Executive summary

Performance

- The Fund gave a gross return of 5.32% over the quarter, bringing the 12 month return to 4.82%.
- Sterling investment grade credit spreads tightened during the quarter as a whole. Risk assets rebounded after a weak fourth quarter of 2018, while receding fears over interest rate increases helped push fixed income yields lower. The average credit spread (the yield premium of credit bonds over UK government bonds) tightened over the quarter as a whole by 19 basis points (bps), ending March at 132bps. Spreads were tighter across all sectors of the sterling credit market. In sector terms, increased investor risk appetite meant that sectors perceived as riskier outperformed.
- The Fund slightly underperformed the sterling credit market, with negative effects from our structured exposure offsetting the positive from our overweight in financials and underweight in supranationals.

The economy and bond markets

- Global growth likely continued to slow in the first quarter, with several major economies looking close to stagnation. Trade indicators remained weak throughout the period, likely reflecting a slowdown in the Chinese economy, tariff fears and political uncertainty. On the other hand several risks faded, with progress in trade talks between the US and China, more dovish central banks, looser financial conditions and broadly rising pay growth. While oil prices have risen, they remained below levels seen over much of 2018, and so headline inflation has fallen, providing a real terms boost to disposable incomes.
- Data broadly pointed to some slowing in the outperforming US economy, with several recessionary indicators flashing 'amber', such that the Federal Reserve (Fed) no longer expects that it will raise interest rates in 2019. The government shutdown and uncertainty around global trade both weighed on business sentiment. Inflation, both headline and core, weakened over the period, while growth in average hourly wages remained at similar levels to the previous quarter.
- The UK economy appears to have slowed, though the ongoing lack of Brexit resolution is having distortive effects on surveys and hard data. Fiscal policy became more accommodative, with the Spring Statement resulting in a small net stimulus, and the Bank of England (BoE) indicated a more dovish interest rate stance.
- Sterling investment grade credit outperformed UK government debt in the first quarter; respective all-maturities returns were 4.06% and 3.38%. Credit spreads narrowed as dovish shifts from central banks contributed to the relative attractiveness of corporate debt over the security of government bonds. The average sterling investment grade credit spread narrowed by 19 bps to 1.32% by the end of the period.

ROYAL LONDON

PORTFOLIO REVIEW

Investment outlook

- Global GDP growth looks set to slow in 2019, but with more weakness in the first half of 2019 than we had expected. The outlook for the second half of 2019 appears brighter, given responses from policy makers and improvements in financial conditions, though trade relations and Brexit continue to pose threats. A reduced likelihood of further US-China tariff hikes, a continuation of stimulus from China and a pause in central bank interest rate hikes should all support growth in the year.
- We have lowered our growth forecasts and expect 2019 global GDP growth to be 3.3%, compared to 3.5% previously. That largely reflects a weaker than expected end to 2018 and a weaker than expected start to 2019. Our forecasts for 2020 are little changed and higher in some cases, partly reflecting that we no longer assume US-China tariffs rise from current levels and now assume that monetary policy will be tightened by less than previously expected.
- We expect the Fed to refrain from further rate rises for most of 2019. We anticipate a BoE rate increase in the second half of the year, assuming a withdrawal deal of some form is agreed, with subsequent rate hikes once every three to four quarters. We do not expect any rate rises from the ECB until early 2020, and think it will then hike very gradually. We expect further easing from the People's Bank of China, though cautiously. In Japan, meaningful policy tightening still seems a long way off.

FUND PERFORMANCE

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q1 2019	**5.32**	**5.36**	**-0.04**
Year-to-date	5.32	5.36	-0.04
Rolling 12 months	4.82	4.49	0.33
3 years p.a.	7.02	5.86	1.16
5 years p.a.	7.41	6.75	0.66
Since inception p.a. 02.07.2007[2]	8.52	8.46	0.06

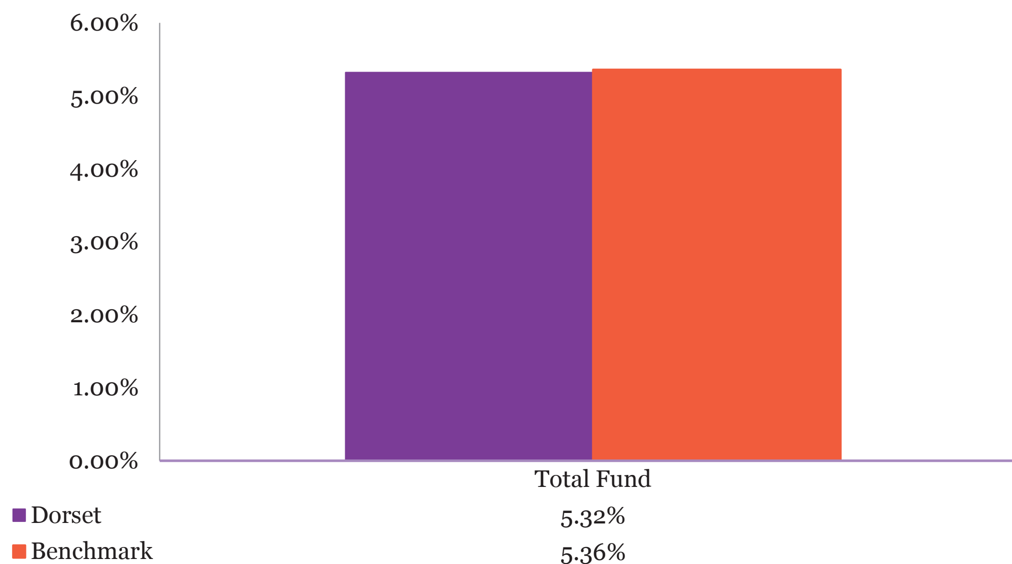
Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

All performance figures stated gross of fees and tax unless otherwise stated.

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

[2] The fund launched 02.07.2007 but its benchmark and objective changed on 30.06.2012.Performance prior to 30.06.2012 has therefore been omitted. If you require performance prior to this change, please contact your client account manager.

The fund objective is to outperform the benchmark by 0.80% per annum gross of the standard management fees.



Source: RLAM, gross of standard management fees.

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

RLPPC OVER 5 YEAR CORPORATE BOND FUND

Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	99.7	99.0
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	1.0
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0
Other	0.0	0.0

Fund data

	Fund	Benchmark[1]
Duration	10.0 years	10.4 years
Gross redemption yield[3]	3.27%	2.49%
No. of stocks	197	693
Fund size	£215.7m	-

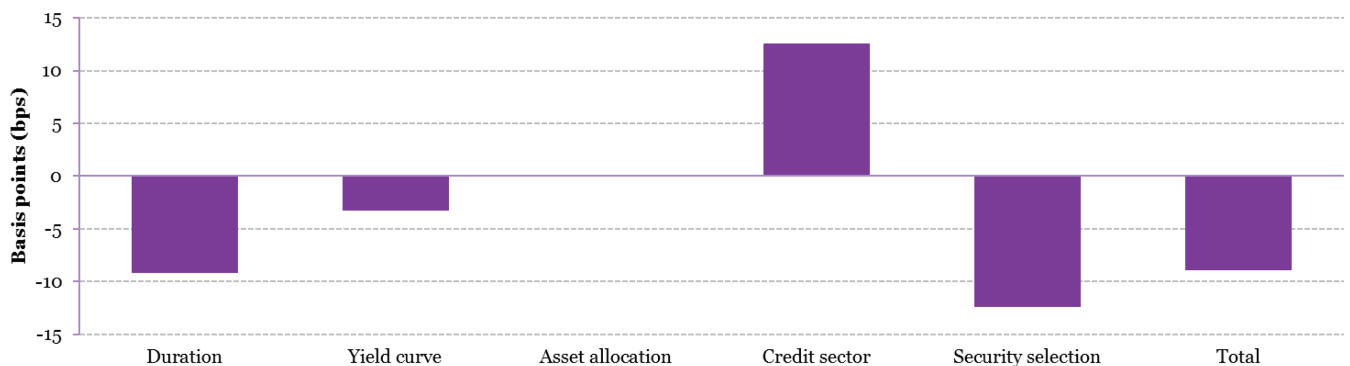
Source: RLAM, Launch date: 20.07.2007.

[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 1 2019

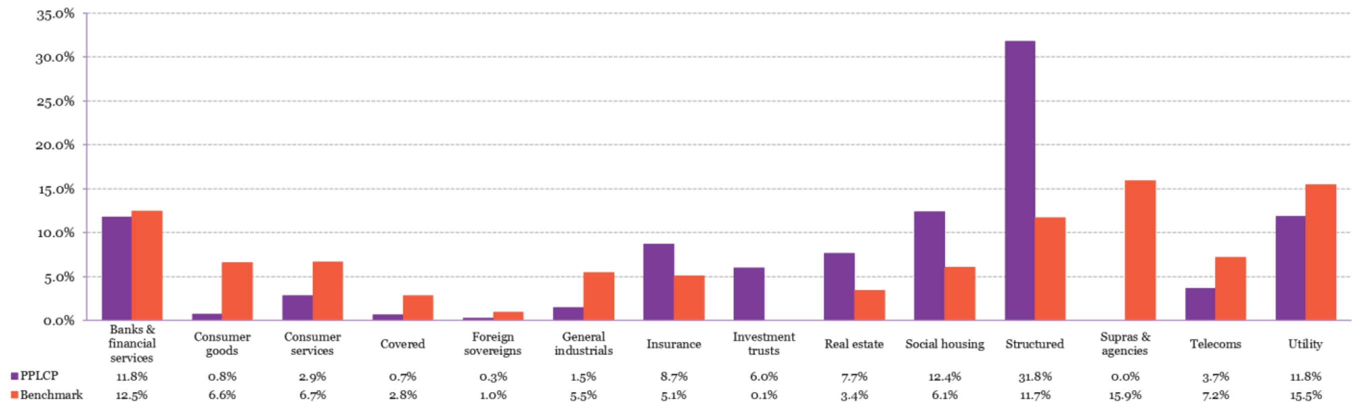


Source: RLAM and UBS Delta. The above performance attribution is an estimate. Please note that the attribution chart does not include residual effect returns.

ROYAL LONDON

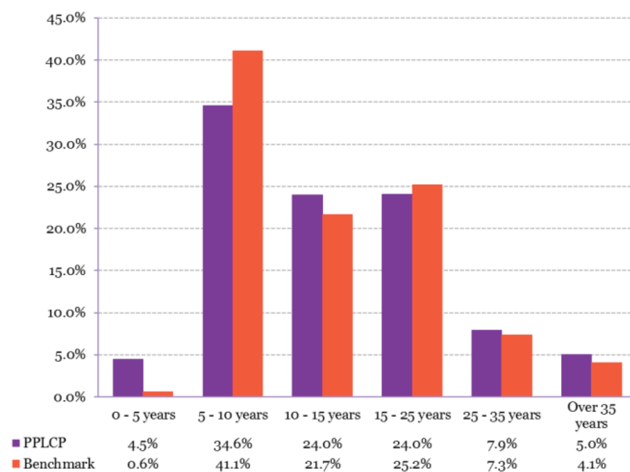
RLPPC OVER 5 YEAR CORPORATE BOND FUND

Sector breakdown

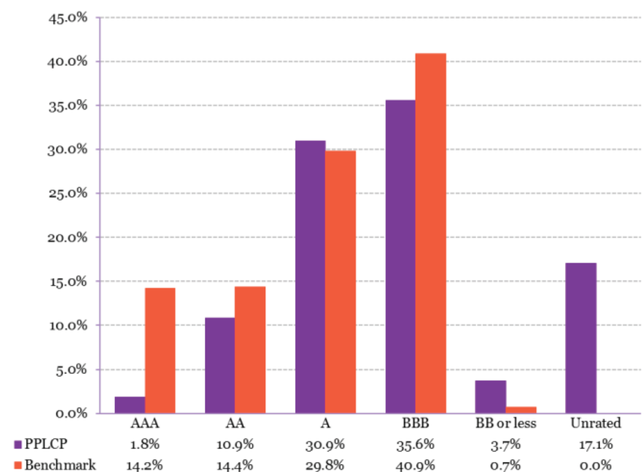


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio

Maturity profile



Credit breakdown



Ten Largest Holdings

	Weighting (%)
HSBC Bank 5.375% 2033	2.1
Finance for Residential Social Housing 8.368% 2058	1.5
Prudential Plc 5.7% VRN 2063	1.4
Innogy Finance 6.125% 2039	1.3
Électricité De France 6% 2114	1.3
Exchequer Partnership 5.396% 2036	1.3
Equity Release 5.7% 2031	1.2
Thames Water Utilities 2 7.738% 2058	1.2
Annes Gate Property 5.661% 2031	1.2
Barclays Plc 3.25% 2033	1.1
Total	**13.5**

Source: RLAM. Figures in the table above exclude derivatives where held, subject to rounding.

ROYAL LONDON

RLPPC 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, which outperformed for 2018 as a whole, underperformed as investors adopted a more 'risk on' approach.	The fund's substantial underweight position in supranationals was a key driver of relative performance this quarter.
Sector	We continued to see value in financials (banks and insurers), and to favour subordinated debt over senior bonds.	The overweight exposure to subordinated financial debt and the below benchmark holding of senior issues were broadly maintained.	Financials outperformed the broader market. Subordinated bonds broadly outperformed as senior issues lagged behind. This reflected increased investor risk appetite.	The above benchmark position in subordinated financial debt and underweight holding of senior issues contributed positively to performance.
Sector	We thought that high-profile, consumer-orientated and industrial bonds were unattractively priced, relative to other sectors.	We maintained the underweight allocation to consumer and industrial debt.	Consumer sectors gave mixed returns. Media and telecoms outperformed, consumer goods was among the weakest sectors. Industrial issues broadly outperformed and capital goods was the best-performing subsector.	The low weightings in consumer and industrial sectors did not have a material impact upon relative performance.
Sector	We continued to believe that secured bonds were undervalued relative to unsecured debt.	We kept the significant overweight positions in sectors that benefit from enhanced security, e.g. asset backed securities (ABS), social housing and investment trusts.	Within secured and structured sectors, which typically comprise longer dated bonds and span a wide range of industries, ABS underperformed the market.	Above benchmark exposure to structured debt was negative.
Ratings	We believed lower rated credit bonds offered better value than AAA and AA rated securities.	The bias towards lower rated debt was maintained over the quarter.	Lower rated debt outperformed AAA and AA rated bonds, as investors embraced higher risk.	The preference for lower rated debt contributed strongly to relative performance.
Ratings	Credit ratings, while useful, are not a complete assessment of value and creditworthiness.	We maintained exposure to bonds rated below investment grade where we believed they were consistent with the overall objective of the fund. Exposure to unrated issues, which predominantly have investment grade risk characteristics and are in many instances secured, was broadly unchanged.	High yield debt marginally outperformed investment grade credit for the quarter as a whole. Unrated bonds in the fund, which consist mainly of secured and structured issues, marginally outperformed.	The allocation to sub-investment grade debt was positive for returns. Exposure to unrated bonds had a small positive impact on relative performance over the quarter.
Duration	We expected a gradual increase in UK government bond yields.	The fund broadly maintained its moderate short duration stance versus the benchmark over the quarter.	Yields on benchmark 10-year gilts fell by 27 basis points, continuing last quarter's fall.	The duration position had a negative impact on relative performance.

RLPPC OVER 5 YEAR CORPORATE BOND FUND

Fund activity

- Following very subdued levels in the fourth quarter of 2018, sterling investment grade credit issuance picked up in the first quarter of 2019 to a level moderately above that of the first quarter of 2018.
- By sector, the fund reduced its position in structured debt and increased the holding of utilities, social housing, consumer goods and general industrials. This increased the overweight in social housing, and reduced the overweight in structured and the underweights in utilities, consumer goods and general industrials.
- In new issue activity, the fund continued to implement its strategic view of adding to social housing, with purchases of long-dated debt of **MORhomes, Hastoe Capital**, **Futures Housing Group, Clarion Housing Group** and **Incommunities**. In the financial sector, purchases included **Clydesdale Bank**, **BNP Paribas** and **HSBC**. Other notable purchases included a 12-year bond of Australian natural gas provider **APT Pipelines**. We also bought new issues from utility company **Severn Trent**, pub and hotel company and brewer **Greene King**, Anglo-Swiss mining and commodity trading company **Glencore**, and electricity generator/transmitter **London Power Networks**.
- Away from new issues, the fund bought bonds of **BNP Paribas** and **British American Tobacco**, and added to its holdings in **Legal & General**, **HSBC** and US property company **Digital Stout**. It switched holdings in **RBS** to pick up yield and from **Credit Suisse** to more attractive bonds in **BNP Paribas**. Sales included **Bank of Scotland**, **Co-operative Bank** and **Vattenfall**, the Swedish state-owned power company.

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, particularly if Brexit-related uncertainty is ended with a deal between the UK and EU.
- 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.

ROYAL LONDON

FURTHER INFORMATION

Market commentaries & investment outlook

Please click on link for further information.

Stewardship and Responsible Investment at RLAM

Please click on link for further information.

Royal London Fixed Income ESG Analysis

Please click on link for further information.

Royal London Equities Voting and Engagement

Please click on link for further information.

Glossary

Please click on link for a glossary on terms.

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CQS

CQS Credit Multi Asset Fund

Review for Dorset Council Pension Fund

Q1 2019 update

All Investors should ensure that they have received and read the latest Offering Documentation and Prior-Investment Disclosure document which is available from CQS at clientservice@cqsm.com

Summary

CQS

Portfolio Summary

- CMA's objective is to achieve a target return of Libor+4–5% p.a. with single digit volatility[1]
- CMA is a long-only, actively managed global credit portfolio
- Invests predominantly across Loans, High Yield and Financials, Asset Backed Securities and Convertible Bonds
- Maintains low interest rate duration (capped at two years) and does not use financial leverage[2]

Performance Update (Performance Index GBP)[3]

Annualised Return Since Inception (% p.a.)	Annualised Volatility Since Inception (%)	Sharpe Since Inception	Q1 2019 Return (%)
4.77	2.20	1.90	2.87

Dorset Council Pension Fund's return on initial investment:
+3.48% net (since 1 December 2017)

AUM in CMA: **£140m** as at 31 March 2019

2018 Performance

- 2018 full year returns were led by loans, with good performance from the US loans portfolio although returns from Europe were also positive
- The other positive contributor was ABS, which remains balanced between US residential mortgage-backed securities and European CLO liabilities
- Other allocations were flat to negative. Investment Grade (Financials) were flat to slightly down and convertibles down by 0.21% as a consequence of volatility in equity markets (particularly in Q4)
- High yield had a volatile year, finishing the year lower in both Europe and the US. Most of the underperformance came in Q4, when volatility picked up substantially and we saw substantial decompression in credit spreads

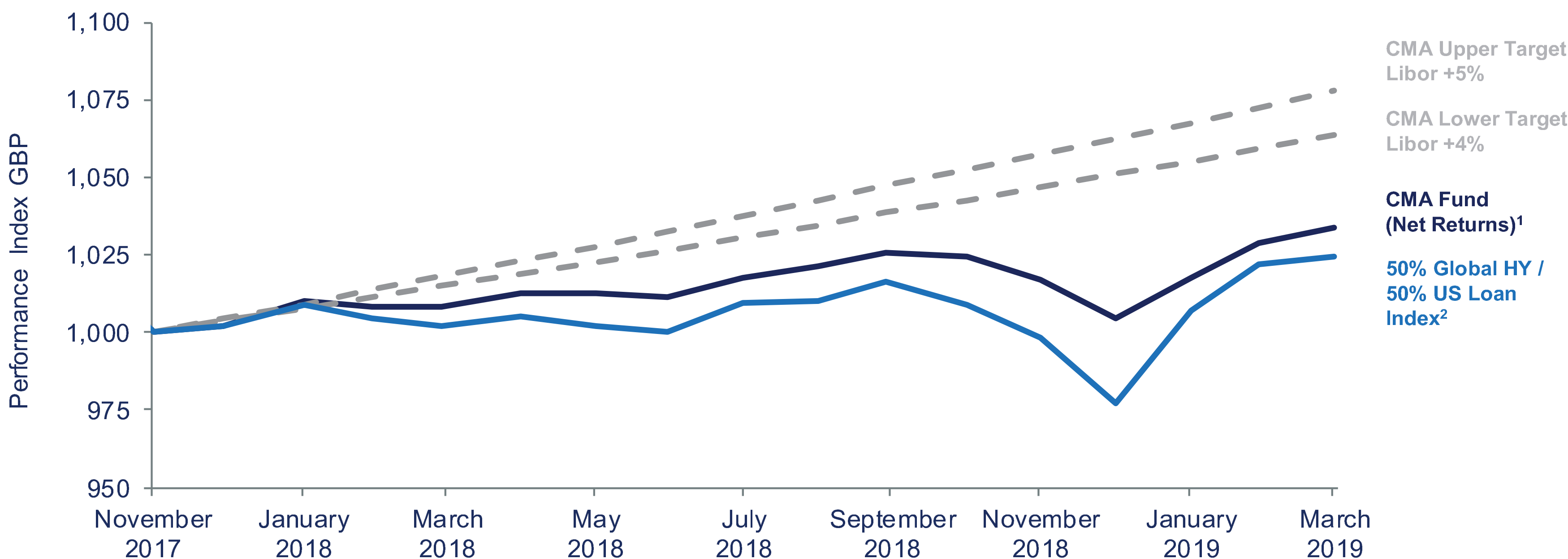
Q1 2019 Performance

- All asset classes contributed positively to returns, with mark-to-market gains supported by income
- Loans led the way, given the size of the allocation, followed by high yield. Within loans, the performance of the US strategy was especially strong. Returns were equally split between the US and Europe for high yield
- Higher beta CLO liability performance contributed well within ABS, while convertibles and financials added value
- By geography, Europe contributed slightly more than half the investment performance year-to-date

Please note, returns reference the Performance Index GBP, a theoretical, non-investable share class which is made up of a series of share classes in order to demonstrate the longest consistently available track record for the Fund. A breakdown of the index formulation is included at the end of the presentation.

Source: CQS as at 29 March 2019. [1]Target returns are estimated and net of fees, expenses and income reinvested. They are based on long-term performance projections of the investment strategy and market conditions at the time of modelling and are therefore subject to change. There is no guarantee that any target return can be achieved. Investors should not place any reliance on such target return in deciding whether to invest in the Fund. [2]Except when required for currency hedging purposes.[3]Returns represent the Performance Index GBP. Please refer to the end of the presentation for further details as to how this index is constituted. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

CQS Credit Multi Asset Fund (CMA) Performance vs. Target and 50/50 Index



	Q1 2019	Last 12m	Since initial investment 1 December 2017
CMA investment return (Net of fees, GBP)	2.87%	2.49%	3.48%
Index investment return (Gross, GBP hedged)	4.83%	2.25%	2.45%
LIBOR+4% (GBP)	1.19%	4.77%	6.35%

Please note, the Performance Index GBP is based on a theoretical, non-investable share class. It is made up of a series of share classes in order to demonstrate the longest consistently available track record for the Fund. A breakdown of the index formulation is included at the end of the presentation.

Source: CQS as at 29 March 2019. [1]Returns reference the Performance Index GBP. [2]50/50 Index is a blended benchmark return comprising the US LLI (Leveraged Loan Index) and the Global High Yield Index (HW00) expressed in Hedged GBP terms. The index is included merely to show the general trends in the period indicated and is not intended to imply that CMA is similar to the index in composition or risk. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

Investment Commentary – Q1 2019

Market background

- The performance of credit markets in Q1 was almost a mirror image of the final three months of 2018. High yield led the way with a return of 7.38% in the US and 5.26% in Europe, followed by high beta convertible bonds, with a return of 6.64% from the index, and Financials with a return of 5.68%. Loan markets largely recovered, with a return of 3.96% in the US and 1.85% in Europe, all in local currency terms.
- Strong financial market performance was led by equities, rebounding from a weak finish to 2018 as concerns over the trade dispute between the US and China eased, and major central banks grew more accommodative. Higher beta credit assets fully participated in this, with high yield markets finding additional technical support as retail investors in particular moved to seek duration given the shifting central bank stance.
- This, along with limited new issue supply, left high yield markets in a very positive technical position. Although spreads tightened in the US market, it was a risk-off rally, with BB rated bonds outperforming B and CCC rating tiers. Credit spreads also tightened in Europe, with single B rated bonds outperforming both lower and higher rated sub-investment grade debt.
- With strong gains for global equity markets, convertible bonds benefited from a significant tailwind during the quarter. The quarter also marked the strongest three-month period of performance yet seen for additional tier 1 financial assets, helped by a broad-based rally in risk-assets globally and demand for fixed-rate fixed income as investors sought yield.
- While retail outflows continued from the US loan market, a further $11bn, the much more important collateralised loan obligation market continued to function well and the secondary market rallied strongly as institutional investors took advance of mark-to-market volatility in Q4 to increase exposure. Primary issuance remained light, though still higher than Q4 2018.
- Asset Backed Securities continued to hold up well in this environment, with residential mortgage backed securities and credit risk transfer securities both providing to be technically very well positioned, with strong demand and a shrinking supply as legacy residential mortgage backed securities amortise. Collateralised loan obligations by contrast saw spreads drift a little higher for longer dated paper, presenting some interesting opportunities for investors.

Investment strategy and outlook

- We started the period with 53% in loans, 20% in ABS, 12% in high yield, just short of 4% in convertible bonds and 3% in financials. Unallocated capital was 8%. We shifted our geographic and asset class focus to capture opportunities in an oversold US high yield market during the quarter, taking our exposure to US high yield from 5.1% at the end of December to 7.3% by the end of March.
- We also added a new investment grade corporate strategy to capture opportunities in the relatively attractive and fundamentally defensive BBB bond space. This accounted for 1% of the Fund at the end of March. Together with an increase in the existing Financials strategy, from 2.9% at the end of December to 3.3% by the end of March, this took the Fund's interest-rate duration from 1.27 to 1.46 years over the period. Bank loans continued to provide core income to the portfolio and have generated excellent risk-adjusted returns.
- Strategic allocations remain similar to historic levels, with some tactical allocations to capture lagging asset classes; we have increased CLO liabilities in light of the longer-term relative value we see in this area of the market, added to US and European investment grade, and raised exposure to US 2nd lien loans. At the end of March we held 51.0% in loans, 22.2% in ABS, 13.3% in high yield, 3.5% in convertible bonds, 3.3% in financials and 1.0% in investment grade. Uncommitted capital was therefore just under 6%.
- As we look forward through the rest of 2019, I'd like to emphasise the ongoing critical importance of agile asset allocation in this environment, and careful fundamental research. We remain highly diligent with respect to the fundamental performance of individual businesses, and discipline with respect to our investment process, principles and philosophy is essential.
- After the strength we have seen in markets in recent months, we believe it is appropriate to be positioned relatively conservatively, favouring allocations to senior secured loans and ABS over high yield bonds and convertibles. We continue to see excellent investment opportunities on an idiosyncratic basis provided we stay disciplined and active with respect to fundamental credit selection.
- As we stand today, our target exposure to loans is approximately 52.1%, ABS is 22.75%, high yield is 13.75%, financials is 3.4%, investment grade is 1.75% and our target exposure to convertibles is 3.65%. The target cash weighting is, therefore, 2.6%. The Fund's overall yield is currently 5.37% in Sterling terms at the end of March, while almost 80% of the Fund remains invested in floating rate instruments.

Source: CQS as at 29 March 2019. The Fund may have since exited some or all of the positions detailed in the above commentary. Quoted Fund returns reference the Performance Index GBP. Investors should note the base currency of the Fund is in US dollars. All market data sourced from Bloomberg, MSCI, Barclays, BofA Merrill Lynch, Markit and UBS.

DORSET COUNCIL PENSION FUND

QUARTERLY REPORT
Q1 2019

Dorset Council ('DC') property fund provides diversified exposure to good quality real estate located throughout the UK, across a range of sectors including offices, industrial, retail and other commercial. The allocation to property has increased from 10% to 11% of DC'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.

£320.3M Capital Value (Combined Dorset Portfolios)

37 Assets

£9.7M To Invest

	CONVENTIONAL	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly over 5 years	LPI +2% p.a.
Capital Value (Mar 2019)	£284.4m (89%)	£35.9m (11%)
Number of assets	28	9
Value of purchases during quarter	-	£2.0m
Value of sales during quarter	£0.1m	-
Net initial yield (p.a.)	4.4%	3.8%
Average unexpired lease term (to break)	8.6 years (7.6 years)	57.3 years (19.8years)

COMBINED VALUATION

Direct Property (Mar 2019 values)	£281.5m
Indirect Assets (Mar 2019 values)	£38.9m
Total Portfolio Valuation	£320.3m

PERFORMANCE*	CONVENTIONAL	SLI	COMBINED	MSCI QUARTERLY UNIVERSE
Q1 2019	0.9%	3.4%	1.2%	0.4%
12 months	5.5%	1.6%	5.4%	4.6%
3 yrs p.a.	7.0%	-	6.9%	6.4%
5 yrs p.a.	10.2%	-	10.3%	9.4%

* Conventional & Combined are Nominal returns and SLI are Real returns. SLI's Nominal returns for Q1 3.2% and 12 months to March 2019 4.0% with RPI Q1 -0.2% and 12 months 2.4%.

CBRE GLOBAL INVESTORS

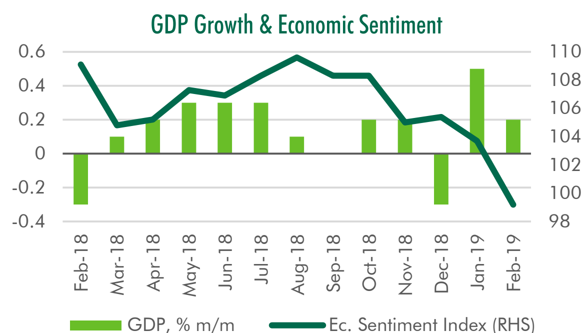
ECONOMIC AND PROPERTY UPDATE

UK ECONOMIC OUTLOOK

Faced by the dual headwinds of intense Brexit uncertainty and a soft patch in global economic activity, the UK economy has proved resilient in the early months of 2019. Surveys of sentiment and business activity have deteriorated, but the 'hard data' has been far more upbeat. This divergence between data and sentiment is typical of periods of heightened uncertainty.

In February the 3-monthly rate of GDP growth was 0.3% and quarterly growth could end Q1 slightly higher at around 0.5%. Surveys suggest that manufacturer stockpiling ahead of the original Brexit deadline may have provided a temporary boost, but this would only account for a small fraction of overall growth. The economy created 179,000 new jobs in the 3 months to February, keeping the unemployment rate at 3.9%, its lowest level since 1975. This is putting upwards pressure on wages; annual earnings growth reached 3.5% its highest since 2008.

Brexit-related uncertainty intensified as the March deadline to leave the EU approached. The deadline extension to October means the risk of a 'no deal' Brexit has subsided for the time being, although it adds little clarity about the final outcome. The longer Brexit endgame means a further drag on the economy and we are unlikely to see growth accelerate in 2019. We still believe an orderly Brexit is the most likely outcome, which would see the UK economy continue to grow through 2019/20 albeit at a below-trend rate.

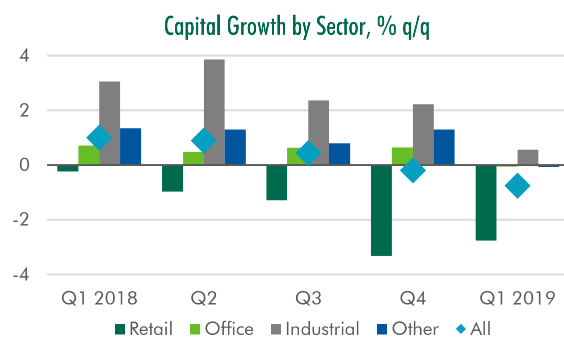


Sources: ONS, Thomson Reuters.

UK PROPERTY PERFORMANCE

Property performance in Q1 was more reflective of heightened uncertainty and fragile sentiment than the underlying resilience of the economy. At the All Property level, capital values recorded a small fall for the second consecutive quarter. The deterioration was driven by the investment market, as yields rose, causing a negative yield impact on capital values for the first time since the aftermath of the EU referendum. Strikingly yield impact was negative across all sectors, albeit ranging from just -0.1% for the industrial sector to -1.9% for retail. In contrast, rents recorded modest growth across most parts of the market, with retail the exception.

With Brexit dominating the headlines, investors have adopted a wait-and-see approach so far in 2019. In Q1 the total volume of investment transactions was c.30% lower than a year earlier and c.20% lower than the 10-year Q1 average. Since 2012, quarterly volumes have only dropped below the rolling 10-year average on one other occasion, in Q3 2016, immediately following the EU referendum. On that occasion, investors returned to the market relatively quickly, but it is likely that the quiet period will continue until we have more clarity around Brexit. Once there is clarity, we would expect the focus to shift back to relative pricing, both to other asset classes and international property markets, as well as robust market fundamentals, which maintain the case for investing in UK commercial property.



Source: MSCI Monthly Index.

ECONOMIC AND PROPERTY UPDATE

Retail continues to suffer from illiquidity. Less retail property transacted in Q1 than in any quarter since 2000, with shopping centre transactions particularly few and far between. The lack of transaction evidence also clouds recent valuation movements. Both rental values and capital values fell in Q1, but by less than in Q4. Although recent retail sales growth has been robust and there have been fewer new retailer CVAs and administrations than a year ago, it is still too soon to say that we are past the worst for the sector. Debenhams' administration and continued speculation around the plans of Arcadia have sustained pessimism around the prospects for bricks and mortar retail. Valuations have further to fall.

Office investment volumes had a quiet start to the year, both in comparison to 2018 and the 10-year average, although agents reported a considerable amount of stock was under offer at the end of Q1 suggesting a possible rebound in Q2. Occupier market conditions are little changed from last quarter with rental growth at a similar rate. With tenants increasingly discerning and focussed on well specified space, a greater divergence in performance dependent upon asset quality is likely.

Industrial rental growth moderated in line with our expectations in Q1, but still continues to exceed other parts of the market. Detailed data for Q1 is not yet available but it appears that rental growth slowed most sharply outside of London and the South East. As we have mentioned in previous commentaries, the sustainability of rental growth will be determined by the ease with which new supply can be delivered. We continue to focus on locations where new supply is restricted by competing land uses.

The 'other' sector defied the uncertain backdrop with investment activity continuing unabated in Q1. Investment volumes were c.5% higher than a year earlier and c.40% above the 10-year Q1 average. Consequently, investment in the alternative sectors accounted for a record-breaking 53% of total investment. These figures reflect investors' focus on structural trends benefiting certain asset types, offering diversification from the more cyclical sectors of the property market, as well as strong demand for secure long income streams. Long income property continues to outperform the wider market, recording a total return of 9.2% in 2018 according to the CBRE Long Income Index.

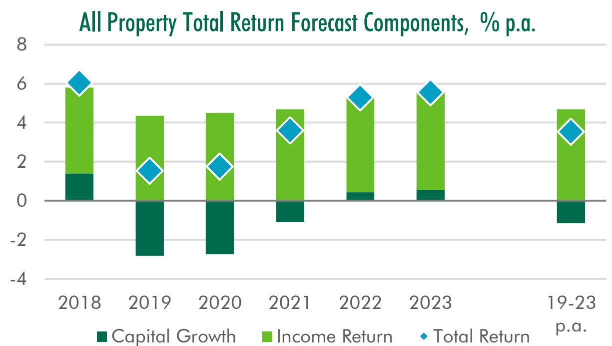
London SW3

PROPERTY MARKET OUTLOOK

Our UK property market forecasts, still underpinned by the assumption that the UK leaves the EU in an orderly way in 2019, have been revised since our last quarterly commentary. The impact has been a small downgrade to the 5-year All Property total return outlook, primarily driven by a more cautious outlook for the retail sector and a weaker 2020, as the economy rebounds from Brexit uncertainty more slowly. We are projecting UK property will produce an average annual total return of 3.5% over the period 2019-23.

Within this outlook, we expect modest All Property capital value falls in 2019/20 as a consequence of declining rents and weaker investor sentiment. In this environment good quality buildings in strong locations will prove most resilient. Attractive investment opportunities are likely to emerge from the coming uncertainty, so we should continue to remain patient when deploying capital and focus on long-term sustainable income in the interim.

All Property Total Return Forecast Components, % p.a.



Sources: MSCI, CBRE Global Investors.

STRATEGY

Size	▪ Target size £330m – current size £320.3m. DC 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 vacancy 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 Other Commercial. ▪ 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 and house guidelines.

Investment size	▪ Target a maximum of 10% in any single asset.
Tenants	▪ Maximum rent from any single tenant 10% of rental exposure. ▪ Target financial strength better than the benchmark.
Lease length portfolio	▪ Target new assets where the lease expiry profile fits with the existing profile of the Fund. ▪ Seek to maintain expiries in any one year below 10% of the Fund's lease income. ▪ Target an average unexpired lease term in excess of the Benchmark.
Development	▪ Development may be undertaken where the major risks can be mitigated and the risk/ reward profile is sufficient to justify it.
Debt	▪ Avoid debt exposure.
Environmental and Social Governance ("ESG")	▪ Energy performance: to improve EPC ratings where it is financially viable and, where applicable, apply for certification.

DORSET COUNCIL CONVENTIONAL PORTFOLIO

QUARTERLY REPORT
Q1 2019

DC Conventional portfolio began in 1993 and provides diversified exposure to good quality real estate located throughout the UK across a range of sectors including offices, industrial, retail and other. The objective is to achieve a return on Assets at least equal to the average MSCI Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.

PERFORMANCE

Q1 2019 (%)	Portfolio All Assets	MSCI Quarterly Universe	Relative
Capital return	-0.1	-0.7	0.6
Income return	1.0	1.1	-0.1
Total return	0.9	0.4	0.5

12 months (%)	Portfolio All Assets	MSCI Quarterly Universe	Relative
Capital return	1.2	0.1	1.1
Income return	4.3	4.4	-0.1
Total return	5.5	4.6	0.9

3 years (% p.a.)	Portfolio All Assets	MSCI Quarterly Universe	Relative
Capital return	2.2	1.7	0.5
Income return	4.6	4.6	0.1
Total return	7.0	6.4	0.6

5 years (% p.a.)	Portfolio All Assets	MSCI Quarterly Universe	Relative
Capital return	5.0	4.5	0.5
Income return	5.0	4.7	0.2
Total return	10.2	9.4	0.7

- The Conventional portfolio outperformed the MSCI Quarterly Universe by 0.5% over the quarter to 31 March 2019, with a total return of 0.9% compared to 0.4% for the Benchmark.
- The portfolio is outperforming over 12 months (+0.9%), 3 (+0.6% p.a.) and 5 (0.7% p.a.) years.
- The portfolio's direct property performed strongly with a total return of 1.3%, while its indirects dragged performance with a total return of -1.5%, reducing the overall return by -0.4%.
- Industrials produced the highest quarterly total return in the MSCI Quarterly Universe at 1.7%, followed by 'other commercial' at 1.2%, offices at 1.1% and retail at -1.3%.
- For the portfolio, offices generated the highest total return at 2.7%, industrials at 1.8%, 'other commercial' at -0.5% and retail at -1.7%.
- The key driver of performance over the quarter was the new development at Cambridge Science Park, which completed during the quarter and produced a total return of 7.7% contributing +0.5% to overall portfolio performance.
- By contrast, the portfolio's weakest performers over the quarter were the retail park in Norwich (-1.9% total return / -0.1% drag on overall portfolio performance), Standard Life Shopping Centre Trust (-3.7% / -0.2%) and the car showroom in Glasgow (-6.4% / -0.3%).

CBRE GLOBAL INVESTORS

CONVENTIONAL PORTFOLIO INFORMATION

CONVENTIONAL PORTFOLIO INFORMATION

	Q1 2019
Direct market value	£245.6m
Indirect market value	£38.9m
Total Conventional Portfolio market value	**£284.4m**
No. of assets (avg. value)	28 (£10.2m)
No.of lettable units (direct avg. value)	81 (£3.0m)
Vacancy rate (% direct ERV)	2.1%
Avg. unexpired direct lease term (to break)	8.6 years (7.6 years)
Direct net initial yield (p.a.)	4.4%
% of income direct RPI / index linked	11%
Rent with +10 years remaining (% of direct rent)	25.5%
Rent with +15 years remaining (% of direct rent)	7.6%
Largest Asset	Woolborough Lane IE, Crawley £24.2 m (8.5% of portfolio value)
Largest Tenant	ACI Worldwide £1.0m p.a. (8.8% of contracted income)

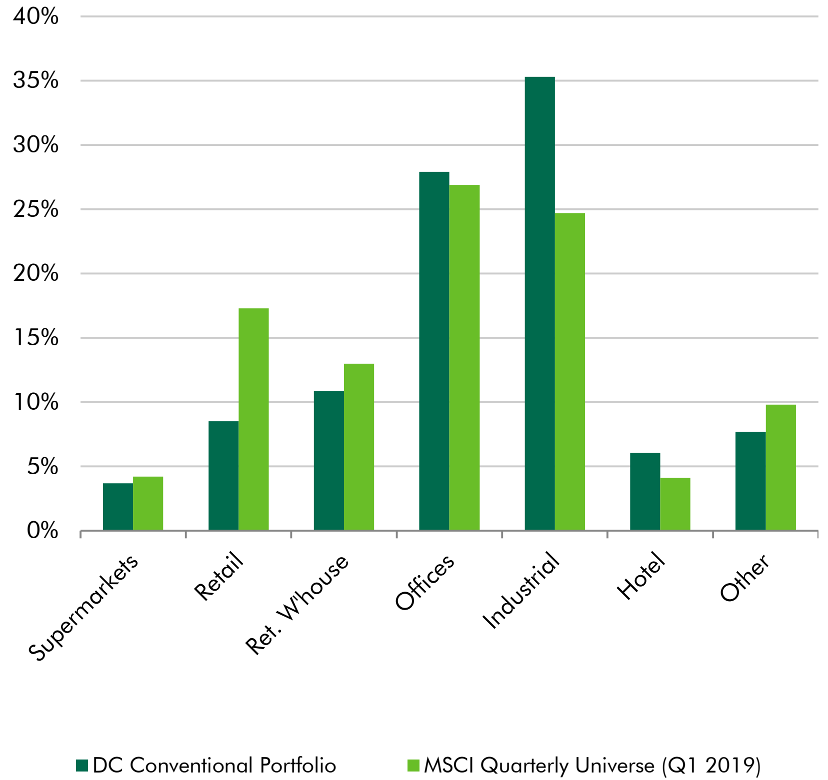
Dunbeath Court, Swindon

TRANSACTIONS

Purchases	£0m
Disposals	£0.1m
Money available to invest	£0m

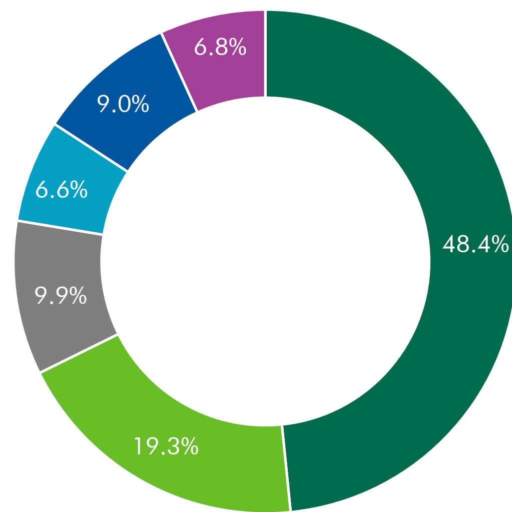
CONVENTIONAL PORTFOLIO ANALYSIS

SECTOR BREAKDOWN INCLUDING INDIRECTS



DC Conventional Portfolio   MSCI Quarterly Universe (Q1 2019)

GEOGRAPHICAL BREAKDOWN EXCLUDING INDIRECTS

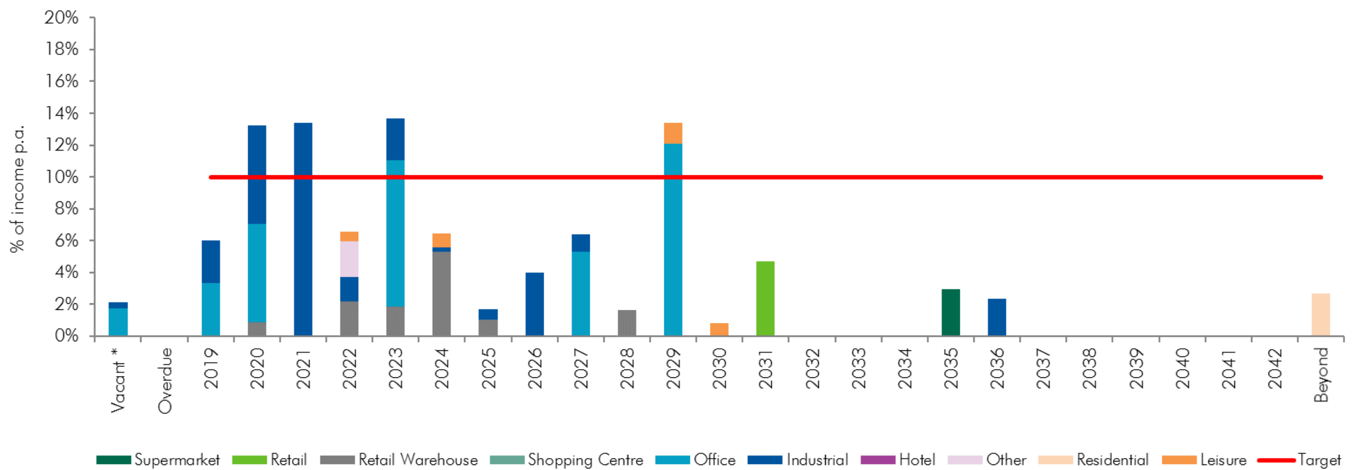


London / South East   Eastern   South West   Midlands   North   Rest of UK

CONVENTIONAL PORTFOLIO INCOME STRUCTURE AND MANAGEMENT

TOP 5 TENANTS	CURRENT RENT P.A.	% OF DIRECT INCOME	Weighted Expiry	MSCI IRIS Risk Band
ACI Worldwide Ld	£1,020,000	8.8%	Dec 2023	Negligible
WPP Group Ltd	£836,000	7.2%	Jul 2020	Negligible
Booker Ltd	£659,750	5.7%	Apr 2021	Negligible
Reg Vardy (Property Management) Limited	£633,835	5.5%	Dec 2031	Negligible
Toys R Us Limited	£626,000	5.4%	Sep 2024	Maximum

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



* Vacancy rate expressed as percentage of ERV

In 2019, a total of 6.0% of the direct Conventional portfolio income is due to expire or is subject to tenants' break options; this risk is attributable to 6 leases. The portfolio's weighted average unexpired lease term, including break options, is 7.6 years.

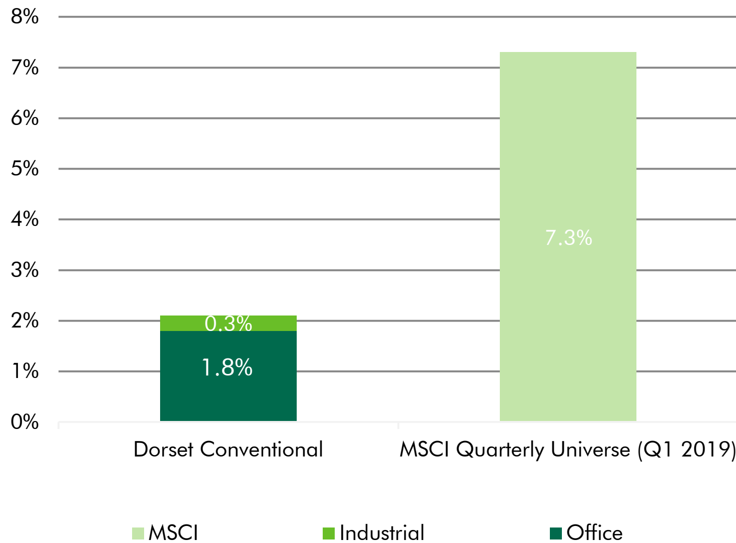
HOLDING OVER/ 2019 TOP 5 LEASE EXPIRIES	CURRENT RENT P.A.	% OF DIRECT INCOME	WILL TENANT STAY
WorldPay Ltd	£450,000	3.9%	● (red)
Saint Gobain Ltd	£152,500	1.3%	● (green)
Youngs Extract Supplies Ltd	£50,996	0.4%	● (green)
Star-Images Enterprises Ltd	£48,500	0.4%	● (green)
Vineham Engineering Limited	£47,282	0.4%	● (orange)

2020 TOP 5 LEASE EXPIRIES	CURRENT RENT P.A.	% OF DIRECT INCOME	WILL TENANT STAY
WPP Group (UK) Ltd	£836,000	7.2%	● (red)
Alpha Flight UK Limited	£272,000	2.3%	● (red)
Wasdell Packaging Limited	£241,335	2.1%	● (orange)
Maplin Electronics Limited	£115,000	1.0%	● (red)
German Swedish and French Car Parts Ltd	£74,870	0.6%	● (green)

● (green) Likely to stay ● (orange) May vacate ● (red) Likely to leave

CONVENTIONAL PORTFOLIO INCOME STRUCTURE AND MANAGEMENT

VACANCY RATE



The Eastings, Cambridge

83 Clerkenwell Road, EC1

The portfolio's vacancy rate remained at 2.1% of rental value over the quarter and continues to be well below the market average of 7.3%, as measured by 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. Find more details in Appendix 1.

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 COUNCIL
SECURE LONG INCOME PORTFOLIO

QUARTERLY REPORT
Q1 2019

DC SLI portfolio began in 2017 and targets 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. The objective 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.

PERFORMANCE

Q1 2019 (%)	Nominal total return	RPI	Real total return	MSCI Quarterly Universe (nominal)
SLI Portfolio	3.2	-0.2	3.4	0.4

12 months (%)	Nominal total return	RPI	Real total return	MSCI Quarterly Universe (nominal)
SLI Portfolio	4.0	2.4	1.6	4.6

- This is the fourth quarter that the SLI portfolio has been reported separately from the Conventional portfolio.
- The portfolio generated a real total return of 3.4% over the quarter to 31 March 2019 (3.2% nominal + RPI at -0.2%).
- Over 12 months to 31 March 2019 (from inception), the portfolio has produced an real return of 1.6% (4.0% nominal, RPI 2.4%), 0.4% behind the target of LPI plus 2.0%.
- Returns are being dampened while we build up the portfolio as a result of transaction fees, which typically reflect approximately 6.8% of the purchase price of each new investment.
- The largest individual contribution towards performance over the quarter was the Step Forward portfolio Tranche 1, which despite transaction fees produced a real total return of 27.8% and contributed +1.5% to overall portfolio performance.
- Another strong performer over the quarter was the NHS investment in Macclesfield, which following settlement of an RPI linked rent review, generated a real total return of 5.9% and contributed +1.0% to overall portfolio performance.
- By contrast, the lowest total return recorded over the quarter was produced by the second Step Forward Portfolio, Tranche 2, as a consequence of transaction fees. This investment generated a real total return of -0.9% and made a negative contribution of -0.1% to overall portfolio performance.

CBRE GLOBAL INVESTORS

SLI PORTFOLIO INFORMATION

SLI PORTFOLIO INFORMATION

	Q1 2019
Direct market value	£35.9m
Indirect market value	£0m
Total SLI Portfolio market value	**£35.9m**
No. of assets (avg. value)	9 (£4.0m)
No.of lettable units (direct avg. value)*	13 (£2.8m)
Vacancy rate (% ERV)	0%
Avg. unexpired direct lease term (to break)	57.3 years (19.8 years)
Net initial yield (p.a.)	3.8%
% of income RPI / index linked	69.8%
Rent with 15+ years remaining (% of rent)	100%
Largest Asset	Astra House, Harlow £9.0 m (25.1% of portfolio value)
Largest Tenant	Ei Group Plc £0.4m p.a. (30.2% of contracted income)

*Assumes each residential portfolio is treated as a single lettable unit.

Red Lion, London SW1

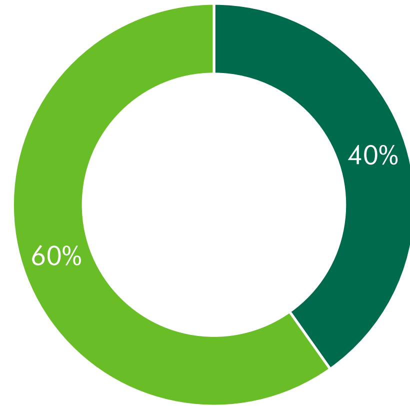
TRANSACTIONS

Purchases	£2.0m
Disposals	£0m
Money available to invest	£9.7m

SLI PORTFOLIO ANALYSIS

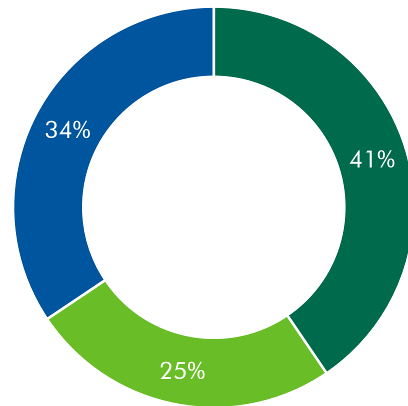
Elgin Bar & Grill, London W9

SECTOR BREAKDOWN (% OF TOTAL VALUE)



Ingersley Building, Macclesfield

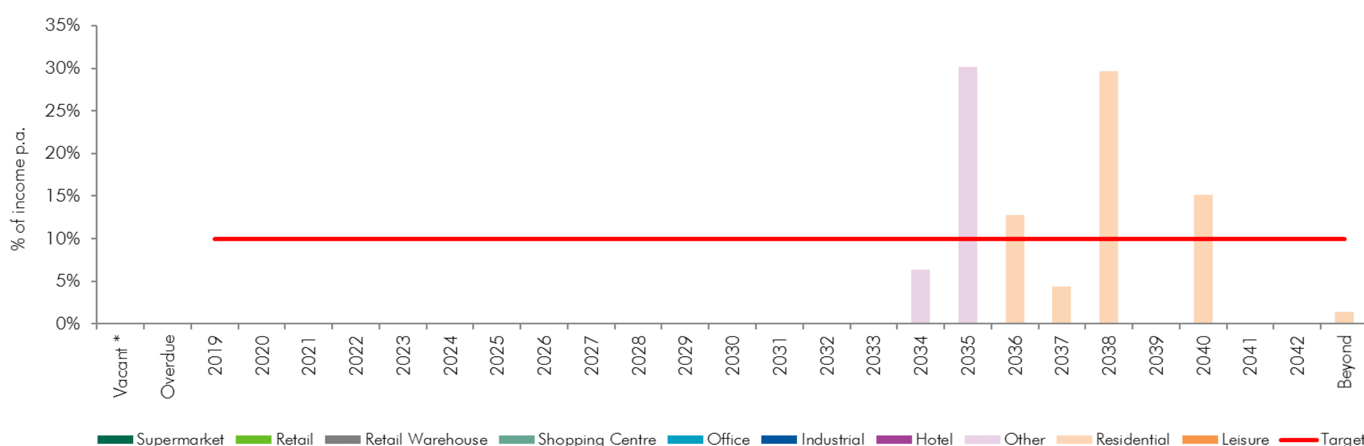
GEOGRAPHICAL BREAKDOWN (% OF TOTAL VALUE)



SLI PORTFOLIO INCOME STRUCTURE AND MANAGEMENT

TOP TENANTS	CURRENT RENT P.A.	% OF INCOME	LEASE TYPE	TERM CERTAIN REMAINING (YRS)	MSCI IRIS Risk Band
Mears Group Plc	£681,150	46.2%	CPI	20.3	Low
Ei Group Plc	£445,000	30.2%	Market Rent	15.8	Negligible
East Cheshire National Health Service Trust	£253,346	17.2%	RPI	17.6	Negligible
Casa Cruz London Limited	£93,885	6.4%	RPI	15.4	Negligible

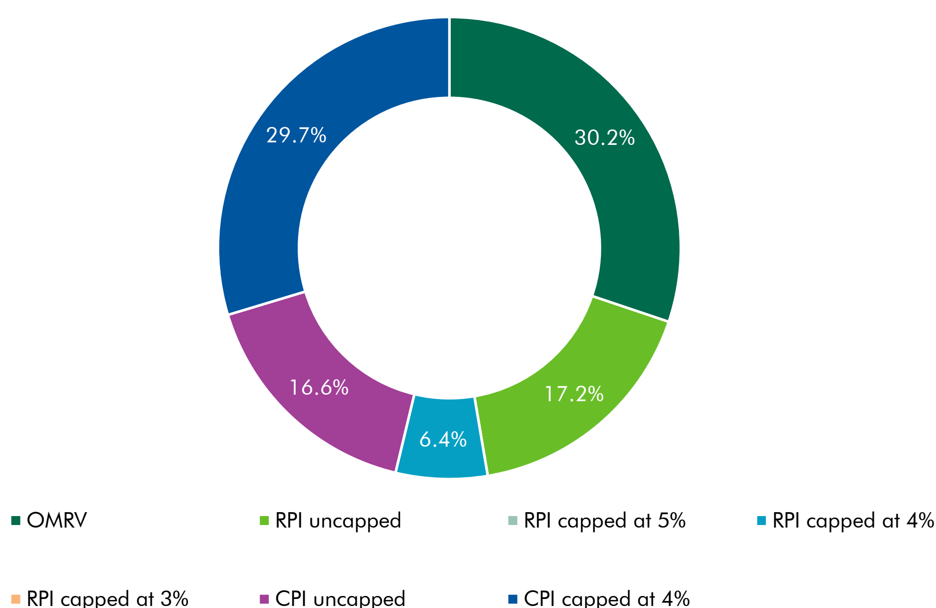
DISTRIBUTION OF PORTFOLIO'S LEASE EXPIRIES (PERCENTAGE OF INCOME PER ANNUM)



* Vacancy rate expressed as percentage of ERV

The average lease length of the Fund is 57.3 years to expiry and 19.8 years to break. We plan to maintain an average unexpired lease term for the portfolio of at least 15 years.

Weighting by review structure (% of total value)

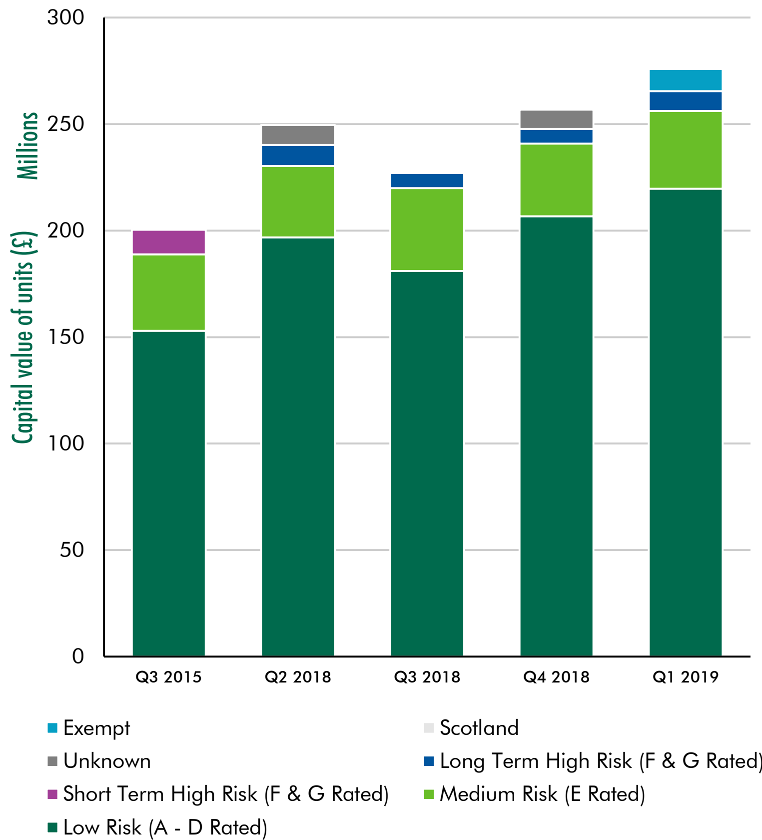


Our objective is for the SLI portfolio's income to grow in line with LPI (defined as the percentage change in RPI, capped at 5% and collared at 0% p.a.) and to achieve the total real return objective of LPI + 2% p.a. We plan to have at least 70% of the portfolio's income index linked once fully invested.

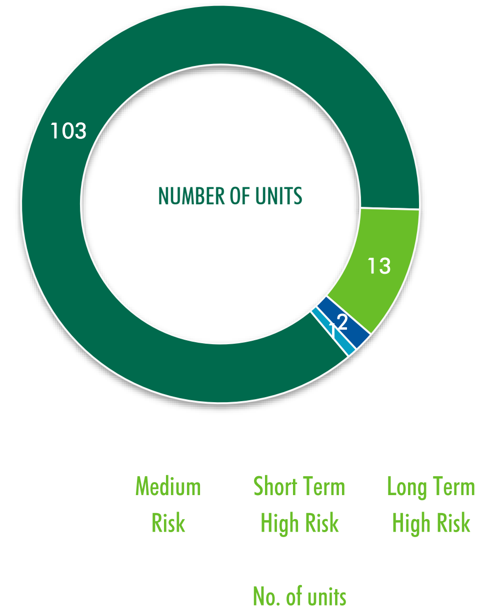
ENVIRONMENTAL, SOCIAL, GOVERNANCE

Dorset Council Pension 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 Silver status.

CHANGE IN LEVEL OF RISK BY VALUE



COMPLIANCE RISK PROFILE



No. of units	Medium Risk	Short Term High Risk	Long Term High Risk
High quality EPC	0	0	1
Modelled EPC	0	0	0
Tenant Engagement	13	0	0
Refurbishment	0	0	0
Planned Redevelopment	0	0	0
Considering Sale	0	0	1

ACTIONS COMPLETED IN Q1 2019

SITE	UNIT	ACTION	OUTCOME
Whole Portfolio	Whole Portfolio	Annual Report	Annual report delivered, providing detailed update on fund ESG performance in 2018.
Whole Portfolio	Whole Portfolio	Data Collection	Landlord energy data was collected for the fund to report its carbon emissions to CRC.
Whole Portfolio	Whole Portfolio	ESG+ Sign-off	The E&S team amended the ESG+ proposal based on recommendations from the fund management team and was signed off
Milton Street, Glasgow	Units 1 & 2	High Quality EPC	Two new EPCs were ordered to replace the existing outdated EPCs and reduce high-risk rating.

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Dorset County Pension Fund

Investment report: Q1 2019

Part of BNY MELLON

Executive summary

Portfolio performance summary

- **Q1 2019:**
  - Portfolio return over the quarter was **+5.8% (£20.3m)** as a result of long-term interest rates falling and gilts outperforming swaps. This was partially offset by a fall in long-term inflation expectations.
  - Discretionary positioning added +**0.7% (+£2.2m)** over the quarter as a result of the overweight position to gilts relative to swaps, which is because gilts outperformed swaps over the period
- **Since inception:**
  - Portfolio returns of +**12.7% pa (+£169m)** since inception as a result of falls in long-term interest rates and long-term inflation expectations
  - Discretionary positioning has added **+1.4% pa (+£20m)** to your portfolio return

Portfolio position

- Your inflation hedge ratio (as a % of actuarial liabilities) was **41.1%** at the end March
- The portfolio leverage is **c.2.65x** as at 31 March 2019, which means it can withstand a >2.5% fall in inflation expectations
  - we have a trigger to notify you if the leverage exceeds c.3.5x

Looking forward

- Dorset to consider the potential hedge increase and collateral requirements
  - this includes Dorset asking Barnett Waddingham for their expected inflation assumptions in the 2019 valuation

Dorset County Pension Fund
Key metrics at 31 March 2019

Inflation hedge ratios

	31-Dec-18, £k	31-Mar-19, £k
Portfolio IE01	2,008.7	2,123.2
Benchmark IE01	2,011.4	2,125.3
Actuarial liability IE01*	5,054.0	5,166.0
Portfolio inflation hedge ratio*	**38.8%**	**41.1%**
Benchmark inflation hedge ratio*	**38.8%**	**41.1%**

- **IE01**: Sensitivity (in £ terms) to a 0.01% (basis point) increase in inflation.
- This table shows an estimate of the proportion of the Fund's actuarial liabilities that are hedged by the portfolio. This also shows the portfolio is very close to the benchmark in terms of its total inflation sensitivity.

Performance

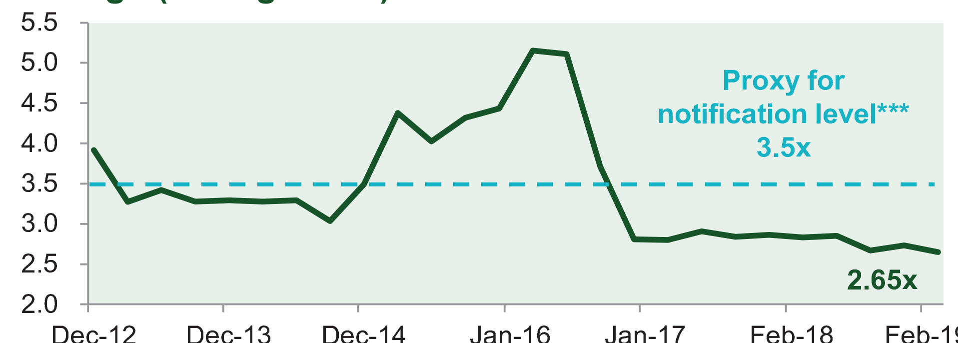
	3 months %	1 year %	3 years % ann.	5 years % ann.	Since inception % ann.
Portfolio	5.81	8.62	22.09	9.88	12.69
Benchmark	5.16	8.38	16.13	8.90	11.32
Relative	**0.65**	**0.24**	**5.96**	**0.97**	**1.37**

Collateral adequacy testing

	Change in long-term inflation expectations					
	0.00%	-0.50%	-1.00%	-1.50%	-2.00%	-2.50%
Expected value of collateral (£m)	403	309	227	155	92	36
Leverage multiple	2.65	3.13	3.88	5.20	8.07	19.00

- The above table shows stress tests for long-term interest rates and long-term inflation rates. The Fund can support a >2.5% fall in long-term inflation expectations prior to running out of collateral to support the hedge.

Leverage (through time)**



- A 0.75% fall in inflation would take the Fund a 3.5x leverage

*Source: Barnett Waddingham, Estimate with Insight calculations. Actuarial liability data as at 30 June 2018. Actuarial liability IE01 is scaled based on the present value of the actuarial liabilities relative to the mandate cashflow value (see appendix for formula)
** Leverage = exposure value of inflation linked liabilities hedged / portfolio asset value. *** This is a proxy for the proposed notification level of Fund value/IE01<125.

Insight INVESTMENT

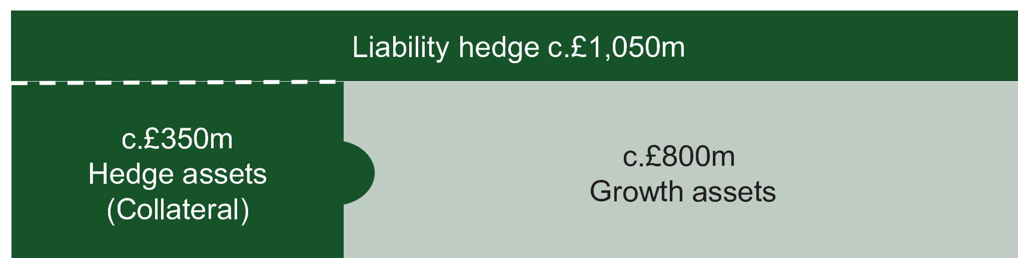
What happens to leverage when inflation falls?

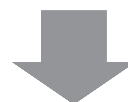
Example

£350m invested to hedge £1,050m of inflation-linked liabilities

Duration (average maturity) of 20 years

Leverage is 3.0x





Scenario: Inflation expectations falls by 0.5%

Liabilities fall by c.£95m on £1,050m hedge

Hedge assets fall in value by c.£95m

Amount in LDI funds is now only £255m, supporting a £955m hedge

Overall this increases leverage from 3.0x to 3.7x

For illustrative purposes only.

Dorset County Pension Fund

Valuation and exposure at 31 March 2019

	Value	Interest rate sensitivity (PV01)		Inflation sensitivity (IE01)	
	£m	£k	% of benchmark	£k	% of benchmark
Conventional gilts	73.5	-87.8	11.9%	0.0	0.0%
Index-linked gilts	487.1	-1,314.0	178.1%	1,287.2	60.6%
Corporate bonds	4.3	-10.9	1.5%	10.7	0.5%
Repurchase agreements	-122.5	2.8	-0.4%	0.0	0.0%
RPI swaps	19.8	-72.5	9.8%	825.2	38.8%
Interest rate swaps	-74.4	688.0	-93.3%	0.0	0.0%
Liquidity	5.3	0.0	0.0%	0.0	0.0%
Futures	-1.2	60.8	-8.2%	0.0	0.0%
Insight Libor Plus Fund	10.8	0.0	0.0%	0.0	0.0%
Total assets	**402.7**	**-733.5**	**99.4%**	**2,123.2**	**99.9%**
Liability benchmark	**359.6**	**-737.6**	**100.0%**	**2,125.3**	**100.0%**

PV01: change in present value resulting from a 0.01% upward shift in long-term interest rates

IE01: change in present value resulting from a 0.01% upward shift in long-term inflation expectations

Insight INVESTMENT

Performance

Part of BNY MELLON

Performance summary
As at 31 March 2019

	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a.
Portfolio	5.81	8.62	22.09	9.88	12.69
Benchmark	5.16	8.38	16.13	8.90	11.32
Relative	**0.65**	**0.24**	**5.96**	**0.97**	**1.37**

	3 months £	1 year £	3 years cumulative £	5 years cumulative £	Since inception cumulative £
Portfolio	20,286,969	23,005,107	141,798,285	117,195,203	168,555,862
Benchmark	18,071,795	22,253,350	107,906,852	103,526,554	148,426,326
Relative	**2,215,174**	**751,757**	**33,891,433**	**13,668,650**	**20,129,537**

Data stated as at 31 March 2019. Performance is quoted gross of fees and in sterling terms. Inception date: 31 October 2012

Quarter 1 2019:

- Unleveraged return: if we adjust for the leverage in the portfolio: the benchmark return over the quarter was +1.92% as a proportion of the value of the inflation exposure hedged and the portfolio return was +1.71% on that basis.
- The Asset Benchmark Return (to compare to State Street) was 4.73% over the quarter
- The portfolio recorded positive performance due to long-term interest rates falling and gilts outperforming swaps, which was partially offset by a fall in long-term inflation expectations.
- The overweight position to gilts relative to swaps had a positive impact on relative performance over the quarter as gilts outperformed swaps.

PENSION FUND ACCOUNT

2017/18				2018/19	
£'000	£'000		*Note*	£'000	£'000
		Dealings with members, employers and others directly involved in the Fund			
	119,537	**Contributions**	*7*		**122,212**
92,166		Employer contributions		94,290	
27,371		Member contributions		27,922	
	8,615	**Transfers in from other pension funds**	*8*		**5,938**
	128,152	**Total additions from dealing with members etc.**			**128,150**
	(113,223)	**Benefits**	*9*		**(120,112)**
(92,186)		Pensions		(98,737)	
(18,989)		Commutations and retirement grants		(17,771)	
(2,048)		Death benefits		(3,604)	
	(6,688)	**Payments to and on account of leavers**			**(5,700)**
(340)		Refunds of contributions		(296)	
(111)		State scheme premiums		-	
(6,237)		Transfers to other pension funds		(5,404)	
	8,241	**Net additions/(withdrawals) from dealings with members and others**			**2,338**
	(13,654)	**Management expenses**	*10*		**(14,345)**
	(5,413)	**Net additions/(withdrawals) including Fund management expenses**			**(12,007)**
	48,919	**Investment Income**	*11*		**30,533**
36,751		Dividends from equities		18,433	
10,908		Rents from properties		10,439	
942		Income from property funds		1,109	
134		Interest on cash deposits		481	
184		Other investment income		71	
	88,715	**Profit/(loss) on disposal of investments and changes in the value of investments**			**143,208**
	137,634	**Net return on investments**			**173,741**
	132,221	**Net increase/(decrease) in assets available for benefits during the year**			**161,734**
	2,735,997	**Opening net assets of the fund 1 April**			**2,868,218**
	2,868,218	**Closing net assets of the fund 31 March**			**3,029,952**

NET ASSETS STATEMENT

31 March 2018				31 March 2019	
£'000	£'000		*Note*	£'000	£'000
	840	**Long term investments**	*12*		**395**
840		Brunel Pension Partnership Ltd		395	
	2,860,059	**Investment assets**	*13*		**3,025,386**
448,550		UK equities (quoted)		29,469	
644,160		Overseas equities (quoted)		421,913	
1,388,985		Pooled investment vehicles		2,104,713	
76,486		Private equity		80,275	
255,830		Property		281,480	
-		Temporary investments		10,000	
39,995		Cash & cash equivalents		93,022	
920		Derivative contracts		733	
5,133		Other investment assets		3,781	
	(3,778)	**Investment liabilities**	*13*		**(1,686)**
(3,778)		Other investment liabilities		(1,686)	
	2,857,121	**Total net investments**	*13*		**3,024,095**
	2,895	**Long term debtors**			**1,930**
2,895		Other long term debtors		1,930	
	12,249	**Current assets**			**12,911**
7,554		Contributions due from employers		8,689	
4,695		Other current assets		4,222	
	(4,047)	**Current liabilities**			**(8,984)**
(229)		Unpaid benefits		(534)	
(3,818)		Other current liabilities		(8,330)	
-		Deferred income		(120)	
	2,868,218	**Net assets available to fund benefits**			**3,029,952**

NOTE 1. DESCRIPTION OF THE FUND

The Dorset County Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and was administered by Dorset County Council ("the Council") up to 31 March 2019. Following reorganisation of local government in Dorset, Dorset Council became the administering authority for the Fund from 1 April 2019.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the Council to provide pensions and other benefits for pensionable employees of the Council, other councils and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The fund is overseen by the Dorset County Pension Fund Committee, which is a committee of the Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies**, which are automatically entitled to be members of the Fund.
- **Admitted bodies**, which participate in the fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below:

31 March 2018		31 March 2019
291	**Total Employers**	**297**
	Employees	
6,872	Administering Authority	6,488
18,426	Other Scheduled Bodies	18,052
573	Admitted Bodies	528
25,871	**Total Employees**	**25,068**
	Pensioners	
8,319	Administering Authority	8,639
11,608	Other Scheduled Bodies	12,155
1,290	Admitted Bodies	1,341
21,217	**Total Pensioners**	**22,135**
	Deferred Pensioners	
8,950	Administering Authority	8,950
13,644	Other Scheduled Bodies	13,746
1,269	Admitted Bodies	1,234
23,863	**Total Deferred Pensioners**	**23,930**
70,951	**Total Members**	**71,133**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 9.5% to 26.6% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits

NOTE 2. BASIS OF PREPARATION

The statement of accounts summarise the Fund's transactions for the 2018/19 financial year and its financial position at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information by appending an actuarial report.

The accounts have been prepared on a going concern basis.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account:

Contribution income

Normal contributions are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.

Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as longterm financial assets.

Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

Investment income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). All items of expenditure are charged to the Fund on an accruals basis.

Net Assets Statement:

Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Freehold and leasehold properties

Properties are valued annually as at the year-end date by independent external valuers on a fair value basis and in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards. See Note 16 for more details.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

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

Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, ie the outstanding principal receivable as at the year-end date plus accrued interest.

Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an actuarial report appended to the accounts.

Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 20.

Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

NOTE 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net Fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 18. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 7 and the Code, therefore the properties are retained on the net asset statement at fair value.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Actuarial present value of promised retirement benefits (Note 19)

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.

Private equity investments (Note 16)

Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Freehold, leasehold property and pooled property funds (Note 16)

Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.

NOTE 6. EVENTS AFTER THE REPORTING DATE

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

Adjusting events: events that provide additional information about conditions that existed at the end of the reporting period, for example if an error was identified regarding the methodology used to value an asset as at the reporting date.

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

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

NOTE 7. CONTRIBUTIONS RECEIVABLE

By category:

2017/18		2018/19
£'000	**Employer contributions**	**£'000**
66,550	Contributions re future service costs	68,282
18,771	Contributions re past service costs (deficit recovery)	22,325
76	Voluntary additional contributions	101
3,562	Augmentation cost of early retirements	3,575
3,207	Exit payments from employers	-
-	Exit credits to employers	7
92,166	**Total employer contributions**	**94,290**
27,371	**Member contributions**	**27,922**
119,537	**Total contributions receivable**	**122,212**

By type of employer:

2017/18 £'000		2018/19 £'000
32,547	Administering authority	35,391
79,464	Other scheduled bodies	83,016
7,526	Admitted bodies	3,805
119,537	**Total contributions receivable**	**122,212**

NOTE 8. TRANSFERS IN FROM OTHER PENSION FUNDS

All transfers in from other pension funds were individual transfers, there were no group transfers to the Fund in 2018-19.

NOTE 9. BENEFITS PAYABLE

By type of employer:

2017/18 £'000		2018/19 £'000
37,408	Administering authority	40,151
67,824	Other scheduled bodies	72,131
7,991	Admitted bodies	7,830
113,223	**Total benefits payable**	**120,112**

NOTE 10. MANAGEMENT EXPENSES

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

2017/18 £'000		2018/19 £'000
1,775	Administrative expenses	1,745
532	Oversight and governance costs	609
11,347	Investment management expenses	11,991
13,654	**Total management expenses**	**14,345**

Investment management expenses consisted of:

2017/18 £'000		2018/19 £'000
9,306	Investment management fees	10,002
442	Performance related fees	282
218	Custody fees	123
440	Transaction costs	771
941	Other fees and costs	813
11,347	**Total investment management expenses**	**11,991**

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

NOTE 11. INVESTMENT INCOME

Rents from properties are shown net of operating expenses of £1,152k in 2018-19 (£734k in 2017-18).

The Fund lends UK and overseas equity stock held in the portfolio. All benefits as a stockholder are retained except for the voting rights. The income from stock lending was £71k. The value of stock on loan as at 31 March 2019 was £13.5M secured by total collateral worth £14.4M.

NOTE 12. LONG TERM INVESTMENTS

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (Brunel) has been formed to oversee the investment assets for the Avon, Buckinghamshire. Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds.

Each of the ten funds own an equal share of Brunel, with share capital invested by each fund of £840k. The value of each fund's shareholding based on Brunel's most recently audited accounts was £395k.

NOTE 13. INVESTMENTS

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

31 March 2018			31 March 2019	
Market Value		Portfolio / Manager / Pooled Vehicle	Market Value	
%	£'000		£'000	%
0.00%	**840**	**Long Term Investments**	**395**	**0.00%**
	840	Brunel Pensions Partnership	395	
15.70%	**448,550**	**UK Equities - Quoted**	**29,469**	**1.00%**
	401,402	Dorset County Council	-	
	16,771	Allianz	-	
	14,586	Investec	14,932	
	15,791	Wellington	14,537	
22.50%	**644,160**	**Overseas Equities - Quoted**	**421,913**	**14.00%**
	265,107	Allianz	-	
	181,341	Investec	200,402	
	197,712	Wellington	221,511	
2.70%	**76,486**	**Private Equity**	**80,275**	**2.70%**
	41,438	HarbourVest	46,925	
	35,048	Aberdeen Standard	32,091	
	-	Capital Dynamics Global Secondary Fund V	1,259	
	-	Neuberger Berman Private Equity Impact fund	-	
9.00%	**255,830**	**Property (directly owned)**	**281,480**	**9.30%**
	255,830	CBRE Global Investors	281,480	
		Pooled Investment Vehicles:		
7.20%	**204,504**	**Bonds**	**214,353**	**7.10%**
	204,504	RLAM / Unit Linked Inv Fund - Life Policy	214,353	
8.60%	**245,842**	**UK Equities - Quoted**	**613,642**	**20.30%**
	190,746	AXA Framlington / Unit Trust	-	
	55,096	Schroders / Unit Trust	52,033	
	-	LGIM (passive UK)	374,013	
	-	Brunel (active UK)	187,596	
3.60%	**103,281**	**Overseas Equities - Quoted**	**379,228**	**12.50%**
	103,281	JP Morgan / Unit Trust	98,177	
	-	LGIM (passive smart beta)	281,051	
4.80%	**136,206**	**Multi Asset Credit (MAC)**	**139,717**	**4.60%**
	136,206	CQS	139,717	
1.40%	**39,547**	**Property**	**41,792**	**1.40%**
	8,897	Lend Lease Retail Partnership	8,255	
	14,577	Standard Life UK Shopping Centre Trust	13,415	
	16,073	UK Long Income Property Fund	17,183	
	-	Aberdeen Standard Long Lease Property Fund	2,939	
	-	M&G Secured Property Fund	-	
6.10%	**173,342**	**Diversified Growth Funds**	**176,110**	**5.80%**
	173,342	Barings Asset Management / Non UCITS (PIF)	176,110	
3.70%	**106,545**	**Infrastructure**	**138,742**	**4.60%**
	32,964	Hermes GPE / Infrastructure Fund	51,897	
	73,581	IFM / Global Infrastucture Fund	86,845	
13.30%	**379,718**	**Liability Driven Investment**	**401,129**	**13.30%**
	379,718	Insight / LDI Active 16 Fund	401,129	
48.70%	**1,388,985**	**Total - Pooled Investments**	**2,104,713**	**69.50%**
0.00%	**-**	**Temporary Investments**	**10,000**	**0.30%**
1.40%	**39,995**	**Cash & Cash Equivalents**	**93,022**	**3.10%**
0.00%	**920**	**Derivatives**	**733**	**0.00%**
0.00%	**1,355**	**Investment Receivables/(Payables)**	**2,095**	**0.10%**
100.00%	**2,857,121**	**Total Investments**	**3,024,095**	**100.00%**

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

NOTE 14. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

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

	Value 1 April 2018 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2019 £'000
Equities - Unquoted	840	-	-	(445)	395
Equities - Quoted	1,092,710	361,201	(1,093,014)	90,485	451,382
Pooled Investment Vehicles	1,388,985	1,343,933	(685,171)	56,966	2,104,713
Private Equity	76,486	40,297	(53,046)	16,538	80,275
Property	255,830	23,622	(1,387)	3,415	281,480
Total Securities	**2,814,851**	**1,769,053**	**(1,832,618)**	**166,959**	**2,918,245**
Forward Foreign Exchange	920	29,532	(5,968)	(23,751)	733
Total Securities and Derivatives	**2,815,771**	**1,798,585**	**(1,838,586)**	**143,208**	**2,918,978**
Other Investment Balances:					
Temporary investments	-	-	-	-	**10,000**
Cash & cash equivalents	39,995	-	-	-	**93,022**
Other investment assets	5,133	-	-	-	**3,781**
Other investment liabilities	(3,778)	-	-	-	**(1,686)**
Net Investment Assets	**2,857,121**	**1,798,585**	**(1,838,586)**	**143,208**	**3,024,095**

NOTE 15. ANALYSIS OF DERIVATIVES

The Fund's holdings in derivatives are to hedge liabilities or exposures to reduce risk. To maintain appropriate diversification a significanct proportion of the Fund's equity portfolio is in overseas stock. To reduce the volatility associated with fluctuating curecny rates, the Fund hedges 50% of the US Dollar, Euro and Japanese Yen exposure within the portfolios managed by the Fund's global equties managers, Investec Asset Management and Wellington Management. As at 31 March 2019, the Fund held the following open forward currency contracts.

Settlement	Currency Bought	Local Value 000s	Currency Sold	Local Value 000s	Asset Value £'000	Liability Value £'000
1-6 months	GBP	22,143	EUR	25,461	144	-
	GBP	153,122	USD	199,519	596	-
	JPY	40,938	GBP	284	-	-
	GBP	13,455	JPY	1,937,315	-	(7)
Open Forward Currency Contracts at 31 March 2019					**740**	**(7)**
Net Forward Currency Contracts at 31 March 2019						**733**

NOTE 16. FAIR VALUE OF INVESTMENT ASSETS

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

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

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

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

The following tables summarise the Fund's investment assets by class at 31 March 2019 and at 31 March 2018 measured at fair value according to the above fair value hierarchy.

31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	29,469	-	-	29,469
Overseas equities - Quoted	421,913	-	-	421,913
Pooled Investment Vehicles	-	1,927,120	177,593	2,104,713
Private Equity	-	-	80,275	80,275
Property	-	-	281,480	281,480
Temporary Investments	10,000	-	-	10,000
Cash & Cash Equivalents	93,022	-	-	93,022
Derivatives	733	-	-	733
Other investment assets	3,781	-	-	3,781
Total	**558,918**	**1,927,120**	**539,348**	**3,025,386**

31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	448,550	-	-	448,550
Overseas equities - Quoted	644,160	-	-	644,160
Pooled Investment Vehicles	-	1,242,893	146,092	1,388,985
Private Equity	-	-	76,486	76,486
Property	-	-	255,830	255,830
Temporary Investments	-	-	-	-
Cash & Cash Equivalents	39,995	-	-	39,995
Derivatives	920	-	-	920
Other investment assets	5,133	-	-	5,133
Total	**1,138,758**	**1,242,893**	**478,408**	**2,860,059**

During the year ended 31 March 2019 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy .

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

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
Level 1:			
Market quoted investments	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Exchange traded pooled investments	Published exchange prices at the reporting date.	Not required.	Not required.
Level 2:			
Pooled investments - unit trusts etc.	Closing bid price where bid and offer prices are published, or closing single price where single price only is published.	Net Asset Value (NAV) based pricing set on a forward pricing basis.	Not required.
Level 3:			
Freehold and leasehold properties	Valued at fair value at the reporting date by Peter Sudell FRICS of BNP Paribas Real Estate and Andrew Wells FRICS (the Derwent portfolio) of Allsop LLP, both acting as independent valuers and in accordance with current RICS Valuation Standards.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
Unquoted equity	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012).	Earnings (EBITDA) and revenue multiples, discount for lack of marketability, control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Property funds	Underlying assets valued at fair value at the reporting date by each fund's valuers in accordance with current RICS Valuation Standards, taking account of other financial assets and liabilities within the fund structure.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

NOTE 17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

(a) Market Risk

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

(a) (i) Other Price Risk

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

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

As at 31 March 2019	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - quoted	29,469	15.00%	4,420	(4,420)
Overseas equities - quoted	421,913	15.00%	63,287	(63,287)
Pooled Investment Vehicles	2,104,713	15.00%	315,707	(315,707)
Private Equity	80,275	15.00%	12,041	(12,041)
Property	281,480	15.00%	42,222	(42,222)
Temporary investments	10,000	0.00%	-	-
Cash & cash equivalents	93,022	0.00%	-	-
Derivatives	733	15.00%	110	(110)
Other investment assets	3,781	0.00%	-	-
Total	**3,025,386**	**14.47%**	**437,677**	**(437,677)**

As at 31 March 2018	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - Quoted	448,550	15.00%	67,283	(67,283)
Overseas equities - Quoted	644,160	15.00%	96,624	(96,624)
Pooled Investment Vehicles	1,388,985	15.00%	208,348	(208,348)
Private Equity	76,486	15.00%	11,473	(11,473)
Property	255,830	15.00%	38,375	(38,375)
Temporary investments	-	0.00%	-	-
Cash & cash equivalents	39,995	0.00%	-	-
Derivatives	920	15.00%	138	(138)
Other investment assets	5,133	0.00%	-	-
Total	**2,860,059**	**14.76%**	**422,103**	**(422,103)**

(a) (ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's exposure to interest rate movements on those investments at 31 March 2019 and 2018 are provided below, based on underlying financial assets at fair value.

Interest rates vary and can impact the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2018.

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

As at 31 March 2019	Market Value £'000	Change in net assets +1% £'000	-1% £'000
Cash & cash equivalents	93,022	930	(930)
Temporary investments	10,000	100	(100)
Assets held in pooled investment vehicles:			
Bonds	214,353	2,144	(2,144)
Multi Asset Credit (MAC)	139,717	1,397	(1,397)
Liability Driven Investment (LDI)	401,129	4,011	(4,011)
Total	**858,221**	**8,582**	**(8,582)**

As at 31 March 2018	Market Value £'000	Change in net assets +1% £'000	-1% £'000
Cash & cash equivalents	39,995	400	(400)
Temporary investments	-	-	-
Assets held in pooled investment vehicles:			
Bonds	204,504	2,045	(2,045)
Multi Asset Credit (MAC)	136,206	1,362	(1,362)
Liability Driven Investment (LDI)	379,718	3,797	(3,797)
Total	**760,423**	**7,604**	**(7,604)**

(a) (iii) Currency Risk

Currency risk represents the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets that are not denominated in UK sterling.

To mitigate the affect of movements in foreign exchange rates against its overseas equities investments, the Fund has in place a 50% passive currency hedge against the three major currencies, the US Dollar, the Euro and the Japanese Yen, and 50% of its holdings in the LGIM Smart Beta fund are in hedged units.

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exhange rates to be +/- 10% in total. The following summarises the Fund's exposure to currency exchange rate movements on its investments net of these hedges.

As at 31 March 2019	Total Exposure £'000	Unhedged Exposure £'000	Potential Movement £'000
Overseas equities - quoted	421,913	210,957	21,096
Pooled Investment Vehicles	781,900	641,375	64,137
Private Equity	80,275	80,275	8,028
Total	**1,284,088**	**932,606**	**93,261**

As at 31 March 2018	Total £'000	Unhedged £'000	Potential £'000
Overseas equities - quoted	644,160	322,080	32,208
Pooled Investment Vehicles	486,410	486,410	48,641
Private Equity	76,486	76,486	7,649
Total	**1,207,056**	**884,976**	**88,498**

(b) Credit Risk

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

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

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

The Fund's exposure to credit risk at 31 March 2019 is the carrying amount of the financial assets.

Investment	31 March 2019 £'000	31 March 2018 £'000
Temporary Investments	10,000	-
Bank Account Deposits	34,572	2,895
Money Market Funds	58,450	37,100
Assets held in pooled investment vehicles:		
Bonds	214,353	204,504
Multi Asset Credit (MAC)	139,717	136,206
Liability Driven Investment (LDI)	401,129	379,718
Total	**858,221**	**760,423**

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and defines liquid assets as assets that can be converted to cash within three months notice, subject to normal market conditions. As at 31 March 2019, liquid assets were £2,486M representing 82% of total net assets (£2,381M at 31 March 2018 representing 83% of total net assets at that date).

NOTE 18. FUNDING ARRANGEMENTS

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

Contribution rates for the year ending 31 March 2019 were set at the latest valuation calculated as at 31 March 2016. The common contribution rates set at the 2016 valuation for the three year period ending 31 March 2020 are as follows.

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

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

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

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

NOTE 19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

This valuation as at 31 March 2019 is set out in Appendix D Pension Fund - IAS 26 Disclosures to these financial statements 2018/19.

NOTE 20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

Each employer in the Fund is responsible for collecting from their own employees and paying to the AVC provider those contributions due on AVC plans. Dorset County Council as employer deducted and paid to the AVC providers a total of £352k in 2018-19 (£321k in 2017-18).

NOTE 21. RELATED PARTY TRANSACTIONS

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

The Council remits monthly contributions to the Fund in arrears, and March 2019 contributions of £2.6M were accrued as at 31 March 2019. Management and administration costs of £1.9M were incurred by the Council and recharged to the Fund in 2018/19. In addition at any given time there may be amounts which have been paid or received by both the Council or the Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the Council and the Fund and are settled on a regular basis.

Senior officers of the Council are members of the Fund as employee contributors. As at 31 March 2019, one member of the Committee was a contributing member of the Fund and one member of the Committee was a deferred member of the Fund. The key management personnel of the Fund are the members of the Committee and the Council's Chief Financial Officer, who is the Fund Administrator. The £1.9M recharge from the Council includes a charge of £19,000 for the Fund Administrator's time spent working for the Fund.

NOTE 22. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund is continuing the process required to recover withholding tax from various EU investments following rulings requiring equal treatment for all EU investors. These claims will be retrospective and will cover a varying number of years depending on the domicile. Neither the amount nor the expected time of settlement are known so consequently the financial statements as at 31 March 2019 do not reflect any potential recovery of tax.

Pension Fund Committee

Investment Pooling Progress Report

Date of Meeting: 20 June 2019

Lead Officer: Aidan Dunn, Executive Director Corporate Development

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.

To date, investments valued at approximately £840m have transferred to the pool's management, representing nearly 30% of the Fund's total assets of £3.0bn.

South West Audit Partnership (SWAP) have reviewed whether the project is progressing as planned and concluded that the project is on track to deliver the planned benefits, and that asset transitions have been well monitored and scrutinised.

Equalities Impact Assessment:

Not applicable.

Budget:

Not applicable.

Risk Assessment:

Details of the expected risks of implementing the project are included in the report.

Other Implications:

None.

Recommendation:

That the Committee note the progress in establishing the Brunel Pension Partnership.

Reason for Recommendation:

To ensure that the Fund has the appropriate management arrangements in place.

Appendices:

Appendix 1: Pension Fund Investments Transfer – SWAP final report
Appendix 2: Brunel Oversight Board 31 January 2019 – minutes

Background Papers: Brunel Pension Partnership Full Business Case
Officer Contact Name: David Wilkes, Senior Finance Manager (Treasury and Investments) Tel: 01305 224119 Email: investments@dorsetcouncil.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

Listed 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.

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 £185m) but no allocation to Low Volatility Global Equities. The Fund's investment with AXA Framlington has now transferred to the Brunel portfolio.

3.6 In total, investments valued at approximately £840m have transferred to the pool's management, representing nearly 30% of the Fund's total assets of £3.0bn.

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 £90m) 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 £125m) to global high alpha 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

3.9 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.

3.10 Commitments to the private markets' portfolios are expected to be made 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 'top-up' after the first year.

3.11 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.

3.12 Brunel has made commitments to two Private Equity funds - the Capital Dynamics Global Secondary Fund and the Neuberger Berman Private Equity Impact Fund. Dorset's share of those commitments is £11.5m to the Capital Dynamics Global Secondary Fund and £14.3m to the Neuberger Berman Private Equity Impact Fund, leaving £34.2m uncommitted. To date £2.5m has been drawndown against the Capital Dynamics Fund.

3.13 Brunel has made commitments to two Secured Income funds - 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. To date, £2.9m has been drawndown against Dorset's commitment to the Aberdeen Standard Fund, with a call for a further £8m expected shortly.

Liability Driven Investment (LDI)

3.14 Following discussions between Brunel and the three clients who have allocations to LDI (including Dorset) in January 2019, Brunel issued their "Manager Search Launch Paper" for their LDI portfolio. A decision on the preferred provider is expected shortly. Dorset's target allocation to LDI is 14% (approximately £400M) and its incumbent manager is Insight Investments.

Diversified Growth Funds (DGFs)

3.15 In April 2019, a workshop was hosted by Brunel to gain a better understanding of clients' reasons for allocating to DGFs. Dorset's target allocation to DGFs is 8% (approximately £240M) and its incumbent manager is Barings.

Other Portfolios

3.16 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.

3.17 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.

3.18 The development and transition plan for all Brunel's portfolios (excluding private markets) is summarised below.

Portfolio	Dorset Allocation	Start Date	Transition Date
Passive UK Equities	12.25%	Jan-18	Jul-18
Passive Smart Beta Equities	8.50%	Jan-18	Jul-18
UK Active Equities	6.25%	Oct-18	Nov-18
Low Volatilty Active Equities	0.00%	Oct-18	Nov-18
Emerging Market Active Equities	3.00%	Oct-18	Sep-19
High Alpha Developed Active Equities	4.25%	Dec-18	Nov-19
Global Core Active Equities	8.50%	May-19	Apr-20
Sustainable Active Equities	0.00%	Sep-19	Aug-20
Smaller Companies Active Equities	2.25%	Oct-19	Aug-20
Liability Driven Investments	14.00%	Dec-18	Aug-19
Diversified Growth Funds	8.00%	Mar-19	Dec-19
Passive Index Linked Gilts	0.00%	Dec-18	Aug-19
Bond Strategy	0.00%	Nov-19	Dec-19
Multi Asset Credit	5.00%	Dec-19	Jul-20
Sterling Corporate Bonds	6.00%	Feb-20	Sep-20
Global Bonds	0.00%	Jun-20	Apr-21
Index Linked Gilts	0.00%	Jun-20	Jun-20
Hedge Funds	0.00%	Aug-20	Mar-21
Equity Protection	0.00%	Sep-20	Jun-21
Tactical Asset Allocation	0.00%	Sep-20	Jul-21

4. Governance

4.1 South West Audit Partnership (SWAP) were commissioned by the Fund Administrator to review whether the project was progressing as it should be. The conclusion of the auditors was that the project is on track to achieve the planned benefits and savings within the timescales of the business case, and that asset transitions are well monitored and scrutinised by Brunel and the clients, including Dorset (see Appendix 1).

4.2 Minutes from the meeting of the Brunel Oversight Board 31st January 2019 are attached as Appendix 2. The oversight board also met on 30th April 2019 but the draft minutes for that meeting have not yet been approved for publication.

5. Key Measures of Success

5.1 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.

6. Key Risks

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

6.2 **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.

6.3 **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.

6.4 **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.

6.5 **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.

Dorset Council

SWAP
INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

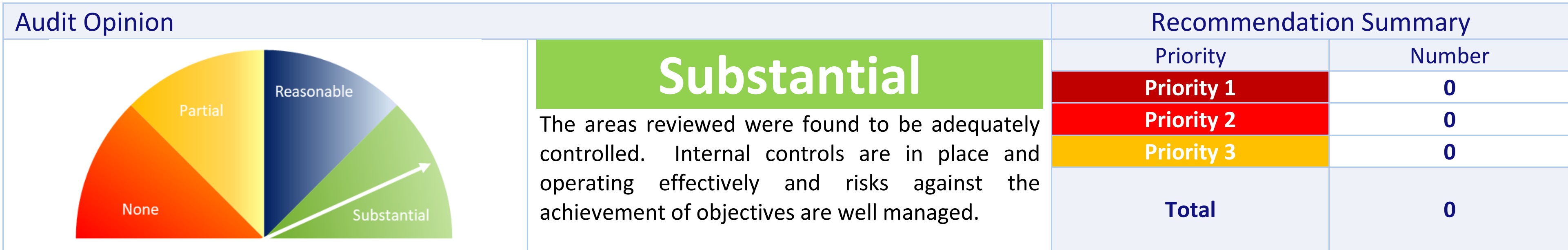
Pension Fund Investments Transfer

Final Report

Issue Date: 21st May 2019

Working in Partnership to Deliver Audit Excellence

Executive Summary



Audit Opinion

Substantial

The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Recommendation Summary

Priority	Number
Priority 1	**0**
Priority 2	**0**
Priority 3	**0**
Total	**0**

Audit Conclusion

Overall the Pension Fund Investment transfer project is progressing in line with the set timeframes and is on track to achieve the planned benefits and savings by 2023, with the final transfer due in July 2021.

The development of Brunel's business plan for 2019-20 involved a detailed review of the assumptions in the original Full Business Case (FBC), resulting in a revised transition and resources plan to ensure the objectives of the original business case are achieved. The review was subject to a high level of scrutiny by both the Client Group (CG), and the Brunel Oversight Board (BOB). It was agreed to stretch the plan to three years with changes to some of the order. The outcome for Dorset will still however be the same as Brunel are projecting break even in 2023 for Dorset as initially predicted.

In July 2018 Dorset's internally managed passive UK equities portfolio and Dorset's global equities were transferred. There are seven active portfolios, of which two initial active equities concluded in September 2018, with transition to the new portfolios in November 2018. Brunel have commenced the process for appointing suitable Fund Managers by issuing 'Manager Search Launch Papers' for Emerging Markets Equity and High Alpha Equity and LDI portfolios, with activity taking place for other portfolios.

There is a clear governance structure in place with clear lines of reporting and formal arrangements in place for the transfer of assets to Brunel Pension Partnership Ltd. The transfers are well monitored and scrutinised by both the Dorset Council and Brunel.

It should be noted that this audit has given as assurance opinion as at this point in time and the transfers are on-going.

Background

In May 2014, the Government published a consultation which set out how savings might be achieved by Local Government Pension Scheme (LGPS) funds through greater use of pooled investment. As a result of this, Brunel Pension Partnership Ltd was created in July 2017 with representatives from ten LGPS administering authorities, including Dorset County Council (now Dorset Council). Brunel Ltd received authorisation in March 2018 from the Financial Conduct Authority (FCA) to act as a full scope investment firm. A full business case was prepared setting out how the planned savings would be achieved for Dorset following the transfer of all pension assets, with the exception of the direct property holdings.

Dorset's internally managed passive UK equities portfolio successfully transitioned to the Brunel portfolio on 11 July 2018 and Dorset's global equities under the management of Allianz successfully transitioned to the Brunel Smart Beta portfolio on 18 July 2018. There are seven active portfolios, of which two initial active equities concluded in September 2018, with transition to the new portfolios in November 2018. 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. The final transfer is expected to be completed in July 2021.

Corporate Risk Assessment

Objective

To review whether the Pension Fund Investment Transfer project is progressing as it should with anticipated benefits and savings being achieved as planned. A review of governance structure and the security surrounding the transfers will also take place.

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
The Pension Fund Investment Transfer project does not progress as it should resulting in the anticipated benefits and savings not being achieved as planned.	**High**	**Medium**	**Low**
The assets are not transferred securely or on time resulting in financial loss to the Pension Fund.	**High**	**High**	**Low**

It should be noted that the Manager's initial assessment of risk being 'High' was due to the large value of assets and the fact that, at the time of scoping the audit, no assets had been transferred so the planned process had not been undertaken.

Scope

This review considered:

- Whether the Pension Fund Investment transfer project is progressing as intended and whether key milestones as set out in the business case have been met.
- What were the anticipated benefits and savings that the project was expected to deliver and to what extent these are being realised?
- The governance in place within Brunel Pension Partnership Ltd and the role that the Dorset Pension Fund Committee has within this structure.
- The security arrangements in place for the transfer of assets to Brunel Pension Partnership Ltd.

Findings and Outcomes

Summary of Control Framework

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 Pension Partnership Ltd (BPP 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.

Brunel have overall responsibility for the project delivery; however the Dorset Council will scrutinise and ensure decisions are made in the best interests of the Dorset Pension Fund. The Brunel Oversight Board (BOB) generally meets every two months and they have the responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership. Membership of the Board includes a representative from the DC Pensions Committee and the Senior Finance Manager (Treasury and Investments) listens into the meetings via the telephone.

There is a Project Client Group which act for the administering authorities in their capacity as shareholders in, and clients of, BPP Ltd. The Client Group provides practical and technical support, guidance and assistance to the Oversight Board in its strategic role of ensuring that BPP Ltd delivers the services required to achieve investment pooling across the 10 LGPS funds. The Dorset Council Pension Fund Committee used to meet quarterly and received 'The Brunel Pension Partnership – project progress report' prior to the meeting from the Senior Finance Manager (Treasury and Investments). With the new Dorset Council a Pension Fund Committee has yet to be set up, but it is expected that this update report will continue to be considered by the new Committee when established.

Regular monitoring and reporting of the Brunel project progress is being undertaken by relevant parties against the milestones and budget set out in the project plan. These reports monitor and record the anticipated benefits and savings that the project is expected to deliver. There is also a clear governance framework in place within Brunel Pension Partnership Ltd, clearly setting out Dorset Councils role within this structure.

There are formal arrangements in place for the transfer of assets to Brunel Pension Partnership Ltd, the transfers are well monitored and scrutinised by both the Dorset Council and Brunel. There are no recommendation to raise for this audit review.

Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Page 131

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Authors and Distribution

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

Report Authors

This report was produced and issued by:

Rupert Bamberger	Assistant Director
Sally White	Principal Auditor
Kerry Brown	Senior Auditor

Distribution List

This report has been distributed to the following individuals:

Aidan Dunn	Executive Director (Corporate Development)
David Wilkes	Senior Finance Manager (Treasury and Investments)

At the point of issue the new Dorset Council had not established a Pension Fund Committee so it has not been issued to Members.

Brunel Pension Partnership

BOB

Brunel Oversight Board Meeting
Minutes

Purpose: **To review Brunel/Client progress agree next steps**
Date and time: Thursday 31 January 2019, 10:30 – 13:00
Location: Park Avenue Room, 1st Floor, Doubletree by Hilton, Redcliffe Way, Bristol, BS1 6NJ
Dial-in details: Dial In: 0330 336 1949 | Participant Pin: 429632

Pension Committee Representatives		
David Veale	Avon	
John Chilver	Buckinghamshire	
Derek Holley	Cornwall	
Ray Bloxham	Devon	
Peter Wharf	Dorset	Phone
Robert Gould	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.*	Phone
Ian Brindley	*Scheme member rep.*	
Fund Officers and Representatives		
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	
Mark Gayler	Devon	
Dave Wilkes	Dorset	Phone
Marion Maloney	EAPF	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	JLT - Client Side Executive	
Sophie McClenaghan	JLT - Minutes	
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	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CCRO	
Chris Crozier	Brunel, CRO	
Alice Spikings	Brunel, CRA	

David Jenkins	Brunel, SIO	
David Anthony	Brunel, CFO	
Mike Clark	NED and Chair of ARC	

Item	Agenda	Paper provided	Owner
1	Confirm agenda Requests for Urgent or items for Information only Any new declarations of conflicts of interest	Agenda C of Interests	Chair
	Conflicts of interest • JLT to update the conflict register to remove JS & NB's conflicts. • JLT declared a conflict on item 4 and offered to leave the room for this item.		
2	Review 1 November BOB minutes	Minutes	Chair
	The November minutes were agreed and confirmed as final.		
3	Quarterly Performance Report – Q3 2018	Performance report	MT/CC
	MT presented the Quarterly Performance Report which was included as an appendix to the paper. The Quarter 3 report ending 30 September 2018 is the first iteration of an oversight board report. The report ending December is due to be released later today. In future the quarterly performance report will become part of the standing Brunel Update item. The format is similar to committee reports that members will have seen already. Key points discussed: • Brunel is looking to avoid investment jargon (such as ex-post) in reports going forward. • The titles of the pie diagram require a bit of formatting. • The reference to November in the Responsible Investment section refers to November 2018. Brunel has already produced a Voting Policy which is available on the website. • The Voting Policy sits within the broader Stewardship Policy. It is possible for a Fund to vote in a different direction to other funds should it be required, however, it may incur additional costs. • It was asked if Brunel is challenging investment managers. Brunel has appointed Hermes, who has a strong track record of engaging and challenging investment managers. Brunel will also be doing some of this engagement directly. ST provided assurance that rigorous training session was held with Hermes. • This report will be produced quarterly and delivered on Business Day 22 after each quarter end. The 30 April BOB meeting will be before the deadline for production of the Q1 report, so will table Q4 report. Will be a review of		

	the BOB meeting dates, to ensure data is timely. **It was requested that the Dec report is circulated via email outside of the meeting pack. Agreed.** • It was noted that the report is already large in size and **Brunel were asked to condense if possible and avoid any repetition. Brunel agreed to review so only relevant detail is included.** • Transition costs are not included in this report but will be included in a separate transition outcome paper. Transition details are currently included in the standing item, business update report (item 6). It was queried whether the business plan is being scrutinised robustly given substantial changes in market conditions. It will be increasingly difficult to compare to pre-pooling conditions as the baseline has changed. Brunel is observing the market and in some areas Brunel is pushing managers to provide a LGPS share class such as in private markets. ST felt this should be taken away to look at how this can be covered. **Fund officers to discuss at a CG meeting.** DT believes that the Funds would not be able to obtain the fee discounts that the pool as a collective can achieve. Property was given as an example, as a collective pool the fund of fund manager (and costs) can be removed. Brunel will be demonstrating this in future papers. It was asked if Brunel compares the costs savings achieved with other pools. MM responded that to a limited extent Brunel speak with other pools, however he emphasised that the cheapest manager is not necessarily selected and other pools may have different managers and different fees so comparisons are often difficult. Across passive markets, the managers are operating a standardised cost structure. Brunel has been including 'most favoured nation' clauses to contracts meaning managers can't provide a lower fee to any other investor without giving Brunel the same rate. MM believes that investment performance is more important than fees. It was asked whether Brunel were scrutinising the custodian fee in the same level. JW noted that Statestreet was appointed via a 5 year contract (with 4 years remaining) via a formal OJEU process. The contract includes competitive rates.		Brunel Brunel **CG**
4	Future support/resource requirements for Clients	Presentation	SC
	JLT left the room for this item, and therefore the detail of the conversation was not minuted. The Oversight Board accepted the proposal of the CG to appoint JLT for another 1 year, with the option to extend for 1 year.		

5	Governance Review	Presentation	MT/DT
	Brunel has been operational for a period of time so it is appropriate for both sides to review whether the governance arrangements are working effectively and in line with regulatory requirements. Brunel is reviewing the articles of association and the shareholders agreement. Brunel has received feedback about the number of reserve matters. Page 4-6 of the presentation demonstrate the areas included in the review. The review timeline is dependent on its outcome. It was asked how often a governance review of this scale should be undertaken. FCA status requires Brunel to review its governance every year, but this is not likely to include clients. LC expects that if this review is done properly then it will not need to be done for another few years. It was asked if there was anything in the draft MHCLG guidance that should be incorporated. Brunel will formally review this document with CG and will ensure the feedback is included as part of the review. It was commented that the Shareholder agreement was originally produced by working groups of Section 151 officers and legal officers, and would they be involved again? DT confirmed that she is the sponsor of this document and that consultation of these and all interested groups had been planned into the review. Kevin (Brunel's Legal Counsel) will be reaching out to the original legal sub group that prepared the document. Brunel is keen to complete the review by September but acknowledges this is ambitious. The cost of completing the review was included in the business plan so has already been built in to budgets. A query was raised on the internal audit committee. MC summarised the ARC team and the appointment of Deloitte as external auditor.		
6	Brunel Update Report	Update report	MT/CC
	This is the usual standing item update report. The performance report will be included in this report going forward. • Brunel remains on track with the account forecasts. • Colmore is being on-boarded to provide mid and back office functionality for the property portfolios. • Factset is being implemented for the investment team to monitor investment portfolios. • The report includes a summary of investment portfolio developments. • The MHCLG consultation is noted. Brunel and the CG are planning a combined response to this document. • The client portal was launched in December and some key performance indicators are summarised in the		

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	document. It was asked if Brunel produce any gender pay analysis. Although it is not a formal requirement for Brunel, it is included in the annual report which will be discussed at the AGM later today. There is a gender pay gap, but this is mostly because there are women in the lowest quartile and in a small firm (35 people) the data can be distorted by 1 or 2 people. A comment was made on Appendix 3, point 7.2 regarding infrastructure investments. MM believes that the Government has come to understand that it can't tell LGPS to invest in infrastructure. Brunel is looking at different UK infrastructure projects, but will not invest in bad projects, noting that many projects are struggling to get off the ground.		
7	Shareholder NED update	Paper	ST
	ST spoke to his standing item report. ST has added in his activity since the last BOB meeting. ST acknowledged that the investment team is getting to the more complex portfolios. The Strategic Investment Committee (SIC) reviewed the LDI report and Global High Alpha (GHA) papers at the last meeting. ST noted that the quality of papers is very high, as good, if not better than seen in private sector. The benchmark targets are ambitious, ST commented that if 50% of the GHA benchmark return was achieved it would result in a top quartile Fund. ST highlighted the focus on RI at the SIC. **ST asked that funds provide feedback to client team on performance reports. ST encouraged members to get in touch with him if any questions.** It was asked about the equivalent Shareholder NED position at other pools. DT noted not all pools have a shareholder NED but Borders to Coast have now appointed a shareholder NED. **DT will ask at the next cross pool meeting with CEOs in February.**		Funds/ members DT
8	ARC Annual Report	ARC report	MC
	MC gave an overview of the annual report prepared by the Audit Risk and Compliance (ARC) committee. This report concludes that the work conducted by the external auditors agrees that Brunel is a going concern. The audit was unqualified which is hopefully comforting to members and ARC believe adequate capital is maintained. The ARC is increasing its focus on operational risk as there is now a larger team of people, and more portfolios to manage.		

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	It was highlighted that in the risk register, personnel is still flagged as red. During the course of the year, operations became more complex, increasing the risk around people and what they are doing, resulting in a red flag. All high level risks are a standing item at ARC meetings and ARC challenge Brunel to plan to fix these flags. Over the next 6 months, ARC expects this red flag to reduce, but it takes time for the action plan to be implemented and have effect. Recruitment was agreed in December and is under way. A delay in the roll out of management accounts is also flagged as red. The internal audit will be looking at this area. Systems have caused issues but these have been resolved by DA and his team and ARC will review at the next meeting.		
9	Annual Report & Financial Statements	Financial Statements	JW/DA
	JW summarised the key points of the annual report. • Brunel includes additional disclosures that it is not required to include. • The biggest strategic decisions were to establish the tax efficient vehicle – ACS, and to accelerate the Private Markets portfolios, supported in a shareholder reserve matter. • Brunel achieved FCA regulation. • 9 clients have been on-boarded to Statestreet as custodian. • Brunel is no longer eligible for small company exemptions. • Page 45 shows the P&L statement. • Internal control environment ICE launched during the year which includes CG portal. • Equity section shows that the second tranche of funding was received. • Original savings assumed were £550m and current estimated savings are expected to exceed this assumption by £70m. It was queried where the cash balance of £5.5m is being held. The cash is currently invested in a deposit account but Brunel are looking at investing £0.5-1.0m in an interest bearing account. The cash was deposited in Dec 18. Brunel requires regulatory capital of £1.5m is held in a liquid account. The investment process has been slowed as Brunel has MIFIID status and the finance team is light on resource. It was noted that the team has a treasury policy.		
10	Stakeholder Engagement		MT
	MT spoke to the paper which summarises the minimum service that clients should expect from Brunel and how it will be provided. MT asked that all communications are initiated through the client relationship team. This team will ensure		

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	the correct people within Brunel respond to the communication. DH thanked MT for attendance at recent committee meetings in Cornwall. He continued to ask about Brunel's relationship with local pension boards as Cornwall recently had training from the pension's regulator who emphasised the importance of engagement with Local Pension Boards. This was also highlighted as important in the MHCLG. DT responded that Brunel has included fund member representatives on the Oversight Board. IB is on the EAPF Pension Committee and the Board. AB is on the Devon Board and often attends Pension Committee meetings as an observer. DT is not anticipating direct engagement with members. AB and IB circulate the notes/outcomes of meetings to the scheme member representatives from each of the underlying Funds. Not all of the other pools have scheme member representatives on the equivalent of their oversight boards. The Scheme Advisory Board has asked pools to clarify why they don't have member representation. Only 2 pools currently have representatives. Statutory guidance is currently to comply or explain. The Scheme Advisory Board will be completing a survey on the effectiveness of the boards shortly. DLG noted that Brunel would like to be represented at all pension committee meetings to enable them to understand the requirements and develop the relationship further. This however cannot be mandated. DLG confirmed they would find capacity to attend and this was built into the business plan. MT noted this may be the client relations team or someone from another team. The Chair asked whether the Brunel team was spreading itself too thin by attending the significant number of conferences and industry events highlighted in the papers. DT confirmed event attendance is something that is scrutinised. Brunel looked for conferences and events that are in line with the firms RI policy and other initiatives. Attendance is divided across the team to ensure training and development needs are met.		
11	Any other Urgent or items for Information only. • SRM 10 – Business Plan outcome Future meeting dates • 30th April • 25th July • 26th September • 5th November		Chair/ MT
	SRM 10 - Business Plan outcome included 3 items:		

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	1. Alteration to budget - approved 2. Phasing of budget - declined by 3 funds. **Brunel is working with CG to amend the wording which will be brought back to the April BOB meeting.** This is an important matter to Brunel due to cyclical cycle of the business. 3. Budget for 19/20 - approved <u>Future meeting dates</u> **Brunel to look at aligning BOB meeting dates and quarterly report deadlines BD22 after quarter end**.	Brunel/ CG Brunel

Produced: JLT on 11/02/2019

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