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Pension Fund Committee

Date:	Thursday, 12 March 2020
Time:	10.00 am
Venue:	Committee Room 2, County Hall, Dorchester, DT1 1XJ

Membership: (Quorum 3)
Andy Canning (Chairman), John Beesley, David Brown, Ray Bryan, Howard Legg, Felicity Rice, Mark Roberts, Peter Wharf (Vice-Chairman) and Adrian Felgate

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

8 FUND ADMINISTRATOR'S REPORT 43 - 148

To consider the quarterly 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.

9 INVESTMENT POOLING PROGRESS REPORT 149 - 162

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

10 TREASURY MANAGEMENT STRATEGY 2020-21 163 - 168

To consider the annual report of the Fund Administrator on the pension fund’s Treasury Management Strategy for 2020-21.

11 PENSIONS ADMINISTRATION 169 - 176

To consider the quarterly report of the Fund Administrator on pension fund administration.

12 DATES OF FUTURE MEETINGS

To note the dates for the meetings of the Committee in 2020:

18 June 2020	London (venue to be confirmed)
10 September 2020	County Hall, Dorchester
26 November 2020	London (venue to be confirmed)

13 EXEMPT BUSINESS

To move the exclusion of the press and the public for the following item in view of the likely disclosure of exempt information within the meaning of paragraph 3 of schedule 12 A to the Local Government Act 1972 (as amended).

The public and the press will be asked to leave the meeting whilst the item of business is considered.

14 INFLATION INDEXATION REFORM 177 - 214

To consider an exempt report by the Fund Administrator.

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Dorset Council

DORSET COUNCIL - PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON WEDNESDAY 27 NOVEMBER 2019

Present: Cllrs Andy Canning (Chairman), John Beesley, David Brown, Ray Bryan, Howard Legg, Mark Roberts, Peter Wharf (Vice-Chairman) and Adrian Felgate (Scheme Member Representative)

Apologies: Cllr Felicity Rice (BCP)

Also present: Christine Baalham, Steve Lee, Jonathan Parker, Investec Asset Management and Alan Saunders, Independent Investment Adviser

Officers present (for all or part of the meeting):
Aidan Dunn (Executive Director - Corporate Development S151), Karen Gibson (Service Manager for Pensions), Jim McManus (Corporate Director - Finance and Commercial) and David Wilkes (Service Manager for Treasury and Investments)

30. **Minutes**

The minutes of the meeting held on 12 September 2019 were confirmed and signed.

31. **Declarations of Interest**

No declarations of disclosable pecuniary interests were made at the meeting.

32. **Public Participation**

There were no questions or statements from Town and Parish Councils for members of the public at the meeting.

33. **Urgent items**

There were no urgent items.

34. **Presentation from Investec Asset Management**

The Committee received a presentation from Christine Baalham, Jonathan Parker and Steve Lee, Investec Asset Management, one of the pension fund's global equities managers.

Investec summarised their approach as looking for high quality, attractively valued companies with improving operation performance that were receiving increasing investor attention. This approach had delivered a good long term track record but they acknowledged that performance for Dorset since inception in December 2015 had not been good enough, and apologised for that.

The main reasons for underperformance were high positions in UK domestic based stocks that were hit hard by falls in sterling, reduced exposure to commodities prior to the fiscal stimulus in the US following the election of President Trump, and poor stock selection in the pharmaceutical sector due to shortcomings with their analysis.

The Independent Adviser believed that the reason for the underperformance was more fundamental. Investment approaches with a strong ‘value’ bias, such as Investec’s, had underperformed investment approaches with a strong ‘growth’ bias.

Investec agreed that conditions had been difficult for value styles, but believed they should have been able to weather the storm because of the other factors they considered alongside value. They looked for market signals such as share price trends and earnings revisions to avoid ‘value traps’. Resolution of the US/China trade dispute, leading to the removal of tariffs, would lead to a strong improvement in returns.

All investment styles had periods when they did not work, but Investec believed that ultimately the fundamentals of companies would be rewarded, and that markets could move quickly to reward value. The Chairman noted that it may be many years before such a turning point was reached.

The Vice-Chairman asked what Investec were doing to review their approach and did they believe it was it still fit for purpose. Investec were reviewing whether they were capturing value correctly, and therefore identifying the right companies in the right sectors. In sectors where shortcoming in their analysis had been identified, they had made improvements, including personnel changes.

Investec saw climate change as a material financial risk for energy companies as they are at risk of holding stranded assets and were exposed to decommissioning costs. Assessment of such risks forms part of their financial analysis. They also looked for engagement with companies.

The Chairman thanked Investec for their presentation.

Noted

35. **Annual Governance Compliance Report**

The Committee received the annual update on governance compliance from the Independent Governance Adviser. He was satisfied that good standards of governance, including the role of the Local Pension Board, had been maintained since his last report in November 2018.

In his opinion the pension fund's annual report for 2018/19 was compliant with the newly revised CIPFA guidance, and he described it as one of the best he had reviewed this year.

Investment pooling had given rise to a number of governance concerns. This included restrictions on the access of pension fund committees to the investment pools' underlying managers. Consultation on revised guidance on the governance of investment pooling from the Ministry of Housing, Communities and Local Government (MHCLG) was expected in early 2020.

The LGPS Scheme Advisory Board (SAB) had issued guidance in relation to responsible investing. Cllr Beesley had recently been appointed to the SAB, and he confirmed this topic was very high on SAB's agenda. SAB were also considering the results of the Hymans Robertson's report on good governance which included proposals to 'raise the bar' for the training requirements of members of pension fund committees.

The Independent Governance Adviser confirmed that the pension fund's actuary was a regulatory position, similar to that of an auditor, and was not an advisory position. The actuary was charged with setting employer contribution rates, and with keeping those rates as constant as possible. However, there should be an opportunity for the Committee to discuss the initial results, underlying assumptions and sensitivities of a valuation with the actuary prior to the finalisation of rates. It was suggested that at the next valuation an additional meeting of the Committee be held to discuss the initial results.

Resolved
That at the next actuarial valuation an additional meeting of the Committee be held to discuss the initial results, if the results are not available for the September meeting.

36. **Pensions Administration**

The Committee considered a report from officers on operational and administration matters relating to the Fund.

The CIPFA benchmarking results for 2019 evidenced a high standard of service, good quality data and cost efficiency for the administration of the pension fund compared to its comparator group.

The Guaranteed Minimum Provision (GMP) and contracting out reconciliation project was drawing to a close, and the pension fund would then need to commence the process of rectification. It was proposed that for scheme members who had been underpaid, future pensions would be corrected and arrears would be paid. For scheme members who had been overpaid, future pensions would be corrected but there would be no recovery of historic overpayments. The changes would require careful communication to the individuals affected.

The Pensions Administration Strategy (PAS) had been reviewed and updated. Financial penalties could be imposed on scheme employers as a last resort. Where penalties have been applied they had led to an improvement in performance.

Administering authorities in the LGPS had an obligation to provide access to an in-house Additional Voluntary Contribution (AVC) arrangement for their scheme members. It was agreed that a review of the current arrangements was required.

Performance against Key Performance Indicators (KPIs) was generally good. The two exceptions both related to ‘transfers out’. It was explained that at times of high demand on the service, performance against these two KPIs was allowed to slip temporarily so that activities that impacted scheme members directly were prioritised.

Resolved

1. That the proposed approach to Guaranteed Minimum Provision (GMP) rectification be taken.
2. That the revised Pensions Administration Strategy (PAS) be approved.
3. That there is a review of the current in-house AVC arrangements.

37. **Independent Adviser's Report**

The Committee considered a report by the Independent Adviser that gave his views on the economic background to the pension fund’s investments, the outlook for different asset classes and the key risks for markets.

Markets had seen a recovery over the quarter, driven by the relaxation of monetary policy by central banks. The US was unlikely to go into a recession and there was greater optimism about a US-China trade deal.

Growth in the UK and Europe was more sluggish. There was uncertainty over Brexit and the UK general election, and markets were sceptical that a UK-EU trade deal could be concluded by December 2020. UK commercial property had seen a slight fall in capital values.

There was a challenge to the pension fund’s inflation hedging arrangements from the possibility of the Retail Price Index (RPI) being replaced by the Consumer Price Index including housing costs (CPIH). This had an adverse impact on the prices of assets with income streams linked to RPI, such as index linked government bonds. The government was expected to launch a consultation on the proposed changes in 2020. Officers and the Independent Adviser were asked to produce a summary of risk mitigation options for consideration at the next meeting of the Committee.

The strategic asset allocation would need to be reviewed as a consequence of the triennial actuarial valuation, and it was agreed that investment consultants should be appointed to assist with this. Significant changes were not expected, although the Liability Driven Investment (LDI) allocation would need to be reviewed in light of the potential changes to inflation indexation measures. It was confirmed that asset allocation remained the responsibility of the Committee and had not transferred to Brunel.

Resolved

1. That officers and the Independent Adviser provide a summary of risk mitigation options relating to the possible change from RPI to CPIH for the next meeting of the Committee on 12 March 2020.
2. That investment consultants be appointed to assist with the review of the pension fund's strategic asset allocation.

38. **Fund Administrator's Report**

The Committee considered a report by the Fund Administrator on the pension fund's funding position, valuation, performance and asset allocation as at 30 September 2019.

Barnett Waddingham, the pension fund's actuary, had completed their triennial review as at 31 March 2019. The funding level had improved from 83% at the last triennial valuation, as at 31 March 2016, to 92%.

The value of the fund's investments at 30 September 2019 was just over £3.1 billion. The return on investments for the financial year to 30 September 2019 was 5.1%, compared to the combined benchmark return of 4.8%. The return on investments for the last 12 months was 5.2%, compared to the combined benchmark return of 5.9%.

The presentation from Investec had not given the Committee sufficient confidence that under performance would be rectified prior to the planned transition to the Brunel active core global equities portfolio expected late 2020. It was therefore agreed that the mandate should be terminated. Assets would initially transfer to the Brunel passive global equities portfolio, with a further onward transfer to the Brunel active core global equities portfolio to be considered at a later date.

Resolved

That the mandate with Investec be terminated, with assets transferred to the Brunel passive global equities portfolio as soon as practical.

39. **Investment Pooling Progress Report**

The Committee considered a report by the Fund Administrator on the progress to date in the implementation of the Full Business Case (FBC) for the Brunel Pension Partnership, as approved by the Committee on 9 January 2017.

As at 30 September 2019, investments valued at approximately £960m had transferred to portfolios under Brunel's management. This represented just over 30% of the pension fund' total assets valued at £3.1bn. A further £125m was planned to transition before the end of November 2019 to Brunel's Global

High Alpha Equities portfolio. This would take assets under Brunel's management to approximately £1.1bn.

Cllr Beesley, the pension fund's representative on the Brunel oversight board, reported that the board were reviewing the level of scrutiny and challenge of Brunel's activities, especially in relation to responsible investing and other environmental, social and governance matters.

There was an update on progress in appointing a new Chief Executive Officer (CEO) for Brunel, replacing Dawn Turner, who left the company at the end of September 2019. It was suggested that the new CEO, when appointed, the company chairperson and/or the shareholder non-executive director be invited to a meeting of the Committee in 2020.

Resolved
That the new CEO, chairperson and/or the shareholder non-executive director be invited to a meeting of the Committee in 2020.

40. **Date of Future Meeting**

Resolved
That meetings be held on the following dates:

12 March 2020 County Hall, Dorchester.

41. **Exempt Business**

Resolved
That the Press and the Public be excluded for the following item(s) in view of the likely disclosure of exempt information within the meaning of Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

42. **Request from Employer to Change their Guarantee Provision**

The Committee considered a request from an employer to change their guarantee provision against any future unmet liabilities and/or costs from a bond to an alternative arrangement.

Resolved
That officers discuss and reach agreement with the employer for a suitable alternative financial guarantee to a bond.

Duration of meeting: 10.00 am - 1.40 pm

Chairman

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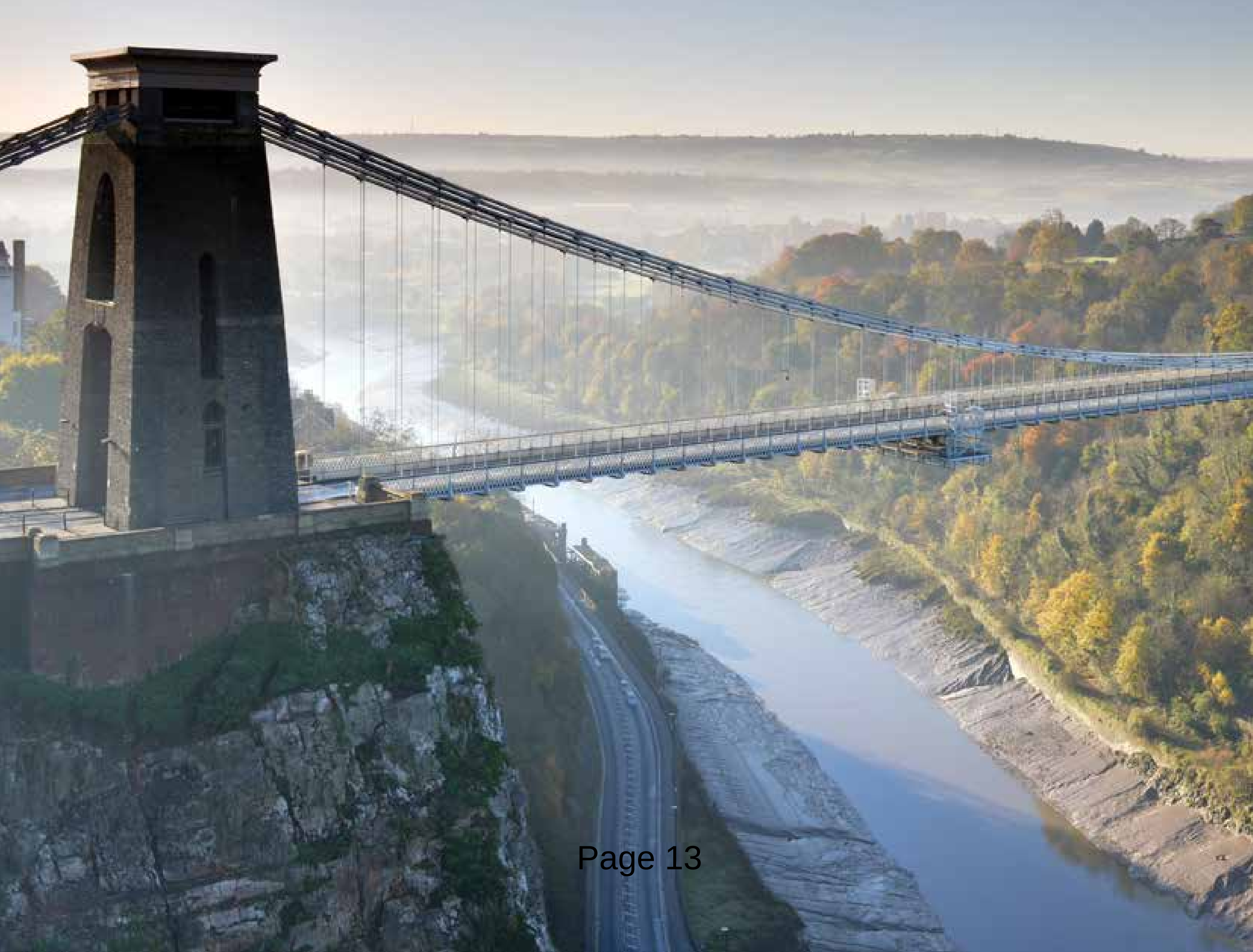
BRUNEL
Pension Partnership

Climate Change Policy
Summary

A five-point plan to build a financial system which is fit for a low carbon future



Executive summary

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

Climate change presents an immediate systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet. It has direct implications for our Clients and their beneficiaries.

How we navigate these risks is critical and therefore a strategic investment priority. We have designed a five-point plan – a Climate Change Policy – to guide our work over the next three years. We will regularly review and report on our actions and review our policy annually.

The state of play in the finance sector

The case for urgent action on climate change is clear. Global average temperatures are already 1°C above pre-industrial levels, the rate at which capital is being invested in low carbon infrastructure is approximately half of that required, and the pace at which regulators and policy makers are acting is far too slow.

Some of the underlying causes of these problems lie within the investment system, and financial markets more generally. While there are commendable exceptions, **the finance sector is not fit for purpose. How we price, manage and most specifically how we benchmark financial performance needs to be challenged in order to achieve a world where temperature rise is kept to well below 2°C compared to pre- industrial levels.**

Our role in driving change

If the financial system is not fit for purpose, we cannot respond effectively to climate change. As an organisation, we have done much already within our direct sphere of influence. We have exerted influence on our investment managers and service providers and on the specific investments we have made. While these efforts are important and valuable, we know there is more to be done. The state of play in the finance sector and our role within it means our focus must be on shaping and influencing the investment system to ensure it is fit for purpose.

Our priority is to catalyse change at scale, not only through our own efforts but in partnership with others, and by enabling our Clients to be agents of change in their own right.

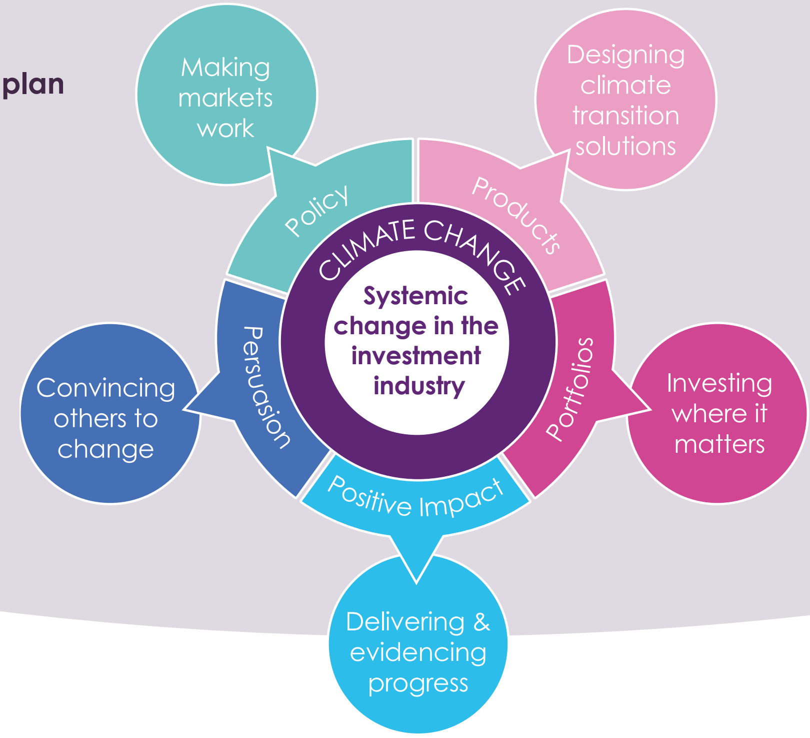
"The key objective of our climate policy is to systematically change the investment industry to ensure that it is fit for purpose for a world where temperature rise needs to be kept to well below 2°C compared to pre-industrial levels."

A five-point plan to build a financial system which is fit for a low carbon future

Our analysis of the investment market, the wider financial system, and of our role within them has led us to identify five principal areas where we believe there is a critical need for action and where we believe we can make a significant difference: Policy Advocacy; Product Governance; Portfolio Management; Positive Impact and Persuasion, as illustrated in diagram 1 below and explained in the accompanying grid.

Diagram 1

Brunel's five-point plan



Policy

Encourage policy makers to establish comprehensive and robust climate change policy frameworks. These need to deliver significant reductions in greenhouse gas emissions, accelerate progress towards the low carbon economy, and enable effective adaptation to the unavoidable impacts of climate change.

Products

Increase the number and range of products available to our Clients and the wider investment market that deliver substantial climate change benefits and sustainable investment returns.

Portfolios

Ensure our investment portfolios are resilient under a range of climate change scenarios (both mitigation and adaptation) by adopting best practices on climate risk management and working with our managers to further improve and develop our processes.

Positive Impact

Enable investments in activities that directly support the low carbon transition and that enable effective adaptation to the unavoidable impacts of climate change.

Persuasion

Challenge and encourage companies and other entities in which we invest and contract with to support the transition to the low carbon economy, and to ensure that they are resilient to the unavoidable impacts of climate change.

Taking stock

Our Climate Change Policy will guide our work on climate change over the next three years. We will regularly monitor and report on its implementation and effectiveness and the policy itself will be reviewed annually.

In late 2022, we will conduct a full stocktake of the policy. This stocktake will provide us and our Clients with the opportunity to reflect on our progress and to ramp up our ambitions. It will also, ahead of our Clients' triennial valuation and investment reviews, help us prepare for what we see as the tightening of regulation and escalation of government action on climate change.

This document is a summary of our full Climate Change Policy which is available at www.brunelpensionpartnership.org or you can request a copy from RI.Brunel@brunelpp.org

We would like to acknowledge the significant support and contribution of our Clients in the development of our Climate Change Policy. Our mutual commitment to building a financial system which is fit for a low carbon future is pivotal to driving change together.

Review and reporting

The Brunel Board approves and is collectively accountable for Brunel's Climate Change Strategy and Policy. Operational accountability on a day to day basis is held by the Chief Responsible Investment Officer.

We will review and report annually on our progress against the commitments set out in this policy.

We will use our website as the primary route for providing additional information and further insights into our approach.

Getting in touch

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

Fund managers with general enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), should contact us at investments.brunel@brunelpp.org or pminvestments.brunel@brunelpp.org

Approved by the Board of Brunel Pension Partnership Ltd. 20/01/2020

BRUNEL
Pension Partnership

Climate Change Policy

A five-point plan to build a financial system which is fit for a low carbon future

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

Brunel was formed in July 2017 and manages the investment of the pension assets (around £30bn/$40bn) of ten Local Government Pension Scheme funds in the UK. We use the name 'Brunel' to refer to the FCA-authorised and regulated company.

Our Clients retain responsibility for their asset allocation and investment strategy, and ultimately their exposure to climate risk. We see our role as helping them to understand and manage these risks, while also helping to address the climate challenge.

There are three areas where we have a particular contribution to make:

(a) significant direct influence over the investment managers we appoint,

(b) broader influence in the investment industry and with policy makers, and

(c) ability to influence company practice and performance, in particular in conjunction with our Client funds and others.

We would like to acknowledge the significant support and contribution of our Clients in the development of this policy. Our mutual commitment to building a financial system which is fit for a low carbon future is pivotal to driving change together.

Approved by the Board of Brunel Pension Partnership Ltd.
20/01/2020

Climate change is an issue for us and for our Clients

Climate change presents an immediate systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet. It has direct implications for our Clients and their beneficiaries. It is therefore a strategic investment priority for us.

Scientific evidence suggests that our climate is changing faster than at almost any point in history. The world is already at approximately 1°C of warming above pre-industrial levels. This is causing more frequent and more extreme weather events and significantly affecting rainfall and sea levels, among other changes. It is impacting agriculture and food supply, infrastructure, flooding and water supply, in turn leading to increased migration from climate-affected regions and greater conflict over natural resources such as water and agricultural land.

World governments have started to respond. The signatories to the 2015 Paris Agreement committed to keeping global temperature rise this century to well below 2°C compared to pre-industrial levels and to aim to limit the increase to 1.5°C. The signatories agreed to adopt and implement nationally determined contributions (NDCs) that set out the actions they would take to reduce greenhouse gas emissions, and to strengthen these efforts in the years ahead. Despite progress, we are currently heading towards a world of 4°C of warming compared to pre-industrial levels. This has potentially catastrophic implications for society and the environment.

Governments and all sectors of society (individuals, companies and investors, among others), will need to do much more if the global temperature rise this century is to be kept to well below 2°C. The transition to the low carbon economy calls for significant change in the shape and structure of our economy and requires us to eliminate most or all fossil fuel use and achieve a net zero carbon economy by 2050.

What is the role of investors?

Investors are exposed to the risks and opportunities presented by climate change adaptation and mitigation. They have a critical role to play if we are to successfully transition to the low carbon economy and to ensure that we adapt effectively to the physical impacts of climate change. We are a key source of the capital required for mitigation and for adaptation. We can ensure that the companies we invest in are resilient to the regulatory and other changes that will result from climate change. We can support policy makers in taking action to enable the low carbon transition and effective adaptation.

Our role in driving change

The state of play in the financial system

The case for urgent action on climate change is clear. Global average temperatures are already 1°C above pre-industrial levels, the rate at which capital is being invested in low carbon infrastructure is approximately half of that required, and the pace at which regulators and policy makers are acting is far too slow.

The nature of the investment system, and financial markets more generally contributes to the challenge of addressing climate change rather than supporting change.

Some of the specific challenges we see are:

- An emphasis on short-term rather than long-term performance which drives short-term thinking by investors and companies.
- An unwillingness to invest in areas that support the transition to the low carbon economy, in particular where the areas depend on public policy support or where the technologies are perceived to be relatively unproven.
- A general absence of investable investment products that make a substantive contribution to climate change mitigation or adaptation.
- Instances of perverse incentives and conflicts of interest through the system, not least, the use of conventional market weighted benchmarks to measure performance, when climate risk is not priced by the market.
- Backward looking investment risk models that are inherently flawed at taking account of climate risk.

The state of play in the finance sector means our focus must be on shaping and influencing the investment system.

Brunel's experience and expertise in managing climate change-related risks and opportunities, our scale, our influence and the strength and support of our Clients provides us with a unique position in the investment industry.

If we do not have a financial system that is fit for purpose, we will not be able to respond effectively to climate change. We can take some specific actions, mitigating risk at the margin, but the impact will be limited without wider change. However, given our position, the opportunity for us is to shape and influence the investment system and that should be the focus of our Climate Policy.

Our priority must be to catalyse change in the financial system at scale, not only through our own efforts and but in partnership with others, and through enabling our Clients to be agents of change in their own right.

Working with investment managers

One area of focus will be on driving real and substantial change in how investment managers invest. We expect them to think deeply about all aspects of how they invest and how they engage with the companies and other entities in which they invest. We will challenge them to provide investment products that deliver on both our investment and climate change objectives. We will press them to think carefully and critically about the companies and other entities they invest in, and to justify their investments in companies with higher greenhouse gas emissions. We will not issue exclusion lists because we need to drive change in the way investment managers work. Simply stating exclusions or requiring divestment from specific stocks or sectors will not compel investment managers to develop their capacity on climate change or to drive change in the companies in which they are invested – climate becomes a technical operational matter not an investment priority.

However, while **we will not instruct managers to exclude certain stocks, this does not mean we do not expect managers to have portfolios with materially reduced climate exposures and to be able to justify any climate controversial holding**. If investment managers are not able to robustly and credibly explain their investment strategies and how they have integrated climate risk, we will look to replace them with investment managers that do. If we find that our investment managers' engagement with companies is ineffective (i.e.

these efforts do not deliver real change in corporate strategies on climate change so that these companies are on a trajectory to be aligned with the transition to a 2°C or below economy), we will consider whether we should remove certain investment managers and/or introduce specific exclusion criteria to be applied to companies.

Taking stock

Our Climate Change Policy will guide our work on climate change over the next three years. We will regularly monitor and report on its implementation and effectiveness and the policy itself will be reviewed annually.

In late 2022, we will conduct a full stocktake of this policy. This stocktake will provide us and our Clients with the opportunity to reflect on our progress and to ramp up our ambitions. It will also, ahead of our Clients' triennial valuation and investment reviews, help us prepare for what we see as the tightening of regulation and escalation of government action on climate change.

We will develop the framework for the stocktake with Clients during 2020. We expect that the stocktake will consider:

- How have we performed against the objectives and targets we have set for ourselves?
- What outcomes – in terms of mitigation and adaptation – have we delivered?
- Have we been able to link carbon and financial performance, and if so, what does it tell us?
- Is this policy still fit for purpose or does it need to be substantially revised?
- How effective have the key elements of our strategy been? In particular, has our decision to engage with our investment managers been effective or do we need to change our investment managers and/or introduce selective divestment requirements for companies?
- Are there companies or managers who have not responded effectively to robust stewardship and present climate-related financial risks?

Our climate change beliefs and our Investment Principles

We set out our core beliefs on climate change below. In Appendix 1, we describe how these align with our Investment Principles.

Our Investment Principles are designed to capture the ambitions of how the Partnership will operate on a day to day basis, clearly demonstrate compliance with relevant regulations and policies, support our investment strategy and be commensurate with the expectations of an organisation of our size. In turn, they enable each of our Clients to deliver on their fiduciary duty to act in the best long-term interests of their members. They also recognise that our Clients (as administering authorities) retain responsibility for strategic asset allocation and setting their investment strategies, and ultimately their exposure to climate risk.

We believe that:

- Climate change presents a **systemic and material risk** to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our Clients, their beneficiaries and **all portfolios**.
- Investing to support the **Paris goals that deliver a below 2°C temperature increase** is entirely consistent with **securing long-term financial returns** and is aligned with the best long-term interests of our Clients.
- For society to achieve a net zero carbon future by 2050 (or before) requires **systemic change in the investment industry**, and **equipping and empowering our Clients** (and other investors) is central to this change.

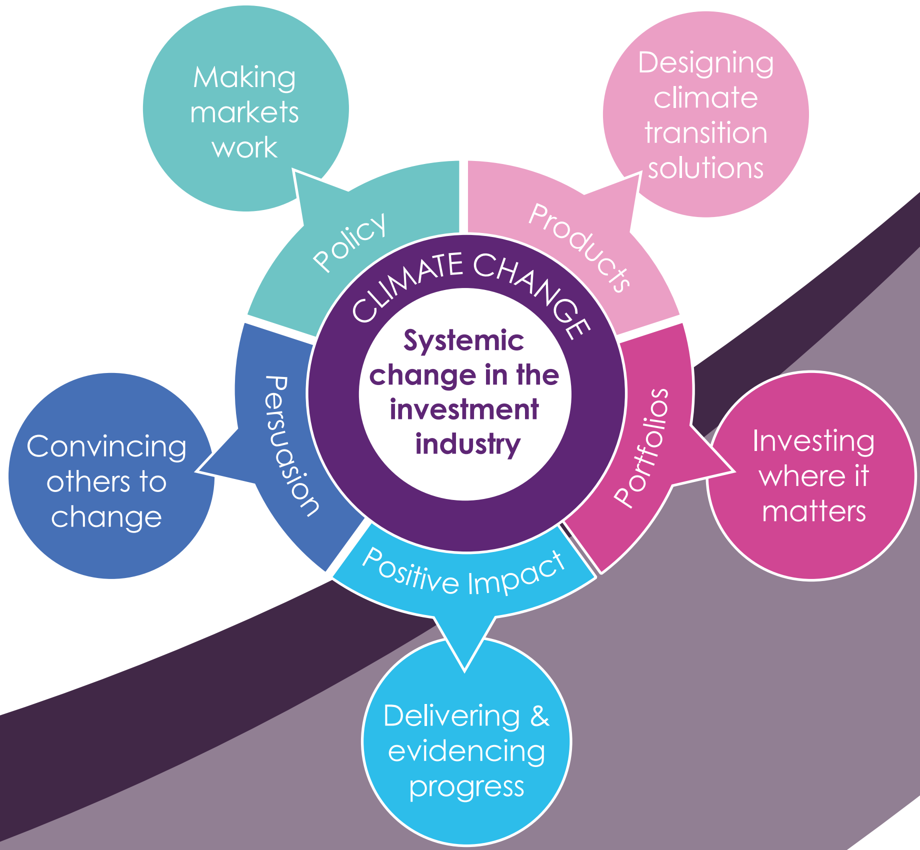
Given our strengths and our position in the market, we therefore believe that **the key objective of our climate policy is to systematically change the investment industry so that it is fit for purpose for a world where temperature rise needs to be kept to well below 2°C compared to pre-industrial levels.**

A five-point plan to build a financial system which is fit for a low carbon future

We have made significant progress on integrating climate change into our own practices and processes. However, the urgency of climate change means that we need to do much more. We believe that we need to focus on delivering change across the investment industry. We also believe that our circumstances: Clients with a strong commitment to action on climate change; our relative scale within the UK market; our track record of action; our own skills, capacities, resources and networks, mean that we are well positioned to take on this leadership role.

Our analysis of the investment market and of the investment system, and of our role within that market and that system, has led us to identify five areas where we believe there is a critical need for action and where we believe we can make a significant difference. These are:

- Policy
- Products
- Portfolios
- Positive Impact
- Persuasion



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Policy

We want policy makers to establish comprehensive and robust climate change policy frameworks. These need to deliver significant reductions in greenhouse gas emissions, accelerate progress towards the low carbon economy, and enable effective adaptation to the unavoidable impacts of climate change.

Why: Our analysis

Public policy – regulation, economic incentives, disclosure expectations – establishes the rules of engagement for companies and for investors. We have seen significant progress in many areas over the past decade. Examples include emissions trading in the electricity sector, vehicle emission standards in the transport sector, efficiency standards for electrical equipment, and incentives for the deployment of renewable energy. Investors have been an important voice in encouraging governments to establish comprehensive climate change policy frameworks, in particular in relation to emissions mitigation and enabling the low carbon transition. We need policies which have the ability to shift investments at scale. These include policies that change the economics of particular investments, and policies which draw out and make explicit the climate risks in such investments.

Our analysis of the policy landscape is that, despite progress, much more is needed before we can consider there to be a comprehensive climate change policy framework in place. In the short to medium term, we believe that there are three priority areas for action:

- Establishing a meaningful price on carbon (and equivalents e.g. methane) across the global economy. This price needs to be sufficiently high – or reach a sufficiently high level over time – to deliver the emissions reductions we need if we are to meet the goals of the Paris Agreement.
- Introducing mandatory climate change disclosure requirements for companies. Our ability to fully integrate climate change into our investment research and decision-making and our engagement with companies is limited by the consistency, comparability and quality of the data they provide and by the lack of attention paid to climate change-related risks and opportunities in discussions around strategy and capital investment.
- Addressing regulatory barriers to progress. These are barriers that emerge from elsewhere in the regulatory landscape. Examples include bank provisioning requirements which make it more expensive for renewable energy project developers to borrow money, barriers to renewable energy accessing the electricity grid and fossil fuel subsidies.

Across all of these areas, we need to ensure that policy interventions take account of the impacts on society, including the impacts on employment, on access to energy and on the affordability of energy, in particular for vulnerable groups. We are committed to supporting a **Just Transition**[1].

We recognise that changing or influencing public policy requires us to work with our Clients and others. We therefore expect to deliver our objectives through direct communication with policy makers. This includes our continued commitment to directly participate in technical advisory and working groups. We will also encourage other investors to get involved where policy makers are actively seeking investor expertise. We will also take advantage of speaking and educational opportunities to raise awareness and demand for these issues to be addressed.

We will also actively participate and, where appropriate provide leadership, of investor collaborative initiatives, in particular the Transition Pathway Initiative (TPI), Institutional Investors Group on Climate Change (IIGCC), the Principles for Responsible Investment (PRI) and, in the UK, Green Finance Institute, the Sustainable Finance and Investment Forum (UKSIF) and the Local Authority Pension Fund Forum (LAPFF).

Our Policy Advocacy objectives: 2020-2022

We will play an active and leading role in encouraging policy makers to establish comprehensive and robust climate change policy frameworks. Within this, we will focus particular attention on:

- The adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required), progressive over time and widespread (i.e. applies to all major sectors of the economy).
- The removal of fossil fuel subsidies.
- The introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.
- The removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power[2].
- The integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.
- Ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

We will play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

We will encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a clear articulation of the risks that companies and their investors face.

We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

1 The Just Transition means managing both the positive and negative social and employment implications of climate action across the whole economy

2 The Adaptation Reporting Power (ARP) is an important aspect of the Climate Change Act 2008. The ARP aims to ensure that organisations of a public nature with climate-sensitive responsibilities are taking appropriate action to adapt to the impacts of climate change.

Products

We want to increase the number and range of products available to our Clients and the wider investment market that deliver substantial climate change benefits.

Why: Our analysis

One of the key challenges we face is that there is a limited supply of investment products that meet our climate change objectives (e.g. low carbon, impactful, socially responsible) and our investment requirements (e.g. appropriate risk-return characteristics). There is a clear need to encourage innovation in product development and build the supply of climate-oriented products.

We recognise that innovation does not happen automatically, it needs to be deliberately encouraged and stimulated. This is also true of supply; investment managers must see there is demand, or at least a potential market, in order to support product development. This requires us to be clear about what we want, and – subject to our fiduciary and other obligations – provide incentives and encouragement to investment managers to innovate and to supply the products we want to invest in.

About the Transition Pathway Initiative (TPI)

In 2017, the TPI was established as a joint initiative between the Environment Agency Pension Fund and the Church of England National Investing Bodies (Church of England Pensions Board, the Church Commissioners and CBF Funds).

TPI assesses companies' preparedness for the transition to the low-carbon economy in two areas:

- Management quality: TPI evaluates and tracks the quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low carbon transition.
- Carbon performance: TPI evaluates how companies' planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement.

TPI uses information sourced and provided by FTSE Russell, and the results of TPI analysis are made available through a publicly-available tool hosted by its academic partner, the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE).

TPI is rapidly becoming the 'go-to' corporate climate action benchmark. As at December 2019, over 60 investors globally representing over $18 trillion combined assets under management and advice have pledged support for the TPI. These investors have committed to using the tool and its data in a range of ways, including informing their investment research, informing their engagement with companies and tracking managers' holdings.

Transition Pathway Initiative

Our Product Governance objectives: 2020-2022

We will ensure that climate risk is an integral part of our product governance and monitoring framework. We will:

- Work with Clients to avoid launching products whose carbon footprint or negative climate impact is excessively high.
- Seek to ensure our portfolios' climate risk profiles are better than the benchmark as soon as practical and that our products are steadily improving.
- Seek, in our listed equity portfolios, an improvement of at least 7% year on year. This will equate to over 20% lower carbon intensity than the benchmark (which we are also seeking to improve) by 2022. This target will be reviewed as part of the stocktake and the results of the 2 degrees transition study below.
- Work with our Clients to establish their climate change objectives and outcomes, establish their climate change-related risk tolerances, and we will offer a range of products that meet these objectives and expectations.

We will report on the climate change performance – both mitigation and adaptation – of our portfolios and will explain how we manage the investment-related risks and opportunities associated with these issues.

We will continue to ensure that climate change considerations are integrated into all the mandates that we award.

We will identify and develop new product opportunities which help further address climate change risks in all asset classes. We will do this through working with the industry on delivery, and with our Clients to ensure that these products meet their needs and that there is demand for these products.

By 2022 we will have assessed the degree to which our main listed equity portfolios, and possibly other portfolios, are, at least, 2 °C aligned. If these portfolios are not aligned, we will identify the actions needed to bring them into alignment and engage with our Clients as to the adjustments to specifications that would be required. In making this commitment, we recognise that the assessment of whether funds and portfolios are aligned with the goals of the Paris Agreement or other reference targets (e.g. 1.5 °C, net zero) is an area where methodologies and frameworks are under development. We will therefore prioritise supporting – through the provision of financial support, through piloting methodologies – efforts that enable us to assess and report on our portfolio performance.

We will explore the role that investment benchmarks play in driving investment decisions and in constraining our ability to invest in areas that make a meaningful contribution to climate change mitigation and adaptation. We will press the industry to make the core benchmarks more compatible with a 2°C aligned world. In 2020, we will publish a paper discussing the issues with benchmarks and proposing alternative frameworks for to assess and manage our performance in a more holistic way.

Portfolios

We want our investment portfolios to be resilient under a range of climate change scenarios (both mitigation and adaptation). We want to adopt best practices on climate risk management and to work with our managers to further improve and develop our processes.

Why: Our analysis

We recognise that climate change is a dynamic issue from an investment perspective. Our understanding of the science, of the policy goals and of the financial implications is constantly changing. We need to ensure that we and our investment managers are aware of and are acting on these changes. This requires us to assertively, consistently and rigorously challenge our investment managers on all aspects of their investment processes and expect them to explain and justify the investment decisions that they are making.

These efforts are not confined to our dialogue with our existing investment managers. We will explain our approach to the wider investment market so that potential new investment managers are aware of our position. We will share our expertise and experience so that our Clients and other investment system actors can also challenge their investment managers and other service providers on their approach to climate change.

We also, to the extent possible, need to future proof our portfolios so that they are reasonably resilient to the downside consequence of climate change, that they can benefit from the opportunities that arise and that, if we need to intervene, we are able to do so in a timely manner.

Our Portfolio Management objectives: 2020-2022

We will rigorously, assertively and continuously challenge our investment managers on their analysis and assessment of change-related risks in their investment practices and processes. We will expect them to continually improve these practices and processes, and will explicitly consider these improvements in our monitoring, management, selection, appointment and reappointment of our investment managers.

We will work with our investment managers and with others in the investment industry to develop methodologies for climate risk stress-testing and risk management of our mandates, on both mitigation and adaptation. We will conduct our own stress tests of portfolios, using the best methodologies we have access to, from 2020 onwards.

We will assess how our portfolios and mandates align with the goals of the Paris Agreement.

Positive Impact

We want to enable investments in activities that directly support the low carbon transition and that enable effective adaptation to the unavoidable impacts of climate change.

Why: Our analysis

We recognise that we can directly support the low carbon transition and adaptation, through investing in opportunities in areas such as renewable energy, energy efficiency, adaptation and resilience. We also recognise that, through sharing our experiences and our successes, we can encourage others to increase their investments in these areas.

Our investments supporting the low carbon transition are part of a wider commitment to invest for positive impact and support of the United Nations Sustainable Development Goals (SDGs). For example, investments that support female empowerment through access to finance, education and new markets can have positive impacts on climate change. Our investment strategies recognise that issues and opportunities are interconnective.

Whilst our direct operational impacts are not as material, we believe in leading by example and take steps to reduce our own climate impacts. We will do this through our procurement of goods and services, travel choices and use of technology. Where impacts cannot be mitigated, we will consider the use of offsets. We will report on our principal impacts and the steps we have taken to reduce them as part of our wider corporate disclosures.

Our Positive Impact objectives: 2020-2022

We will continue to make significant investments in a diverse set of opportunities that directly contribute to the energy transition.

We will seek to establish what the level of our Clients' contribution makes to the overall global investment needs for capital investment in the low carbon transition.

We will report on the investments that we have made, their contribution to climate mitigation and adaptation, their financial performance, and the wider social and environmental benefits of these investments. We will also report on the proportion of our portfolios invested in, or exposed to, the low carbon transition and to adaptation.

We will report on our principal impacts and the steps we have taken to reduce them as part of wider corporate disclosures.

SUSTAINABLE DEVELOPMENT GOALS

Persuasion

We want the companies and other entities in which we invest and contract with to support the transition to the low carbon economy, and to ensure that they are resilient to the unavoidable impacts of climate change.

Our analysis

As a large investor, we – on behalf of our Clients – have the ability to encourage companies and other entities to take action on climate change, both to mitigate and adapt for climate resilience. Our climate stewardship extends to all our portfolios but will be adapted to ensure it is effective and meets the needs of the specific asset class and strategy.

Climate Action 100+
Global Investors Driving Business Transition

Our questions

Through engagement we are seeking evidence that supports answers to each of these high-level questions:

- How aligned is your business model, asset portfolio or investment approach with the goals of achieving a net-zero carbon future and of supporting efforts to keep global temperature increase to well below 2°C?
- How are you adapting your business model, asset portfolio or investment approach to align with the goals of achieving a net-zero carbon future and of keeping global temperature increase to well below 2°C?
- How are you adapting your business model, asset portfolio or investment approach to ensure resilience to the impacts of climate change and different climate scenarios?
- Are you fully transparent on your climate-related financial risks and opportunities? Will you report in line with Taskforce on Climate-related Financial Disclosure (TCFD)?

Some comments on asset class-specific engagement

Engagement with issuers on climate mitigation and resilience will be central to our approach in corporate bonds and we will explore the possibilities for engagement in other fixed income investments.

Engagement impact can be even stronger in private markets, working with our general partners to support private companies, real estate, infrastructure projects and other entities in managing their impacts on climate change and the impacts of climate change on them.

In listed equities, engagement goes beyond the process of dialogue with companies to include the use of the formal rights granted to us as investors, specifically the right to vote on our shareholdings, file resolutions and even the right to call Extraordinary General Meetings).

We also recognise the collective power of investors, and how an alignment of investor voices can send a strong, clear message to company management.

We prioritise engagement with those companies or other entities with the biggest climate change-related impacts or risks, where we have a significant exposure and where we have the ability to effect change. Working collaboratively with others increases our effectiveness and we will continue to support collaborative action though initiatives such as Climate Action 100+ (CA100+).

On climate mitigation we believe we should not only focus our efforts on how companies with the biggest impact on climate change – these include companies in sectors such as oil and gas, transport, mining and electricity – are adapting their business models for the low carbon economy but also those companies who provide other sources of capital to these entities. We see influencing policies within the banking sector as being particularly important in changing behaviour. For example, lending policies to companies (not supporting new fossil fuel extraction) and wider society (provision of green mortgages and loans to support other innovations).

We have played a leading role in growing the Transition Pathway Initiative which assesses how some 400 high impact companies are managing their greenhouse emissions, and how their expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement. Collaborative initiatives such as CA100+ now use TPI to both identify engagement priorities and to track the effectiveness of this engagement.

Engaging on climate resilience is less developed and we will work with other investors to create an engagement framework that incentivises the right behaviours and supports our capacity to assess risks.

Our Persuasion objectives: 2020-2022

We will, using the Transition Pathway Initiative (TPI), strengthen our focus on climate change outcomes and impacts in our engagement with companies.

We will:

- Engage with our material holdings to persuade them to advance at least one level (up to 4*) per year on the TPI management quality framework. We will report on progress on an annual basis. We will extend this engagement to our corporate bond portfolios in 2021.
- Align our voting with our engagement. We will escalate our voting activity from our current policy where we vote against the reappointment of the Chair to other board members where they have not met our climate disclosure expectations. These expectations will increase over time with the aspiration of all our material holdings being on TPI Level 4 by 2022 and having made meaningful progress to alignment with a 2 degree or below pathway. In some sectors, e.g. oil and gas, we will aim to stimulate more rapid change. We provide further detail in our Stewardship Policy, which itself is regularly updated.
- Support Client engagement with companies e.g. through facilitating their attendance at AGMs, through facilitating their participation in collective engagement with us and with other institutional investors, through providing them with information about the climate performance of individual entities.

We recognise that addressing supply chain and product-related emissions requires investors and companies across a range of sectors to work together to develop and deploy solutions. We will facilitate and support cross-sectoral efforts focused on defining and delivering substantial reductions in supply chain and product-related greenhouse gas emissions.

Working collaboratively with other investors we will:

- Establish engagement objectives for the other asset classes in which we are invested. We expect that we will use Global Real Estate Sustainability Benchmark (GRESB) to frame our expectations of our real estate investment managers, and we will need to work with General Partners (GPs) and other industry players to develop appropriate metrics for our private equity investments.
- Challenge companies on their approach to public policy lobbying, in particular lobbying that undermines the transition to the low carbon economy or that prevents effective adaptation to the unavoidable impacts of climate change.
- Amplify our efforts through working with others (e.g. through formal collaborative engagement initiatives such as CA100+), through clearly communicating our voting intentions and through encouraging others to support us.
- Work with other investors to create an engagement framework for climate resilience that incentivises the right behaviours and supports our capacity to assess risks during 2020. We will then publish our progress against this framework.

Reporting on progress

We will report annually on our progress against the commitments set out in this policy.

We will use our website as the primary route for providing additional information and further insights into our approach.

Reporting is an area that is evolving rapidly. We are involved in a number of programmes – notably the IIGCC project on adaptation and the IIGCC project on Paris-aligned Portfolios – which will propose new metrics that allow asset owners and investment managers to explain, in a consistent and comparable manner, how their portfolios compare to the goals of a net zero carbon future and of keeping global temperature rise below 2 °C. Both of these projects are expected to be completed in 2020. We are committed to both piloting the recommendations and, once finalised, using the metrics in our future reporting.

Our expectation is that we will, in most cases, add these metrics to the data and indicators that we currently provide. These include (as relevant to the asset classes and companies/entities in our specific portfolios):

- Carbon footprints.
- Fossil fuel exposures.
- Green and brown share (i.e. the proportion of our portfolios invested in areas such as renewable energy).
- Performance against the Transition Pathway Initiative management quality and carbon performance frameworks.
- Our engagement and voting activities.

We will continue to report on the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaptation, and to align this reporting with the TCFD recommendations and other relevant disclosure frameworks.

Our governance of climate change

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

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

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

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

This policy relates and interacts with other Brunel Policies, including but not limited to: Responsible Investment, Stewardship, Risk Management, Product Governance, Manager Selection and Manager Monitoring.

Progress and compliance is monitored by all the groups outlined above. Climate change forms part of Brunel's overall business risk and as such will be monitored by **Audit, Risk and Compliance Committee**. This policy was approved by the Board on the 9th January 2020, after extensive consultation with Clients and other stakeholders.

It is expected that the policy will develop over time, given the fast-changing nature of the climate debate. Relatively minor changes to the policy, including clarifications and more specific targets or updates to reflect market developments, can be approved by the Brunel Executive Committee. More substantive changes will require approval by the whole Board, after Client consultation if appropriate.

Appendix 1: Our Investment Principles and climate change

Our Investment Principles	What this means in practice for our work on climate change
Principle 1: Long-term investors	We recognise that climate change may affect our portfolios, the sustainability and resilience of the financial system, and the sustainability and health of our economy, our society and the natural environment, over the short, medium and long-term. As such, climate change – mitigation and adaptation - is relevant to all our investments, in all asset classes and in all geographies. Climate change is a source of downside investment risk and of upside opportunity.
Principle 2: Responsible Investors	In the medium and long-term we will deliver sustainable investment returns by investing in companies and assets that effectively manage the risks and opportunities presented by climate change.
Principle 3: Best Practice Governance	We allocate clear responsibilities and accountabilities for the oversight and implementation of this climate change policy. We integrate climate change into our appraisal and remuneration processes, and through effective monitoring and review of the implementation of this policy.
Principle 4: Decisions informed through experts and knowledgeable officers and committees	We ensure that our Clients' views on climate change are fully integrated into our practices, processes and decisions. We support our Clients' training and continuing professional development on climate related issues. We engage regularly with experts both within and outside the investment community to ensure that we are fully up to date with the science, the policy and the economics of climate change.
Principle 5: Evidence and research at heart of investments	We continually learn and reappraise our understanding of the science, the policy and the investment implications of climate change from academic research, investment professionals, and our peers.
Principle 6: Leadership and innovation	We work and innovate with other funds, pools and the market to create cost effective solutions needed by the pool and its funds. We encourage those asset managers that work with us, and those that might aspire to work with us, to innovate and offer new investment solutions, to effectively manage the climate-related risks and opportunities in their portfolios, and to constructively engage with the companies and other entities in which they invest.
Principle 7: Right risk for right return	When evaluating climate change-related investment opportunities, we ensure that these investments meet the risk and return objectives of the fund, over the short, medium and long-term.
Principle 8: Full risk evaluation	We recognise that, as long-term investors, our investment success depends substantially on the sustainable growth of the economy. This, in turn, demands effective action on climate change.
Principle 9: Responsible stewardship	We require our asset managers to use their formal rights and informal influence to encourage the companies and other entities in which they invest to take a proactive approach to managing the business risks and opportunities presented by climate change, as a central part of how they generate sustainable financial returns over the long-term. We work as a collective responsible voice on climate change in the broader investment community, and always look to work collaboratively with others. For example, we are leading participants in initiatives such as the Transition Pathway Initiative, the Institutional Investors Group on Climate Change, the Principles for Responsible Investment and CDP.
Principle 10: Cost effective solutions	We seek the most cost-effective solutions to achieving our funds' objectives and implementing these principles collectively. We recognise that scale is critical to reducing the costs we pay, and also to ensuring that investments that we make and the innovations we catalyse have real impact.
Principle 11: Be transparent and accountable	We report annually on the commitments set out in this policy. We will formally review the implementation of this policy in 2022, including an assessment of how we have performed against each of our Investment Principles.
Principle 12: Collaborate	We collaborate with other funds, pools and the market to build the wider investment industry's capacity and expertise on climate change. We also work with others to ensure that public policy and the investment system are explicitly focused on enabling and financing both the low carbon transition and effective adaptation to the unavoidable impacts of climate change.

Getting in touch

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

Fund managers with general enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), should contact us at investments.brunel@brunelpp.org or pminvestments.brunel@brunelpp.org

MJ HUDSON
Allenbridge

Dorset County Pension Fund - Pension Fund Committee

MJ Hudson Allenbridge

MARCH 2020

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Contacts

Alan Saunders,

Senior Advisor
+44 20 7079 1000
alan.saunders@mjhudson.com

Investment Outlook

Last year turned out to be a good year for risk assets with global equities producing returns of some 23% in sterling terms and UK equities, after a useful Q4 rally on the election result, returning 19%. Markets have paused the rally however in the current quarter, troubled first by the US-Iran flare-up and then by the corona virus outbreak in China. The global economy will undoubtedly take a hit from this given the importance of China now in the global economy.

That aside, there were hopes that the global economy might start to pick up this year, helped by continuing loose monetary policy, led by the Fed and that view is certainly priced into equity markets. The UK now has a Conservative government with a large majority which has successfully passed the Withdrawal agreement and in that sense much of the uncertainty which held the economy back has receded. However, the scope of the new trade agreement with the EU is far from clear and the government's decision to hold firm to the year end deadline raises the stakes and therefore the risks.

Consensus at present is that the corona virus threat is containable and therefore the world economy will suffer no more than a reduction of some 0.3% in global growth. If that is the case, markets will probably start to move ahead again on the basis that a year of modest growth and earnings growth is better than nothing .Yet again, the central banks are providing sufficient support to avert recession and to cushion any financial shocks that might come our way. After last year, though, returns are likely to be modest and short term risks high.

Economy

The corona virus is thought to be much more consequential for the global economy than the Sars epidemic of 2003 which peaked fairly quickly. This is because China now accounts for some 20% of the global economy compared to 8% then and is a crucial part of the global supply chain. A good illustration is the fall in the oil price to around the $50/bbl level, the lowest for ten years.Latest estimates are that GNP growth in China could slip from 6% to 5%, with some 0.3% off global growth.

The effect should be less on the UK with its limited export exposure to China. Even so, any negative effect will be unwelcome for an economy which is only forecast to grow by some 1% this year and 1.5% next. The economy showed no growth in Q4 last year although December looked better and the housing market seems to be picking up as confidence improves. Confidence will be sensitive to the fluctuating news flow on the EU trade agreement and the government's hard line approach will not please industry if it leads to a WTO outcome while financial services hopes of achieving equivalence in terms of regulations would be disappointed.

What may change the economic forecasts for the better of course is the government's determination to raise public expenditure dramatically, not just through large infrastructure projects like HS2 which will take years to build but on current spending like police, education, etc. This gets to the key issue of prudence in public spending and whether the government will stick to the manifesto commitment to balance the budget and reduce overall spending, a tension which has led to the Chancellor's resignation. With low borrowing rates, borrowing to invest makes sense but markets will be less happy with a surge in current spending at this point in the business cycle.

Elsewhere, the Fed elected in January to leave interest rates unchanged and has indicated it is likely to keep them there for the rest of the year. The short term economic indicators continue to be healthy unlike Germany where industrial production fell 3.5% in December, the worst since 2009 . GNP is expected now to fall some 0.4% for Q4, partly of course reflecting the woes in the auto industry. For a country running a budget surplus of 1-2% GNP, the solution is obvious, even if they don't need to run a deficit of 5% as President Trump has done.

This of course is election year in the US and that might rein in US policy a little to moderate some of the uncertainties. So far, we have had a more constructive approach to China on a trade agreement while the Middle East has quietened down for the time being. The strength of the dollar of course is displeasing to the president so mercantilism will never be far away.

Markets

Last year UK equities rose 4% in the final quarter and returned 19% for the year compared with 1.5% and 22% for global equities. Sterling rose some 4% against the dollar during the year so the returns from hedged overseas equities would have been stronger. Both UK gilts and index linked returned some 7%, better still at the longer end, reflecting the fall in nominal yields. For example, the benchmark 10 year gilt yield fell from 1.3% to 0.8%, having fallen to 0.6% at its lows, where it is currently trading Real yields, as reflected in index linked, have fallen by less, reflecting the fall in inflationary expectations, partly as inflation remains low but also because of the RPI wedge issue..

Year to date, equities are pretty well marking time, oscillating currently with the corona virus data from China. Corporate profits forecasts are mostly positive albeit in single figures but the scope for P/E multiple expansion is limited given the fairly high ratings markets trade on. As we argued last time, though, valuation is not excessive compared to previous market peaks, The UK and Japan are markets on a valuation discount where there could be buying interest while if China manages to control the virus, there could be a lot of catch up in China and Asian markets.

Credit risk has not subsided as an ongoing risk. Leverage is very high again in terms of balance sheets, lending criteria have relaxed [so-called covenant light] and the duration of corporate bonds has increased as companies take advantage of low interest rates. Last year was good for corporate bonds and high yield, with double digit returns but spreads are very narrow again. With reduced liquidity in markets, a selloff could lead to large falls in traded bonds though private debt would be less vulnerable.

In terms of the RPI reform debate in the UK, the government has deferred the consultation to March and it seems limited to whether a move to CPIH should start in 2025 or 2030. Potential losses for holders of index linked are very large with estimates ranging from £90-£120bn according to which date. Lobbying will have to be hard but with the government having to issue a very large quantity of bonds to fund its public spending programme, hopefully it will try to ensure market goodwill. Compensation is unlikely but a move to redefine coupons on existing bonds as CPIH plus 0.70-0.8%, to reflect the so-called wedge, would seem to be a good compromise outcome. So far though there is little guidance. After the strong sell-off in Q4, prices have levelled off with the implied wedge trading around 0.4-0.5%., so there could still be considerable downside if the government plays hardball.

Asset Allocation

The 2019 valuation reduced the actuarial discount rate to 5.0% from 5.4%, roughly equivalent to gilts plus 3.3% or a real return of some 2.5%. That is the return we must seek from our assets and we are now engaged in a strategic review to ensure that our investment strategy will deliver that. Together with deficit recovery contributions, it should ensure that the deficit is removed over the recovery period and that as an open scheme all future liabilities can be met. With the funding ratio improved from 83% to 92%, the scheme is better placed but of course rising markets have been helpful over the period. Integral to the review will be a review of the LDI hedging strategy in the light of the challenge thrown by RPI reform

For Further Information

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

8 Old Jewry, London, EC2R 8DN, United Kingdom | +44 20 7079 1000 | london@mjhudson.com | mjhudson.com | mjhudson-allenbridge.com

Pension Fund Committee

Fund Administrator's Report

Date of Meeting: 12 March 2020

Director: 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 pension fund's investments as at 31 December 2019. The report provides a summary of the performance of all external investment managers and addresses other topical issues for the pension fund that do not require a separate report.

Barnett Waddingham, the pension fund's actuary, have now completed their full assessment of the funding position for the triennial valuation as at 31 March 2019 and the Funding Strategy Statement has been updated accordingly. The funding level is estimated to have improved from 83% as at 31 March 2016 to 92% as at 31 March 2019.

The estimated value of the pension fund's assets at 31 December 2019 was £3,163M compared to £3,023M at the start of the financial year. The quarter saw rises in all listed equities markets, which drove a rise in the value of the pension fund's assets.

The total return from the pension fund's investments over the financial year to 31 December 2019 was 5.8%, compared to the combined benchmark return of 5.0%. Over the last 12 months the pension fund's investments have returned 12.5%, above the Fund's combined benchmark return of 11.4% and above the actuarial discount rate of 5.0%.

As at 31 December 2019, 40% of the pension fund's liabilities were hedged against inflation sensitivity through the Fund's Liability Driven Investment (LDI) mandate with Insight Investment.

Equalities Impact Assessment:

This report does not deal with any new strategies or polices that would trigger an impact assessment.

Budget:

Not applicable.

Risk Assessment:

The risks associated with the pension fund's investments are assessed in detail and considered as part of the strategic allocation. In addition, risk analysis is provided alongside the quarterly performance monitoring when assessing and reviewing fund manager performance.

Climate Implications: The pension fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks arising from environmental issues, including those associated with climate change.
Other Implications: None.
Recommendation: That the Committee: 1) Review and comment upon the activity and overall performance of the pension fund. 2) Note the progress in implementing the strategic asset allocation. 3) Approve the updated Funding Strategy Statement (FSS).
Reason for Recommendation: To ensure that the pension 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: Funding Strategy Statement Appendix 2: Brunel Portfolios Performance Report for quarter ending 31-Dec-2019 Appendix 3: Corporate Bonds Report (RLAM) Appendix 4: Multi Asset Credit (CQS) Appendix 5: Property Report (CBRE) Appendix 6: Liability Driven Investment (Insight)
Background Papers: Funding Strategy Statement June 2017 Investment Strategy Statement March 2018
Officer Contact: Name: David Wilkes, Service Manager for Treasury and Investments Tel: 01305 224119 Email: investments@dorsetcouncil.gov.uk

1. Funding Update

1.1 The pension fund's actuary, Barnett Waddingham, undertakes a full assessment of the funding position every three years. This was last completed as at 31 March 2016 when the pension fund had a funding level of 83% i.e. assets were estimated to be 83% of the value that they would have needed to be to pay for the expected benefits accrued to that date, based on the assumptions used.

1.2 The actuary has now completed its latest triennial review of the funding position as at 31 March 2019, and the estimated funding level has improved to 92%.

1.3 Results for all scheme employers were received and shared with employers in November 2019. The final certificate of the contribution rates applicable for all scheme employers for 2020-21, 2021-22 and 2022-23 must be issued by the actuary before 31 March 2020.

1.4 Following the conclusion of the triennial revaluation the Funding Strategy Statement (FSS) has been updated accordingly for approval by the Committee (see Appendix1). The purpose of the FSS is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in the regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the pension fund are met; and
- Take a prudent longer-term view of funding those liabilities.

1.5 These objectives are desirable individually but may be mutually conflicting. The FSS seeks to set out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

1.6 Barnett Waddingham have been asked to carry out an indicative update on the funding position as at 31 March 2020, and thereafter on a quarterly basis until the next full triennial review. This should provide a better understanding of movements in the pension fund's overall funding position between triennial valuations.

2. Asset Valuation Summary

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

	31-Mar-19		31-Dec-19		Target Allocation	
Asset Class	**£M**	**%**	**£M**	**%**	**£M**	**%**
UK Equities	643.0	21.3%	670.5	21.2%	632.5	20.0%
Overseas Equities	703.0	23.3%	793.1	25.1%	695.8	22.0%
Emerging Markets Equities	98.2	3.2%	105.3	3.3%	94.9	3.0%
Total Listed Equities	***1,444.2***	***47.8%***	***1,568.9***	***49.6%***	***1,423.2***	***45.0%***
Corporate Bonds	214.4	7.1%	229.3	7.3%	189.8	6.0%
Multi Asset Credit	139.7	4.6%	144.6	4.6%	158.1	5.0%
Diversified Growth	176.1	5.8%	186.2	5.9%	253.0	8.0%
Infrastructure	138.7	4.6%	178.9	5.7%	158.1	5.0%
Private Equity	80.3	2.7%	92.0	2.9%	158.1	5.0%
Property	323.3	10.7%	327.3	10.3%	379.5	12.0%
Cash	105.1	3.5%	70.5	2.2%	-	0.0%
F/X Hedging	0.7	0.0%	1.3	0.0%	-	0.0%
Total Return Seeking Assets	**2,622.5**	**86.7%**	**2,799.0**	**88.5%**	**2,719.9**	**86.0%**
Liability Matching Assets	401.1	13.3%	363.7	11.5%	442.8	14.0%
Total Asset Valuation	**3,023.6**	**100.0%**	**3,162.7**	**100.0%**	**3,162.7**	**100.0%**

3. Implementation of changes to Strategic Asset Allocation

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

3.2 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 cash balances (£15M). This leaves the current allocation to Corporate Bonds as 7.3% against the revised target of 6%.

3.3 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%.

3.4 The total allocation to Listed Equities has reduced from 53% when the strategic allocation was agreed to approximately 50% as at 31 December 2019, compared to the target of 45%.

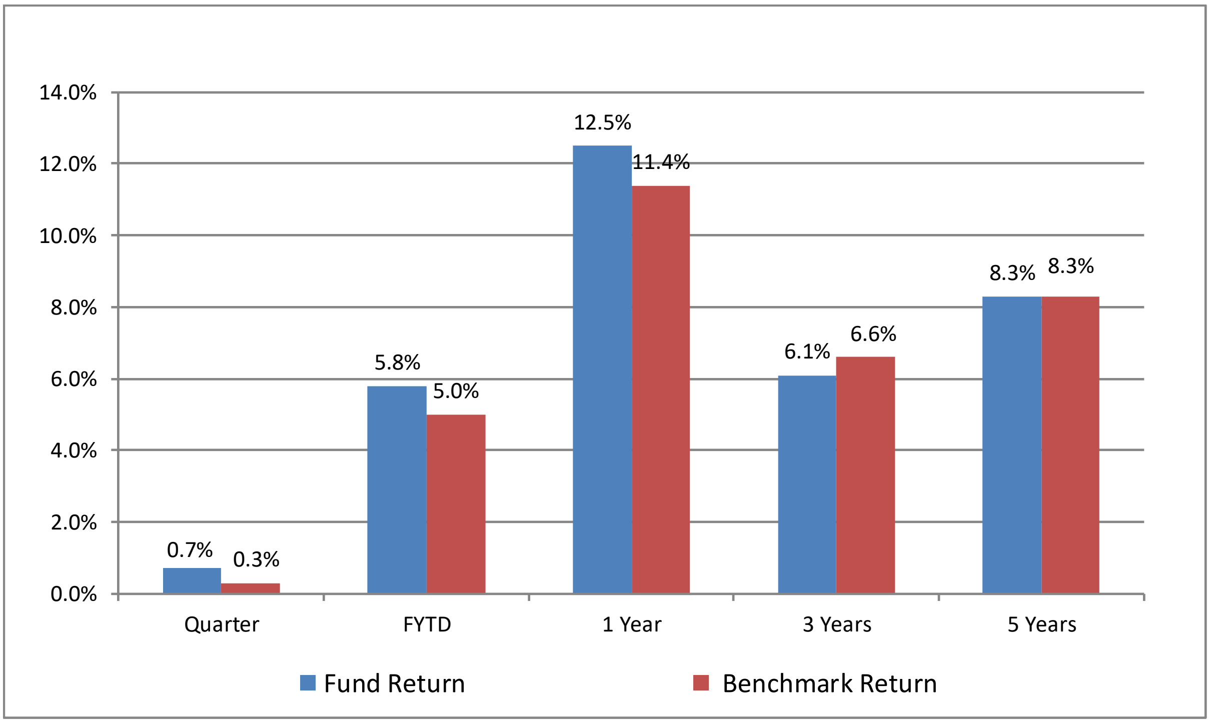
3.5 The increased allocations to infrastructure, private equity and property will be achieved if, and when, suitable opportunities arise with existing managers or through allocation to the appropriate Brunel portfolio as and when these become available. A commitment of 2.0% has been made to the Brunel Private Equity portfolio with £3.8M invested as at 31 December 2019, with a further 2.0% commitment to the Brunel Secured Income portfolio of which £10.6M had been invested by the end of December 2019. Drawdowns against commitments will be funded from cash balances and/or further disinvestment from equities and corporate bonds.

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

3.7 Now that the results of the triennial valuation are known, there will be a review of the pension fund's strategic asset allocation. Investment consultants, Mercer, have been appointed to assist with this review. The recommendations of this review will be discussed at the next meeting of the Committee in June 2020.

4. Investment Performance Summary

4.1 The overall performance of the pension fund's investments to 31 December 2019 is summarised below (returns for three and five years are annualised figures).



4.2 The pension fund returned 0.7% for the three months to 31 December 2019, outperforming the combined benchmark of 0.3% by 0.4%. Over the longer term, the pension fund outperformed its benchmark over 1 year, returning an annualised 12.5% against the benchmark return of 11.4% but underperformed its benchmark over 3 years returning an annualised 6.1% against the benchmark return of 6.6%. The pension fund matched its combined benchmark over 5 years, returning an annualised 8.3%.

4.3 The Brunel Pension Partnership's performance report for the quarter ending 31 December 2019 is attached as Appendix 2. This report includes market summaries from Brunel's investment officers and an overall performance summary for the Dorset pension fund, together with more detailed information in relation to Dorset's assets under Brunel's management.

5. Performance by Asset Class and Investment Manager

UK Equities

5.1 In July 2018, the internally managed UK equity portfolio transferred to the Brunel UK Passive Equities portfolio managed by Legal & General Investment Management (LGIM). In November 2018, assets under the management of AXA Framlington transferred to the Brunel UK Equities Active portfolio. The performance of the pension fund's external mangers is summarised in the tables below.

Brunel/LGIM Passive - £407.2m assets under management (AUM)

	Performance	Benchmark	Relative
Quarter	4.2%	4.2%	0.0%
Financial Year to Date	8.9%	8.9%	0.0%
12 months	19.2%	19.2%	0.0%
Since inception p.a.	3.5%	3.6%	-0.1%

Brunel UK Active - £178.0m AUM

	Performance	Benchmark	Relative
Quarter	5.4%	4.2%	1.2%
Financial Year to Date	9.1%	8.9%	0.2%
12 months	19.6%	19.2%	0.4%
Since inception p.a.	14.1%	13.6%	0.5%

Schroders - £61.8m AUM

	Performance	Benchmark	Relative
Quarter	14.3%	12.2%	2.1%
Financial Year to Date	18.7%	11.9%	6.8%
12 months	20.9%	17.7%	3.2%
3 years p.a.	12.5%	5.5%	7.0%
5 years p.a.	14.0%	8.3%	5.7%
Since inception p.a.	10.7%	6.7%	4.0%

Global Developed Markets Equities

5.2 In July 2018, the holdings under the management of Allianz transferred to the Brunel Smart Beta portfolio managed by LGIM. The performance of the pension fund's external global equities managers is summarised in the tables below.

In November 2019, the pension fund invested £125M in the Brunel High Alpha Developed Markets Equities. This was funded by partial disinvestment from assets under the management of the pension fund's two global equities' managers, Investec (£60M) and Wellington (£65M).

Investec - £179.7m AUM

	Performance	Benchmark	Relative
Quarter	0.5%	1.0%	-0.5%
Financial Year to Date	9.4%	11.6%	-2.2%
12 months	22.1%	22.7%	-0.6%
3 Years p.a.	9.3%	10.0%	-0.7%
Since inception p.a.	13.3%	14.1%	-0.8%

Wellington - £203.8m AUM

	Performance	Benchmark	Relative
Quarter	1.4%	1.0%	0.4%
Financial Year to Date	13.5%	11.6%	1.9%
12 months	25.8%	22.7%	3.1%
3 years p.a.	11.3%	10.0%	1.3%
Since inception p.a.	15.2%	14.1%	1.1%

Brunel/LGIM Smart Beta - £148.8m AUM

	Performance	Benchmark	Relative
Quarter	-1.4%	-1.2%	-0.2%
Financial Year to Date	10.0%	10.1%	-0.1%
12 months	20.0%	20.3%	-0.3%
Since inception p.a.	8.2%	8.5%	-0.3%

Brunel/LGIM Smart Beta (Hedged) - £156.6m AUM

	Performance	Benchmark	Relative
Quarter	4.9%	4.9%	0.0%
Financial Year to Date	10.8%	10.8%	0.0%
12 months	23.5%	23.7%	-0.2%
Since inception p.a.	8.3%	8.9%	-0.6%

5.3 Relative performance in the quarter was above benchmark for Wellington but Investec were below their benchmark. Over twelve months Investec underperformed their benchmark by 0.6%, whilst Wellington outperformed by 3.1%. Since inception in December 2015 Wellington are above their benchmark whilst Investec are underperforming their benchmark.

5.4 Please note that the pension fund's Global Equities managers have some exposure to UK equities (approximately 6-7% of assets under management).

Emerging Markets Equities - £105.3 AUM

5.5 In October/November 2019, the pension fund's investment in the JP Morgan Emerging Markets Diversified Equity Fund transferred to the Brunel Emerging Markets Equity portfolio for a value £101.4M. The performance of the Brunel Emerging Markets Equity portfolio is summarised below.

	Performance	Benchmark	Relative
Since inception	1.2%	0.9%	0.3%

Corporate Bonds - £229.3m AUM

5.6 The performance of the pension fund's external Corporate Bonds manager, RLAM, is detailed in Appendix 3, and summarised below.

	Performance	Benchmark	Relative
Quarter	-0.4%	-1.1%	0.7%
Financial Year to Date	7.0%	6.4%	0.6%
12 months	12.7%	12.2%	0.5%
3 years p.a.	6.2%	5.0%	1.2%
5 years p.a.	6.4%	5.6%	0.8%
Since inception p.a.	8.7%	8.5%	0.2%

5.7 The manager outperformed over all periods measured.

Multi Asset Credit (MAC) - £144.6m AUM

5.8 The performance of the Fund's external MAC manager, CQS, is detailed in Appendix 4 and summarised below.

	Performance	Benchmark	Relative
Quarter	1.3%	1.2%	0.1%
Financial Year to Date	3.5%	3.6%	-0.1%
12 months	6.4%	4.8%	1.6%
Since inception p.a.	3.3%	4.8%	-1.5%

5.9 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 - £327.3m AUM

5.10 The performance of the Fund's external property manager, CBRE, is detailed in Appendix 5, and summarised below.

	Performance	Benchmark	Relative
Quarter	0.3%	0.0%	0.3%
Financial Year to Date	1.7%	1.3%	0.4%
12 months	2.6%	1.3%	1.3%
3 years p.a.	6.4%	5.9%	0.5%
5 years p.a.	7.4%	6.8%	0.6%
Since inception p.a.	7.6%	7.5%	0.1%

5.11 Assets under the management of CBRE at 31 December were valued at £316.5m, with a further £10.8m in secured long income property funds under the management of Brunel.

Diversified Growth Funds (DGF) - £186.2m AUM

5.12 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.

5.13 The performance for Barings is summarised below.

	Performance	Benchmark	Relative
Quarter	1.5%	1.2%	0.3%
Financial Year to Date	5.7%	3.7%	2.0%
12 months	12.1%	4.9%	7.2%
3 years p.a.	4.8%	4.7%	0.1%
5 years p.a.	4.3%	4.6%	-0.3%
Since inception p.a.	4.6%	4.6%	0.0%

5.14 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

5.15 Private Equity is an asset class that takes several years for commitments to be fully invested. The table below summarises the commitment the pension fund has made in total to each manager, the drawdowns that have taken place to date and the percentage of the total drawdown against commitments. It also shows the distributions that have been returned to the pension fund, the valuation as at 31 December 2019 and the total gains or losses on investments.

Private Equity Commitments, Drawdowns and Valuations

Manager	Commitment	Drawndown		Distribution	Valuation	Gain
	£m	£m	%	£m	£m	£m
HarbourVest	105.6	76.2	72%	74.5	52.4	50.7
Aberdeen Standard	75.3	57.6	76%	61.5	34.2	38.1
Brunel	60.0	3.8	6%	0.0	5.4	1.6
Total	**240.9**	**137.7**	**57%**	**136.0**	**92.0**	**90.4**

5.16 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.

5.17 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.

5.18 The tables below summarise performance to date for the pension fund's two legacy managers, HarbourVest and Aberdeen Standard.

HarbourVest - £52.4m AUM

	Performance	Benchmark	Relative
Quarter	-1.1%	4.2%	-5.3%
Financial Year to Date	21.4%	8.9%	12.5%
12 months	18.0%	19.2%	-1.2%
3 years p.a.	14.7%	6.9%	7.8%
5 years p.a.	18.9%	7.5%	11.4%
Since inception p.a.	11.7%	6.1%	5.6%

Aberdeen Standard - £34.2m AUM

	Performance	Benchmark	Relative
Quarter	-3.3%	4.2%	-7.5%
Financial Year to Date	8.2%	8.9%	-0.7%
12 months	3.5%	19.2%	-15.7%
3 years p.a.	9.1%	6.9%	2.2%
5 years p.a.	11.8%	7.5%	4.3%
Since inception p.a.	3.5%	6.5%	-3.0%

<u>**Infrastructure**</u>

5.19 As with Private Equity, Infrastructure is a long-term investment that takes several years for commitments to be fully invested. The pension 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 - £72.7m AUM

	Performance	Benchmark	Relative
Quarter	-0.6%	2.4%	-3.0%
Financial Year to Date	6.6%	7.4%	-0.8%
12 months	5.7%	10.0%	-4.3%
3 years p.a.	6.8%	10.0%	-3.2%
Since inception p.a.	8.0%	10.0%	-2.0%

IFM - £106.3m AUM

	Performance	Benchmark	Relative
Quarter	-0.6%	2.4%	-3.0%
Financial Year to Date	9.9%	7.4%	2.5%
12 months	10.7%	10.0%	0.7%
3 years p.a.	13.8%	10.0%	3.8%
Since inception p.a.	16.0%	10.0%	6.0%

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

Liability Driven Investment (LDI) - £363.7m AUM

5.21 A proportion of the pension fund's assets are held in an inflation hedging strategy, managed by Insight Investments which are not held to add growth, but to match the movements in the pension fund's liabilities.

5.22 LDI strategies allow pension schemes to continue investing in return-seeking assets while hedging out their liability risks through the use of leverage. As at 31 December 2019, 11.5% of the pension fund's assets were invested in the mandate but 40% of the pension fund's liabilities were hedged against inflation sensitivity i.e. if 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 £40M.

5.23 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.

5.24 The performance of the manager is detailed in Appendix 6 and summarised below.

	Performance	Benchmark	Relative
Quarter	-11.4%	-12.0%	0.6%
12 months	-5.8%	-6.4%	0.6%
3 years p.a.	-1.0%	-2.9%	1.9%
5 years p.a.	5.9%	4.5%	1.4%
Since inception p.a.	9.5%	8.3%	1.2%

6. Cash and Treasury Management

6.1 The pension fund generates cash flows throughout the year which need to be managed, and therefore holds some cash in call accounts, money market funds and fixed term deposits. A breakdown of the balances held internally as at 31 December 2019 is shown below, including balances held in the custodian bank accounts and in a 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	0.90%
Nationwide Building Society	10,000	0.75%
Plymouth City Council	10,000	0.72%
Total Fixed Term Deposits	30,000	0.79%
Call Accounts		
National Westminster Bank	242	0.20%
Total Call Accounts	242	0.20%
Money Market Funds		
Aberdeen Standard	9,500	0.74%
Federated Prime Rate	8,900	0.73%
Total Money Market Funds	18,400	0.74%
Holding Accounts		
State Street Custody Accounts	20,733	0.70%
Property Client Account	1,142	0.00%
Total Holding Accounts	21,875	0.66%
Total Cash / Average Return	**70,517**	**0.73%**

6.2 The pension 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 2019/20 financial year.

6.3 The table below summarises the main pension fund’s main cash flows for the financial year to date.

Summary Cashflow for the Financial Year to 31 December 2019

	£M	£M
Cash at 1 April 2019		**105.1**
Less:		
Property Transactions (net)	-1.1	
Infrastructure Drawdowns (net)	-38.7	
Private Equity Drawdowns (net)	-9.8	
Net Transfers to other pension funds *	-25.0	
Brunel Global High Alpha	-125.3	
Brunel Emerging Markets	-101.4	
		-301.3
Plus:		
LGIM Smart Beta (disinvestment)	5.0	
Currency Hedge (net)	1.8	
Brunel UK Equities Active (disinvestment)	25.0	
J P Morgan (disinvestment)	101.4	
Investec (disinvestment)	60.0	
Wellington (disinvestment)	65.0	
Net Income	8.5	
		266.7
Cash at 31 December 2019		**70.5**

6.3 *From 1 November 2018, Wiltshire Pension Fund became the administering authority for Dorset and Wiltshire Fire and Rescue Service, therefore becoming responsible for the liabilities of LGPS scheme members previously employed by Dorset Fire and Rescue Service. As a result of these changes, a transfer payment of £25M was made by the pension fund to the Wiltshire Pension Fund.

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Dorset County Pension Fund
Funding Strategy Statement

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Contents

Introduction

This is the Funding Strategy Statement for the Dorset County Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Dorset Council's funding strategy, in its capacity as administering authority, for the Dorset County Pension Fund.

This statement has been prepared with the assistance of the Fund's Actuary, Barnett Waddingham LLP and was approved for publication by the Dorset Council Pension Fund Committee on 12 March 2020.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually but may be mutually conflicting. This FSS seeks to set out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is Dorset Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The results of the 2019 valuation are set out in the table below:

2019 valuation results	
Surplus (Deficit)	(£255m)
Funding level	92%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 17.7% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	5.0% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than 0.05% of the discount rate assumption.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 19 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

The deficit recovery periods adopted at the 2019 valuation varied amongst individual employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Where an employer's contribution has to increase significantly then, if appropriate, the increase may be phased in over a period not exceeding three years.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Dorset Council	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Bournemouth, Christchurch and Poole	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Academies	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Small Scheduled Bodies	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Small Admitted Bodies	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level

SLM Poole	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Weymouth College	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2019 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

Risk-sharing

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the academies funding pool at the 2019 valuation.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- The assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- The employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis) and will not pay bulk transfers more than the value of the past service liabilities of the transferring members, based on the latest funding basis updated for market conditions at the transfer date.

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension.

Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
  - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
  - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. As these types of employer participate in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

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BRUNEL
Pension Partnership

Dorset County Pension Fund
administered by Dorset Council

Brunel Portfolios Performance Report for Quarter Ending 31 December 2019

Contents

About Brunel and News

Over the past quarter activities have continued at pace, with some refreshing new challenges and opportunities presenting themselves.

In December we were delighted to announce the appointment of Laura Chappell as our new Chief Executive Officer (CEO). Laura was previously Brunel's Chief Compliance and Risk Officer (CCRO) and has been Acting CEO since September 2019.

Through the quarter we have delivered further portfolios;
• Emerging Markets, launched in November 2019 with around £1 billion of assets
• Our largest portfolio, High Alpha Equities, launched in December 2019 with over £2.5 billion of assets
• We also developed a platform in partnership with BlackRock to enable our Clients to access Liability Driven Investment and other risk management strategies

Brunel Investment Principal Private Markets Gillian De Candole participated in a recent LGPS roundtable hosted by Room 151. Gillian spoke about our expectations of asset managers and how we go about ensuring ESG considerations are fully integrated across their processes.

Looking forward to the first quarter of 2020, we hope you will have seen the launch of our Climate Change Policy on 27 January 2020. In partnership with our clients, Brunel's new policy – 'A five-point plan to build a financial system which is fit for a carbon-zero future' – builds on insights gained in the course of procuring new asset managers for your portfolios. We have developed a dedicated area of our website, which we hope you will find engaging: www.brunelpensionpartnership.org/climate-change

You can keep up to date with the latest from Brunel by visiting our website (www.brunelpensionpartnership.org) where you can sign up for news alerts.

Executive Summary

High Level Performance of Pension Fund

In the fourth quarter of 2019, the Fund grew from £3,139m to £3,163m, including an inflow of £3m. Just over 35% of its assets are now managed by Brunel.

The Fund rose 0.66% in GBP terms for the quarter ending 31 December 2019, beating the return on the composite benchmark (weighted for the strategic asset allocation) by 0.40%. The return over one year was 12.44%, 1.03% better than the strategic benchmark return of 11.42%.

Private Market assets reflect the most recent valuation which may include lagged data.

Sterling rose c.6% over the quarter as political uncertainty lessened in the UK, so currency hedges added value. Developed Equities represented by MSCI World rose 1.09% in sterling terms while the UK market rose 4.16%. A rise in interest rates saw Gilts, particularly long-dated ones, fall sharply in Q4.

Key Points:
Net performance over 3m: +0.66% absolute return, +0.40% relative to benchmark
Net performance over 12m: +12.44% absolute return, +1.03% relative to benchmark

Fund Specific Events

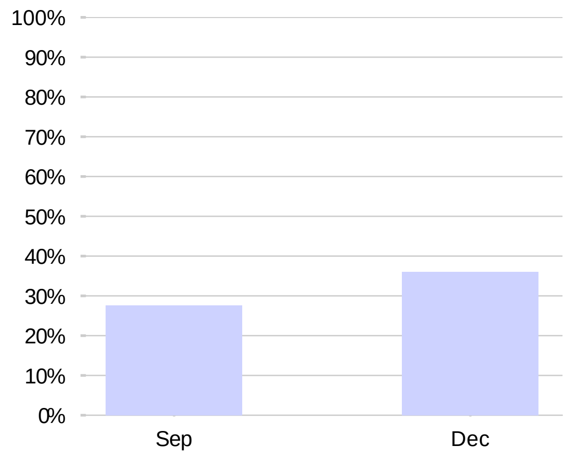
New commitment in Private Equity:
- Ardian Buyout Fund VII €7.6m

New commitments in Listed Equity:
- Brunel High Alpha Developed Equities £125.3m
- Brunel Emerging Market Equities £101.4m

Total Fund Valuation

	Total (GBPm)
30 Sep 2019	3,139
31 Dec 2019	3,163
Net cash inflow (outflow)	3

Assets Transitioned to Brunel



Market Summary – Chief Investment Officer

The last quarter was once again characterised by strong returns across the vast majority of global equity markets, despite a gradual slowdown in earnings growth over the same period. Global equities, proxied using MSCI AC World, returned +1.5% over the quarter in GBP terms. This resulted in an impressive 2019 return of +22.4%.

UK Equities

• UK Equities were positive in Q4 2019. The FTSE All Share returned +4.2% over the quarter resulting in a 2019 return of +19.2%

• Most of the positive return over the quarter can be attributed to the outcome of the UK General Election. The Conservative party won a majority of 80 seats in parliament, which prompted a rally in the UK equity market. The FTSE All share rose by +3.7% in the two days after the general election

• Within the UK, Technology & Utilities were by far the strongest sectors over the quarter, returning +14.6% & +13.6% respectively. The weakest sector was Oil & Gas, which returned -6.1% over the quarter

• There was a large amount of return dispersion across the market cap spectrum in Q4 2019. Small cap securities had a very strong quarter, with the smallest 10% of benchmark securities returning +11.6% in GBP terms. Large cap stocks experienced the opposite, with the largest 10% of benchmark securities falling -6.1%

Global Developed Equities

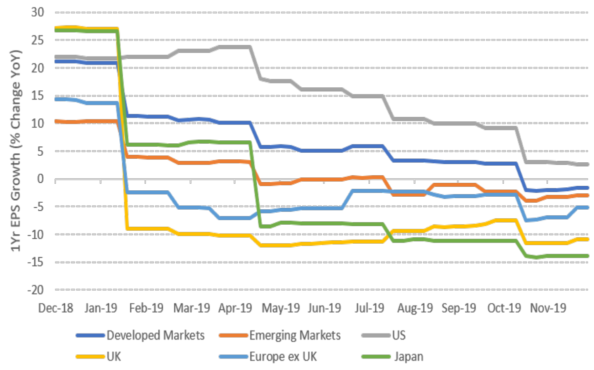
• Global developed equities appreciated by +1.1% in GBP terms over the quarter, capping a strong year for the asset class. Total returns over 2019 were 23.4% in GBP terms

• Monetary policy in the US was supportive for global equities in 2019. The Federal Reserve cut the target policy rate for the third time in October to 1.75%, down from a high of 2.5% at the beginning of the year. Trade tensions between the US and China have eased slightly following a turbulent start to 2019. Donald Trump announced in late December that a "phase one" trade deal will be signed in January 2019

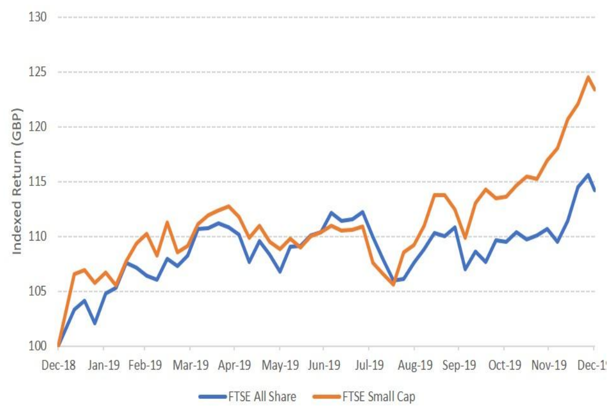
• The best performing regions in developed equities last quarter were the UK and the US, which returned +4.2% and +1.5% respectively. Europe Ex UK was one of the lowest performing areas, although the return was still +1.0% in GBP terms

• Technology was a strong performer over the quarter, returning +6.1% in GBP terms. The weakest sector was Real Estate, which returned -5.7%

EPS Growth - % Change YoY
Source: FactSet



FTSE All Share vs FTSE Small Cap
Source: FactSet



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Emerging Market Equities

• Emerging Markets rose by +4.1% over the quarter in sterling terms. This contributed to a 2019 return of +14.3%. The return in local terms was greater for the trailing quarter and 2019 due to the appreciation of GBP vs Emerging Market currencies

• A weaker USD aided emerging markets in the last few months of the year. The DXY – a measure of US Dollar strength – fell by -3.0% in Q4 2019; conversely, EM currencies appreciated on aggregate vs the US Dollar. The MSCI Emerging Markets Currency Index, a measure of EM currency strength, increased by +3.6% over the quarter. China, Korea & Taiwan were the main sources of the return over the last quarter by country; their returns were +6.7%, +5.8% & +9.8% respectively.

• Most sectors in emerging markets experienced positive returns in the last quarter. Technology was particularly impressive, rising +10.7% in Q4 2019. The defensive sectors lagged over the quarter; Consumer Staples and Utilities lagged the most, they returned -4.5% & -3.0% respectively

Market Summary – Head of Private Markets

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Overview

Following the significant political and market events of Q4, namely the UK general election outcome and progress on Brexit plans, the US-China relationship uncertainties and the prospects for economic slowdown, markets remain susceptible to speculation. The Brunel Private Markets manager search continues in line with portfolio specifications while also being conscious of the potential changes that may arise as a result.

Indicative client commitments for Cycle 2 suggest that the team will be looking to deploy over £2.5bn across all private market portfolios. Engagement with managers has already commenced for Cycle 2 while the team finalise commitments for Cycle 1 before end of March 2020.

Infrastructure

Managers globally have moved towards an approach of renewable-only vehicles and removing the renewable energy (RE) sector from their Core strategies. This is a theme we have seen for the next iteration of many Infrastructure funds. The sector has largely evolved with new technologies, and the demand for RE is increasingly high, meaning that more and more strategies are coming to market to satisfy this demand. Core infrastructure funds are developing greater focus on the transport, fibre-optic and datacentre sectors, increasingly being more able to scrutinise projects with a strong ESG lens and identifying market demands.

The spin out of the core infrastructure team from Mirova to form Vauban Infrastructure Partners (remaining an affiliate of Natixis Investment Managers) was completed in Q4 2019. Core Infrastructure Fund 2 deployment is on track with 98% of fund capital committed to 12 assets of which 61% has been called from investors. Vauban is exploring opportunities to bring co-investors into the largest assets, with a view to deploy fund capital into one or two more assets. Both Capital Dynamics Clean Energy Funds remain on track with their fundraising and deployment of capital. The US fund announced the acquisition of a new solar project, sourced with the support of an existing crucial partner 8minute solar energy. This increased the CEI global portfolio to c6.1GWdc of gross power generation in 2019. The NTR Renewable Energy Fund 2 shareholder committee agreed in December to extend the fundraising period to June 2020 (from December 2019). The manager is now confident they will get to the desired commitment levels by then, given the indications of desired capacity by other investors.

Brunel remains on track to finalise a diversified Cycle 1 infrastructure portfolio for Clients, consisting of eight to nine primary funds plus coinvests and secondaries through this bespoke vehicle. The bespoke vehicle agreement is due to be formally signed in Q1 but Brunel has already engaged with the manager to discuss their preferred opportunities and the pipeline for the remaining Cycle 1 capital as well as for Cycle 2.

Market Summary – Head of Private Markets

Private Equity

Global private equity fundraising activity remains high as top quality GPs continue to raise record-breaking funds due to strong demand from investors. Deal activity is strong and on pace with 2018. The investment environment continues to be competitive with valuations near the upper end of their historical range.

The global secondary market maintained its growth momentum. H1 2019 transactions volume reached $42bn, which is a record. GP led transactions are gaining share and are expected to play an important role in the growth of the secondary market. Secondary transactions reached a record of $70bn in 2018 and 2019 looks to be on track to reach or exceed that level.

Capital Dynamics Global Secondaries Fund V continues to deploy at a fast pace and is performing strongly at 1.13 TVM and 30% Net IRR. CD has achieved an A+ score in Indirect Private Equity per the H2 results. NB Strategic Co-Investment Fund received commitments of over 50% of target fund size (at c. $1.1 billion in the first close) and made its first investment. NB Impact Fund continued to fundraise and deploy in line with expectations, with a strong pipeline for 2020.

The Brunel PE team made a commitment to Ardian Buyout Fund 7, a large mature buyout Pan-European focused fund, which has already successfully closed two deals in the technology and healthcare space. The latest deal, AGFA, was acquired jointly with one of Ardian's existing portfolio companies, Dedalus, with the combined group now being continental Europe's largest provider of healthcare information software in hospitals and other medical settings.

Three more primary PE commitments are in due diligence for Cycle 1, including a large global buyout fund, a European growth fund and a UK only buyout fund.

Secured Income

Investment in the two selected long-lease property funds has been extremely slow over H2 2019. ASI is still looking to complete on a purchase that has been delayed since summer 2019, but in the meantime M&G has purchased a portfolio of 40 Holiday Inn Express ground rents for £240m. M&G is also under offer for a further £110m portfolio of assets and has drawn down £142m from investors in the last quarter of 2019, bringing Brunel's clients much closer to the front of M&G's investor queue.

Over 50% of last quarter's £127m commitment to Greencoat Renewable Income Fund (GRI) has been drawn down over the last four months and has been mainly invested in an operating biomass power plant as well as funding construction of agricultural greenhouse heat pump projects. Further diversification into solar power is in the GRI pipeline for 2020.

ABF7 is now the owner of continental Europe's largest provider of healthcare software

Greencoat asset Templeborough Biomass asset

Market Summary – Head of Private Markets

Property

2019 transaction volumes in the UK were subdued at around £44bn compared with levels around £60bn in 2017 and 2018. Total returns for UK commercial property are likely to be only 0.4% for 2019, largely undermined by the continuing revaluation of the retail sector, where capital values have fallen by around 10%. Though the Industrial sector has acted as a counterbalance to retail (with a total return of over 6% for 2019), the yield compression in Industrials, caused by tight supply and strong structural demand, has left the sector looking expensive. Office values, particularly in central London, have remained surprisingly resilient despite the UK's political dramas and, once again, the Alternatives sector (student accommodation, hotels, storage and care homes) have been the best-performing assets in 2019. This trend is likely to continue as investors question the ability of the traditional UK commercial sectors to improve rental income from current levels over the next few years.

Internationally, property yields were relatively unchanged in 2019, though interest rate cuts may provide renewed downward impetus on yields in some markets this year. Annual returns from real estate in France and Japan improved in 2019 but, generally, most markets showed a modest slowdown in total returns to around 6%.

An Octopus Healthcare Fund asset in Canterbury

Audit Quality – vital to investors, the economy and society

December 18, 2019 saw the publication of the long-awaited 'Brydon review' on the quality and effectiveness of audit'. This was the same day Denise Le Gal (Chair), Patrick Newberry (NED) and Faith Ward (CRIO) met Sir Jon Thompson, the new CEO of the **Financial Reporting Council (FRC)**.

The final report makes 64 recommendations, including the establishment of a new corporate auditing profession with a unifying purpose and set of principles. Other recommendations directly linked to our engagement on the topic related to fraud, the effectiveness of companies' internal controls over financial reporting and communication and transparency within the audit process and audit report. We were also delighted that Brydon referred to climate change which we think is vital in companies articulating their approach to assurance and resilience.

Brydon also made recommendations relating to the role of shareholders which was one of the main topics discussed at the meeting with Sir Jon Thompson where we committed to continue Brunel's involvement on the FRC's Investor Advisory Group and to retain audit as a thematic priority in Brunel's RI strategy.

Climate Change

The devastating Australian wildfires ensured climate change has remained high on the agenda of global leaders as it has by our clients. We have been delighted to provide wide range of support to clients including carbon footprints, workshops, stakeholder engagement and specific deep-dive training sessions on climate change.

We launched the Brunel's Climate Change Policy on 27 January. We would like to thank and acknowledge the considerable contribution from you all in its formation. We have created a dedicated area of our website that includes the policy, a summary, a climate change briefing and frequently asked questions. We will continue to add more with the aim of demonstrating best practice in communicating with both our own, and your stakeholders, on how we are managing the impact of climate change.

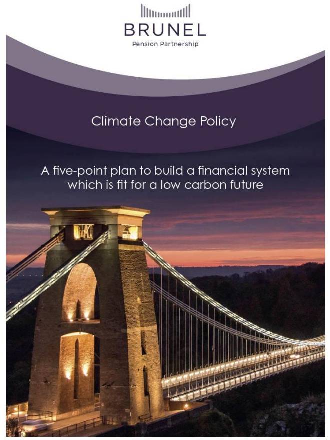
Climate Change (continued)
Whilst we may have only just published our policy, we have already been implementing it. Two recent examples of our policy in practice are **BlackRock and Barclays**. We recently appointed **BlackRock** to deliver bespoke investment risk management services to our clients. BlackRock joined us in Climate Action 100+ , together with Larry Fink's letter which sets out a considerable step change in their commitment to climate change and sustainability more broadly. The Head of Blackrock's UK business acknowledged our role in these outcomes;

"We greatly value the active engagement and thought leadership from the Brunel investment team. Brunel's proactive and collaborative approach to partnership, combined with their expertise in sustainability, has greatly contributed to the industry's growing recognition of the importance of climate risk. Sustainability is the new standard for investing at BlackRock and we look forward to our ongoing partnership with Brunel and leading further change across the industry for the benefit pension scheme members"

The other highlight was our co—filing (alongside institutional investors managing over £130 billion in assets) of a climate-related shareholder resolution that will go to a vote at **Barclays'** annual general meeting in May 2020. The proposal requests that the bank publishes a plan to gradually phase out the provision of financial services to energy companies and to utilities that are not aligned with the goals of the Paris climate agreement. Barclays is the largest financier of fossil fuels in Europe and the sixth largest globally, providing US $85 billion of finance to fossil fuel companies since 2015.

Energy Transition – TPI Transportation Sector Report Released
The main finding is that, although it is encouraging that 1 in 3 major transport firms (35%) now align with the 'Paris Pledges' in 2015, the sector is not moving fast enough. 2020 is expected to be the year when global climate targets ratchet up but only one in five (19%) transport firms are on track to limit climate change to 2 degrees or below. This is important because direct emissions from transport currently account for nearly one quarter of total energy-related CO2 emissions worldwide. See TPI's revamped website.

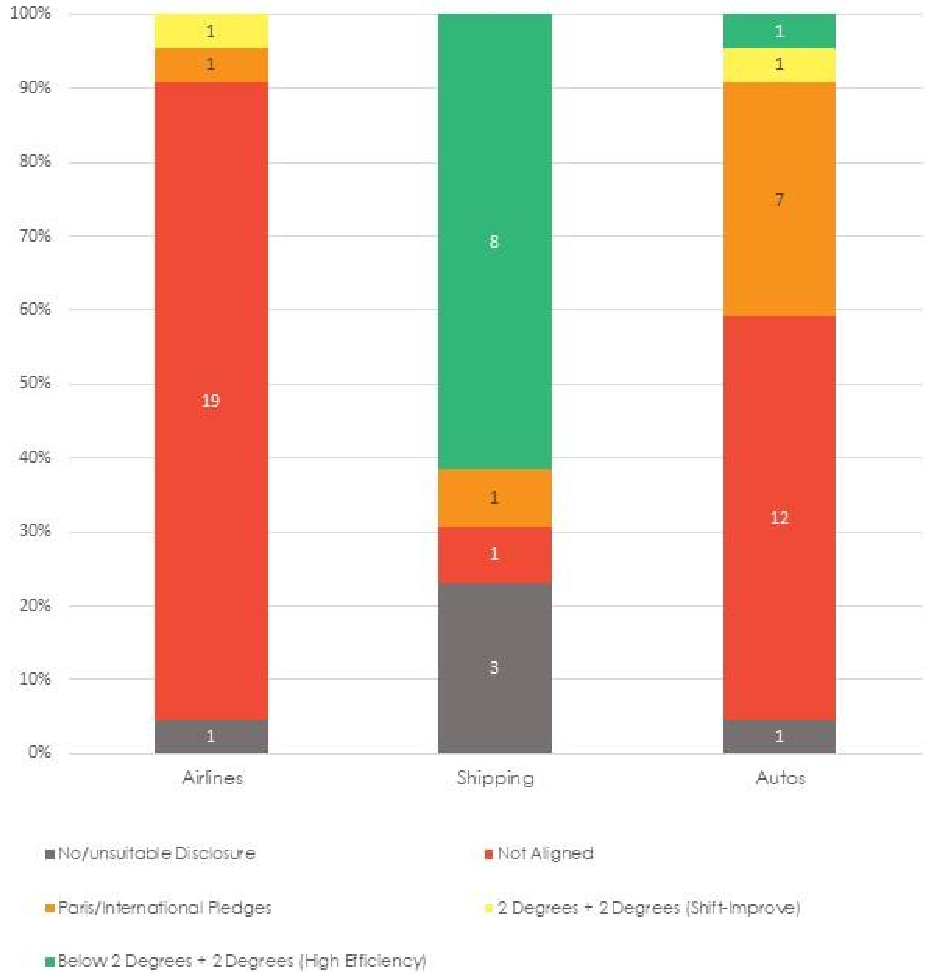
"A financial system fit for a low carbon future" – Brunel five-point plan



Climate Action 100+
Global Investors Driving Business Transition

Carbon Performance: sector breakdown

- Shipping fares better than any other sector in the TPI database on Carbon Performance. Eight of the 13 companies we assess are aligned with the most ambitious Below 2C benchmark. This is due in part to the structure of the sector. Carbon intensity varies significantly by vessel type and size. Larger shipping companies tend to operate bigger, more efficient vessels. Thus the public companies we assess may be unrepresentative of the sector as a whole.
- By contrast, airlines is the second worst performing TPI sector on Carbon Performance (oil & gas being the worst). Only two airlines are expected to be aligned with any of the benchmarks by 2030; Easyjet and Wizz Air. This is due in part to airlines' use of ***net*** emissions reduction targets, which include the use of offsets. We cannot currently take net emissions targets into account, as it is unclear what these targets mean for airlines' own emissions.
- The autos sector is positioned somewhere between airlines and shipping on Carbon Performance, with around 40% of companies being aligned with the Paris Pledges. However, only Daimler and Tesla are aligned with 2C (Shift-Improve).



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High Level Performance of Pension Fund

BRUNEL
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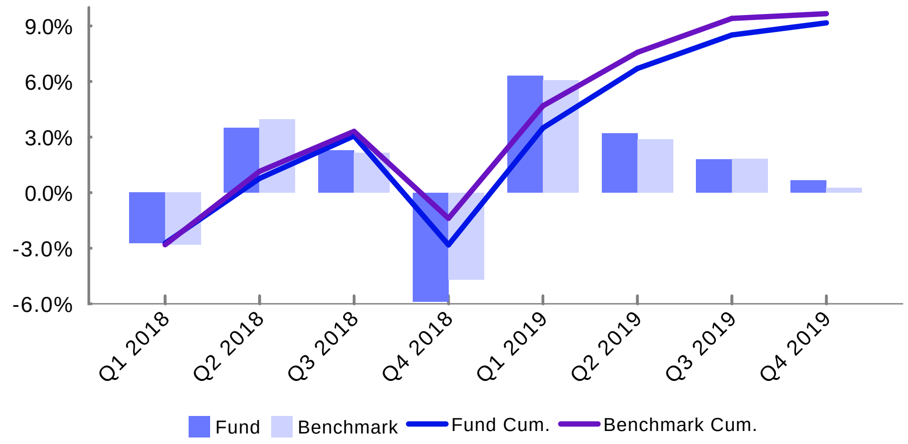
Performance of Fund Against Benchmark

	Fund	Strategic BM	Excess
3 Month	0.66	0.25	0.40
Fiscal YTD	5.76	5.04	0.73
1 Year	12.44	11.42	1.03
3 Years	6.06	6.56	-0.50
5 Years	8.28	8.31	-0.04
10 Years	9.40	9.20	0.20
Since Inception	8.60		

Rolling Quarters Total Fund Net of Mgr. Fees



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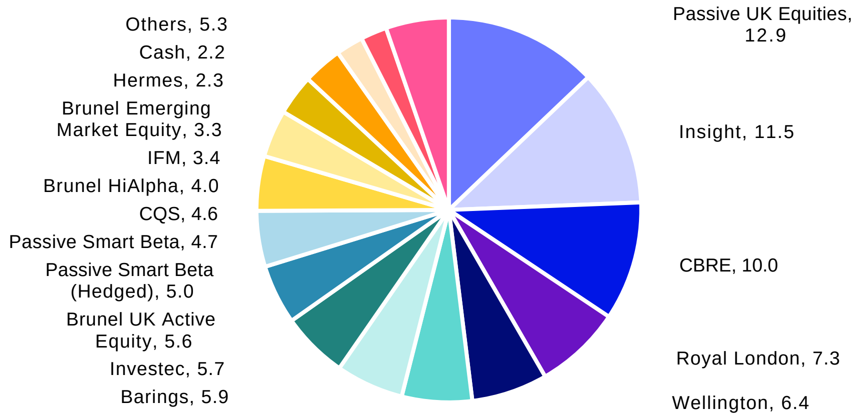
Key Drivers of Negative & Positive Performance

• Passive Smart Beta Equities had a weaker quarter, as its low volatility factor and broad construction caused it to lag the rally in technology stocks. The unhedged portfolio fell 1.39%, 0.20% behind its own index, while the hedged version returned 4.90%, just beating its benchmark. Over 2019 returns of 23.53% and 20.08% were among the Fund's best, although both versions lagged their benchmark by c.0.2%.
• Passive UK Equities returned 4.15% in Q4 and 19.14% for 2019, just a few basis points behind the FTSE All Share over each period after fees.
• The Brunel Active UK Equity portfolio returned 5.45% over the quarter, which compares favourably with both the Passive UK Equities portfolio and their shared FTSE All Share (total return) benchmark returns of 4.15% and 4.16% respectively.
• The Brunel High Alpha Developed Equities portfolio was established during the quarter and returned 1.48%, slightly ahead of the 0.85% for its MSCI World benchmark from the point its transition was completed.
• Similarly, the Brunel Emerging Market Equity portfolio completed its transition during the quarter and returned 3.82%, -0.07% less than its MSCI Emerging Market benchmark where returns were 3.89%. As both portfolios took time to complete the adjustment from legacy to target positions, returns over such a short period are not particularly meaningful.

Asset Allocation of Pension Fund

Asset Allocation Split



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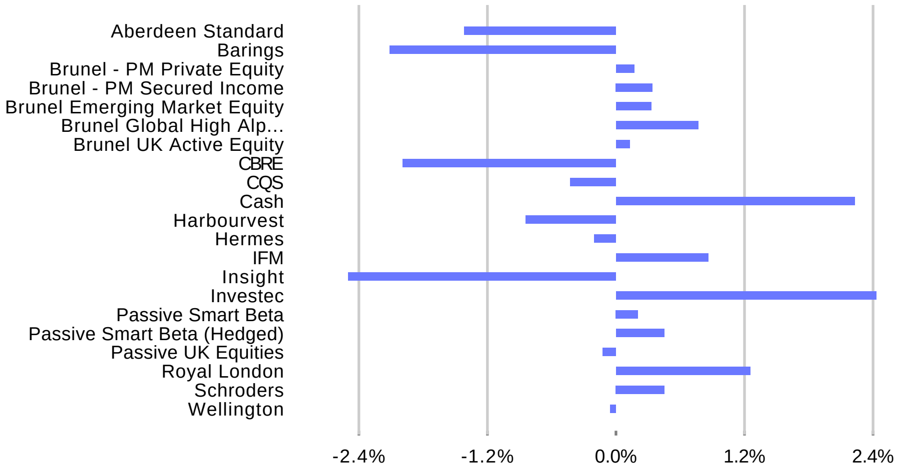
Allocation Against Strategic Benchmark



High Level Performance of Pension Fund – Risk Summary

BRUNEL Pension Partnership

Manager Level Performance (Transitioned) – Since Inception

	Total Return	Benchm. Return
Brunel Emerging Market Equity	3.82%	3.89%
Brunel Global High Alpha Equity	1.48%	1.28%
Brunel UK Active Equity	15.56%	15.43%
Passive Smart Beta	8.24%	8.54%
Passive Smart Beta (Hedged)	8.34%	8.91%
Passive UK Equities	3.50%	3.56%
Brunel - PM Private Equity	29.42%	14.20%
Brunel - PM Secured Income	2.85%	1.31%

Manager Level Performance (Pre-Transition) – 3 Year

	Ann. Return	Standard Deviation	Benchm. Return	Benchm. Std. Dev.
Aberdeen Standard	9.06%	12.37%	6.85%	9.79%
Allianz	6.28%	7.00%	9.99%	9.98%
Barings	4.77%	5.43%	4.71%	0.09%
CBRE	6.24%	3.82%	6.44%	1.99%
Harbourvest	14.75%	10.63%	6.85%	9.79%
Hermes	5.95%	5.09%	10.02%	0.11%
IFM	13.84%	7.92%	10.02%	0.11%
Insight	-1.59%	11.62%	-2.03%	12.11%
Internally Managed UK Equities	54.59%	34.12%	6.80%	9.89%
Investec	9.25%	10.65%	9.99%	9.98%
Royal London	6.24%	4.39%	4.97%	4.82%
Schroders	12.48%	10.98%	5.45%	10.49%
Wellington	11.30%	10.47%	9.99%	9.98%
Dorset County Pension Fund	6.06%	5.21%	6.56%	5.08%

A number of Brunel Portfolios now have performance records in excess of one year:

- Since inception, the Brunel UK Active Equity Portfolio has outperformed its FTSE All-Share Index benchmark by 0.13%.
- Since inception, the Brunel Passive UK Equities Portfolio has delivered returns within 0.04% of its FTSE Developed Index benchmark.
- Since inception, the Brunel Passive Smart Beta Equities portfolio has underperformed the global equity markets and its own benchmark.

Brunel Portfolios Overview

Portfolio	Benchmark	AUM (GBPm)	Perf. 3 Month	Excess 3 Month	Perf. 1 Year	Excess 1 Year	Perf. 3 Year	Excess 3 Year	Perf. 5 Year	Excess 5 Year	Perf. SI Ann	Excess SI Ann	Inception Date
Brunel Emerging Market Equity	MSCI EM TR Gross	105									3.82%	-0.07%	09 Oct 2019
Brunel Global High Alpha Equity	MSCI World TR Gross	127									1.48%	0.20%	15 Nov 2019
Brunel UK Active Equity	FTSE All Share	178	5.45%	1.29%	19.60%	0.44%					13.92	0.12%	21 Nov 2018
Passive Smart Beta	SciBeta Multifactor Composite	149	-1.39%	-0.19%	20.08%	-0.19%					8.24%	-0.29%	25 Jul 2018
Passive Smart Beta (Hedged)	SciBeta Multifactor Hedged Composite	157	4.90%	0.03%	23.53%	-0.18%					8.34%	-0.57%	25 Jul 2018
Passive UK Equities	FTSE All Share	407	4.15%	-0.01%	19.14%	-0.02%					3.50%	-0.06%	11 Jul 2018
Brunel PM Private Equity	MSCI AC World Index	5	-9.27%	-10.73%							29.42%	15.22%	26 Mar 2019
Brunel PM Secured Income	Consumer Price Index	11	-0.96%	-0.96%	2.85%	1.55%					2.85%	1.55%	15 Jan 2019

Where there are disparities between returns quoted above and returns provided for the same fund and period in the following pages, this is because the fund-specific pages reflect the post transition phase, important for monitoring the performance of selected managers, while those given above reflect the Clients' actual experience from the point of initial investment, which in some cases includes the shared impact of transition costs.

Passive Smart Beta

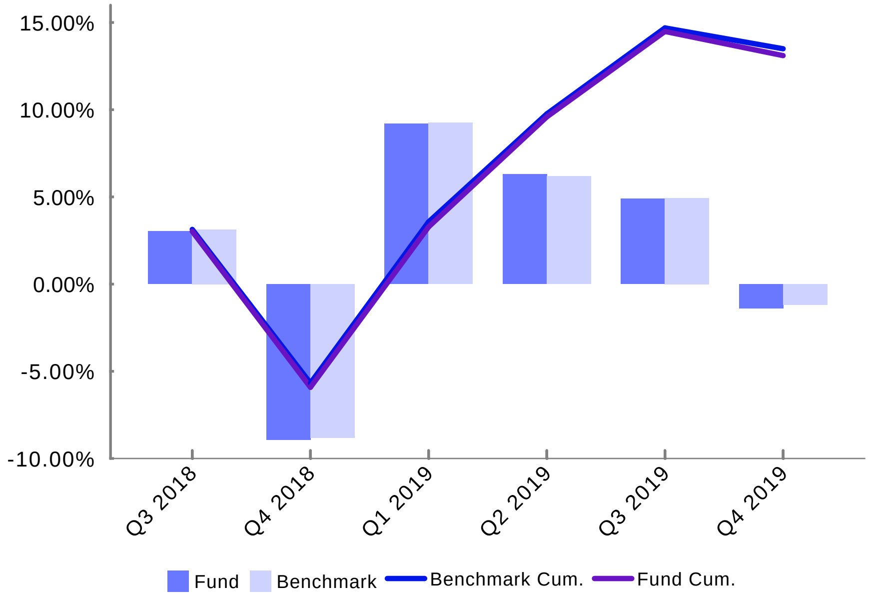
Overview

	Description
Portfolio Objective:	Exposure to equity markets and a combination of smart beta factors to outperform market cap indices.
Investment Strategy & Key Drivers:	Invest passively in equities via alternative indices.
Liquidity:	High
Risk/Volatility:	Absolute: High Relative: V.Low
Holding:	£148,824,618

Quarterly Performance

All values in %	Fund	BM	Excess
3 Month	-1.39	-1.19	-0.19
Fiscal YTD	9.97	10.10	-0.13
1 Year	20.08	20.28	-0.19
3 Years			
5 Years			
10 Years			
Since Inception	8.24	8.54	-0.29

Rolling Performance



The Passive Smart Beta product recorded a return of -1.25% during Q4 2019 and a positive return of 20.50% for the 12-month period ending 31 December 2019.

• In Q4 2019, the Smart Beta porduct underperformed the MSCI World Index. The underperformance was largely driven by weaker performance of the value factor, one of the product's targeted factors.

• As a result of the strong performance of GBP in Q4 2019, the GBP hedged product outperformed the unhedged product.

Passive Smart Beta (Hedged)

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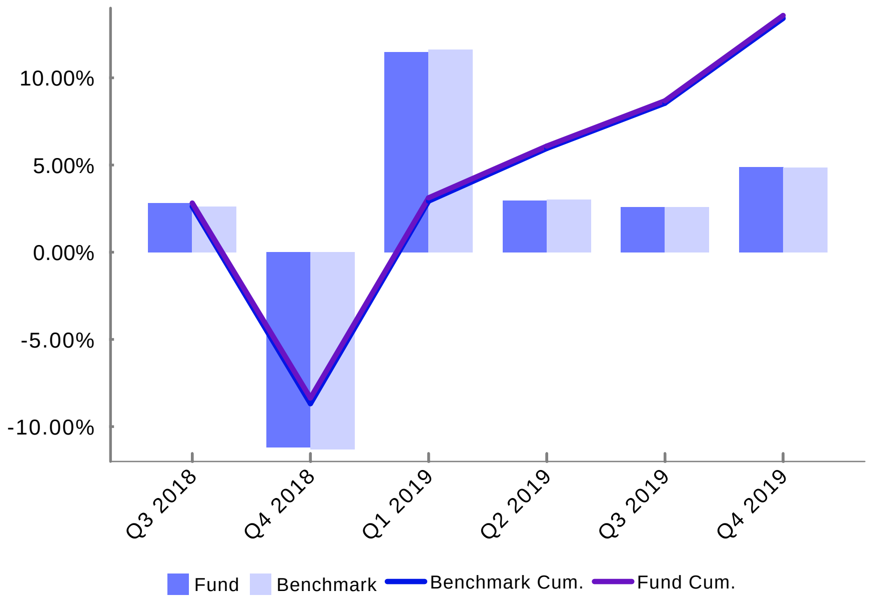
Overview

	Description
Portfolio Objective:	Exposure to equity markets and a combination of smart beta factors to outperform market cap indices.
Investment Strategy & Key Drivers:	Invest passively in equities via alternative indices.
Liquidity:	High
Risk/Volatility:	Absolute: High Relative: V.Low
Holding:	£156,618,903

Quarterly Performance

All values in %	Fund	BM	Excess
3 Month	4.90	4.87	0.03
Fiscal YTD	10.81	10.84	-0.03
1 Year	23.53	23.71	-0.18
3 Years			
5 Years			
10 Years			
Since Inception	8.34	8.91	-0.57

Rolling Performance



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• As a result of the strong performance of GBP in Q4 2019, the GBP hedged product outperformed the unhedged product.

Passive Smart Beta – Region & Sector Exposure

Top 20 Holdings

	Mkt. Val.(GBP)
ALLSTATE CORP	5,088,709
SOUTHERN CO/THE	4,600,501
HARTFORD FINANCIAL SVCS GRP	4,582,075
DANAHER CORP	4,577,192
INGERSOLL-RAND PLC	4,562,992
ANSYS INC	4,543,275
WALT DISNEY CO/THE	4,510,312
WALMART INC	4,429,329
SYNOPSYS INC	4,348,876
DUKE ENERGY CORP	4,340,479
AMERICAN ELECTRIC POWER	4,261,407
ANTHEM INC	4,228,007
PHILLIPS 66	4,220,558
FIRSTENERGY CORP	4,192,156
CHUBB LTD	4,158,831
EATON CORP PLC	4,148,461
MEDTRONIC PLC	4,138,608
ENTERGY CORP	4,119,677
CONSOLIDATED EDISON INC	4,096,419
ARCHER-DANIELS-MIDLAND CO	4,087,348

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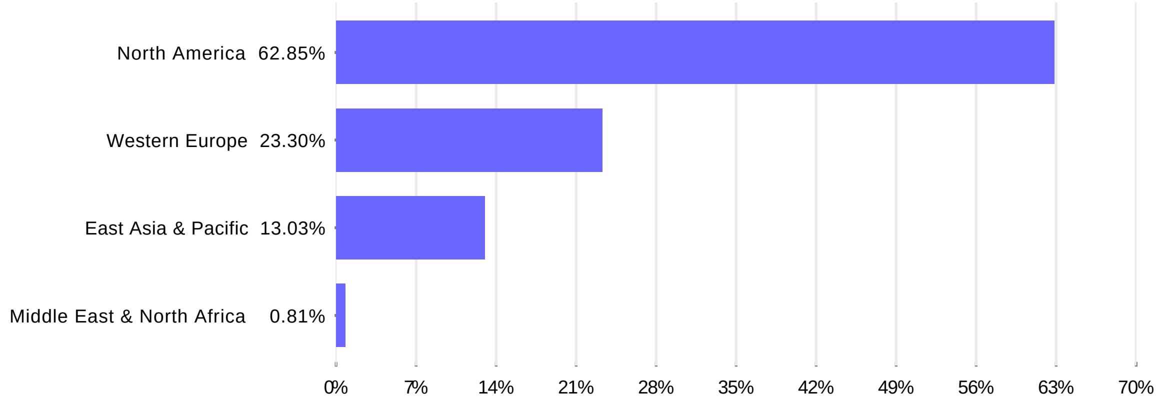
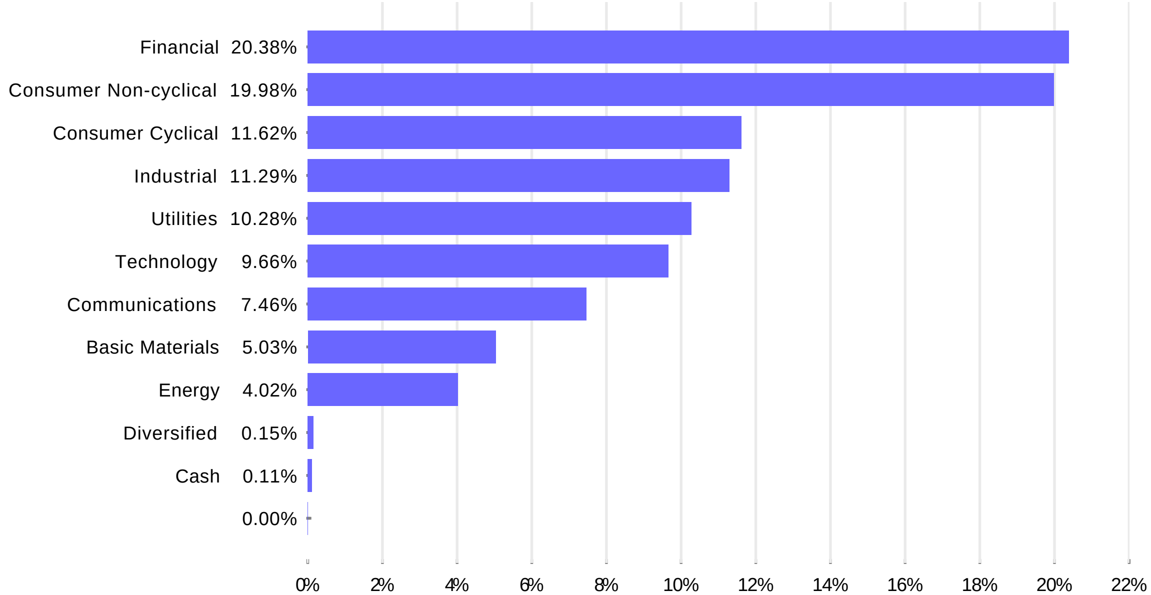
Regional Exposure



Sector Exposure



Passive Smart Beta – Responsible Investment

BRUNEL
Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. ANSYS Inc	79.6	75.7
2. Synopsys Inc	74.9	77.3
3. Ameren Corp	77.6	27.3
4. Motorola Solutions Inc	78.2	78.0
5. Ingersoll-Rand PLC	71.8	32.5
6. TE Connectivity Ltd	76.1	62.1
7. Ecolab Inc	73.5	35.7
8. Southern Co	69.7	50.0
9. Cadence Design Systems Inc	75.8	40.9
10. Quintiles IMS Holdings Inc	77.3	82.3

Weighted Average ESG Score	2019 Q3	2019 Q4
Portfolio	60.62	61.22
Passive Smart Beta	60.62	61.22

TruValue Labs & SASB

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. Cognizant Technology Solutions Corp	39.8	15.0
2. Kinder Morgan Inc	39.6	40.9
3. Allstate Corp	50.3	35.4
4. Walt Disney Co	49.4	33.4
5. Nike Inc	44.5	37.1
6. Exxon Mobil Corp	48.3	57.0
7. Alphabet Inc	49.4	50.0
8. Johnson & Johnson	47.0	40.2
9. T-Mobile US Inc	48.8	32.8
10. Phillips 66	51.9	32.4

* Position 1 is the top contributor/detractor.

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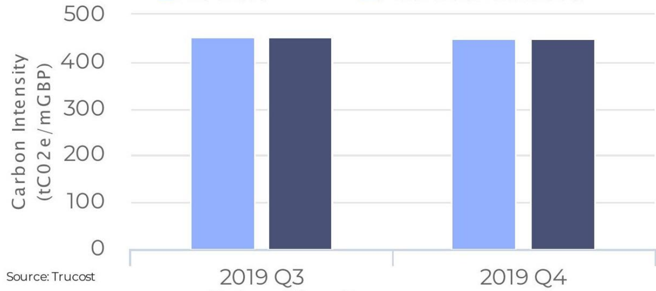
Weighted Average Carbon Intensity (WACI)



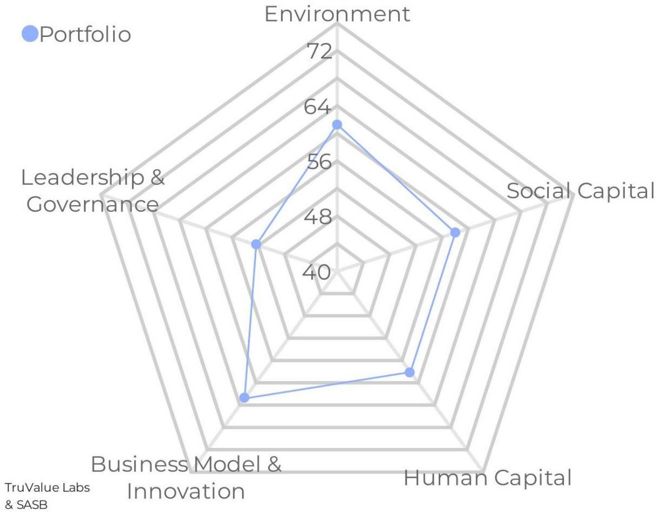
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1] Q3	Total Extractive Exposure[1] Q4	Extractive Industries (VOH)[2] Q3	Extractive Industries (VOH)[2] Q4
Portfolio	4.00	4.09	13.54	13.88
Passive Smart Beta	4.00	4.09	13.54	13.88

[1] Extractive revenue exposure as share (%) of total revenue.
[2] Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

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Brunel Assessment

- **Cognizant Technology Solutions** (Technology & Communications) a class action law firm announced it was investigating a potential breach of fiduciary duty claim involving the board of directors. 13,000 job exits announced as content moderation contracts exited following backlash on social media and employee forums of unhealthy working conditions.
- **Johnson & Johnson** (pharmaceuticals) has faced product liability lawsuits related to antipsychotic medication Risperdal and another relating to Infants' Tylenol (infant paracetamol). Both cases relate to inadequate or misleading product information.
- **Walt Disney** (Media) has a list of issues including the hacking of thousands of Disney Plus accounts, lawsuits from staff and anti-trust violations in South Korea.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
Smart Beta remains one of our high carbon portfolios and is part of an active dialogue with the providers as to potential solutions.

Passive UK Equities

BRUNEL
Pension Partnership

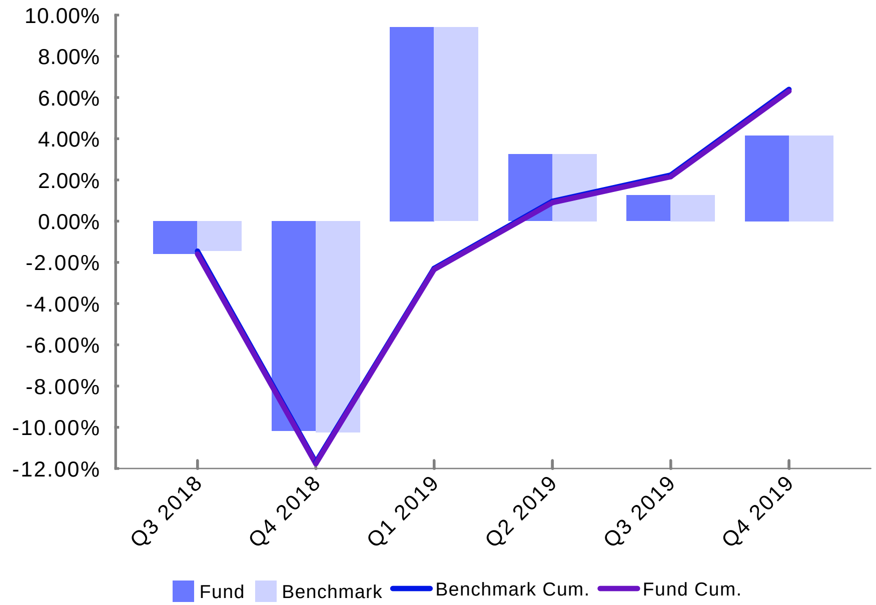
Overview

	Description
Portfolio Objective:	Provide exposure to FTSE All Share using a low cost highly liquid approach.
Investment Strategy & Key Drivers:	Invest passively in securities underlying the FTSE All Share. Provide long term growth
Liquidity:	High
Risk/Volatility:	Absolute: High Relative: V.Low
Holding:	£407,241,391

Quarterly Performance

All values in %	Fund	BM	Excess
3 Month	4.15	4.16	-0.01
Fiscal YTD	8.88	8.92	-0.03
1 Year	19.14	19.17	-0.02
3 Years			
5 Years			
10 Years			
Since Inception	3.50	3.56	-0.06

Rolling Performance



Relative to global equities, the UK stock market delivered strong performance in Q4 2019. The benchmark FTSE All Share Index returned 4.16% over the period. The Brunel UK passive product performed in line with the benchmark, returning 4.15%.

• The technology sector reversed its performance of the prior quarter, posting strong returns. The utilities sector also produced strong performance relative to the UK stock market.

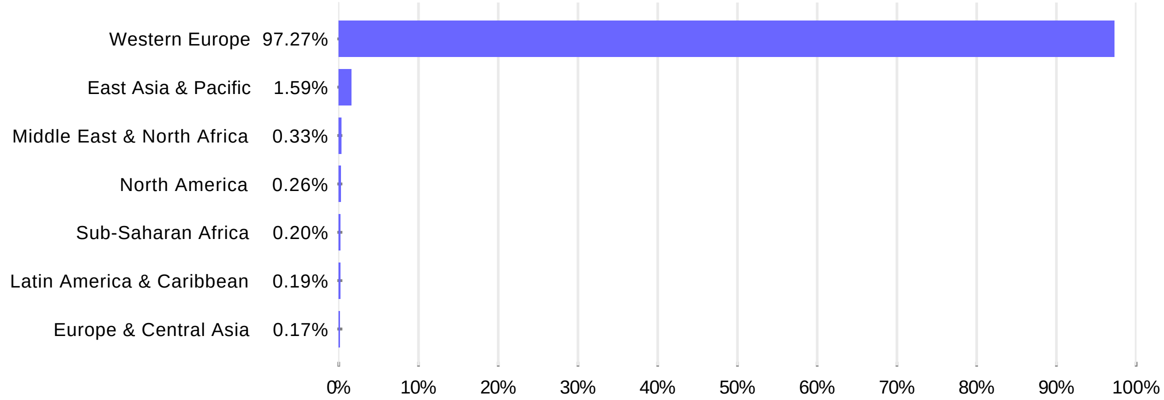
• The oil and gas sector was the weakest performing sector of the UK stock market over the quarter.

Passive UK Equities – Region & Sector Exposure

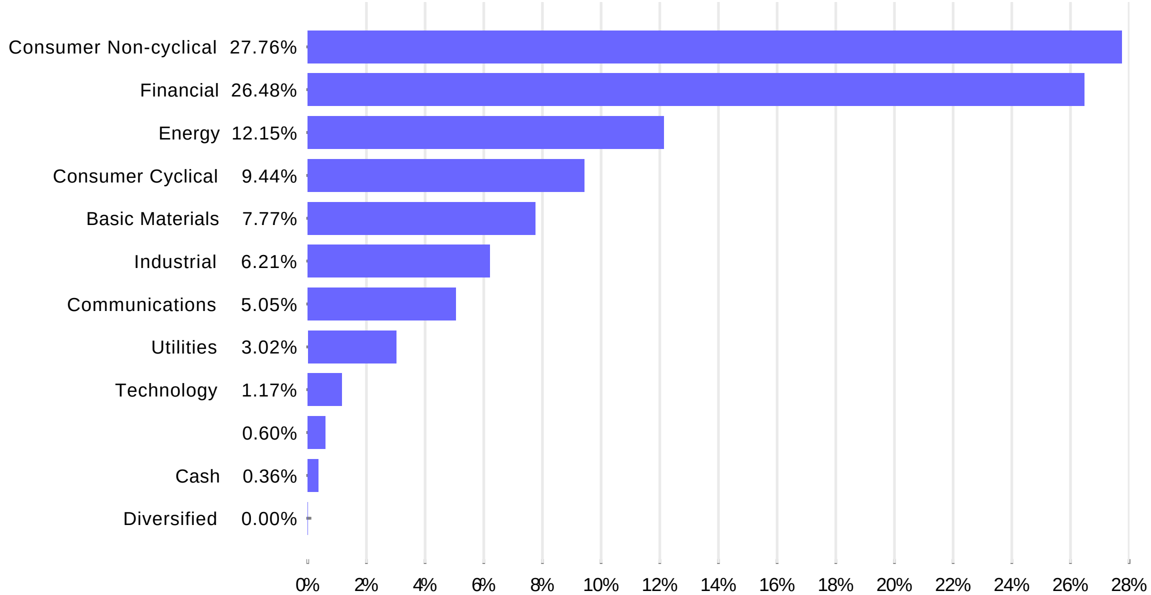
Top 20 Holdings

	Mkt. Val.(GBP)
HSBC HOLDINGS PLC	64,133,158
ASTRAZENECA PLC	53,629,757
BP PLC	50,322,944
ROYAL DUTCH SHELL PLC-A SHS	50,309,298
GLAXOSMITHKLINE PLC	46,887,436
ROYAL DUTCH SHELL PLC-B SHS	45,329,580
DIAGEO PLC	39,790,555
BRITISH AMERICAN TOBACCO PLC	39,626,262
RIO TINTO PLC	26,569,166
UNILEVER PLC	25,471,876
LLOYDS BANKING GROUP PLC	23,482,258
VODAFONE GROUP PLC	21,188,736
RECKITT BENCKISER GROUP PLC	20,768,278
PRUDENTIAL PLC	20,123,978
BHP GROUP PLC	19,871,567
RELX PLC	18,906,667
NATIONAL GRID PLC	17,653,493
BARCLAYS PLC	16,448,060
COMPASS GROUP PLC	16,176,416
ANGLO AMERICAN PLC	14,640,746

Regional Exposure



Sector Exposure



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Passive UK Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. Diageo PLC	65.9	41.5
2. AstraZeneca PLC	61.7	74.4
3. Relx PLC	66.6	67.6
4. Unilever PLC	62.8	57.4
5. Rio Tinto PLC	62.5	58.5
6. Informa PLC	77.9	83.2
7. Anglo American PLC	64.4	79.4
8. Mondi PLC	74.6	73.1
9. Experian PLC	63.2	79.1
10. BAE Systems PLC	64.6	72.8

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. HSBC Holdings PLC	51.1	54.0
2. Royal Dutch Shell PLC	54.7	77.3
3. Lloyds Banking Group PLC	45.8	63.6
4. Reckitt Benckiser Group PLC	47.5	79.8
5. BP PLC	53.7	54.0
6. Glencore PLC	43.3	76.9
7. Barclays PLC	47.7	55.3
8. British American Tobacco PLC	54.3	49.3
9. Smith & Nephew PLC	48.2	46.5
10. Royal Bank of Scotland Group PLC	46.3	77.0

Weighted Average ESG Score	2019 Q3	2019 Q4
Portfolio	58.39	58.55
Passive UK Equities	58.39	58.55

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)

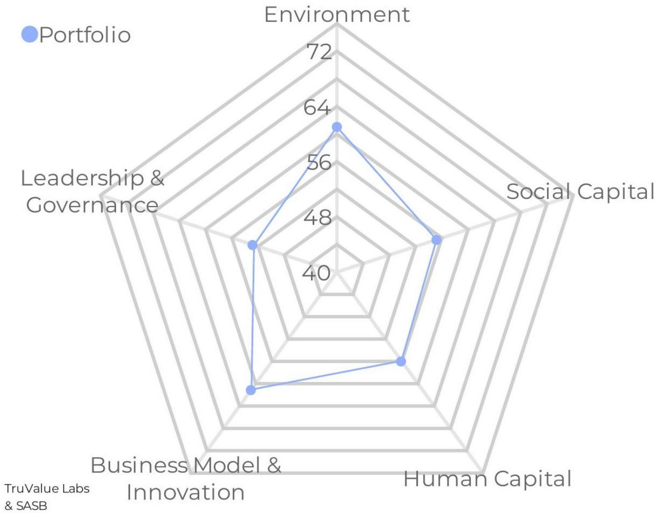
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1] Q3	Q4	Extractive Industries (VOH)[2] Q3	Q4
Portfolio	6.63	7.32	17.66	17.04
Passive UK Equities	6.63	7.32	17.66	17.04

[1]Extractive revenue exposure as share (%) of total revenue.
[2]Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

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Brunel Assessment

- **Diageo** (Alcoholic Beverages) was ranked number one globally for gender equality in the Equileap 2019 gender equality report and ranking, however in September employees striked following pay disputes. An agreement was reached in October and further strike action cancelled.
- **Barclays** (bank) has been covered consistently in each quarterly report highlighting boardroom battles and concerns with climate related lending. Barclays remains an engagement priority, Brunel recently co-filed a shareholder resolution relating to lending practices for fossil fuel companies not aligned to the Paris agreement.
- **British American Tobacco** (Tobacco) announced job cuts as part of restructuring to shift 'new generation' products, received claims of Malawi child labour and faced introduced fees to compensate people affected by smoking.
- **Smith & Nephew** (Medical Equipment) the chief executive announced plans to step down following a reported row over executive pay.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The benchmark (and index tracking portfolio) saw a slight increase in carbon intensity since the last quarter.

Brunel Active UK Equities

BRUNEL
Pension Partnership

Overview

	Description
Portfolio Objective:	Provide exposure to UK Equities, together with enhanced returns from manager skill.
Investment Strategy & Key Drivers:	Skilled managers will create opportunities to add long term value through stock selection and portfolio construction.
Liquidity:	Managed level of liquidity. Less exposure to more illiquid assets.
Risk/Volatility:	High absolute risk with moderate relative risk, around 4% tracking error.
Client Holding:	£177,968,884

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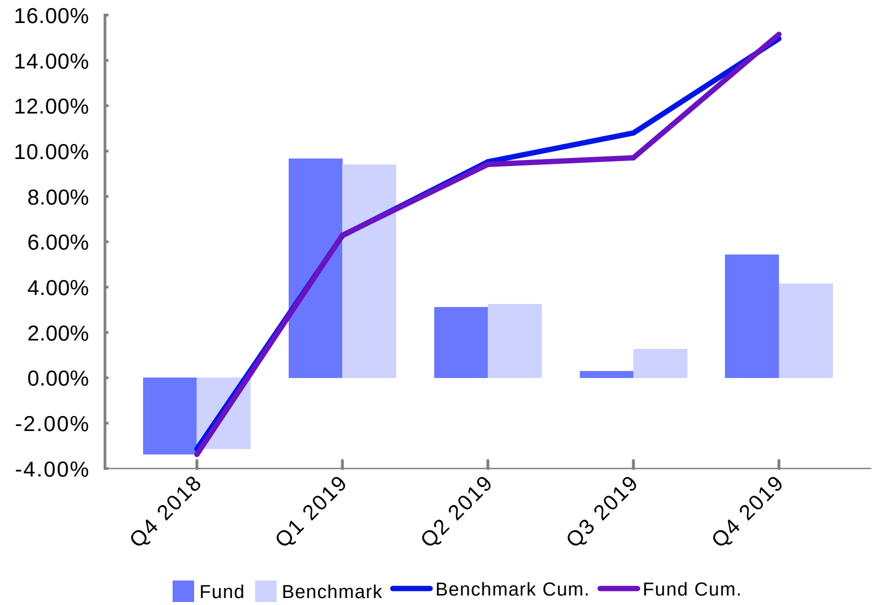
Quarterly Performance

All values in %	Fund	BM	Excess
3 Month	5.45	4.16	1.29
Fiscal YTD	9.06	8.92	0.14
1 Year	19.60	19.17	0.44
3 Years			
5 Years			
10 Years			
Since Inception Ann	14.05	13.59	0.46

Rolling Performance



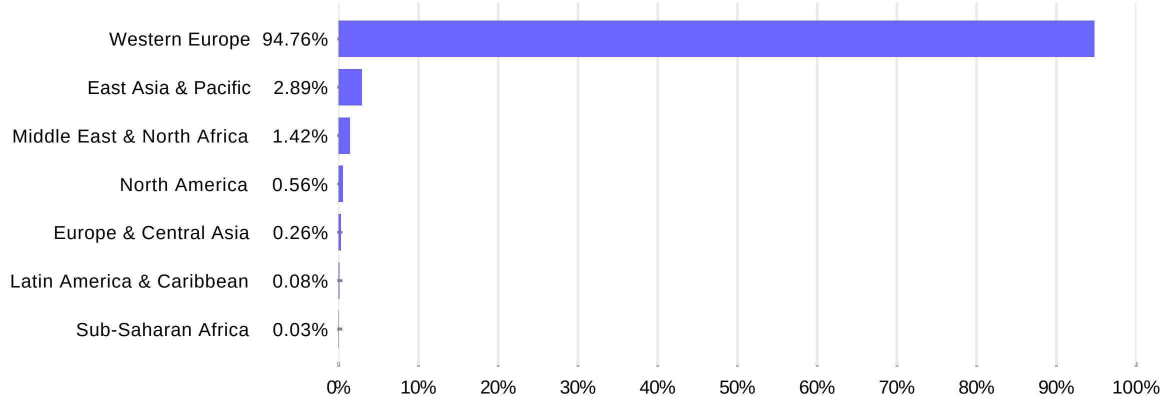
• The FTSE All share index outperformed global developed markets during the quarter, but could not quite match the impressive returns of global equities over the year (MSCI AC World index returned 22.4% and the FTSE 19.2% for 2019).
• Following last quarter when a new prime minister, Brexit uncertainty, and weak growth indicators all led investors to once again favour more defensive sectors, the final quarter of 2019 was dominated by the general election outcome and the potential for improving certainty which prompted a significant rally in the FTSE All share with the majority of the quarter's gains made in the first 2 days following the election.
• All three managers outperformed the benchmark over the quarter, resulting in the portfolio outperforming the FTSE All share by c. 1.3%, a contrast to last quarter's relative underperformance of c1%. Anecdotally, managers reported the return of fundamentals as a factor in driving returns. As noted in the CIO report, small cap securities significantly outperformed in Q4 and proved a benefit to the portfolio as a whole which has a consistent smaller cap bias versus the index.
• Over one year, the portfolio has outperformed the index by c.+0.44%.
• The Brunel team are meeting all three managers during Q1 2020 as part of the annual review process.
Since inception performance data reflects the agreed performance inception date of 01 December 2018.

Brunel Active UK Equities – Region & Sector Exposure

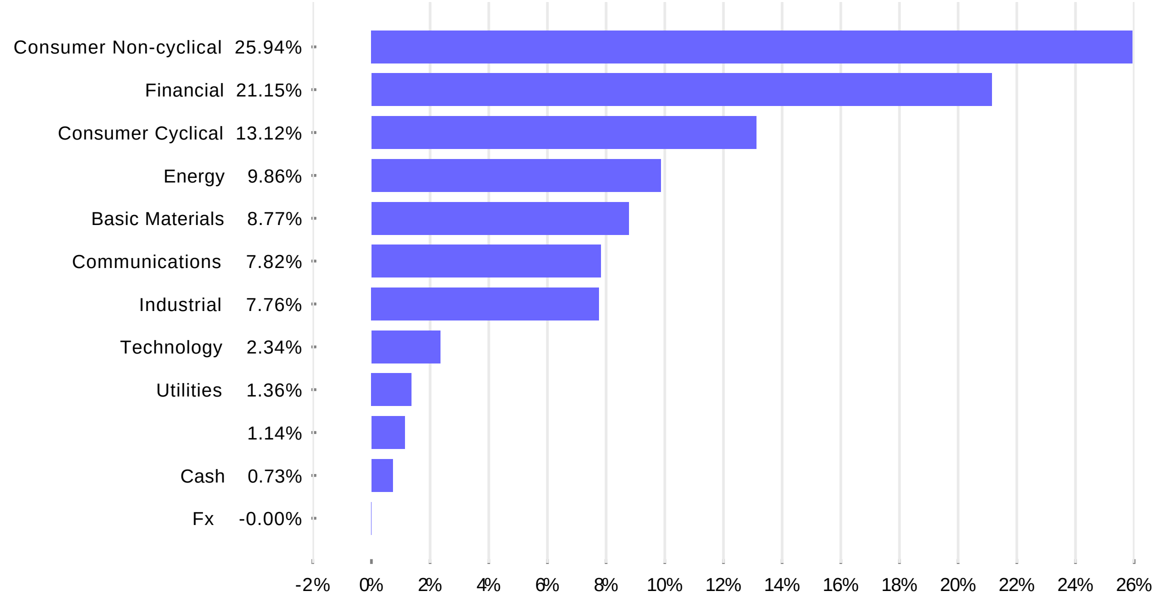
Top 20 Holdings

	Mkt. Val.(GBP)
ROYAL DUTCH SHELL PLC-B SHS	66,263,103
GLAXOSMITHKLINE PLC	64,716,496
BRITISH AMERICAN TOBACCO PLC	64,086,286
RIO TINTO PLC	53,154,381
BHP GROUP PLC	50,346,646
HSBC HOLDINGS PLC	49,110,715
RELX PLC	46,815,184
UNILEVER PLC	45,225,110
BP PLC	43,347,966
DIAGEO PLC	39,799,460
ASTRAZENECA PLC	36,681,010
ROYAL DUTCH SHELL PLC-A SHS	35,268,951
PRUDENTIAL PLC	35,164,827
LEGAL & GENERAL GROUP PLC	32,097,706
LLOYDS BANKING GROUP PLC	27,909,261
VODAFONE GROUP PLC	27,550,412
STANDARD CHARTERED PLC	25,889,329
RIGHTMOVE PLC	24,763,858
AUTO TRADER GROUP PLC	24,251,419
MEGGITT PLC	23,846,425

Regional Exposure



Sector Exposure



Brunel Active UK Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. Relx PLC	66.6	67.6
2. Tate & Lyle PLC	80.7	26.3
3. Diageo PLC	65.9	41.5
4. Rio Tinto PLC	62.5	58.5
5. Legal & General Group PLC	64.5	80.5
6. Unilever PLC	62.8	57.4
7. Informa PLC	77.9	83.2
8. Aggreko PLC	76.2	29.2
9. Victrex PLC	80.9	81.3
10. Anglo American PLC	64.4	79.4

Weighted Average ESG Score	2019 Q3	2019 Q4
Portfolio	59.90	59.31
FTSE ALL SHARES	58.38	58.56

TruValue Labs & SASB

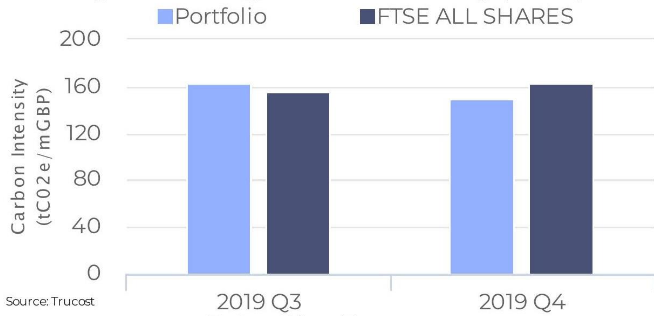
Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. Royal Dutch Shell PLC	54.7	77.3
2. HSBC Holdings PLC	51.1	54.0
3. Lloyds Banking Group PLC	45.8	63.6
4. British American Tobacco PLC	54.3	49.3
5. BP PLC	53.7	54.0
6. Smith & Nephew PLC	48.2	46.5
7. Rightmove PLC	53.3	18.0
8. JD Sports Fashion PLC	47.3	50.0
9. Barclays PLC	47.7	55.3
10. Hikma Pharmaceuticals PLC	54.2	15.7

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)



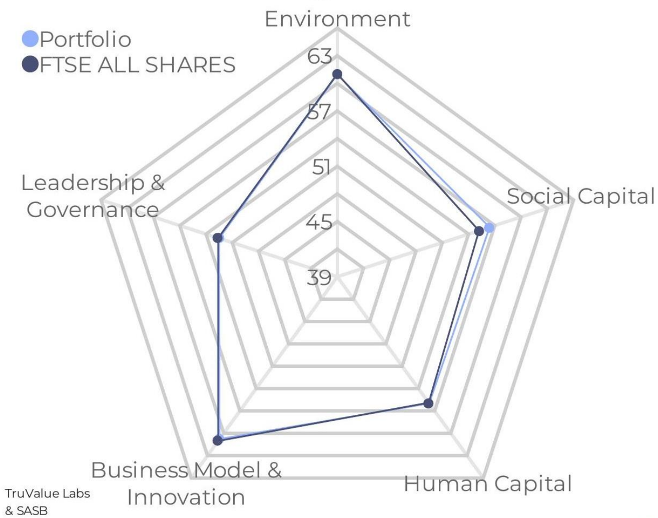
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1] Q3	Total Extractive Exposure[1] Q4	Extractive Industries (VOH)[2] Q3	Extractive Industries (VOH)[2] Q4
Portfolio	6.76	6.97	17.60	16.10
FTSE ALL SHARES	6.64	7.32	17.70	17.03

[1] Extractive revenue exposure as share (%) of total revenue.
[2] Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

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Brunel Assessment

- **Diageo** (Alcoholic Beverages) was ranked number one globally for gender equality in the Equileap 2019 gender equality report and ranking, however in September employees striked following pay disputes. An agreement was reached in October and further strike action cancelled.
- **Barclays** (bank) has been covered consistently in each quarterly report highlighting boardroom battles and concerns with climate related lending. Barclays remains an engagement priority, Brunel recently co-filed a shareholder resolution relating to lending practices for fossil fuel companies not aligned to the Paris agreement.
- **British American Tobacco** (Tobacco) announced job cuts as part of restructuring to shift 'new generation' products, received claims of Malawi child labour and faced introduced fees to compensate people affected by smoking.
- **Smith & Nephew** (Medical Equipment) the chief executive announced plans to step down following a reported row over executive pay.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

The portfolio saw further improvements (reductions) bringing the portfolio below the benchmark. The overall carbon intensity of the UK portfolio is strongly influenced by one manager whose quantitative approach does not currently include climate risk. Positive engagement continues with the manager who is seeking a solution for both Brunel and the wider market where they see this as a growing opportunity.

Brunel Emerging Market Equities

BRUNEL Pension Partnership

Overview

	Description
Portfolio Objective:	Provide exposure to emerging market equities, targeting excess returns and enhanced risk control from leading managers.
Investment Strategy & Key Drivers:	A geographically diverse portfolio, typically expected to achieve higher long-term growth rates than developed economies.
Liquidity:	Managed liquidity. Less exposure to more illiquid assets
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5% tracking error.
Client Holding:	£105,261,114

Quarterly Performance

All values in %	Fund	BM	Excess
3 Month			
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	1.18	0.85	0.33

The fund returned +1.2% since performance inception (08/11/2019), which is +0.3% ahead of the benchmark return over the same period. The portfolio launched during the quarter, early observations include:

• The outperformance has been driven by strong stock selection. Allocation impacts at a sector and country level have not been the primary drivers of relative return

• Brazil, China & Taiwan have been the strongest performers out of the larger country constituents. Returns in these countries since inception were 3.9%, 2.1% and 2.3% respectively. The fund is underweight all three of these countries, but strong stock selection has resulted in positive relative return

• India was one of the weaker performers out of the larger countries. Stocks in India fell -2.9% over the period vs a broader benchmark return of +0.9%. The fund maintains an underweight position which helped relative return. Stock selection was also positive, which led to a positive overall impact from India

• Real Estate and Technology were the strongest performing sectors in the benchmark since inception, both retuning +3.6% in GBP terms. The portfolio is marginally underweight these sectors, which caused a drag on relative performance

• The weakest sector since inception was Consumer Staples, which returned -3.6%. The portfolio has a +3.9% active weight in this sector, which caused a drag on relative performance. This allocation impact was offset by strong stock selection in this sector, hence, the overall contribution to relative performance was positive from this sector

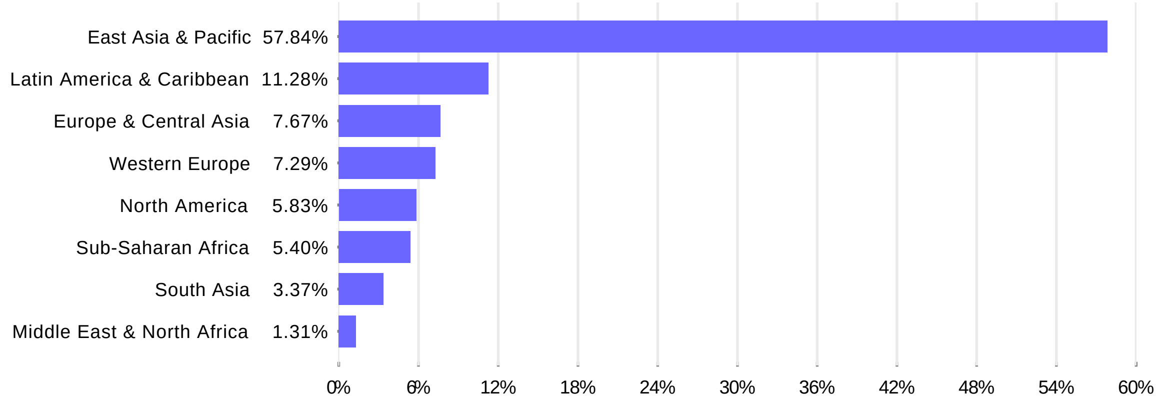
Brunel Emerging Market Equities – Region & Sector Exposure

BRUNEL
Pension Partnership

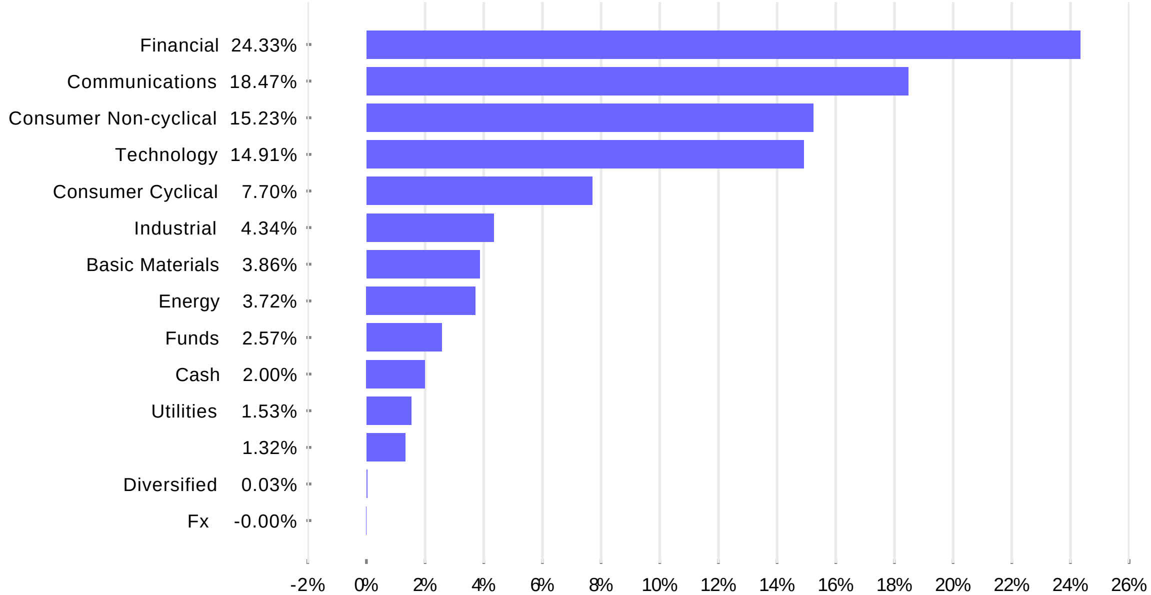
Top 20 Holdings

	Mkt. Val.(GBP)
ALIBABA GROUP HOLDING-SP ADR	60,288,907
TAIWAN SEMICONDUCTOR MANUFAC	52,347,813
TENCENT HOLDINGS LTD	39,265,161
SAMSUNG ELECTRONICS CO LTD	38,150,072
ISHARES MSCI INDIA ETF	27,070,667
AIA GROUP LTD	24,629,188
SBERBANK PJSC -SPONSORED ADR	22,514,227
PING AN INSURANCE GROUP CO-H	16,704,892
NASPERS LTD-N SHS	14,356,185
HDFC BANK LTD-ADR	13,302,074
58.COM INC-ADR	12,912,283
WULIANGYE YIBIN CO LTD-A	12,302,674
CHINA CONSTRUCTION BANK-H	12,280,942
NETEASE INC-ADR	11,049,520
AXIS BANK LTD- GDR REG S	10,821,496
YANDEX NV-A	9,855,322
NEW ORIENTAL EDUCATIO-SP ADR	9,468,385
SAMSUNG ELECTRONICS-PREF	9,292,452
JIANGSU YANGHE BREWERY -A	8,954,884
ITAUSA-INVESTIMENTOS ITAU-PR	8,807,070

Regional Exposure



Sector Exposure



Brunel Emerging Market Equities – Responsible Investment

BRUNEL
Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. Ping An Insurance Group Co of China Ltd	66.0	77.9
2. MediaTek Inc	73.4	57.3
3. Alibaba Group Holding Ltd	59.8	55.7
4. AIA Group Ltd	62.4	72.4
5. Sberbank Rossii PAO	62.4	75.4
6. China Construction Bank Corp	64.9	29.1
7. Weichai Power Co Ltd	76.9	50.0
8. Sands China Ltd	77.5	83.2
9. Delta Electronics Inc	78.0	25.3
10. China Mengniu Dairy Co Ltd	64.0	29.3

Weighted Average ESG Score	2019 Q4
Portfolio	59.23

ruValue Labs & SASB

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. Petroleo Brasileiro SA Petrobras	35.7	80.5
2. Tencent Holdings Ltd	54.3	35.9
3. Cognizant Technology Solutions Corp	39.8	15.0
4. NetEase Inc	50.2	31.3
5. Samsung Electronics Co Ltd	56.8	65.7
6. Itau Unibanco Holding SA	44.2	79.5
7. Axis Bank Ltd	52.3	42.2
8. ICICI Bank Ltd	43.4	77.6
9. Vale SA	39.4	7.3
10. Gazprom PAO	50.6	61.3

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)

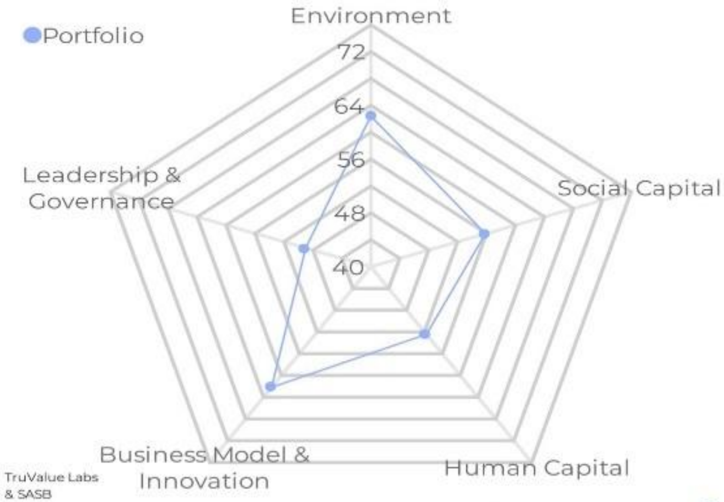
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]	Extractive Industries (VOH)[2]
Portfolio	2.70	5.79

[1] Extractive revenue exposure as share (%) of total revenue.
[2] Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

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Brunel Assessment

- **Tencent** (Technology & Communications) a large company with significant news flow. Following investigations by the anti-fraud investigation department, 40 cases were identified of misappropriation of company assets, corruption and bribery. More than 60 staff were fired and 16 companies blacklisted.
- **Cognizant Technology Solutions** (Technology & Communications) Potential class action investigating claims of breach of fiduciary duty involving the board of directors. Following backlash online of unhealthy working conditions, 13,000 job exits announced from content moderation business.
- **NetEase** (Technology & Communications) Tencent won a copyright lawsuit for music against NetEase. News of the treatment and firing of an ill employee spread online, NetEase issued a public apology for the mistreatment.
- **Vale** (Metals & Mining) there have been ongoing investigations following the Brumadinho dam collapse 25 January 2019. In November the Brazilian regulator said Vale failed to report Dam defects.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

Brunel High Alpha Developed Equities

BRUNEL Pension Partnership

Overview

	Description
Portfolio Objective:	Provide global equity market exposure together with excess returns from accessing leading managers.
Investment Strategy & Key Drivers:	In order to achieve the best returns, Managers are likely to have high conviction, concentrated portfolios, and to
Liquidity:	Managed liquidity. Less exposure to more illiquid assets
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5-6% tracking error
Client Holding:	£127,145,534

Quarterly Performance

All values in %	Fund	BM	Excess
3 Month			
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	3.00	2.89	0.11

- The portfolio launched in November 2019, with the handover of assets to target managers and formal performance commencing from the 6 December.
- Performance since inception is provided in the table and although marginally positive in aggregate versus the index, the very short period means we can give little significance to the data.
- Whilst reluctant to comment on such a short period, the one point of note is the strong performance of the Baillie Gifford portfolio over such a short period driven largely by a handful of holdings, with Tesla the leading contributor. Manager relative performance by the other 4 managers varied over the period.

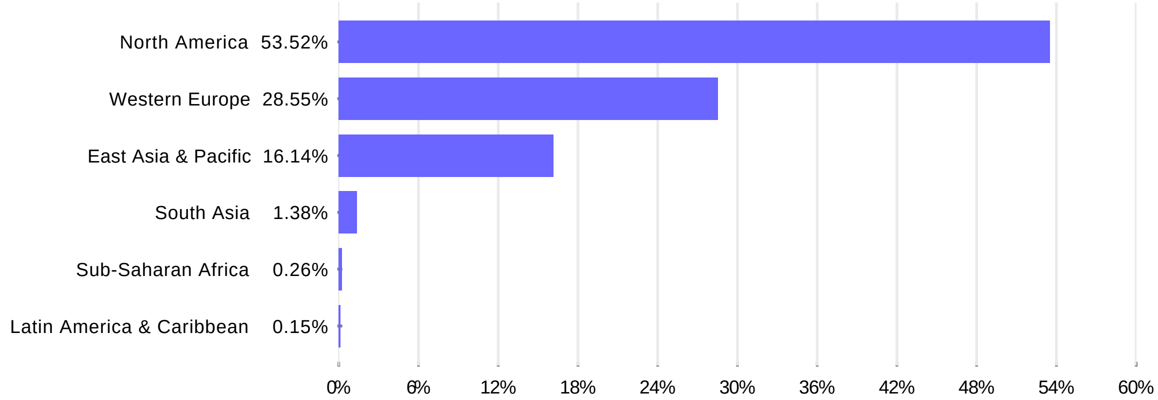
Brunel High Alpha Developed Equities – Region & Sector Exposure

BRUNEL Pension Partnership

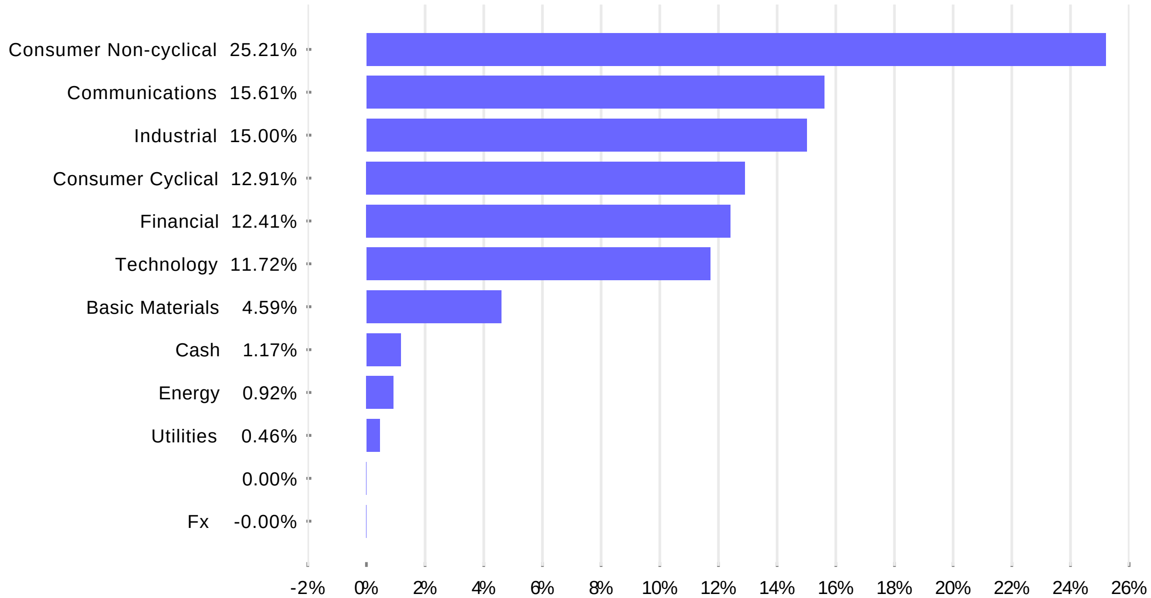
Top 20 Holdings

	Mkt. Val.(GBP)
MASTERCARD INC - A	85,506,508
KEYENCE CORP	63,389,300
MICROSOFT CORP	61,623,764
ALIBABA GROUP HOLDING-SP ADR	58,453,370
MOODY'S CORP	57,437,445
NESTLE SA-REG	51,153,986
ALPHABET INC-CL A	47,684,035
TENCENT HOLDINGS LTD	46,751,400
AMAZON.COM INC	45,757,079
ASML HOLDING NV	45,089,409
FACEBOOK INC-CLASS A	44,965,285
JOHNSON & JOHNSON	43,149,122
TAIWAN SEMICONDUCTOR-SP ADR	40,461,837
HDFC BANK LTD-ADR	37,532,442
TJX COMPANIES INC	36,977,086
ABBOTT LABORATORIES	32,249,583
MSCI INC	30,590,826
ILLUMINA INC	30,507,105
BECTON DICKINSON AND CO	30,284,148
SCHWAB (CHARLES) CORP	28,952,586

Regional Exposure



Sector Exposure



Brunel High Alpha Developed Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. Allegion PLC	84.2	78.2
2. Quintiles IMS Holdings Inc	77.3	82.3
3. Delphi Automotive PLC	80.2	31.7
4. Moody's Corp	65.6	18.0
5. Capgemini SE	70.6	34.7
6. Ecolab Inc	73.5	35.7
7. Temenos Group AG	71.0	79.4
8. Nidec Corp	70.1	75.3
9. Amphenol Corp	66.9	12.8
10. Mastercard Inc	60.3	42.1

Weighted Average ESG Score	2019 Q4
Portfolio	59.61

TruValue Labs & SASB

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. Facebook Inc	44.4	29.5
2. Alphabet Inc	49.4	50.0
3. Johnson & Johnson	47.0	40.2
4. Autozone Inc	40.3	12.5
5. Bayer AG	39.9	16.1
6. Verisk Analytics Inc	46.8	79.8
7. Illumina Inc	48.1	17.8
8. Nike Inc	44.5	37.1
9. TJX Companies Inc	50.6	23.2
10. Amazon.com Inc	53.0	35.4

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)

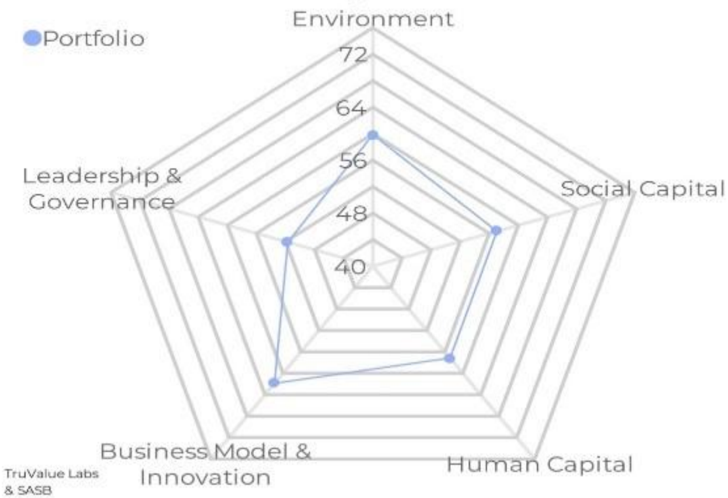
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]	Extractive Industries (VOH)[2]
Portfolio	1.45	2.78

[1] Extractive revenue exposure as share (%) of total revenue.
[2] Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

Powered by ESGX®

Brunel Assessment

- **Facebook** (media) continues to face increased scrutiny over data protection, fake content and concerns and objectionable content. Data security is an area of ongoing engagement.
- **Johnson & Johnson** (pharmaceuticals) has faced product liability lawsuits related to antipsychotic medication Risperdal and another relating to Infants' Tylenol (infant paracetamol). Both cases relate to inadequate or misleading product information.
- **AutoZone** (automotive parts) have been subject to a class action relating to changing the conditions of a loyalty scheme and failing to notify its customers and controversy over the building of a new store and pedestrians safety concerns.
- **Bayer** (pharmaceuticals) recent newsflow has highlighted legal action relating to Monsanto's garden pesticide Roundup and that they pleaded guilty to spraying a banned pesticide on Hawaii in 2014.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

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Dorset County Pension Fund
administered by Dorset Council
Environment Agency Pension Fund
SOMERSET County Council
AVON PENSION FUND
Cornwall Pension Fund
Devon County Council
WILTSHIRE PENSION FUND
Oxfordshire Pension Fund
www.oxfordshire.gov.uk/pensions
BUCKINGHAMSHIRE COUNTY COUNCIL
Gloucestershire COUNTY COUNCIL
BRUNEL
Pension Partnership

ASSET MANAGEMENT

DORSET COUNTY PENSION FUND

Quarterly Report 31 December 2019

For further information, please contact:

Robert Nicholson
Client Relationship Director

Royal London Asset Management Limited
55 Gracechurch Street
London EC3V 0RL

T: 020 3272 5281
E: robert.nicholson@rlam.co.uk

CONTENTS

PORTFOLIO REVIEW

Fund performance objective

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

Fund asset allocation

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

Portfolio value

	Portfolio total (£m)
31 December 2019	229.35
30 September 2019	230.37
Change over the quarter	(1.02)
Net cash inflow (outflow)	0.00

Executive summary

Performance

- The Fund gave a gross return of -0.45% over the quarter, bringing the 12 month return to 12.69%.
- Sterling investment grade credit outperformed UK government debt in the fourth quarter; respective all-maturities returns were -0.69% and -3.89%. The average sterling investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) narrowed by 15bps to 1.14% by the end of the period.
- The fund outperformed the sterling credit market, with positive effects from our underweight in supranationals and overweight in financials – particularly subordinated bonds – driving returns.

The economy and bond markets

- There were signs of stabilisation in global economic growth in the fourth quarter, with GDP growth rates consistent and the composite PMI healthy. Nevertheless, the global economy undoubtedly slowed and leading indicators were mixed. Business optimism improved somewhat, aided by developments around global trade and Brexit, and developed economy consumer confidence held up well. Accommodative central bank policies mean that financial conditions are looser than normal, and there were numerous announcements towards the end of the year suggesting a pick-up in government spending.
- The UK GDP growth rate continued its descent in the fourth quarter, hampered by uncertainty around Brexit and the subdued global backdrop. A resounding Conservative Party majority in the general election removed the threat of a 'no deal' Brexit as a near-term possibility and provided greater clarity over the domestic political outlook. However, Prime Minister Boris Johnson's declaration that the transition period will end in December 2020 means that significant economic risks remain. The Conservative manifesto outlined plans for a significant boost to government spending, which should boost growth prospects.
- Sentiment shifted in government bond markets in the fourth quarter. Having reached unprecedented levels in the previous quarter, government bonds sold off strongly as many of the fears that had been driving risk-off sentiment subsided. The US and China agreed to a 'phase one' trade deal, and concerns lessened about the weakness of the global economy in light of more supportive central bank policies and several governments announcing a ramp-up in spending. Political risk was also reduced somewhat after the UK Conservative Party secured a substantial majority in the general election, enabling the country's withdrawal from the EU.

Investment outlook

- Despite a prospective surge in UK government spending, growth is likely to be kept in check by uncertainty around the future relationship with the EU. There is still potential for a disruptive change to the UK's trading arrangements with the EU in the coming year, and the government's preferred future EU trading arrangement implies substantial adjustment from current arrangements; which will come at a cost for some businesses. With global growth having slowed, other central banks having cut rates, domestically-driven inflation subdued and UK business surveys weak, we have pencilled in a rate cut for the first half of 2020, though this could change if business surveys were to pick up significantly in the next couple of months.
- We expect investment grade credit will outperform gilts in 2020, in part reflecting the lower duration of credit indices relative to gilt indices. We do not expect further credit spread tightening in the current year, although it is possible that renewed optimism about global growth could push spreads towards the low seen in 2016 of 0.93%.

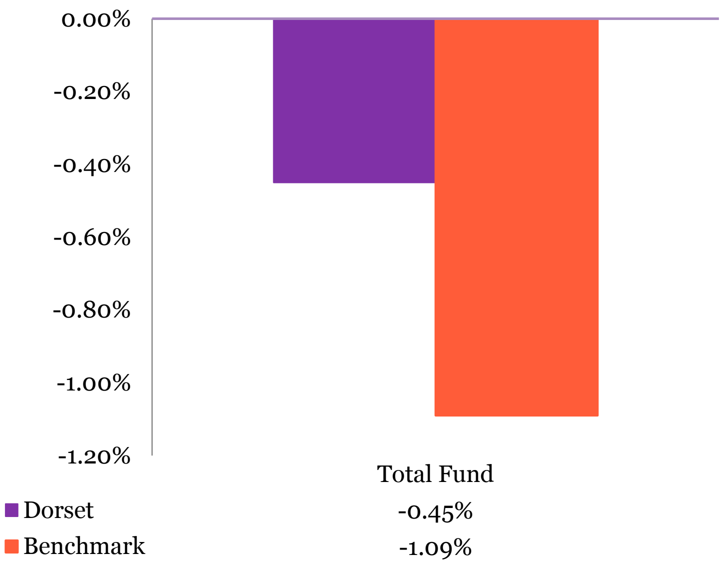
FUND PERFORMANCE

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Q4 2019	**-0.45**	**-1.09**	**0.64**
Year-to-date	12.69	12.15	0.54
Rolling 12 months	12.69	12.15	0.54
3 years p.a.	6.17	4.97	1.20
5 years p.a.	6.40	5.61	0.79
Since inception p.a. 02.07.2007[2]	8.57	8.47	0.10

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

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[3]	10.0 years	10.4 years
Gross redemption yield[4]	2.83%	2.16%
No. of stocks	442	748
Fund size	£229.4m	-

Source: RLAM, Launch date: 02.07.2007.

[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]Excluding cash

[4]The gross redemption yield is calculated on a weighted average basis

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q4 2019	**-0.45**	**-1.09**	**0.64**
Year-to-date	12.69	12.15	0.54
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Since inception p.a. 02.07.2007[2]	8.57	8.47	0.10

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.

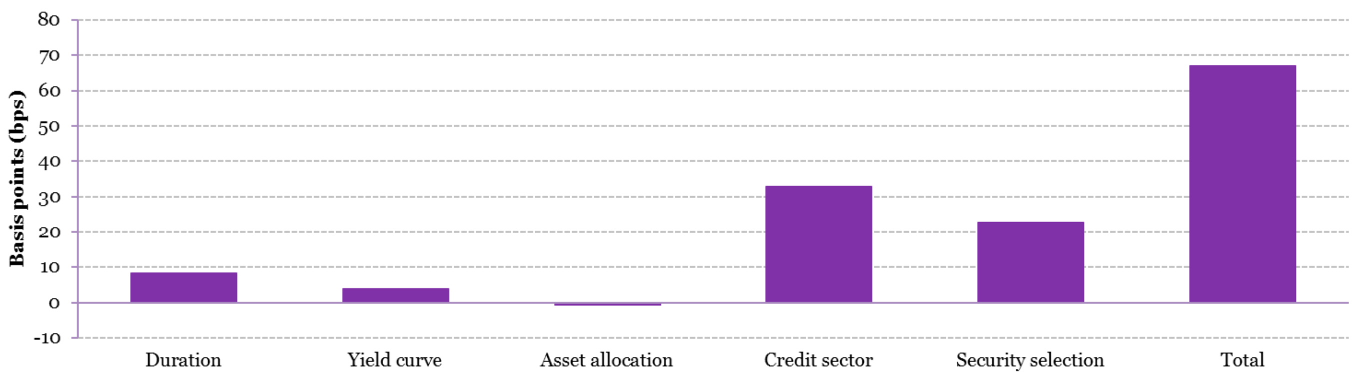
All performance figures stated gross of fees and tax unless otherwise stated.

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.

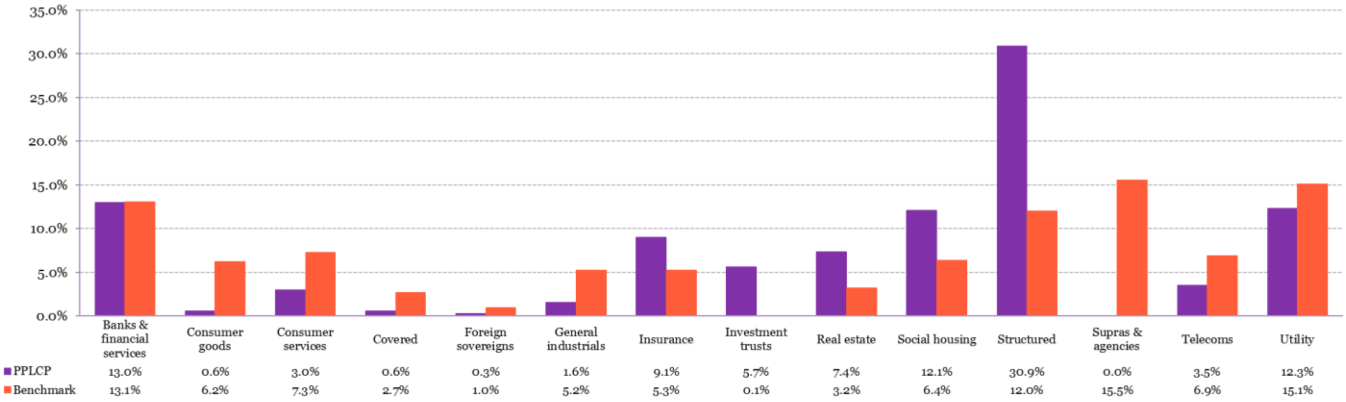
Performance attribution for quarter 4 2019



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

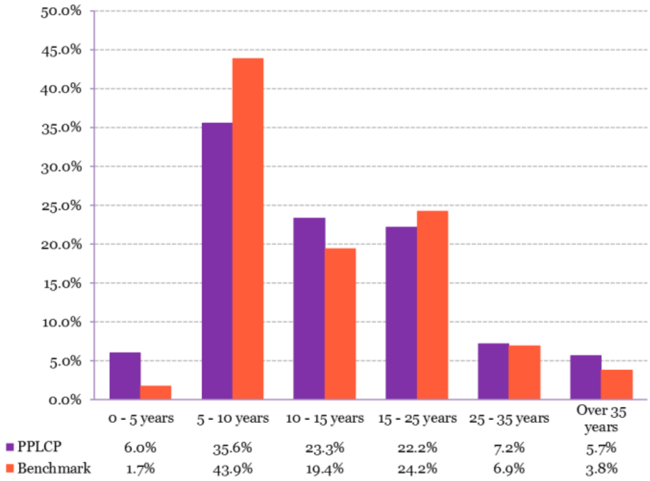
RLPPC OVER 5 YEAR CORPORATE BOND FUND

Sector breakdown

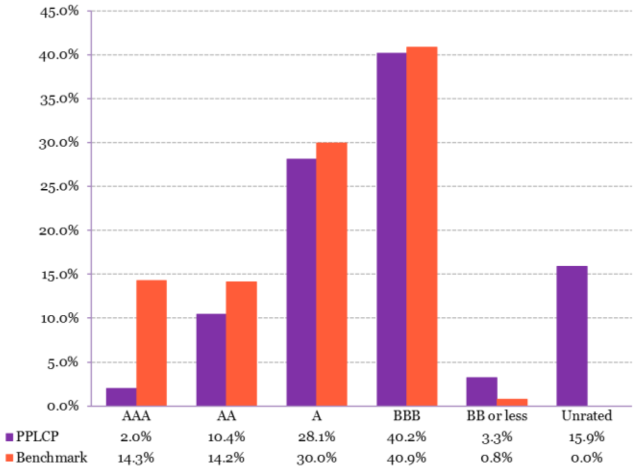


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio

Maturity profile



Credit breakdown



Ten Largest Holdings

	Weighting (%)
HSBC Bank 5.375% 2033	2.0
Électricité De France 6% 2114	1.3
M&G Plc 5.7% 2063	1.3
Finance for Residential Social Housing 8.368% 2058	1.3
Innogy Finance 6.125% 2039	1.3
Exchequer Partnership 5.396% 2036	1.2
Thames Water Utilities 2 7.738% 2058	1.2
Annes Gate Property 5.661% 2031	1.2
Barclays Plc 3.25% 2033	1.2
Equity Release 5.7% 2031	1.1
Total	**13.0**

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 was the worst-performing credit sector.	The fund's substantial underweight position in supranationals had a strong positive impact on 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.	Banks and insurers both outperformed the broader market. Within these sectors, senior bonds largely underperformed subordinated issues.	The overweight position in financials was very positive for performance. This was further enhanced by the preference for subordinated debt.
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 and real estate both underperformed.	Above benchmark exposure to structured debt was broadly negative for performance.
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.	AAA and AA rated bonds underperformed their lower-rated peers, particularly BBB.	The preference for lower-rated debt had a positive impact on performance this quarter.
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 strongly outperformed investment grade credit over the quarter. Unrated bonds in the fund, which consist mainly of secured and structured issues, underperformed.	The allocation to sub-investment grade debt was positive for returns. Exposure to unrated bonds marginally detracted from performance.
Duration	We believe the level of gilt yields is challenging over the longer term. However, our level of conviction is low regarding their short-term direction.	The fund broadly maintained its slight short duration stance versus the benchmark over the quarter.	The yield on the 10-year gilt increased by 33 basis points to 0.82%, reversing the year's general decrease in yields.	The duration position had a small positive impact on performance.

RLPPC OVER 5 YEAR CORPORATE BOND FUND

Fund activity

- Sterling investment grade credit issuance for the quarter was lower than the third quarter, but higher than in the weak markets of the fourth quarter of 2018. The fund participated in various new issues, including in the utilities sector from **Cadent**, **Eastern Power Networks** and a bond issued by Berkshire Hathaway subsidiary **Northern Powergrid**. We maintained our interest in the social housing sector, through **Wrekin Housing Group**. Otherwise, we participated in a new issue from **National Express**; and structured issues from **Logicor**, the warehouse and logistics company, and **Heathrow Finance**, the holding company issuer for Heathrow Airport.
- With the Conservatives securing a clear parliamentary majority, investors concluded that greater political clarity will lead to more economic stability. Sterling strengthened on the result and UK risk assets rallied sharply. While there was little impact on gilt yields, in credit the financials and utilities sectors outperformed. The threat of nationalisation of certain utilities impacted the performance of bonds earlier in the quarter in the run up to the election. The result led to a bounce, with spreads contracting across the utilities sector. While the fund benefitted from this recovery, there remain challenges ahead (e.g. tougher regulation) and we retain our preference for debt issued by operating entities.
- During the quarter, French utility **EDF** launched a tender for some of its outstanding euro-denominated hybrid debt (subordinated bonds), thereby reducing the overall amount of its outstanding hybrid capital. This tender process supported the performance of the company's remaining hybrids bonds; sterling EDF hybrids that are callable in 2029 returned in excess of 20% over the year. As the fourth-largest issuer in the sterling credit market, making up over 2% of all maturity indices, the performance of EDF's debt has a meaningful market impact.
- In December, **Phoenix** (the largest consolidator of life assurance funds in the UK) agreed to acquire **ReAssure Group** for a combination of cash and shares. Fitch revised the outlook on both issuers to positive, citing the advantages of increased size and business position for Phoenix and the expectation that ReAssure would ultimately be integrated within the enlarged group. Over the quarter, the fund benefitted from its overweight position in the insurance sector and, in particular, from its positions in Phoenix and ReAssure.

Investment outlook

- Before Christmas, the new government introduced the EU Withdrawal Agreement Bill and the UK is set to leave the EU on 31 January. However, negotiations over a future trade agreement talks are set to continue until the end of this year, so uncertainty could continue to affect economic activity. Our sterling credit portfolios have a low relative exposure to those sectors most exposed to trading interaction between the UK and the EU (e.g. general industrials and consumer goods). Such uncertainty reinforces our favoured approach of ensuring significant diversification of issuers and biasing our portfolio towards bonds with strong asset backing and/or covenant protections to mitigate such risks.
- Over 2019, the performance of sterling investment grade credit was boosted by the strength in UK government bonds (the benchmark 10-year gilt yield decreased from 1.28% to 0.82%) and credit spread compression as higher-risk assets outperformed. The average sterling investment grade credit spread tightened 37 basis points to 1.14%, with around two-thirds of this coming from financials. However, the fourth quarter saw a significant *increase* in government bond yields from their low of 0.41% in September and it's possible that yields will rise further in 2020.
- We expect investment grade credit will outperform gilts in 2020, in part reflecting the lower duration of credit indices relative to gilt indices. We do not expect further credit spread tightening in the current year, although it is possible that renewed optimism about global growth could push spreads towards the low seen in 2016 of 0.93%.

Key views within the portfolio

- A significant underweight in supranational bonds, as we expect corporate debt to outperform over the medium term.
- Duration moderately below that of the benchmark, as we expect underlying gilt yields to gradually trend higher.
- A bias towards asset-backed securities, an area that we believe still offers very strong risk/return characteristics.
- An overweight position in subordinated financial debt, where we believe yields are attractive.

FURTHER INFORMATION

Market commentaries & investment outlook

Please click on link for further information.

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.

RLAM TEAM

Your fund managers

Jonathan Platt
Head of Fixed Income

Shalin Shah
Senior Fund Manager

Paola Binns
Senior Fund Manager

Your dedicated contact

Rob Nicholson
Client Relationship Director

T: 020 3272 5281
F: 020 7506 6784
E: robert.nicholson@rlam.co.uk

In Rob's absence, please feel free to contact any of the Client Relationship team members listed below or email: ClientRelationships@rlam.co.uk.

Lucy Cooke	**T:** 020 3272 5513	**E:** Lucy.Cooke@rlam.co.uk
Fraser Chisholm	**T:** 020 3272 5278	**E:** fraser.chisholm@rlam.co.uk
Daniel Norsa Scott	**T:** 020 3272 5280	**E:** daniel.norsascott@rlam.co.uk
Andrew Cunningham	**T:** 020 3272 5468	**E:** andrew.cunningham@rlam.co.uk
John Matthews	**T:** 020 3272 5423	**E:** john.matthews@rlam.co.uk
Sam Wreford	**T:** 020 3272 5167	**E:** sam.wreford@rlam.co.uk

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Portfolio Valuation

As at 31 December 2019

Dorset County Pension Fund

	Holding	Identifier	Asset Description	Market Price (Bid £)	Book Cost Capital (£)	Market Cap. Value (£)	Accrued Inc. Value (£)	Market Value (£)	Days Accrued	Market Value %
Funds Held										
	85,416,355	GB00B1ZB3X88	RLPPC Over 5 Year Corp Bond Pen Fd	2.68503	108,394,530.36	229,345,476.57	0.00	229,345,476.57	0	100.0
				Funds Held total	**108,394,530.36**	**229,345,476.57**	**0.00**	**229,345,476.57**		**100.0**
				Grand total	**108,394,530.36**	**229,345,476.57**	**0.00**	**229,345,476.57**		**100.0**

Trading Statement

For period 01 October 2019 to 31 December 2019

Dorset County Pension Fund

	Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
Acquisitions						
Funds Held						
	04 Oct 2019	Acquisition Rebate	63,164.91	RLPPC Over 5 Year Corp Bond Pen Fd	2.73	172,643.60
					Funds Held total	**172,643.60**
					Acquisitions total	**172,643.60**

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CQS Credit Multi Asset Fund

Review for Dorset Council Pension Fund

Q4 2019

Signatory of:

Principles for Responsible Investment

Standards Board for Alternative Investments SIGNATORY Feb '19

Summary

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 (E1 Share Class GBP)[3]

Annualised Return Since Inception (% p.a.)	Annualised Volatility Since Inception (%)	Sharpe Since Inception	Q4 2019 Return (%)
3.33	2.12	1.25	1.27

Dorset Council Pension Fund's return on initial investment: **+7.07%** net (since 1 December 2017)

AUM in CMA: **£144.6m** as at 31 December 2019

Q4 2019 Performance

- All asset classes contributed positively to returns, with mark-to-market gains supported by income
- High yield led the way, with a strong contribution from the US, where the team capitalised on idiosyncratic opportunities. The European portfolio continued to reduce market beta while also contributing positively. Loans also contributed well, given the size of the allocation, with the majority of the contribution coming from the US and the rest from Europe. Market-to-market volatility increased notably during the quarter, led by idiosyncratic names in the US
- Strong performance from European CLOs led our ABS book, which remains part of the stable core of the portfolio, a relatively conservative income-generating asset class to offset exposure to higher beta assets. Convertibles and Financials were both positive, benefiting from the impetus given to equity markets during the period
- Just over half the returns by geography came from the US during the period, with the majority of the remainder coming from Europe. There was a small positive contribution to returns from Asia
- Whilst dispersion in performance will likely continue, we believe capital appreciation and active trading will support returns through 2020
- We retain a secured income-driven approach. We believe our allocations to EU Loans and parts of ABS should provide price stability, while our increased allocation to High Yield, particularly in the US, reflects active trading opportunities. We also see Investment Grade opportunities in Convertible bonds. While these do not provide income, they have potential to outperform in an environment of dispersion.

Source: CQS as at 31 December 2019. [1]Target returns are estimated and net of anticipated 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. Target returns are for illustrative purposes only. [2]Except when required for currency hedging purposes. [3]Returns represent E1 CMA Share Class GBP, inception date of 1 December 2017. 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.

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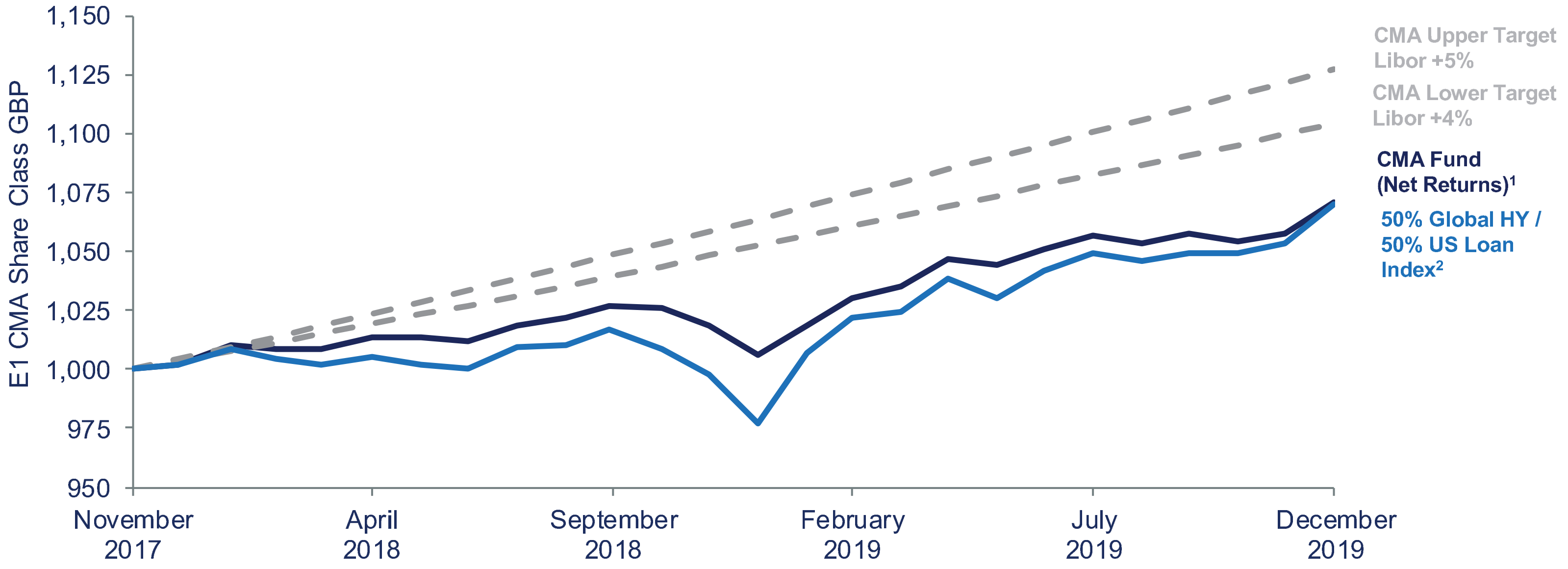
Performance Since Inception



	CYTD	Q4 2019	Last 12m	Annualised Return Since Investment 1 December 2017
CMA return (Net of fees, GBP)	6.45%	1.27%	6.45%	3.33%
Index return (Gross, GBP hedged)	9.46%	1.92%	9.46%	3.29%
LIBOR+4% (GBP)	4.91%	1.20%	4.91%	4.87%

Source: CQS as at 31 December 2019. [1]Returns reference the E1 GBP Share class. [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 – Q4 2019

Market background

- The quarter saw positive returns across sub-investment grade asset classes as markets experienced a "risk on" environment in the final months of the year. While this brought some spread compression in December, dispersion across sectors, ratings groups and geographies remains a key theme in sub-investment grade asset classes and a source of opportunity for 2020.
- Looking across the market, high yield bonds finished 2019 with another solid quarter, the US high yield market returning 2.61% and the European high yield market returning 2.12%. Loans were also positive, with US loans returning 1.73% and European loans (ex-currency) returning 0.53%.
- Elsewhere, the diverse asset backed securities asset class saw some mark-to-market volatility across CLO liabilities, offset by continued spread compression in the US non-agency residential mortgage-backed securities. Convertibles returned 5.05%, with gains across the US, Europe and Asia, while Financials returned 4.36% after another quarter of very strong performance for subordinated financials.
- Looking through the asset classes we invest in, High Yield led the way, with a strong contribution of 0.57% gross of fees. While the US book capitalised on idiosyncratic opportunities, the European portfolio continued to reduce market beta while also contributing positively.
- Loans contributed well, given the size of the allocation, with the majority of the contribution of 0.33% gross of fees coming from the US and the rest from Europe. Market-to-market volatility increased notably during the quarter, led by idiosyncratic names in the US.
- Strong performance from European CLOs led our ABS book, which remains part of the stable core of the portfolio. ABS contributed 0.20% gross of fees during the quarter. Finally, Financials and Convertibles were both positive, contributing 0.20% and 0.16% respectively gross of fees.
- Just over half the returns by geography came from the US during the period, with the majority of the remainder coming from Europe. There was a small positive contribution to returns from Asia.

Investment strategy and outlook

- We started the period with just over 47% in Loans, just under 22% in ABS, 19.5% in High Yield, just over 5% in Convertibles and just under 4% in Financials. Unallocated capital was therefore just over 2%.
- We increased exposure to High Yield through the quarter, with an increased tilt to the US to capture high beta/catalyst driven trades, as the US lagged Europe in November and we expect more compression to follow in the US. We balanced this by slightly reducing exposure to US loans towards the end of the period and reducing exposure to Financials as we took profit on high conviction names and de-risked, mainly in UK financials.
- Whilst dispersion in performance of underlying credits will likely continue, and we anticipate pricing pressure on selective assets, we believe capital appreciation and active trading can bolster returns into 2020.
- The portfolio retains its secured income-driven approach, with a high allocation to Senior Secured Loans and secured ABS. We anticipate our allocations to EU Loans and parts of ABS will continue to provide forward-looking price stability overall.
- Our increased allocation to High Yield (particularly in the US) reflects active trading opportunities. In addition, our US Loan book contains potential net capital appreciation opportunities in lower B rated credits which have been technically oversold.
- Finally, we see Investment Grade opportunities in Convertible bonds. While these do not provide income, they have potential to outperform in an environment of dispersion.
- As we stand today, our target exposure to loans is approximately 45.00%, ABS is 21.00%, high yield is 22.25%, financials is 3.50% and our target exposure to convertibles is 6.00%. The target cash weighting, therefore, is 2.25%
- Against this backdrop, the Fund's overall yield is currently 5.39% in Sterling terms at the end of December while circa 75% of the Fund remains invested in floating rate instruments.

Source: CQS as at 31 December 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 COUNTY PENSION FUND

QUARTERLY REPORT
Q4 2019

Dorset County ('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. 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.

£316.5M Capital Value (Combined Dorset Portfolios)

37 Assets

£13.5M To Invest

	CONVENTIONAL	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly over 5 years	LPI +2% p.a.
Capital Value (Q4 2019)	£278.3m (88%)	£38.2 (12%)
Number of assets	28	9
Value of purchases during quarter	-	-
Value of sales during quarter	£0.1m	-
Net initial yield (p.a.)	4.1%	3.8%
Average unexpired lease term (to break)	8.8 years (7.7 years)	66.7 years (19.2 years)

COMBINED VALUATION

Direct Property (Q4 2019 values)	£280.5m
Indirect Assets (Q4 2019 values)	£36.0m
Total Portfolio Valuation	£316.5m

PERFORMANCE***	CONVENTIONAL	SLI	COMBINED	MSCI QUARTERLY UNIVERSE
Q4 2019	0.2%	0.8%	0.3%	0.0%
12 months	2.0%	5.5%	2.6%	1.3%
3 yrs p.a.	6.5%	-	6.4%	5.9%
5 yrs p.a.	7.3%	-	7.4%	6.8%

CBRE GLOBAL INVESTORS

ECONOMIC AND PROPERTY UPDATE

- GDP is estimated to have grown by 1.3% during 2019 and we expect relatively subdued growth again in 2020, albeit improving through the year.
- Fiscal policy should be supportive having exerted a drag in 2018-19. We also expect the external environment to be slightly more favourable as the global economy benefits from looser monetary policy.
- UK economic growth is projected to recover towards trend rates from 2021 as businesses catch up on deferred investment and consumer confidence improves.
- Heightened uncertainty contributed to lacklustre property performance during 2019. According to the MSCI Monthly Index, All Property capital values fell by 3.1% over the year. This resulted in the lowest annual total return recorded post-GFC, at 2.1%.
- The wide divergence between sector performance continued with retail capital values down by 12.1% while the office, industrial and 'other' sectors all recorded small capital value increases.
- Looking forward, our property forecasts are unchanged from last quarter. We expect improved investment sentiment to translate into higher total returns in 2020, albeit with All Property capital values still recording a marginal fall.

STRATEGY

Size	▪ Target size £330m – current size £316.5m. 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	▪ Target is for the Conventional portfolio income return to exceed the MSCI (formerly called 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 £25m 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.

CONVENTIONAL PORTFOLIO INFORMATION

CONVENTIONAL PORTFOLIO INFORMATION

	Q4 2019
Direct market value	£242.3m
Indirect market value	£36.0m
Total Conventional Portfolio market value	**£278.3m**
No. of assets (avg. value)	28 (£9.9m)
No. of lettable units (direct avg. value)	81 (£3.0m)
Vacancy rate (% direct ERV)	11.3%*
Avg. unexpired direct lease term (to break)	8.8 years (7.7 years)
Direct net initial yield (p.a.)	4.1%
% of income direct RPI / index linked	9.9%
Rent with +10 years remaining (% of direct rent)	14.2%
Rent with +15 years remaining (% of direct rent)	8.3%
Largest Tenant	WorldPay Limited £1.3m p.a. (10.0% of contracted income)

*reduced to 3.4% since quarter end following a sale.

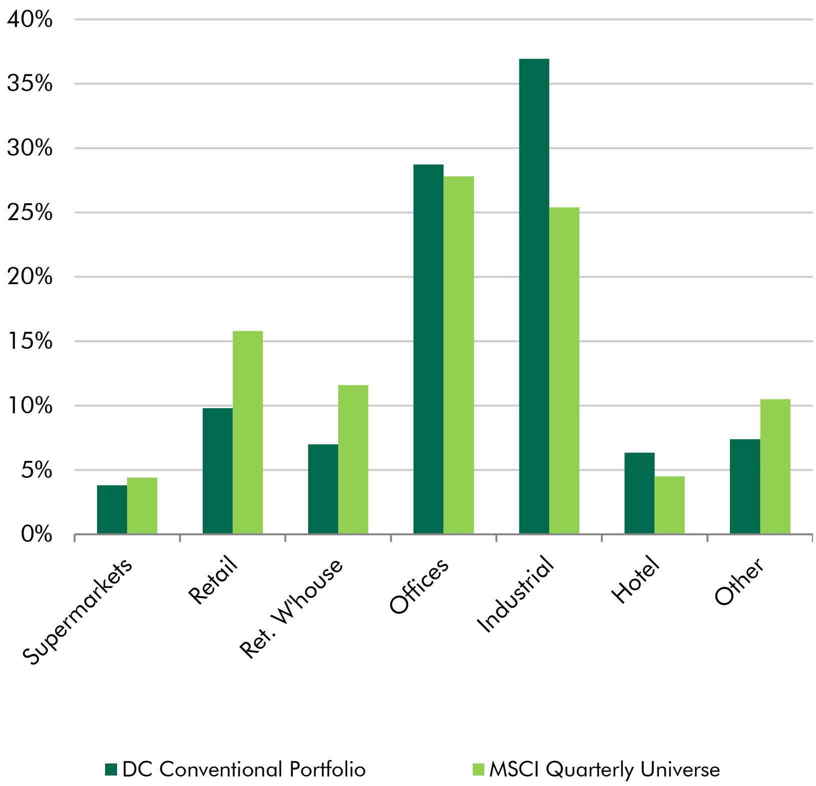
Dunbeath Court, Swindon

TRANSACTIONS

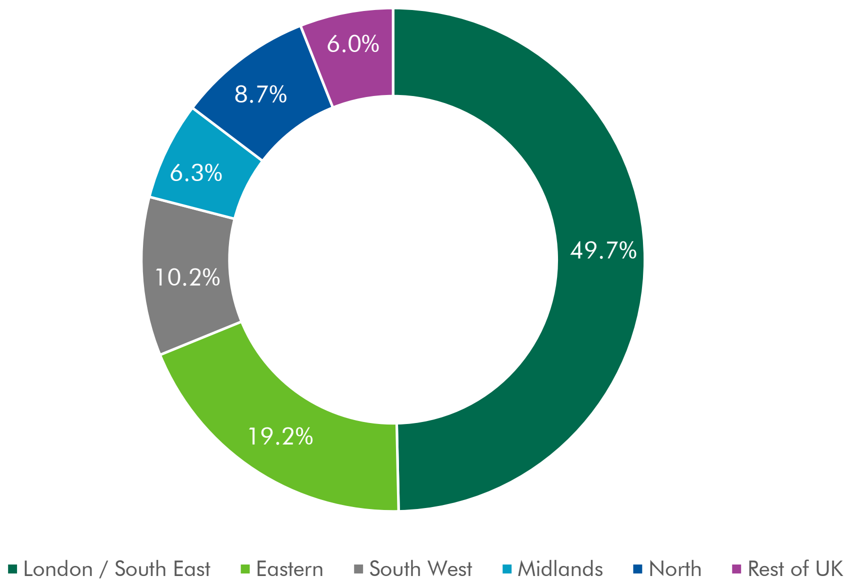
Purchases	£0m
Disposals	£0.1m
Money available to invest	£0m

CONVENTIONAL PORTFOLIO ANALYSIS

SECTOR BREAKDOWN INCLUDING INDIRECTS



GEOGRAPHICAL BREAKDOWN EXCLUDING INDIRECTS



SLI PORTFOLIO INFORMATION

SLI PORTFOLIO INFORMATION

	Q4 2019
Direct market value	£38.2m
Indirect market value	£0m
Total SLI Portfolio market value	**£38.2m**
No. of assets (avg. value)	9 (£4.2m)
No. of lettable units (direct avg. value)*	13 (£2.9m)
Vacancy rate (% ERV)	0%
Avg. unexpired direct lease term (to break)	66.7 years (19.2 years)
Net initial yield (p.a.)	3.8%
% of income RPI / index linked	71.6%
Rent with 15+ years remaining (% of rent)	93.9%
Largest Tenant	Ei Group Plc £0.4m p.a. (28.4% of contracted income)

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

Red Lion, London SW1

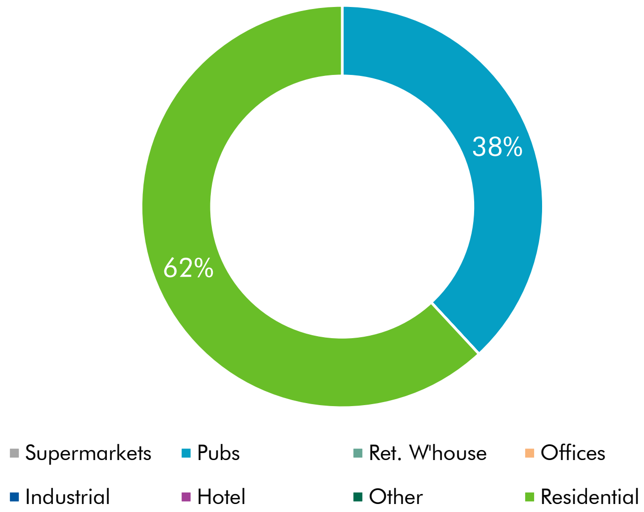
TRANSACTIONS

Purchases	£0m
Disposals	£0m
Money available to invest	£13.5m

SLI PORTFOLIO ANALYSIS

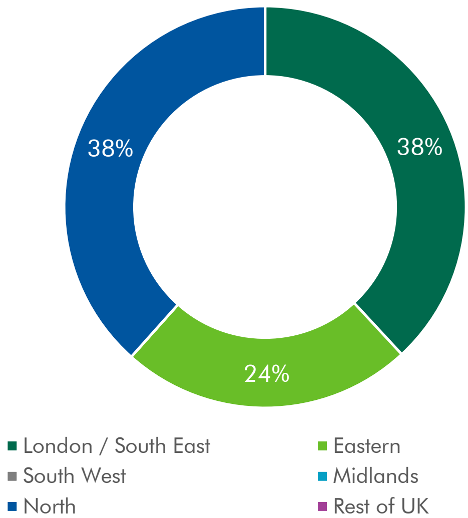
Elgin Bar & Grill, London W9

SECTOR BREAKDOWN (% OF TOTAL VALUE)




Ingersley Building, Macclesfield

GEOGRAPHICAL BREAKDOWN (% OF TOTAL VALUE)



ENVIRONMENTAL, SOCIAL, GOVERNANCE

Responsible Environmental, Social and Governance (ESG) practices are fundamental to our business strategy. We have implemented a consistent ESG framework across our UK House. Dorset County Pension Fund has set a Gold ambition level and set targets to 2022 in three areas:

COMPLIANCE

- Energy ratings
- Policies
- TCFD
- Compliance Risk

All Environmental Compliance Risks

TRANSPARENCY

- Building certifications
- Reporting
- Stakeholder engagement
- Data coverage

GRESB Outperformance

CARBON

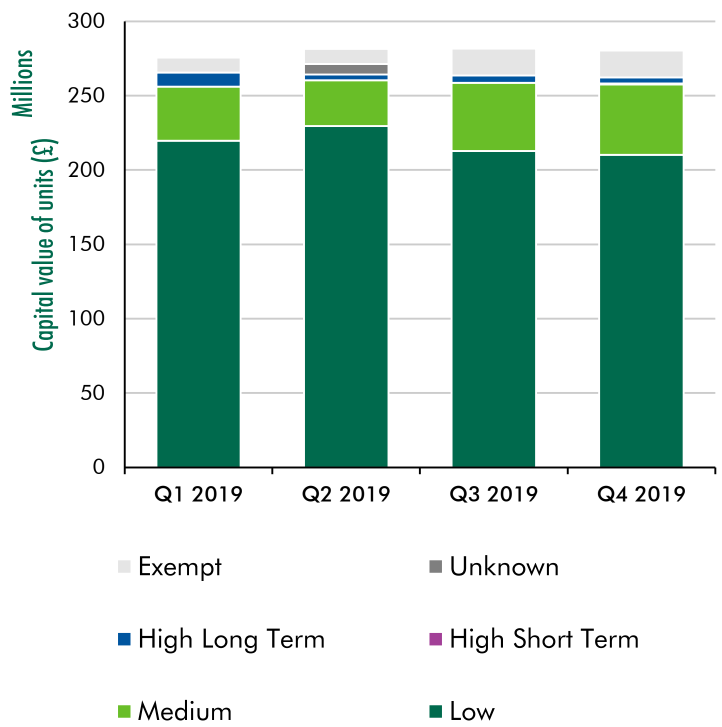
- Energy
- Water
- Waste
- Tenants

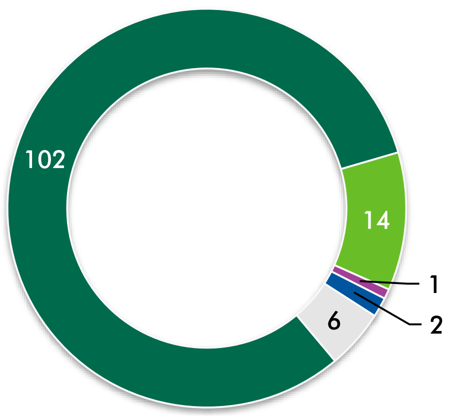
3% Year On Year Carbon Reduction

COMPLIANCE

A key part of the ESG strategy is the Energy Performance Risk Mitigation Program, where we seek to improve the sustainability performance of assets through improving the Energy Performance Certificate ratings.

Figures 1 and 2 Change in level of risk by value (left) and EPC Risk Management Action Plans (right)





	Medium Risk	Short Term High Risk	Long Term High Risk
	No. of units		
High Quality or Modelled EPC	10	1	1
Action at Lease End	4	0	0
Refurbishment	0	0	0
Planned Redevelopment or Considering Sale	0	0	0
Tenant Engagement	0	0	1

TRANSPARENCY

Green leases are essential in protecting against environmental risks and improving the sustainability of the portfolio. All leases are now being monitored for green lease clause implementation. Solicitors are now expected to provide confirmation of all green clauses being put into new leases and historic leases are being reviewed.

CARBON

Landlord energy data is currently being reviewed and analysed on the Fund's data management system (Measurabl).

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CBRE GLOBAL INVESTORS

Insight
INVESTMENT

Dorset County Pension Fund

Investment report: Q4 2019

BNY MELLON | INVESTMENT MANAGEMENT

Executive summary

Portfolio performance summary

- **Q4 2019:**
  - Benchmark returns over the quarter were **-12.0% (-£43.5m)** due to 1) a fall in inflation expectations, particularly at shorter maturities; and 2) interest rates rising across the curve
  - Discretionary positioning added **+0.55% (+£2.1m)** as a result of the overweight position to longer-dated inflation versus the middle of the curve. This had a positive impact on relative performance as longer-dated inflation fell by less over the quarter

- **Since inception:**
  - Benchmark returns of +**8.3% pa (+£109m)** since inception as a result of falls in long-term interest rates
  - Discretionary positioning has added **+1.2% pa (+£20.0m)** to the Fund's portfolio return

Portfolio position

- Your inflation hedge ratio (as a % of actuarial liabilities) was **39.7%** at the end December
- The portfolio leverage is **c.2.94x** as at 31 December 2019, which means it can withstand a >2.0% fall in inflation expectations
  - we have a trigger to notify you if the leverage exceeds c.3.5x

Looking forward

- The Fund is considering the implications of the potential reforms to RPI and the implications on the hedge

Dorset County Pension Fund

Key metrics at 31 December 2019

Inflation hedge ratios

	30-Sep-19, £k	31-Dec-19, £k
Portfolio IE01	2,330.3	2,048.0
Benchmark IE01	2,334.0	2,149.9
Actuarial liability IE01*	5,146.0	5,164.0
Portfolio inflation hedge ratio*	**45.3%**	**39.7%**
Benchmark inflation hedge ratio*	**45.4%**	**39.7%**

- **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

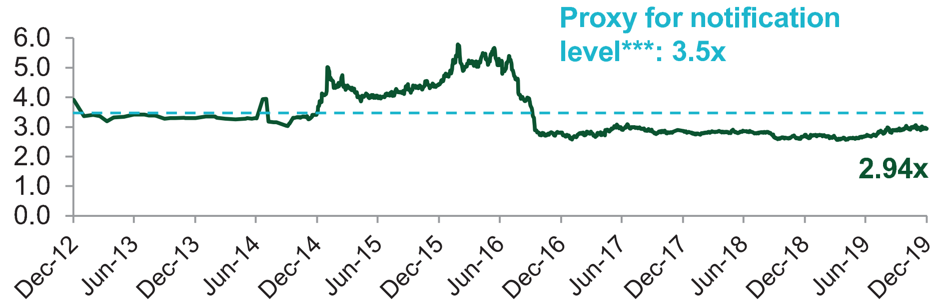
	3 months %	1 year %	3 years % ann.	5 years % ann.	Since inception % ann.
Portfolio	-11.42	-5.80	-0.97	5.87	9.50
Benchmark	-11.97	-6.39	-2.91	4.45	8.30
Relative	**0.55**	**0.59**	**1.94**	**1.41**	**1.20**

Collateral adequacy testing

	Change in long-term inflation expectations					
	0.0%	-0.5%	-1.0%	-1.5%	-2.0%	-2.5%
Expected value of collateral (£m)	362.5	266.7	183.0	109.5	44.9	-12.1
Leverage multiple	2.94	3.64	4.86	7.45	16.73	-57.18

- The above table shows stress tests for long-term interest rates and long-term inflation rates. The Fund can support a >2.0% fall in long-term inflation expectations prior to running out of collateral to support the hedge.

Leverage (through time)**



- A 0.5% fall in inflation would take the Fund to a 3.5x leverage

*Source: Barnett Waddingham, Estimate with Insight calculations. Actuarial liability data as at 30 September 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.

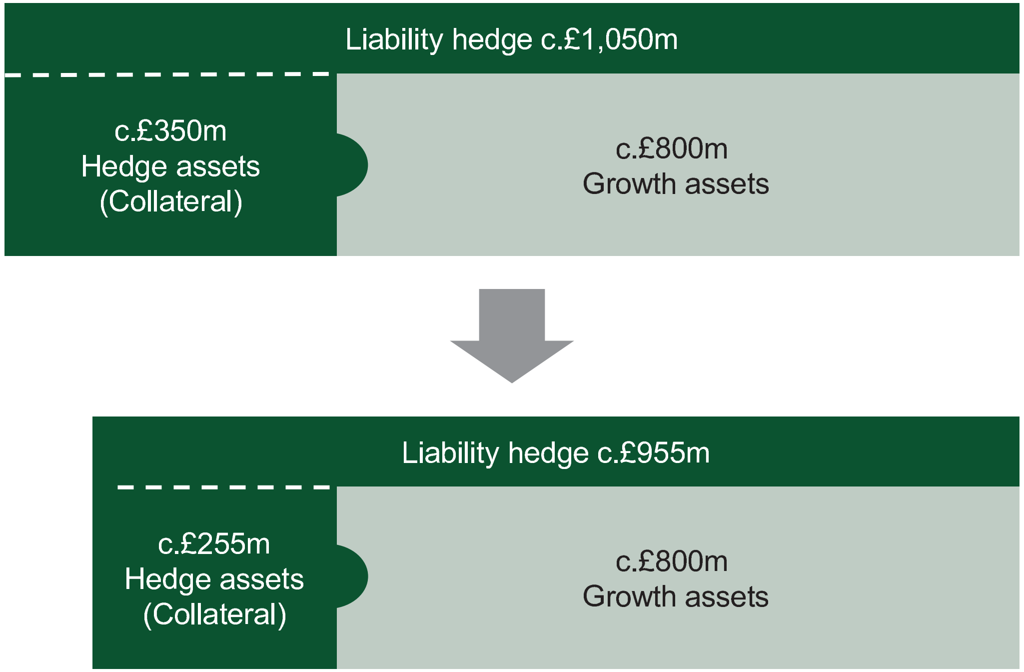
What happens to leverage when inflation falls?

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 December 2019

	Value	Interest rate sensitivity (PV01)		Inflation sensitivity (IE01)	
	£m	£k	% of benchmark	£k	% of benchmark
Conventional gilts	14.0	-15.2	2.6%	0.0	0.0%
Index-linked gilts	439.8	-1,116.0	192.4%	1,094.0	53.4%
Corporate bonds	4.4	-11.0	1.9%	10.8	0.5%
Repurchase agreements	-34.3	0.4	-0.1%	0.0	0.0%
RPI swaps	-0.9	-13.3	2.3%	803.7	39.2%
Interest rate swaps	-96.6	697.0	-120.2%	0.0	0.0%
Liquidity	24.9	0.0	0.0%	0.0	0.0%
Futures	0.3	22.7	-3.9%	0.0	0.0%
Insight High Grade ABS Fund[1]	11.0	0.0	0.0%	0.0	0.0%
Total return swap	-0.1	-141.0	24.3%	139.5	6.8%
Total assets	**362.5**	**-576.4**	**99.4%**	**2,048.0**	**99.9%**
Liability benchmark	**319.1**	**-579.9**	**100.0%**	**2,049.9**	**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

[1] Insight Libor Plus Fund changed its name to Insight High Grade ABS Fund on 2 January 2020 and has a benchmark of 1 month SONIA.

Performance

Performance summary
As at 31 December 2019

	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a.
Portfolio	-11.42	-5.80	-0.97	5.87	9.50
Benchmark	-11.97	-6.39	-2.91	4.45	8.30
Relative	**0.55**	**0.59**	**1.94**	**1.41**	**1.19**

	3 months £	1 year £	3 years £ cum.	5 years £ cum.	Since inception £ cum.
Portfolio	-41,353,876	-19,265,311	-14,918,669	63,389,608	129,003,582
Benchmark	-43,459,162	-21,360,728	-32,043,733	44,916,040	108,993,803
Relative	**2,105,286**	**2,095,416**	**17,125,064**	**18,473,568**	**20,009,779**

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

Quarter 4 2019:

- Unleveraged return: if we adjust for the leverage in the portfolio: the benchmark return over the quarter was -3.88% as a proportion of the value of the inflation exposure hedged and the portfolio return was -3.69% on that basis.
- The Asset Benchmark Return (to compare to State Street) was -10.72% over the quarter.
- The benchmark performed negatively over the quarter due to 1) a fall in inflation expectations, particularly at shorter maturities; and 2) interest rates rising across the curve
- The overweight position to longer-dated inflation versus the middle of the curve had a positive impact on relative performance as longer-dated inflation fell by less over the quarter

Dorset Council

Pension Fund Committee

Investment Pooling Progress Report

Date of Meeting: 12 March 2020

Director: Aidan Dunn, Executive Director Corporate Development

Executive Summary:
At its meeting on 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 to date in implementing the FBC. To date, investments valued at approximately £1.3bn have transferred to the pool's management, representing just over 40% of the pension fund's total assets of £3.2bn. Fee savings in a full year from the assets transferred to date are estimated at approximately £2.0m, compared to Dorset's share of Brunel's annual running costs of £1.0m in 2019-20 Dawn Turner, Brunel's Chief Executive Officer (CEO), left the company at the end of September 2019 and has been replaced by Laura Chappell, formerly Brunel's Chief Compliance and Risk Officer.
Equalities Impact Assessment: This report does not deal with any new strategies or polices that would trigger an impact assessment.
Budget: Not applicable.
Risk Assessment: Details of the expected risks of implementing the project are included in the report.
Climate Implications: The pension fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks arising from environmental issues, including those associated with climate change.
Other Implications: None.
Recommendation: That the Committee note the progress in implementing the Full Business Case for the establishment of the Brunel Pension Partnership.

Reason for Recommendation: To ensure that the pension fund has the appropriate governance arrangements in place.
Appendices: Appendix 1: Brunel Oversight Board 25 July 2019 – minutes
Background Papers: Brunel Pension Partnership Full Business Case (December 2016) Investment Strategy Statement (March 2018)
Officer Contact: Name: David Wilkes, Service Manager for Treasury and Investments Tel: 01305 224119 Email: investments@dorsetcouncil.gov.uk

1. Background

1.1 At its 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 Dorset County Council on 16 February 2017 and the FBC was also approved by the nine other participating administering authorities. This report provides the Committee with an update on progress implementing the FBC.

1.2 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.

2. Portfolios Development and Implementation

Listed Equities

2.1 In July 2018, the pension fund's internally managed passive UK equities portfolio transferred to the Brunel Passive UK Equities portfolio (value at the end of December 2019 approximately £405m).

2.2 In July 2018, the pension fund's global equities under the management of Allianz transferred to the Brunel Smart Beta Global Equities portfolio (value at the end of December 2019 approximately £305m).

2.3 In November 2018, the pension fund's investment in the AXA Framlington UK Select Opportunities Fund transferred to the Brunel UK Active Equites portfolio (value at the end of December 2019 approximately £180m).

2.4 In October 2019, the pension fund's investment in the JP Morgan Emerging Markets Diversified Equity Fund transferred to the Brunel Emerging Markets Equities portfolio (value at the end of December approximately £105m).

2.5 In November 2019, the pension fund invested £125m in the Brunel High Alpha Developed Markets Equities, funded by partial disinvestment from the Fund's assets under the management of its two global equities' managers, Investec and Wellington.

2.6 In January 2020, the pension fund's remaining assets of approximately £180m under the management of Investec transitioned to Brunel's Global Passive Equity portfolio.

Private Markets

2.7 Work by Brunel establishing private markets' portfolios is progressing concurrently with public markets' activity. Following the meeting of the Committee in June 2018, commitments of £60m to the Private Equity portfolio and £60m to the Secured Income portfolio were agreed.

2.8 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.

2.9 Private Equity, in particular, has proved challenging for the pension 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 pension fund's existing managers, HarbourVest and Aberdeen Standard.

2.10 Dorset's shares of commitments made by Brunel to Private Equity funds are £11.5m to the Capital Dynamics Global Secondary Fund and £14.3m to the Neuberger Berman Private Equity Impact Fund, and £7.0m to the Ardian Buyout Fund 7 leaving approximately £27m uncommitted. To date £2.6m has been drawndown against the Capital Dynamics fund, £0.9m against the Neuberger Berman fund and £0.5m against the Ardian fund.

2.11 Brunel has made commitments to three Secured Income funds - the Aberdeen Standard Long Lease Property Fund, the M&G Secured Property Income Fund and the Greencoats Renewable Income Fund. Dorset's share of these commitments is £50m in total, leaving £10m uncommitted. To date, £2.9m has been drawndown against Dorset's commitment to the Aberdeen Standard fund and £7.7m against the Greencoats Fund.

Liability Driven Investment (LDI)

2.12 LDI is the pension fund's largest and most complex mandate with a target allocation of 14% (approximately £450m) managed by Insight Investment.

2.13 Due to the complexity and importance of this asset class, a number of meetings took place between Brunel and officers from the three clients who have allocations to LDI (including Dorset) and their advisers. Throughout the process it was made clear to potential providers that clients may decide not to transfer their existing investments to a new manager.

2.14 Insight were not selected as Brunel's preferred provider for LDI. Because of the bespoke nature of LDI, any transitions will take place client by client rather than all at once, at a time convenient to each client.

2.15 Officers and the Independent Adviser will review the experience, costs and benefits of the first client transition very closely. Only if this indicates significant benefits to the pension fund will a transfer from Insight be recommended. If such benefits are clear, it is very unlikely that a transition would take place before the conclusion of the planned review of the strategic asset allocation June 2020.

Other Portfolios

2.16 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.

2.17 In total, investments valued at approximately £1.3bn have transferred to the pool's management, representing just over 40% of the pension fund's total assets of £3.2bn. Fee savings in a full year from the assets transferred to date are estimated at approximately £2.0m, 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

2.18 The development and transition plan for all un-finalised portfolios (excluding private markets) is summarised below.

Portfolio	Dorset Allocation	Start Date	Transition Date
Smaller Companies Active Equities	2.25%	Jul-19	May-20
Sustainable Active Equities	0.00%	Sep-19	Aug-20
Global Core Active Equities	8.50%	Oct-19	Sep-20
Diversified Growth Funds	8.00%	Mar-19	Apr-20
Multi Asset Credit	5.00%	Dec-19	Jul-20
Sterling Corporate Bonds	6.00%	Feb-20	Sep-20
Global Corporate Bonds	0.00%	Jun-20	Apr-21
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

3. Governance

3.1 Minutes from the meeting of the Brunel Oversight Board on 25 July 2019 are attached as Appendix 1. The oversight board also met on 21 November 2019 but the draft minutes for that meeting have not yet been approved for publication. The oversight board is next due to meet on 19 March 2020.

3.2 Dawn Turner, Brunel's Chief Executive Officer (CEO) since the inception of the company, left at the end of September 2019 and has now been replaced on a permanent basis by Laura Chappell, formerly Brunel's Chief Compliance and Risk Officer.

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Brunel Pension Partnership

BOB

Brunel Oversight Board Meeting
Minutes

Purpose:	**To review Brunel/Client progress agree next steps**
Date and time:	Thursday 25 July 2019, 10:30 – 12:45
Location:	Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU
Dial-in details:	Dial In: 0330 336 1949 | Participant Pin: 429632

Pension Committee Representatives		
Bruce Shearn	Avon	
John Chilver	Buckinghamshire	Apologies
Derek Holley	Cornwall	
Ray Bloxham	Devon	
John Beesley	Dorset	Phone
Robert Gould	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair
Mark Simmonds (MSim)	Somerset	Absent
Tony Deane	Wiltshire	

Member representative observers		
Andy Bowman	*Scheme member rep.*	
Ian Brindley	*Scheme member rep.*	

Fund Officers and Representatives		
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	Apologies
Mark Gayler	Devon	Apologies
Aidan Dunn	Dorset	Apologies
Craig Martin	EAPF	Apologies
Marion Maloney (MMa)	EAPF	
Mark Spilsbury	Gloucestershire	Apologies
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Sophie McClenaghan	Mercer - Minutes	

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	
Mike Clark	NED and Chair of ARC	
Matthew Trebilcock	Brunel, CRD	Apologies
Dawn Turner	Brunel, CEO	
Mark Mansley (MM)	Brunel, CIO	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CCRO	
Chris Crozier	Brunel, CRM	
Catherine Dix	Brunel, CRM	
Alice Spikings	Brunel, CRA	
David Anthony	Brunel, HoF & CS	

Item	Agenda	Paper provided	Timing
1	**Confirm agenda** **Requests for Urgent or items for Information** **Any new declarations of conflicts of interest**	Agenda Verbal C of Interest	10.30 – 10.35 5 mins
	Apologies were received from John Chilver and Matthew Trebilcock. The Board welcomed Bruce Shearn. Conflicts of Interest • No new conflicts were raised.		
2	**Review 30 April BOB minutes**	Minutes	10.35 – 10.45 10 mins
	The April minutes were agreed and confirmed as final.		
3	**CEO appointment process** DLG to clarify the recruitment process.	Paper	10.45 – 11.00 15 mins
	DLG provided an update on the CEO recruitment process. The process will be similar to that used to appoint the recent NED but will also include RT (or a nominated deputy) and Brunel employees at an early stage. The Brunel Board is proposing to go to market early next week, with an application deadline of 9 September. The recruitment process will be as follows 1. Initial application screen. 2. Kevin Jones, DLG, Vicky Chessell will meet all suitable candidates to determine a longlist. 3. The NEDs will be consulted before creating shortlist. 4. The shortlist will include 4-6 candidates.		

5. Formal first panel consisting of DLG, PwC, NED (ST) and RT.
6. 30 minutes to write an answer to a question.
7. 2nd formal panel consisting of RT, MM, JW where the candidate will present their strategy response.

DLG has spoken with all shareholders and BOB representatives. The Board recognise that the current salary cap will restrict CEO recruitment for the skillset required. A change in the salary cap would be a Special Reserve Matter and therefore would require 100% shareholder approval.

The Board is proposing an increase in the total compensation package cap, in addition the Board will introduce a DC scheme for the higher salary rather than eligibility to the LGPS.

AB asked why increase is necessary given the local authority background of the business. DLG responded that Brunel was very lucky in recruiting DT. Although BPP has a local authority background, it is FCA regulated and the CEO is taking on significant risk. It was asked if this will result in increased salaries of the other executive positions. DLG assured the BOB that the existing executive’s remuneration would not change but this change in cap would future proof the business should it be required to recruit for these roles in the future. IB noted that this is what happened in the private listed space, companies pushed up pay when trying to be top quartile payer. He noted the other Pools are not directly comparable to Brunel. ST noted that even if the higher cap was approved, Brunel would be a bottom payer when compared to each of the below benchmarks ;

1. Pools
2. Asset management industry
3. Senior local government positions

It was noted that Brunel does not pay bonuses whereas other pools do. The benchmark exercise was undertaken by an external company, but for the pools publicly disclosed data was used.

LC noted that City salaries reflect the risk and scale of a potential fine, i.e. the risk that there is a significant and material breach of FCA roles. JW added that another risk is that the new CEO doesn’t have sufficient experience to lead the company.

DH would prefer to test the water at a lower salary cap before an increase. He noted the short timeline but acknowledged that LC was a suitable interim appointment. DH was also concerned that tier 2 employees will look at the change in CEO pay and also expects a pay increase.

KB noted that this salary increase was being recommended by the NEDs. He felt it was of utmost importance that the right person is in place as soon as possible. **KB noted he would like to see that final candidate meets shareholders ahead of appointment, potentially a lunch, to provide the chance to raise any concerns. DLG agreed this would be possible.**

Brunel

	TD thanked DT for her work as CEO. At a recent Wiltshire committee meeting an increase in salary was discussed and the Committee independently concluded that the salary would need to be increased. A concern at PwC's involvement was highlighted. Wiltshire believes Brunel should not compromise and should appoint the right person. RB agreed with KB and TD. RB acknowledged Brunel is reaching a stage of asset management and business as usual so the appointment of CEO is all about the bottom line. The Funds don't want mediocrity; each Fund wants the bottom line to be as good as it can be. MC commented that if Brunel went to market at the current salary cap, the firm's reputation would be tarnished as this is an unrealistic budget. BS confirmed that Brunel needs to bring in the right people and therefore need to pay the market rate. **RG noted that EA will need a full report to put the salary into context in order to get it approved. DLG confirmed this would be contained within the SRM.** TD asked for assurance that underperformance from the CEO and Brunel as a whole will not be tolerated. MC as Chair of ARC gave that assurance. TB emphasised that the SRM will cover executive salary which currently includes 4 roles at Brunel. The SRM includes the CEO however the CEO's salary is not split out. TB asked that this is made clear in the SRM. TB also asked if the increase is funded from current budgets. DLG confirmed it is. JB was conscious of 1 change leading to lots of change over time. He felt the increase would lead to an imbalance between newly recruited and longer standing employees which will cause further issues in the future. **After further discussion, the Oversight Board supported an increase in the total salary cap excluding pension.** It was queried if the Board could guarantee no increases in line with the revised cap for 1 year for other executives. It was discussed and concluded that the Board could not be constrained in this way given the uncertainty of events over the next 12 months. It would be the role of the Board to manage salary within the agreed cap and budget. Any increase in budget would need to be referred back to shareholders as an SRM. **The Brunel Board will go out to market tomorrow with the request for applications.**		Brunel Brunel
4	**Brunel Control Environment**	Presentation on the day	11.00 –

	Presentation from Laura Chappell on Brunel's Control Environment and regulatory oversight.		11.20 20 mins
	LC spoke to a presentation and provided a view of what requirements the FCA place on Brunel as a regulated business. LC summarised the types of processes Brunel have in place to ensure FCA compliance. Brunel is open and transparent with the FCA and its underlying clients. Within the FCA handbook customers are assumed to be individual therefore Brunel is asking for more clarity on the pooling of customers. Brunel can only provide services to professional clients, not retail investors, and therefore will be required to annually review Funds' knowledge for Brunel to continue to classify each Fund as a professional investor. Brunel has Directors insurance (professional indemnity) though this does not cover illegality and potentially would not cover an FCA breach. **SM to share the slides presented by LC.**		SM
5	**Client assurance framework** Review and feedback of the Clients assurance framework including Manager Access Policy.	Paper	11.20 – 11.45 25 mins
	Due to time, SC asked for questions. **RB noted there was no inclusion on climate change in the Oversight paper and requested this is included. SC agreed this could be included.**		CG
6	**ARC update** *To note* - A semi-annual update from Mike Clark, NED and Chair of the Audit and Risk Committee (ARC) including the outcomes of the recent internal audit.	Paper	11.45 – 12.00 15 mins
	Due to time, MC asked for questions. No questions were received.		
7	**Brunel Business Report** *To note* - A standing item update from Brunel on its business activities.	Paper Brunel	12.00 – 12.15 15 mins
	Brunel has revised its disinvestment query response letter given questions that have come in. The letter has been shared with CG and Brunel will share with the oversight board,		Brunel

	DH raised some queries • P5: will the split of the UK and International property funds reduce fee savings? MM confirmed that Brunel do not expect there to be a material impact on savings. • P5: has the Wiltshire AMC/TER issue now been resolved? MM confirmed that it has and all funds are now represented on the same basis. The only changes to the business case going will be to reflect actual transitions. • P14: has budget ownership now be delegated to budget holders? Yes ownership has now shifted to Directorate held. • P26: DH asked Brunel to expand on the on boarding risk of the property portfolios and why on boarding is taking so long. MM confirmed Brunel is asking funds to get data loaded so Brunel can begin management and realise the fee savings. • P28: client allocations to DGF has fallen, will this result in fall in fee savings? Brunel does not expect the fee saving impact to be material. DH asked why has the appetite declined. MM noted that some clients have made strategic decisions away from DGF and some clients have felt that the Brunel product does not fit their specific need. RT then provided some questions • RT asked for more clarity on the timing adjustments on P16. Shareholders approved budget for additional investment support, but some of the work shifted into the next year. RT noted the high use of consultants and asked if there is a policy on the use of them. Brunel set a budget and determines how long the resource will be required. If short term, then consultants will be brought in to provide specialist roles in the short term. • RT asked if the budget is being managed in line with expectations. JW noted that during the development phase, there are a lot of moving parts but Brunel is pleased that so far the process has been within tolerance of expectations. • Transition costs remain a large risk but Brunel are doing everything it can to minimise transition costs. As more transitions are completed, the risk reduces. Transitions are due to take place till 2021 but by mid 2020, two significant transitions will have been completed (Emerging Markets and Global High Alpha) which will account for a significant proportion of the transition costs. Emerging Markets is likely to be the most expensive transition in basis point terms. • RT asked if ESG will impact investment returns. MM responded that Brunel has done a lot of work to integrate RI and believe that reducing ESG risk will not affect returns and should have a positive impact. The Brunel Climate change policy will be provided in the autumn. • The ESG table on the Oversight board report shows a combination of ESG rating and size. The score is how good a company is and the net attribution (i.e. the rating scaled by the position size) determines the order of the table. CC noted the June quarterly report is due out in August.	

8	**Shareholder NED update** *To note* - A standing item update on the activities and perspective on the Partnership and its activities.	Paper ST	12.15 – 12.30 15 mins
	Due to time, ST asked for questions. It was asked how Brunel judges investment managers on future investment performance. MM explained that Brunel aim to look at forward looking indicators i.e. how do managers generate ideas, how managers learn from mistakes, how do managers integrate risk, culture etc. TD expressed concerns around PwC's involvement and questioned whether the statement that the culture DT created is preserved should be included. DLG noted that the continuation of culture is important to existing employees for continuity. DLG confirmed the firm and its culture will continue to evolve.		
9	**Any other Urgent or items for Information** **Future meeting dates** • 26th September • 5th November to 21st November	Chair	12.30 – 12.45 15 mins
	The 5th November meeting has now been moved to 21st November. RT thanked DT in advance for all the work she has done at Brunel.		
10	**Meeting close**	Chair	13.00

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Pension Fund Committee

Treasury Management Strategy 2020-21

Date of Meeting: 12 March 2020

Director: Aidan Dunn, Executive Director Corporate Development

Executive Summary: This report revises the previously approved Treasury Management Strategy for 2019-20, approved by the Pension Fund Committee in February 2019. Although the pension fund has no strategic allocation to cash, cashflows need to be managed to ensure there is sufficient liquidity to meet liabilities as they fall due and to invest any surplus balances appropriately. The Treasury Management Strategy (TMS) provides the framework within which officers must manage these cashflows and 'treasury' investments. The TMS for the pension fund broadly follows the TMS of Dorset Council, the administering authority for the pension fund, where applicable. In relation to counterparty risks and limits, this strategy continues to be consistent with that of the administering authority.
Equalities Impact Assessment: This report does not deal with any new strategies or polices that would trigger an impact assessment.
Budget: Not applicable.
Risk Assessment: Details of the expected risks of implementing the project are included in the report.
Climate Implications: The Fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks arising from environmental issues, including those associated with climate change.
Other Implications: None.
Recommendation: That the Committee approve the Treasury Management Strategy for 2020-21.

Reason for Recommendation: To ensure that officers manage the pension fund's cashflows and invests surplus cash balances appropriately.
Appendices:
Background Papers: Dorset Council Budget Report Appendix 5 Treasury Management Strategy
Officer Contact: Name: David Wilkes, Service Manager for Treasury and Investments Tel: 01305 224119 Email: investments@dorsetcouncil.gov.uk

1. Background

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

1.2 The Treasury Management Strategy (TMS) provides the framework within which officers must manage these cashflows and investments, and follows broadly the strategy of Dorset Council, the administering authority for the pension fund, where applicable.

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

1.4 In relation to counterparty risks and limits, this strategy continues to be consistent with that of the administering authority and revises the previously approved Treasury Management Strategy for 2019-20, approved by the Pension Fund Committee in February 2019.

2. Treasury Management Advisers

2.1 The administering authority employs professionally qualified and experienced staff with responsibility for making treasury management decisions. Officers are supported by specialist external advisers. Dorset Council currently employs Arlingclose Limited as its treasury management advisers.

2.2 This approach ensures that the administering authority has access to a wide pool of relevant market intelligence, knowledge and skills, that would be very difficult and costly to replicate internally. However, whilst advisers provide support to the internal treasury function, final decisions on treasury matters always remain with the administering authority.

3. External Context (Economic Background and Outlook)

3.1 Treasury management decisions must take into consideration external factors, particularly the wider economic backdrop and the outlook for financial markets and interest rates. In February 2020, Arlingclose were forecasting that Bank Rate will remain at 0.75% until the end of 2022.

4. Treasury Investments and Borrowing

4.1 Cash balances are invested on a daily basis using call accounts, pooled money market funds and by making deposits with the pension fund's bank, NatWest. Longer term investments can also be made for up to two years but in practice it is unlikely that treasury investments will be made for longer than six months.

4.2 The pension fund's cash balances can be invested with any of the counterparty types in the table below, subject to the cash limits (per counterparty) shown.

Category	Minimum Credit Rating	Limit
Banks & Building Societies (unsecured)	A-	£15m
Banks & Building Societies (secured)	A-	£20m
UK Government including gilts and the Debt Management Account Deposit Facility (DMADF)	n/a	no limit
Local Authorities	n/a	£20m
Corporates	A-	£10m
Registered Providers	A-	£10m
Money Market Funds (Low Volatility)	AAA	£20m
Money Market Funds (Notice Accounts)	AAA	£20m

4.3 This table should be read in conjunction with the following notes:

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 2 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money Market Funds: These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term money market funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts.

4.4 The pension fund may incur operational exposures, for example though current accounts, to a bank with a credit rating lower than A-. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £5m per bank.

4.5 Credit ratings are obtained and monitored by the treasury management advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

4.6 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.7 Credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the treasury management advisers. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

4.8 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the pension fund will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its treasury investments to maintain the required level of security.

4.9 The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the pension fund’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This may cause a reduction in the level of investment income earned but will protect the principal sum invested.

4.10 The maximum that will be lent to any one organisation (other than the UK Government) will be £20 million.

4.11 Officers monitor the pension fund's cash flow forecasting on a daily basis to determine the maximum period for which funds may prudently be committed. The forecast aims for a minimum of £10m to be readily available in same day access bank accounts and/or money market funds. This is to minimise the risk of needing to borrow funds or sell assets at short notice to meet the pension fund's liabilities and commitments. Any borrowing should be short term (less than 12 months) and for cashflow purposes only.

Pension Fund Committee
12 March 2020
Pensions Administration

Choose an item.

Choose an item.

Executive Director: Aidan Dunn, Executive Director, Corporate Development

Report Author: Aidan Dunn
Title: Pensions Fund Administrator
Tel: 01305 224177
Email: aidan.dunn@dorsetcouncil.gov.uk

Report Status: Public

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

1. 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:

- McCloud Update
- Review of AVC provider
- Regulatory Update
- Member Engagement
- Key Performance Indicators

2. Financial Implications

N/A

3. Climate implications

None

4. Other Implications

N/A

5. 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

6. Equalities Impact Assessment

N/A

7. Appendices

- Appendix 1 – KPIs (November 2019 - January 2020)

8. Background Papers

- LGPS Regulations 2013
- The Local Government Pension scheme (Amendment) Regulations 2019 [SI 2019/1449]

9. Background

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

10. McCloud Update and Employer Discussions

10.1. No formal decision has yet been made on the form that any remedy will take in the LGPS. The Scheme Advisory Board will be the responsible body looking at solutions. It is likely that the remedy will involve the extension of some sort of underpin to members in scope who are not currently offered protection. Currently protection is only provided to members who were aged 55 or more as at April 2012.

10.2. Should this be the case, there will be a requirement for employers to provide a full history of hour changes and service breaks for members in scope since April 2012. Employers have been advised to ensure their data retention policies extend for a suitable period to guarantee data is kept until it might be needed. A template data retention policy for employers has been provided for this purpose.

10.3. At a recent Pension Liaison Officers Meeting (PLOG), employers were consulted on this possible solution, and potential issues were discussed. There was a general feeling that this would cause several issues, as summarised below;

- this may involve considerable resource to employers
- some data, particularly regarding service breaks, may not easily be obtained
- some employers may simply not comply
- where there has been a change in payroll supplier the chances of getting this data reduce considerably
- the result may be a mixed picture of incomplete data
- it was queried whether there will be the power to enforce any request.

10.4. Technical discussions with stakeholders will hopefully begin this year, followed by consultations on any proposed regulatory changes.

10.5. It is my view that this is a considerable amount of work and expense for employers and administrators to benefit only a small number of members. Since the new scheme has been introduced, the Dorset County Pension Fund has only paid benefits where the underpin has been used in about six cases (exact numbers cannot be confirmed). The new scheme is generally more generous than the old, and it is only in certain circumstances that the underpin will be of benefit to the member. I will keep you updated on future developments.

11. Review of Additional Voluntary Contributions (AVC) Provider

11.1. LGPS administering authorities are required under regulation 17 of the LGPS Regulations 2013 to provide access to an in-house AVC provider for their members.

11.2. We have recently appointed Hymans Robertson LLP to conduct a review into this provision on our behalf, which will include a review of the existing arrangements and provide recommendations for change where considered necessary. Depending on the outcome of this review, there may, or may not, be a need to carry out a provider selection exercise.

12. Regulatory Update

12.1. The Local Government Pension scheme (Amendment) Regulations 2019 [SI 2019/1449] came into force on 31 December 2019.

12.2. This amended the LGPS (transitional Provisions. Savings and Amendment) Regulations 2014 by introducing survivor benefits payable under the earlier regulations for opposite sex civil partnerships. A person who is the surviving opposite-sex civil partner of a deceased member will be provided with a survivor pension calculated on the basis that the survivor is a widow or widower, depending on their gender.

12.3. The Fire Brigades Union (FBU) has announced plans to launch a further legal challenge on behalf of members of the LGPS and the 2015 Firefighters Scheme. They argue that the cost control mechanism must be put into effect immediately and that members should therefore start to receive the benefit improvement and contribution reductions.

12.4. NHS England has signed off plans to pay the pension tax bills of clinicians for tax charges arising in the 2019/20 tax year. Some Local Government employers have employees in the NHS pensions scheme that will be eligible for this scheme. Employers have been advised.

13. Member Engagement

13.1. We are currently commencing a programme to raise awareness of the LGPS within our Scheme Employers. The aim is to raise the profile of the scheme and the understanding of members of the benefits provided. We hope this results in improved engagement with a better service to members and employers, and fewer members opting out of the scheme.

13.2. The project will continue throughout 2020 and will involve various increased media use, and the involvement of employers to ensure that processes are in place to ensure staff are aware of the scheme and its benefits. We have been working with employers to look at the new starter and induction process, as well as the opt out form and process, to see where improvements can be made. We will report back at the end of the year the changes made and hopefully of the benefits to stakeholders.

14. Key Performance Indicators and work backlogs

14.1. The Key Performance Indicators (KPI) for the period 1 November 2019 to 31 January 2020 are attached at Appendix 1. This represents the ten key areas for the Fund but does not cover all work completed.

14.2. The two areas that have taken a slight downturn this month are admission and refunds. This was caused by a change in processes, which led to a period where the case management system was not being used as it should by staff. This has now been remedied.

Aidan Dunn
Pension Fund Administrator
12 March 2020

Footnote:
Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

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

Dorset County Pension Fund

administered by Dorset Council

Top 10 detail - cases completed on time	Completed in period	Performance	KPI (days)	Cases completed on time or early
Admissions (DR01 & DR01W)	1128	92.38%	30	1042
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)	286	99.30%	15	284
Transfers In Actual (DR02A & DR03A, DR03G)	98	100.00%	20	98
Transfers Out (DR09E & DR10E)	113	100.00%	10	113
Transfers Out actual (DR09A & DR10A)	76	100.00%	10	76
Estimates Employee (DR08)	198	100.00%	15	198
Estimates Employer (DR22, DR22I, DR22R & DR22W)	85	97.65%	15	83
Retirements (DR14, DR14W & DR12 & DR12I & DR14I, DR14T, DR12A, DR14A, DR14F)	688	98.84%	5	680
Deferred Benefits (DR11 & DR11W)	744	94.35%	40	702
Refunds (DR16 & DR16W)	915	89.29%	15	817
Deaths (DR23)	76	98.68%	5	75
Correspondence (DR24 & DR24A)	587	97.79%	30	574
Total	**4994**	**94.95%**		**4742**

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

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