Public Document Pack

Pension Fund Committee

Date:	Tuesday, 15 June 2021
Time:	10.00 am
Venue:	Virtual / MS Teams Meeting with Outside Broadcasting

Membership: (Quorum 3)
Andy Canning (Chairman), Peter Wharf (Vice-Chairman), John Beesley, David Brown, Bobbie Dove, Howard Legg, Mark Roberts, Adrian Felgate and Simon Christopher

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

For more information about this agenda please telephone Democratic Services on 01305 221000 or David Northover d.r.northover@dorsetcc.gov.uk

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Members of the public are welcome to view the proceedings of this meeting, with the exception of any items listed in the exempt part of this agenda. MS Team Meeting with Outside Broadcasting/Virtual (please see link below)

Link to the meeting:-
https://youtu.be/_HGNGldqdZA

Public Participation

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

Public speaking has been suspended for virtual committee meetings during the Covid-19 crisis and public participation will be dealt with through written submissions only.

Members of the public who live, work or represent an organisation within the Dorset Council area, may submit up to two questions or a statement of up to a maximum of 450 words. All submissions must be sent electronically to david.northover@dorsetcouncil.gov.uk by the deadline set out below. When submitting a question please indicate who the question is for and include your

name, address and contact details. Questions and statements received in line with the council's rules for public participation will be published as a supplement to the agenda.

Questions will be read out by an officer of the council and a response given by the appropriate Portfolio Holder or officer at the meeting. All questions, statements and responses will be published in full within the minutes of the meeting. **The deadline for submission of the full text of a question or statement is 8.30am on Friday 11 June 2021.**

Recording, photographing and using social media at meetings

Dorset Council is committed to being open and transparent in the way it carries out its business whenever possible. Anyone can film, audio-record, take photographs, and use social media such as tweeting and blogging to report the meeting when it is open to the public, so long as they conform to the Protocol for filming and audio recording of public council meetings.

At the Annual Meeting of Dorset Council on 4 May 2021 it was agreed that all council meetings that were not executive in nature, would continue to be held virtually from 7 May 2021 until such time as social distancing requirements were removed (currently scheduled to be lifted on 21 June 2021).

Where a decision was required, committee members would express a 'minded to' decision in respect of recommendations set out in officer reports, with decisions being taken under officer delegated authority in the light of 'minded to' decisions expressed by members in the virtual meetings.

Accordingly, this meeting has those arrangements in place.

A G E N D A

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1 APOLOGIES

To receive any apologies for absence.

2 MINUTES 7 - 16

To **note** the minutes of the meeting held on 11 March 2021.

3 DECLARATIONS OF INTEREST

To disclose any pecuniary, other registrable or personal interest as set out in the adopted Code of Conduct. In making their disclosure, councillors are asked to state the agenda item, the nature of the interest and any action they propose to take as part of their declaration.

If required, further advice should be sought from the Monitoring Officer in advance of the meeting.

4 PUBLIC PARTICIPATION 17 - 22

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

5 QUESTIONS FROM MEMBERS

To receive questions or statements on the business of the committee from Dorset Council elected members.

6 URGENT ITEMS

To consider any items of business which the Chairman has had prior notification and considers to be urgent pursuant to section 100B (4) b) of the Local Government Act 1972. The reason for the urgency shall be recorded in the minutes.

7 INVESTMENT POOLING UPDATE 23 - 82

To consider the quarterly report from Brunel Pension Partnership, the pension fund's LGPS investment pooling manager.

8 PENSIONS ADMINISTRATION 83 - 144

To consider the quarterly report on Pension Fund Administration.

9 INDEPENDENT INVESTMENT ADVISER'S REPORT 145 - 150

To consider the quarterly report of the Pension Fund's Independent Investment Adviser on the outlook for the pension fund's investments.

10 FUND ADMINISTRATOR'S REPORT 151 - 194

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

11 DATES OF FUTURE MEETINGS

To confirm the dates for the meetings of the Committee in 2021:

10am Wednesday 7 September 2021 – London (tbc)
10am Tuesday 30 November 2021 – County Hall (tbc)

12 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.

13 INDEPENDENT INVESTMENT ADVICE 195 - 198

To consider future provision of independent investment advice to the Committee.

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Dorset Council

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON THURSDAY 11 MARCH 2021

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

Also present (for all or part of the meeting): Catherine Dix and David Vickers, Brunel Pension Partnership, Peter Scales, Independent Governance Adviser and Alan Saunders (Independent Investment Advisor).

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

82. **Apologies**

No apologies for absence were received at the meeting.

83. **Declarations of Interest**

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

84. **Minutes**

The minutes of the meeting held on 26 November 2020 were confirmed and would be signed at the earliest opportunity.

85. **Public Participation**

The public questions together with the responses from the Chairman of the Committee are set out in the Appendix to the minutes.

Prior to answering each question, the following statement was read by the Chairman:

“We have received a number of questions from members of the public and from councillors regarding the pension fund’s approach to investments in fossil fuels.

We will answer each of the questions in turn but before we do so I would like to remind everyone that this topic was discussed at length at our meeting in September and that that the reports, minutes and a recording of those discussions are all available on the Council's website.

I would also like to remind everyone that the purpose of the pension fund is to pay benefits to scheme members and that the committee has a duty to scheme members and their employers to ensure that their contributions to the fund are invested appropriately to make returns sufficient to meet those obligations. This duty overrides any other considerations."

86. **Questions from Members**

Councillor Dr Kelvin Clayton asked the following question:

"No one seriously doubts the contribution the fossil fuel industry has made to a potentially catastrophic rise in global temperatures. As a result, many people now regard investment in this industry as not only unethical, but, because its days are numbered, as financially unsound. Nationally, six local councils, 86 universities and the UK's biggest pension (NEST) have all committed to divest from the fossil fuel industry.

Last September this committee agreed a new decarbonisation strategy. According to the chair of this committee these changes 'will deliver significant reductions in our carbon footprint.' Will these 'significant reductions' include an actual end to all fossil fuel investments? If yes, by what date? If no, how do you justify any continued investment?"

The Chairman responded to the question as follows:

"This topic was discussed in some detail at the meeting of the Committee in September 2020 and the reports, minutes and a recording of the discussions are publicly available.

The approach agreed by the Committee then does not include a commitment to divest completely from companies involved in the sourcing and refining of fossil fuels. Instead it seeks to reduce investment in all high carbon emitting companies and to influence the demand for fossil fuels and their financing, not just their supply.

The decision was based upon evidence presented to the Committee by independent investment consultants, Mercer, that a strategy of decarbonisation can deliver significantly greater reductions in the 'carbon footprint' of investments than can be achieved by divestment. Divestment also removes the opportunity to influence companies by working with them to transition to a lower carbon future. Targeted divestment remains an option from individual companies who will not positively engage.

Significant decarbonisation will be achieved through the transition of assets to the management of Brunel Pension Partnership, the pension fund's LGPS investment pooling manager. 10% of the pension fund's assets are now invested in Brunel's sustainable equities fund, which is 20% of our total equities and is the fund's largest single investment. All other Brunel funds are committed to a policy of a 7% year on year reduction in their carbon footprint.

In 2022 Brunel will be undertaking a 'stock take' of their approach to engagement and divestment. If this review concludes that companies are not taking appropriate action and sufficient steps to manage climate risks and to enable alignment with the Paris Climate Agreement then the Pension Fund Committee will need to reconsider its approach too."

Cllr Clayton thanked the Chairman for his response but asked why just two approaches were considered and if decarbonisation and divestment were mutually exclusive?

The Chairman replied that the Committee had listened to advice from experts and debated that advice at length at its meeting in September. It seemed to the Committee that decarbonisation was the more effective route but he was sure this conclusion would be reviewed again in the future.

87. **Urgent items**

There were no urgent items.

88. **Pensions Administration**

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

Performance as measured by the Key Performance Indicators (KPIs) was fine. Working from home was not ideal but the administration team had kept on top of key areas. The Chairman thanked the administration team for their work in what had been a very difficult year.

The system change was going well and would 'go live' in July 2021. The Risks, Assumptions, Issues and Dependencies (RAID) log would be shared with committee members.

The Public Sector Exit Payments Regulations had been revoked. The regulations had caused a lot of work for the administering authority and for scheme employers. Whilst no scheme members had been directly impacted it had led to the delay of decisions by a number of scheme employers.

Officers would undertake a 'stock take' of the pension fund's current position against the good governance recommendations published by

the Local Government Pension Scheme (LGPS) Scheme Advisory Board. As a member of the Scheme Advisory Board, Cllr Beesley offered his support for this review which was accepted by officers.

Resolved

i. That the systems implementation project Risks, Assumptions, Issues and Dependencies (RAID) log be shared with Committee members.
ii. That there is a stock take of the pension fund's current position against the LGPS Scheme Advisory Board good governance recommendations.

89. **Investment Pooling Update**

The Committee considered a report from David Vickers, Chief Investment Officer (CIO) of the Brunel Pension Partnership (Brunel) who had taken up post in January 2021. He gave a brief summary of his background, his thoughts on the investment context to quarter 4 2020, and summarised the performance of the Brunel funds that the pension fund held investments in.

Brunel was widely acknowledged as a leader in responsible investment and engagement. All active funds were below benchmark for emissions and committed to year on year reductions in 'carbon footprint'. In relation to passive investments, Brunel were engaging with the major market index providers to create indexes that are aligned with the targets of the Paris Climate Agreement.

There was a project underway to ensure that Brunel's client funds received the right level of information needed to discharge their duties and provide assurance, including more detail on the performance of the underlying managers in Brunel's funds.

Noted

90. **Annual Governance Review**

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 2019. There had been enormous challenges but the pension fund had been well managed and performance had held up.

The conclusions of the good governance review commissioned by the LGPS Scheme Advisory Board were highlighted and referred back to the resolution for a 'stock take' agreed earlier in the meeting under Pensions Administration.

Minutes of the meetings of the Pension Fund Committee are shared with the Local Pension Board. It was agreed that minutes of the Local Pension Board should also be reported to the Committee

Officers informed the Committee that the report of the external auditors regarding the pension fund financial statements for 2019/20 had not been received at the date of the meeting. No significant findings had been reported by the auditor to officers and the reasons for the delay were believed to be due to resourcing of the work by the auditor.

Resolved
That minutes of the Local Pension Board will be reported to the Pension Fund Committee in future.

91. **Independent Adviser's Report**

The Committee considered a report from Alan Saunders, the pension fund's Independent Investment Adviser, that gave his views on the economic background to the pension fund's investments, the outlook for different asset classes and the key market risks.

The size of the stimulus package recently agreed in the US was equivalent to approximately 8% of Gross Domestic Product (GDP), compared to approximately 3% in the UK. Whilst the stimulus was good news its size did heighten the risk of inflation.

Markets had see a 'W' shaped recovery. Technology stocks looked highly valued but this was not so evident in other sectors. Bond yields had seen big rises which meant falls in value. Little recovery in the capital values of properties was expected in the medium term.

The proposals to replace the Retail Prices Index (RPI) with the Consumer Prices Index including housing costs (CPIH) had been approved by government. There would be no compensation for the holders of index linked assets such as the pension fund. There had been surprisingly little negative reaction to this because the impact on the price of inflation linked assets had been offset by an increased risk of inflation.

The Independent Investment Adviser announced his intention to retire and that the Committee's meeting in September 2021 would be his last.

The Chairman and Vice-Chairman thanked the Independent Investment Adviser for his valued advice to the Committee over many years. The Chairman, Vice-Chairman and officers would review what independent advice was needed and present options back to the Committee.

Resolved
That officers, the Chairman and Vice Chairman review the pension fund's requirements for independent investment advice and present options back to the Committee.

92. **Fund Administrator's Report**

The Committee considered a report from officers on the pension fund's funding position, valuation, performance and asset allocation as at 31 December 2020.

The value of the pension fund's investments had recovered to just over £3.3 billion. Assets were estimated to be 85% of the value needed to pay expected benefits accrued to date compared to the funding level of 92% calculated by the actuary following their full assessment as at 31 March 2019.

The changes to equity allocations agreed at the September 2020 meeting of the Committee had been implemented over two stages. The first stage, actioned in December 2020, implemented the reduction in the UK specific target allocation. The second stage in February 2021 fully divested from Wellington Management, the pension fund's last remaining legacy global equities manager, and invested the proceeds in Brunel's sustainable equities, smaller companies and emerging markets funds.

The Chairman, Independent Investment Adviser and officers will be meeting with Brunel and their transition manager, Macquarie, to discuss the transitions and their costs, and will report back to the Committee. Officers believed that the transitions had been very well facilitated by Brunel and actioned by Macquarie. The speed at which these changes had been implemented would not have been achievable pre-pooling. Indications were that the transition had been managed well and costs kept to a relatively small amount.

The Chairman thanked officers and Brunel for the transitions which all seem to have gone smoothly. The pension fund's performance last year was very strong, in absolute and relative terms, particularly given that these large transitions had been taking place. The very good performance of Wellington as an investment manager for the pension fund was also acknowledged.

Four topics for training were agreed to be covered over the next few meetings - (1) property/housing, (2) inflation hedging, (3) smart beta equities, and (4) private debt.

Cllr Beesley, as the pension fund's representative on the Brunel oversight board, updated the Committee on governance matters relating to Brunel. The oversight's board had been on agreeing the strategic business plan. The performance of Brunel's funds had generally been good but it was too early to reach a definite conclusion.

Resolved

i. That a summary of the costs of the transitions to Brunel funds be reported back to Committee.

ii. That a training plan is developed to cover (1) property/housing, (2) inflation hedging, (3) smart beta equities, and (4) private debt.

93. **Treasury Management Strategy 2021-22**

The Committee considered a report by officers setting out the Treasury Management Strategy (TMS) for 2021-22.

Although the pension fund has no strategic allocation to cash, cashflows needed to be managed to ensure there is sufficient liquidity to meet liabilities as they fell due and to invest any surplus balances appropriately. The TMS provided the framework within which officers must manage these cashflows and 'treasury' investments.

The TMS for the pension fund broadly followed the TMS for Dorset Council, the administering authority for the pension fund, where applicable.

Resolved
That the Treasury Management Strategy for 2021-22 be approved.

94. **Dates of Future Meetings**

Resolved
That meetings be held on the following dates:

10am Tuesday 15 June 2021 – Microsoft Teams / County Hall (tbc)
10am Wednesday 7 September 2021 – London (tbc)
10am Tuesday 30 November 2021 – County Hall (tbc)

95. **Public Questions**

QUESTIONS FROM MEMBERS OF THE PUBLIC FOR DORSET COUNCIL PENSIONS COMMITTEE 11 MARCH 2021

From: Darrell Minards, on behalf of South West Action on Pensions (SWAP):

Q1) Councillor Beesley stated that he was confident Dorset / BCP had a measurable set of goals for decarbonisation vs divestment. Given this confidence will this now be included in each councils Climate Emergency Plan on Carbon neutrality as part of your Climate Emergency Declaration and if not why not given the carbon footprint of the pension plan as a part of Dorset/BCPs impact?

Answer
Responsibility for all matters relating to the administration of the Local Government Pension Scheme (LGPS) in Dorset is delegated to the Pension Fund Committee which comprises five Dorset Council councillors, three BCP

Council councillors and one scheme member representative nominated by the trade unions.

Whilst the Committee are fully supportive of the climate and ecological emergency declarations by a number of scheme employers, including Dorset Council and BCP Council, we believe that it is more informative to consider the carbon emissions' consequences of the pension fund's investments separately from those of its scheme employers.

Q2) Secondly its been stated by Councillor Beesley and also Drew Mellow that the strategy is to influence the fossil fuel companies towards decarbonisation. Exactly what specific steps has this committee taken either via voting in shareholder meetings or raising questions at shareholder meetings in the six months since the September meeting? Please provide the specific meeting details as a matter of record.

Answer

As part of the government's requirement for Local Government Pension Scheme (LGPS) funds to pool investments the Dorset County Pension Fund no longer holds direct investments in companies. Instead, the vast majority of its equity investments are now in pooled investment vehicles managed by the Brunel Pension Partnership, the LGPS investment pooling manager set up and fully owned by the administering authorities of ten LGPS funds including Dorset.

All voting and engagement with companies is now undertaken by Brunel on behalf of the ten shareholder funds. Brunel's website documents its Stewardship Policy and Voting Guidelines, as well as its voting and company engagement records.

https://www.brunelpensionpartnership.org/stewardship/

Dorset County Pension Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which represents the majority of LGPS funds and LGPS investment pooling managers. LAPFF engages with hundreds of companies every year to promote the highest standards of corporate governance and responsibility, including aligning their business models with the Paris Climate Agreement.

Full details of the work of the LAPFF, including its quarterly company engagement reports, can be found on its website.

https://lapfforum.org/

From: Julie-Ann Booker, on behalf of Dorset Action on Pensions

We know that to stop catastrophic climate change we have to keep fossil fuels in the ground and transition quickly towards a clean renewable economy. The fossil fuel industry has spent decades spreading lies about the climate to protect their profits at the expense of people and planet.

It's imperative that all councils and pension funds break ties with this morally bankrupt sector and divest from fossil fuels. By doing so, they can take necessary action to protect fund members' pensions from risky investments, and take a stand against an industry which is causing climate chaos and endangering our future and the future of our children and grandchildren.

Dorset Council Pension committee has chosen an investment strategy of 'decarbonisation' rather than 'divestment'. A growing number of people in Dorset understand that **continued investment in fossil fuels** is bad for our planet, bad for our health, bad for our future and bad for our bank account. They are seriously questioning why Dorset Pension Fund committee continue to put money into fossil fuel companies.

Dorset Action have now launched a campaign calling on Dorset Council to totally divest from fossil fuels. Information on the campaign can be found on the Dorset Action website: **https://dtaction.co.uk/**

Amongst other things the campaign asks people to write to the Dorset Pension Fund Committee Chair and explain why they want the committee to stop funding fossil fuel companies and to copy their letter to the Brunel Partnership.

QUESTION: On 15 September 2020 Dorset Council provided, following a Freedom of Information request, a report showing the current investments in highly polluting companies, such as Canadian Natural Resources, which is an oil tar sands company. Since September 2020 which of the companies listed in your report have you now removed from your direct investment list?

ANSWER: Dorset County Pension Fund no longer owns any of the direct investments you have listed.

Duration of meeting: 10.00 am - 12.30 pm

Chairman

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I am a Dorset Council Pensioner, and I recently read an article in the New Scientist (Environment June 1st 2021) which had a strong impact on me. As a result I am asking Dorset Council : Will you please poll Pension Fund members to establish what demand there is among us for an ethical investment option, rather than us having to continue to invest in fossil fuels when we don't want to?

Many thanks

Pam Rosling

As a Dorset Pension Scheme member, I'd like to ask the following question of the Dorset Pension Fund Committee on 15th June.

On page 24 in the section entitled '**The fossil fuel age is ending—get out while you can'**, the UK Divest report details the market uncertainty, oil price collapse and rapid switch of investments into the renewables sector:

"Local Government Pension Funds must treat these changes seriously, or risk substantial exposure to the coming collapse of fossil fuel companies in this world wide technology shift.

Unless action is taken soon, the £10 billion invested in fossil fuels by UK local government pension schemes could drastically reduce in value once the 'carbon bubble' bursts (see text box, p. 47).

The Bank of England (BoE) has said that in the UK up to £16 trillion of assets could be wiped out if the climate emergency is not addressed effectively (Partington, 2019).

Mark Carney, the former governor of the BoE has said, the longer the adjustment is delayed in the real economy, 'the greater the risk that there is a sharp adjustment' (Partington, 2019).

Local Government Pensions can and should act now to reduce their exposure to this risk, so they don't lose their members even more money in the transition than they already have."

https://www.divest.org.uk/wp-content/uploads/2021/03/UKDivest_Report.pdf

Given that Dorset Council is highlighted in this report as having the **third highest proportion of fossil fuel investment of all the UK local government pension schemes** in its pension fund, please could you let me know as a very worried member of your pension scheme **when** you will divest from fossil fuels and **how** your pension scheme members can ensure this happens quickly?

Many thanks,

Belinda Bawden

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In an answer given by the Chairman of Dorset Council's Pension Fund Committee on 10th September 2020, Brunel Pension Partnership were quoted as follows:

"On the issue of divestment, Brunel supports divestment from specific fossil fuel and other carbon-intense companies if they present a material investment risk – such as due to 'stranded assets' – but this is based on analysis by our asset managers. Brunel expects managers to take these decisions independently. …We chose not to use exclusion lists with our active managers…. We will not issue exclusion lists…"

This means that Brunel is divesting from fossil fuel companies only when they present an investment risk - not when they present a risk to the planet.

Given that six other local government pension funds, half of all UK Universities, and over 1,250 institutions representing over $14.5 trillion in assets have already committed to going fossil free, does the Committee recognise that its failure to instruct Brunel on this policy is at odds with its Climate & Ecological Emergency Strategy, which states, amongst other things, its intention to "Take DIRECT action to reduce our own carbon footprint... showing leadership as a large public sector organisation".

Many thanks,

Andrew Carey

' I would like Council to explain to me in greater depth the case for staying invested in fossil fuels and 'engaging'? which has been an argument used in the past by Brunel Pension Partnership/Dorset Council.

According to the report by UK Divest: "The argument for 'engagement' tends to be one made by asset owners who employ investment managers who won't or can't accept that there is a technology-driven transition occurring. This approach is like arguing: 'We're long-term shareholders in Blockbuster, the video rental store. We don't divest. We'll engage with them to adapt to the threat of low-cost live-streaming posed by this new disruptor called Netflix.'

And as the 'engagement' proceeds over the years, this one company goes bust as the world no longer uses videos, while others' share prices run away with themselves as the technology shift happens. So this approach of 'we'll decarbonise when markets decide to decarbonise' is clearly not a

risk management strategy. It is a 'do nothing, and hope a few meetings will help' strategy.

It is vital to realise that this is, at heart, a technology shift."(UK Divest- report)
https://www.divest.org.uk/wp-content/uploads/2021/03/UKDivest_Report.pdf

As representatives of Dorset Council, do you agree with this analysis? If not, what kind of effective, transformative engagement with the fossil fuel industry does Dorset Council perceive to be possible that persuades it to continue to invest 5% of the total value of its pension fund into fossil fuels through Brunel- please could you give me some actual examples?' Sandra Reeve

My name is Dr Sandra Reeve and my address is Westhay, Charmouth, Dorset DT6 6SD

Please can you confirm receipt of this question?
Thank you
Sandra Reeve

"Has the Dorset Council Pension Fund equity portfolio been assessed for carbon intensity and if so, how does this assessment compare to the weighted average carbon intensity of the MSCI All Country World Index (ACWI) at the same date, e.g. 178.5 tCO2e/$m as of 30th April 2020. If the fund has not been assessed against an internationally recognised benchmark such as this, are there any plans to do so?"

My name is Helen Sumbler
Could you confirm receipt of this request, please?

With best regards, Helen.

Vicki Elcoate,

1. Councillor Canning told me earlier this year that the data in the UK Divest Report for Friends of the Earth of February 2021 was out of date for Dorset Council (https://www.divest.org.uk/wp-content/uploads/2021/03/UKDivest_Report.pdf). He said that since those figures, which related to the 2019/2020 financial year, Dorset Council had undertaken a major strategic review of its pension fund investments. He promised an update after March 2021. The question is: what is the current amount of investment in fossil fuels (I understand these are indirect investments)? The figures provided by the Friends of the Earth report are for the amount in £s of investments and the % that is of the overall investments. It would be useful to have it in the same format to compare. So this is not a question about the carbon footprint or the carbon intensity of the investments. The figure in the Friends of the Earth report was £128 million in indirect investment in fossil fuels. This put Dorset in the top 10 of local authority pension funds for fossil fuel investments.

2. Brunel has made a 'net-zero by 2050' commitment.There is a clear contradiction here between Brunel's date and Dorset Council's own target of 2040. Surely this is a 'direct action' and Dorset Council should instruct Brunel to invest in order to meet their 2040 date?

It has come to my attention that Dorset pension funds are investing in companies involved in the exploitation of fossil fuels
Particularly but not exclusively in Shell, BP and BHP. In light of Dorset's statement to create a better environment in relation to climate change I feel
that to continue to support these companies with the investment of pension funds is contrary to the expressed intentions of the council.
I would ask you to please remove these investments and place them with companies which have a greener intentions.

Thank you, Alison Smith

I would like to submit the following question to the Pension Fund Committee for its meeting on Tuesday, 15th June, 2021

In Dorset Council's 'Making it happen action plan', the Council's Objective 1 includes the following action:

"Investigate decarbonising Dorset Council pension scheme" with the stated target: "Investigations carried out and reported to EAP by March 2021".

Have those investigations been carried out and have they been reported to the EAP? If so, what did the report say?

Many thanks,

Andrew Carey

In considering the possibility of stranded assets, The Brunel Pension Fund Carbon Metrics report analyses its potential relationship with fossil fuel reserves both probable and proven, and then examines the potential emissions from these reserves:

"Taking the reserves exposures discussed above, we can look at an assessment of potential future emissions that may incur from these reserves being realised. This metric is not included in the WACI figure (which focuses on current intensity) and so it is an important assessment of company's potential contribution to emissions via its stockpile of fossil fuels. We have been able to assess the potential emissions associated with the proven and probable reserves for companies within our Portfolios, as well as an overall Portfolio assessment." (Brunel Pension Partnership Carbon Metrics report).

This abstraction in the face of a climate emergency seems like madness to me. I am no finance expert but have done some research and the Custom Benchmark appears to only relate to comparative investment funds and **pays no attention to the health of the planet or to the science of climate change.**

"It is crazy that our banks and our pensions are investing in fossil fuels, when these are the very things that are jeopardising the future we are saving for". (Sir David Attenborough, Nov 2020).

Sir David is also not a financial expert, but is one of the most respected naturalists on the planet and his message on fossil fuels is quite clear. Dorset Action on Pensions (https://dtaction.co.uk/pension-divestment/) feel that Dorset Council should **stop investing** in fossil fuels and **start investing** in a greener future.

Question

Is Dorset Council seeking investments that are both good for the planet and good for returns as demonstrated by six other local government pension funds, half of all UK Universities, and over 1,250 institutions representing over $14.5 trillion in assets who have already committed to going fossil free (Nauman, 2020). Or is it in fact risking the threat of stranded assets, and ignoring the health of the planet and the science of climate change?

Julie-Ann Booker

Dorset Action on Pensions

On May 26, a Dutch court ruled that Shell needed to cut its greenhouse gas emissions by 45% by 2030. This is a clear indication of what will happen across the board in the very near future.

BH, BP and Shell account for 40% of total direct investments across all local authority pension funds in the UK.

It is becoming clear that Investing in fossil fuels is increasingly costly. It's a financial risk—with UK Public Pensions losing £2 billion on oil investments in the last 4 years. It's also a political risk—with the UK public more concerned about climate change than ever before. (https://www.moneysavingexpert.com/poll/2021/how-important-is-protecting-the-environment-to-you-/). On June 1 Cop 26 President Alok Sharma at the first NetZero Pensions Summit said: 'Putting your money in fossil fuels creates the very real risk of stranded assets.'

In the light of these facts on what basis is Dorset Council still prepared to risk its members funds and to continue to divest from fossil fuels at such a slow pace - 7% a year, which means that it will take 15 years to divest completely, so until at least 2036?

Please could you acknowledge receipt of my question.?

My name is Sandra Reeve,

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BRUNEL
Pension Partnership

Dorset County Pension Fund

administered by Dorset Council

Performance Report for Quarter Ending 31 March 2021

Agenda Item 7

Contents

Brunel News

The first quarter was marked by a growing divergence globally in how different countries are managing the crisis – and in the resulting outlook for lockdowns easing. For Brunel, we continued working from home, making it more than a year since we enjoyed normal office life. Despite this, there were several developments in terms of funds, RI engagement and recruitment, although the situation also led us to think more deeply about lockdown-related issues, such as mental health.

At the end of January, Brunel added the PGIM Real Estate UK Affordable Housing Fund to the tailored portfolios of five of our clients. The open-ended Alternative Investment Fund invests in and develops new affordable housing for working families across the UK, while targeting acceptable net returns for investors. It therefore meets the twin aspirations of the partnership.

David Vickers, our CIO, says: "*We were delighted to add PGIM Real Estate to our fund suite because it fits so well with our priorities as a partnership. The fund is determined to encourage better practices, both environmentally and socially, and PGIM has a strong track record in raising standards in affordable renting, while also ensuring an appropriate return.*"

Responsible Investment remained a driving force throughout the quarter. With Faith Ward newly installed as Chair of the Institutional Investors Group on Climate Change, the partnership was closely involved in the launch, in March, of the Net Zero Investment Framework, the first framework to provide investors with the tools they need to follow through on the ambition to be Paris-aligned. The announcement was a timely one, coming at the start of the year of COP 26 in Glasgow. It was also the culmination of years of work by the IIGCC and its closest partners, including our partnership, which provided data for early road-testing, among other contributions. This was the main reason for the press attention we received for RI through the quarter, although not the only one.

Another reason was advocacy and engagement. In January, Brunel participated in a shareholder engagement at HSBC, Europe's largest bank, as one of a coalition of investors representing £2.4 trillion in assets. In March, as a result of the engagement, the bank made a number of significant commitments around climate impact reporting and ambitions – a clear step in the right direction. The Special Resolution will be put to a vote at HSBC's AGM on 28 May, with a 75% threshold required for the resolution to make it binding.

The first quarter saw the implementation of some significant developments in Brunel's governance structure, with the completion of changes in structure of the Board. Primary among these is the addition of a fifth Non Executive Director. We are delighted to welcome Liz Mckenzie as our new Shareholder Non-Executive Director. Liz spent 19 years at Toyota before making the switch to senior roles in financial services. We also appointed two highly-experienced Investment Non-Executive Directors. Miles Geldard has more than 35 years' experience in the asset management industry, including several years at Jupiter Asset Management. Roelie van Wijk brings experience from the Dutch pension fund industry, including two years as Chair of the Dutch Fund and Asset Management Association. These three bring significant and varied experience to our Board and will undoubtedly be a major asset in the years ahead.

We also strengthened our governance through hosting the inaugural Shareholder Forum, which will be a semi-annual meeting designed to strengthen communication across all levels of the partnership.

Covid and lockdown have inevitably made us think very carefully about our culture at Brunel and across the partnership, and this was reflected in how we looked at our own priorities through the first quarter. Laura Chappell blogged on our website about both International Women's day and mental health – and an Op-Ed by her on the latter, in Professional Pensions, placed the onus on CEOs to take mental health seriously.

At quarter-end, we published our Annual Report & Accounts in time for our AGM. The report emphasised our work as a broader partnership, our RI focus, and our progress on cost savings – and received external coverage. It showed that Brunel had already transitioned more than £20 billion of assets by the end of 2020 and made more than £30 million in cost savings.

Executive Summary

BRUNEL
Pension Partnership

Performance of Pension Fund
The fund delivered absolute performance of 2.4% over the quarter in GBP terms. This was behind the benchmark return of 2.8%. Total fund return for the year to March was 23.7%, which was ahead of the benchmark return of 20.6%.

Key points from last quarter included: 2.4% Absolute Net Performance Q1; -0.4% Relative Net Performance vs Benchmark Q1; 23.7% Absolute Net Performance 1Y; 3.1% Relative Net Performance vs Benchmark 1Y

Fund-specific Events
Phase 2 of Strategic Asset Allocation changes were enacted; £162m invested in Global Smaller Companies; extra £133m in Global Sustainable Equities; £48m top-up in Emerging Market Equities.

The Brunel Diversifying Returns sub-fund posted negative returns over the first quarter, but has offered positive returns since inception in July 2020. William Blair's equity beta exposure and Lombard Odier's equity exposure were positives, while J. P. Morgan's equity quality, Lombard's bonds exposure, UBS's long yen exposure, and William Blair's Growth bias detracted.

The Brunel Emerging Markets Equity sub-fund benefited from the moderate rise in EM equities over the quarter, as Covid worries in countries such as Brazil, capped gains led by favoured sectors such as semiconductors. However, stock selection meant the sub-fund outperformed its benchmark.

The Brunel Global High Alpha sub-fund delivered healthy returns over the quarter, benefiting from the exposure to Consumer Staples and Utilities. However, it underperformed the benchmark due to an underweighting to energy and financial stocks, and to China.

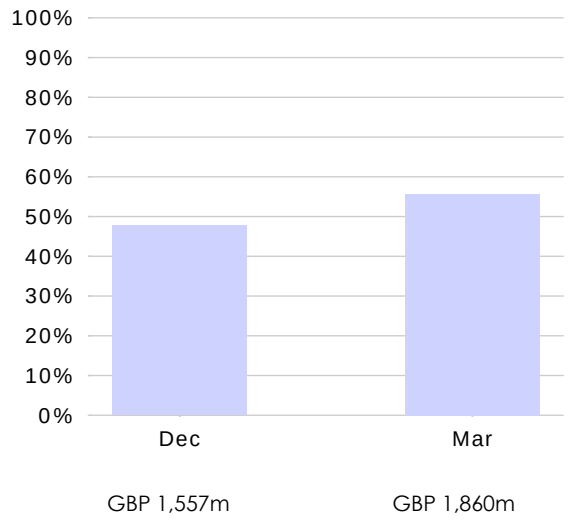
The Brunel Sustainable Equities sub-fund gained in absolute terms over the quarter, as it has since inception in October 2020, but underperformed the benchmark. The lag was driven by underweights to Energy and banks, which were the main drivers of broader market returns.
The Brunel Smaller Companies Equities sub-fund posted very strong returns over the quarter, even though it lagged the benchmark. The benchmark lag reflected the portfolio's modest Growth bias.

The Brunel UK Active Equity sub-fund posted strong returns over the quarter, despite lagging the benchmark. Sub-benchmark performance was driven by a Quality bias and by stock selection.

Total Fund Valuation

	Total (GBPm)
31 Dec 2020	3,260
31 Mar 2021	3,340
Net cash inflow (outflow)	2

Assets Transitioned to Brunel



Market Summary – Listed Markets

A review of the last twelve months illustrates the importance of the starting point when analysing investment returns. Fifty-three weeks before quarter-end, governments unveiled support packages as Covid-19 enforced lockdowns came into effect. Central banks provided stimulus to combat the ensuing economic contraction and markets began to recover from an aggressive sell off.

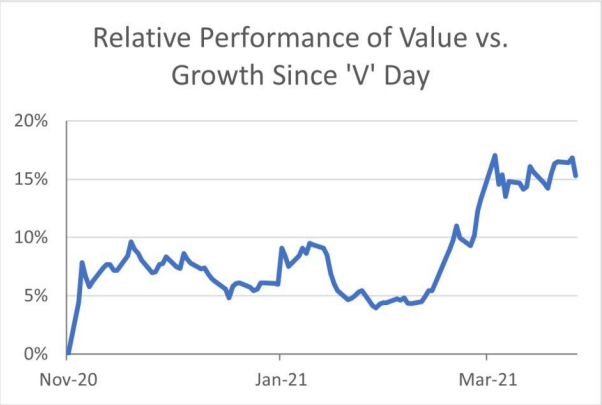
Infection rates, vaccine efficacy and virus variants dominated news flows over the period but there were several notable non-Covid developments. An acrimonious election saw Democrat Joe Biden become the 46th US President. Already holding a majority in the House of Representatives, the Democrats also took control of the Senate and have recently passed a $1.9 trillion stimulus package that includes a $1,400 payment to any American earning less than $75,000 a year.

The UK and EU signed a trade deal on goods, averting the spectre of a no-deal Brexit but still leaving terms of trade on services to be agreed; while Japan's longest serving Prime Minister, Shinzo Abe, stepped down.

Equity market leadership can be somewhat characterised falling into a year of two halves. By Autumn 2020, equity markets had reclaimed pre-Covid levels, driven by large index constituents such as Microsoft and Amazon, which were well-placed to serve the swathes of the world's population confined to their homes. Unsurprisingly, there were also 'Covid losers' in the earlier part of the reporting period, notably in the Consumer Discretionary sector, which includes the travel and hospitality industries.

Positive test results for the Pfizer/BioNTech vaccine in November signalled the beginning of a period of stronger relative performance for more cyclically exposed companies. Combined with subsequent vaccine approvals, an increase in global growth expectations and a steepening of yield curves, this resulted in a period of outperformance for Value stocks.

The MSCI All-Country World Index returned 3.7% in GBP terms over Q1 2021 and 39.6% for the twelve months ending 31 March 2021, highlighting the relevance of starting the twelve-month period from a relatively low base. The Consumer Discretionary and Materials sectors were the strongest-performing over the year, returning 60% and 59.5% respectively. Again, this was in part because these sectors had been hit relatively hard by the outbreak of Covid-19, but they also benefitted from increasing expectations for growth.



Relative performance of MSCI AC World Value TR Index to MSCI AC World Growth TR Index since Pfizer/BioNTech vaccine announcement 9th November 2021. Source: FactSet

Market Summary – Listed Markets

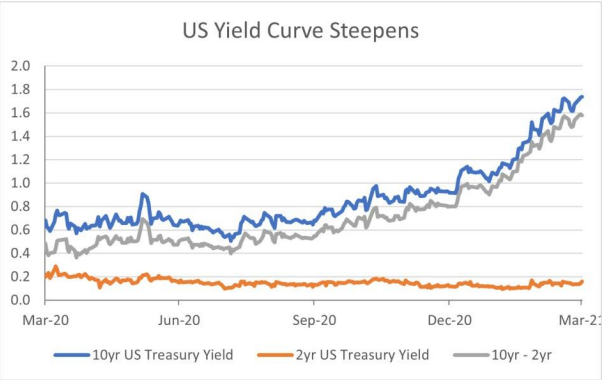
Regional performance varied widely, although, at the aggregate level, returns for developed and emerging markets were similar. The MSCI World Index returned 39.1% for sterling investors over the period and the MSCI Emerging Markets Index 42.8%. Despite the continuation of US-China disagreement into the Biden administration, both regions outperformed the global equity market over the year, with China returning 50.9% in GBP terms and the US 43.3%.

The make-up of the UK market, with more exposure to cyclical industries, resulted in standout performance in Q1 2021, as the FTSE All-Share Index returned 5.2%. Over the quarter, the energy sector returned 11% and the materials sector 10.7%. However, sectoral composition held back the UK market over the twelve-month period. The energy and healthcare sectors, accounting for more than 18% of the index, were essentially flat, with the FTSE All-Share returning 27.1%.

Aforementioned fiscal stimulus packages, in conjunction with loose monetary policy and high levels of household savings, contributed not only to the positive growth story but also to the prospect of higher inflation. Yield curves steepened significantly in Q1 2021, which will have provided a headwind for fixed income investors.

Predicting the path of inflation, policy withdrawal and eventual rate tightening is difficult at the best of times, and still more so in the current environment. From a global perspective, the lack of guidance around the Federal Reserve's Flexible Average Inflation Targeting policy only makes the task more challenging. We can say that the eventual withdrawal of central bank support, when it does happen, will result in increased bond market volatility.

A final comment is due on sterling, which appreciated 11% against the US dollar, and 3.9% against the euro over the year, marking a slight reversal of weakness in previous periods. At the end of March 2021, a pound bought $1.38 and €1.17. Though unhedged overseas returns will depend on specific currency cross rates, in general terms, sterling's strength will have dampened returns from unhedged overseas assets.



US Yield Curve Source: FactSet

Market Summary – Head of Private Markets

BRUNEL
Pension Partnership

Overview
The first quarter of 2021 brought a new US administration with a new fiscal stimulus, as well as the start of the global vaccination programme that should accelerate the re-opening of worldwide economies. This progress should improve economic data worldwide and has already led to outperformance from commodities and from small-cap, value and cyclical stocks, together with a sell-off in US Treasuries. The global economy is continuing to reflate, with GDP peaking in China, accelerating in the US and bottoming out in emerging markets.
While the balance of risks is to the upside, there are undoubtedly still downside risks, including the potential for the spread of Covid mutations which might undermine existing vaccines and the possibility of greater longer-term economic scarring than has been observed while the vast range of financial support measures are in place.

Infrastructure
Covid continues to dominate each of the managers' market agendas, and is expected to do so for the majority of 2021, until vaccine programmes have been fully rolled out. Managers continue to actively engage with suppliers, contractors and the communities surrounding projects to mitigate risks still arising from pandemic uncertainty. The Brunel portfolio is focused on essential infrastructure across both Cycle 1 and Cycle 2, meaning that, in most cases, assets have not been negatively impacted.
On a positive note, the UK government has confirmed new onshore wind projects will be eligible to compete in the next 'Contracts for Difference' round, which will take place in Q3/Q4 2021. Following the UK-EU Brexit terms agreement, sterling continued to fluctuate against the euro throughout Q1. Managers of European funds are introducing measures to ensure further investments in the UK are either capped or hedged in line with their investment strategies.
In Europe, onshore wind power purchase agreements (PPAs) increased in five markets last year, most significantly in the Netherlands (up 9.8%) and Germany (+7.9%). Price offers for solar PV PPAs rose in almost all markets in 2020, but only 2.1% on average. In markets where the future value of power is more sensitive to carbon pricing, rises were higher (e.g. Germany +4.6%, Poland +2.8%).
The most significant market events took place in the US, where the new Biden administration and a democratic-majority Senate have increased the chances of legal incentives for renewables. The administration looks likely to consider both energy transition and climate impact in all major decisions, in line with the US re-joining the Paris Agreement in January.

Photo by John Cameron on Unsplash

Market Summary – Head of Private Markets

BRUNEL
Pension Partnership

Private Equity
Investment sentiment and activity remained strong in Q1 2021. The valuation of assets remained high. Hence, GPs focused more on operational improvements to create value in their portfolio companies. In addition, some GPs are executing more add-on acquisitions at lower prices to bring down the acquisition multiple. The interest in technology companies remained strong and there is a trend towards GPs digitising their portfolio companies in order to improve efficiency and to achieve higher multiples as they position for exit.
The fundraising market is bifurcated between the "haves" and "have nots". Fundraising for established platforms is moving quickly, while less proven GPs are struggling to gain investor attention. In addition, sector expertise has become increasingly important for GPs.

Private Debt
Private equity sponsors have had a buoyant start to the year. Confidence is running high and initial signs indicate a strong pace of activity in Q1, following record-breaking activity in Q4. Private debt participants have resumed lending activity in support of private equity sponsors, albeit more cautiously for sectors sensitive to Covid. Lenders continue to like defensive industries, like software and healthcare, where pricing on loans has therefore been tight. Broadly syndicated market (high yield bonds and leveraged loans) spreads hover close to 300bps in both the US and Europe. The expected wave of credit defaults has not occurred and large amounts of capital, raised in anticipation of a spike in distressed debt opportunities, remain on the sidelines.

Property
The first quarter of 2021 saw a return to optimism in UK property. Although only £57.5bn of transactions took place in Q1, pricing was relatively stable and international investors continued to account for 50% of investment activity. 24 deals took place in unit shops at under 7% yields and the industrial sector retained its pricing strength, with 44 deals transacting in distribution warehouses at sub-4% yield levels and multi-let trading at around 5% initial yields. Industrial rents are still increasing (+2.4% p.a. in UK regions and +3.7% p.a. in London). Fashion retail and leisure have suffered from protracted lockdowns, with rebasing of leases and lower rental levels ubiquitous. In the office sector, there has been a considerable uplift in availability, as tenant and secondary space has come onto the market, particularly in London, where overall vacancy rates have risen to 10%. However, prime Grade A office space remains in short supply and most of the development pipeline is pre-let. Though rent falls of over 10% may affect some offices in 2021, this year is expected to mark the peak in office vacancy levels. In the meantime, residential market activity remains strong, with private rental growth currently up 1.4% over the last year.

iStock.com/fokkebok

Responsible Investment & Stewardship Review

For this report, we wanted to provide reflections by Laura Chappell (pictured right), CEO at Brunel Pension Partnership, on our Responsible Investment progress across the last year. A version of these thoughts also appeared in our recent 'Responsible Investment and Stewardship Outcomes Report', which covered 2020 and is now available on our website. As Laura explains, the self-analysis involved in scoring our RI outcomes has been more important than ever in light of recent events. Some of the highlights from the Outcomes Report are captured in the graphic overleaf.

It was a year unlike any of us at Brunel have known, and one that none of us could have anticipated. Amid the changes, all companies have needed to respond nimbly to the crisis and to review their practices and performance. In short, from 2020 right through to the end of the first quarter of 2021, we have has seen the value of going back to first principles and assessing ourselves across several key metrics. As a result, even a global pandemic and lockdown has not prevented us from ensuring that our stewardship activities live up to our own high expectations. We set our goals and make our decisions as a partnership, an approach that equips us to engage effectively not just with clients and shareholders, but also with managers and the broader asset management industry. These interactions and collaborations are crucial in enabling us to meet the long-term fiduciary and responsible goals set by our partnership.

Our Responsible Investment (RI) approach is built on three pillars: to integrate sustainability criteria into our operations and investment activities; to collaborate with others across the industry and support effective policymaking; and to be transparent in our activities. These three pillars underpin our operations, providing a bedrock for our team, our clients and our managers.

Despite the global disruption of 2020, Brunel was able to deliver widely on our plans through the year. By year-end, we had transitioned most of our clients' assets into Brunel funds. We also launched a number of new funds, including a Sustainable Equities Fund that positively targets sustainable investments, a Diversifying Returns fund, and a Global Small Cap fund. We completed Cycle 1 of Private Market investments (35% of which are in renewables) and embarked on Cycle 2, which has a dedicated sub-mandate for renewable energy opportunities.

We have worked closely with managers to ensure they embed our RI principles across our portfolios, in line with how we designed those portfolios. Manager selection is a central part of our RI, Stewardship and Climate policies. We examine how managers embed ESG principles into their investment process. We also look at their company culture, not least in the area of diversity and inclusion. We have continued to work with the Diversity Project and the 30% club to encourage a more inclusive culture – broader social movements in 2020 have offered a timely reminder of how much work remains to be

done in this area. Although Brunel has too few employees to be obliged to report on diversity, we report on this area voluntarily.

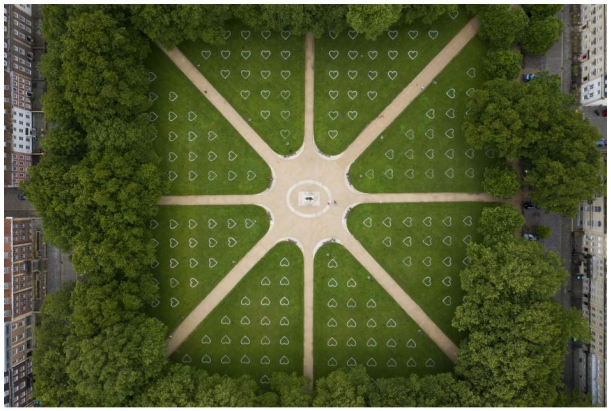
Our climate ambitions were expressed in our work with the Institutional Investors Group on Climate Change, when we copiloted the Net Zero Investment Framework ahead of an industry consultation. Faith Ward, our Chief Responsible Investment Officer, was named Chair of the IIGCC at the end of 2020. Having ensured Brunel's commitment to achieving Net Zero before 2050, Faith was closely involved in outreach to asset owners ahead of the formal launch of the framework in 2021. That outreach continues to mobilise asset owners and managers ahead of COP26 in the autumn. We have also been closely involved in work with both the TPI and TCFD in developing good practice in climate investing.

I am delighted to see how our determination to change the industry in this area is already bearing fruit, ahead of Brunel's own Climate Stocktake in 2022. To this end, we have begun work on Net Zero benchmarks, a major gap in the industry at present and one that prevents wholesale change. We have also been active in both shareholder engagement and voting, and our broader cooperation in this area has enabled significant climate policy changes at both HSBC and Barclays.

Responsible Stewardship and Responsible Investment cover many areas, among them water, biodiversity, cyber risk, cost transparency and supply chain risk. We review each of these in this report, since abuses or laxity in these areas can have grave consequences, and often severe social impacts. Focusing on climate risk to the exclusion of social factors is insufficient, and we are committed to integrating social risk and impacts into how we operate and invest. Our role as a pension pool makes it imperative for us to address these issues holistically, in line with client needs, so that the interests of pensioners, planet and people are considered together. We believe this is the right approach, but we also believe it will enable us to reduce investment risk and deliver strong investment returns over the years ahead.

A year of disruption has given us an exceptional opportunity to ensure we are doing all we can to invest for a world worth living in.

Heart prints decorate Queen Square, Bristol, in aid of social distancing



BRUNEL Pension Partnership

Highlights from the 2021 Responsible Investment and Stewardship Outcomes Report

Leaders
Recognised as leaders in RI, Climate and ESG in Europe and globally

Net-zero
by 2050, 50% carbon emission intensity reduction by by 2030

22%
greater carbon efficiency than benchmark for the Brunel Aggregate Portfolio – up from 15% a year earlier

35%
Females on board in UK Active and 28% in Global High Alpha – improvement in all active equities

75%
Carbon saving & **480 Jobs** from Secured Income Portfolio greenhouse project

20%
Reduction in water intensity (38% below investment benchmark) by Robeco (Brunel Low Volatility)

78
world's largest mining companies asked to review their relationships with First Nations communities and indigenous peoples

3,101
issues engaged on at 881 companies achieving 1,050 milestones

1,046
company meeting voted at, 1,666 votes against or abstain

Cybersecurity
Coalition of investors focuses on 25 companies

SDGs
Reporting pilot underway

100%
of our appointed listed market fund managers are currently achieving or committed to cost transparency.

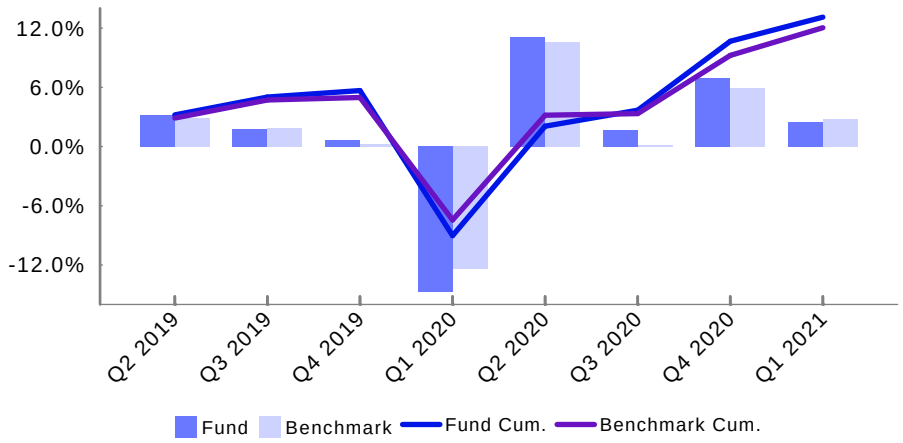
Summary of Pension Fund Performance

BRUNEL
Pension Partnership

Performance of Fund Against Benchmark (Annualised Performance)

Period	Fund	Strategic BM	Excess
3 Month	2.4%	2.8%	-0.4%
Fiscal YTD	23.7%	20.6%	3.1%
1 Year	23.7%	20.6%	3.1%
3 Years	5.7%	6.0%	-0.3%
5 Years	8.6%	8.8%	-0.2%
10 Years	8.4%	8.3%	0.1%
Since Inception	8.4%		

Rolling Quarter Total Fund (Net of Manager Fees)



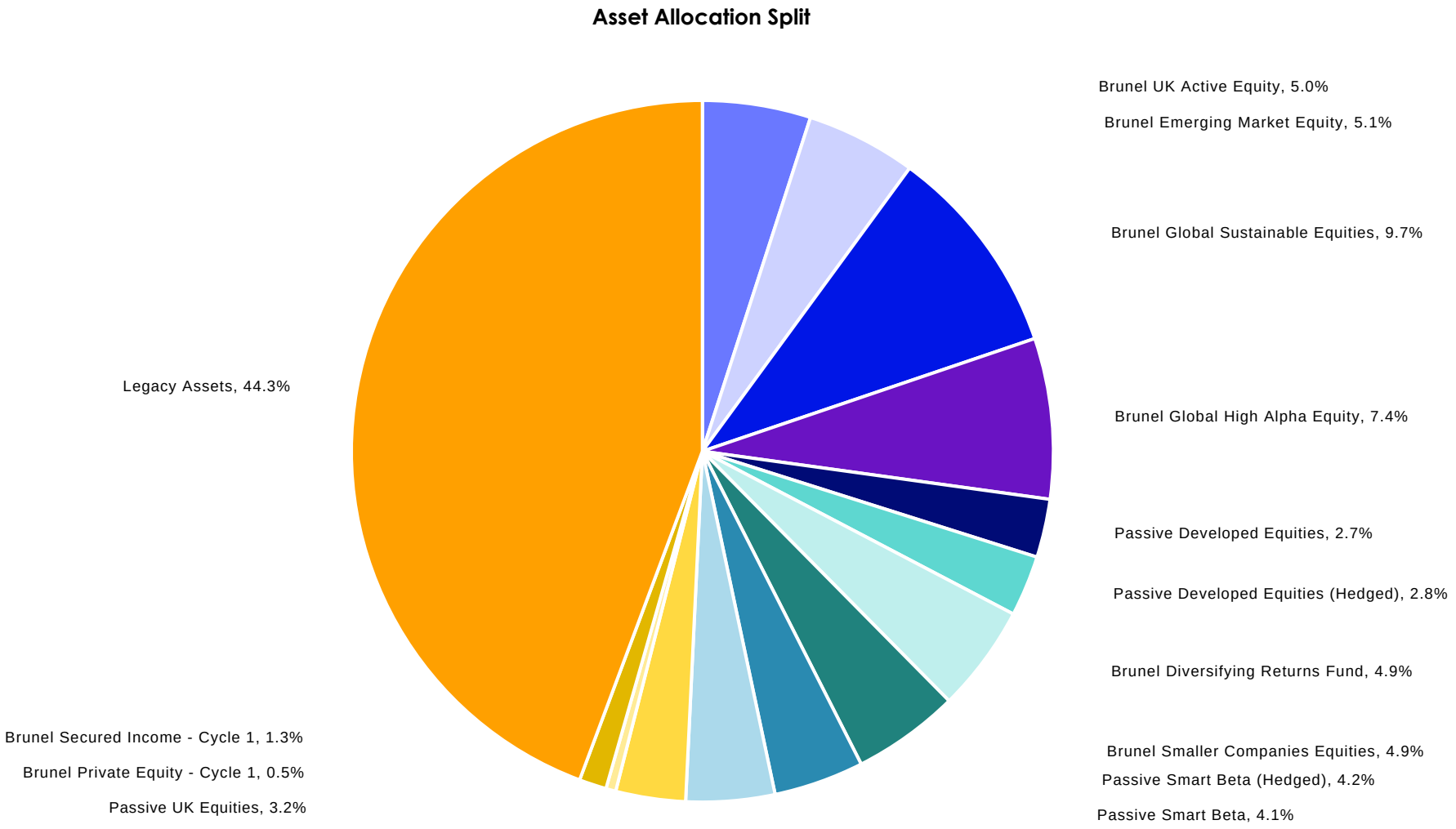
Key Drivers of Performance

Over the first quarter, the Fund delivered a positive absolute but was behind its strategic benchmark. Highlights during the period were:

- The Diversified Return Fund returned -1.3% for the quarter, this was behind its benchmark SONIA.
- Global Emerging Markets added 2.1% in the first quarter and a one year return of 46.1%; these periods are 0.7% and 3.3% ahead of the benchmark respectively.
- Global High Alpha returned a 3.2% increase over the past quarter, taking the one year performance to 50%; this was 10.9% ahead of the MSCI TR World benchmark.
- Global Sustainable Equities lagged the benchmark by 3.3% since the start of the year with a 0.4% return.
- The Global Smaller Companies had a return of 1.4% from the initial investment date of March 3rd 2021 which was 0.6% behind the benchmark over that period.
- The UK Active portfolio was up 4.6% in the first quarter and +27.5% over the past year. One year performance is ahead of benchmark by 2.6%

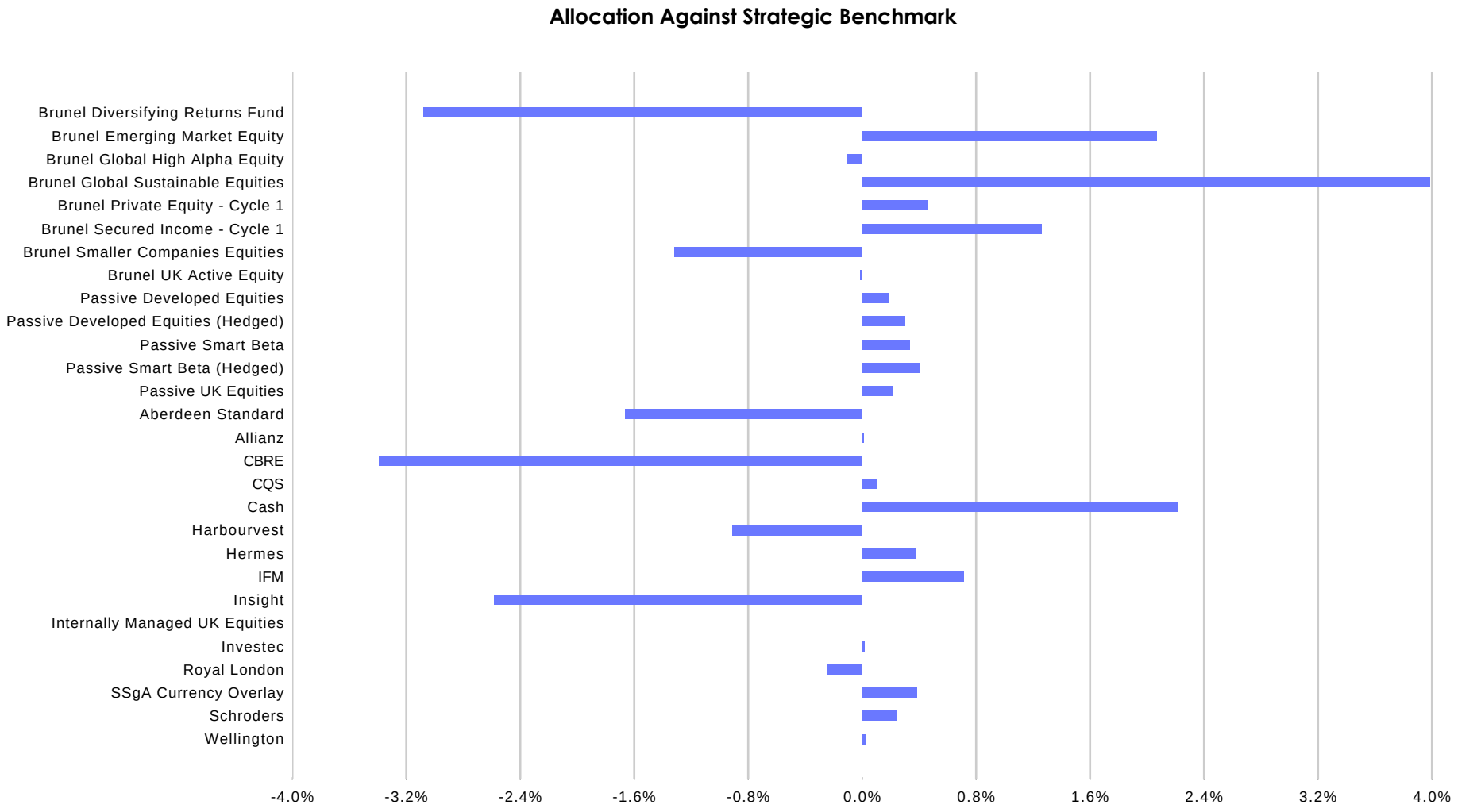
Asset Allocation of Pension Fund

BRUNEL
Pension Partnership



Asset Allocation of Pension Fund

BRUNEL
Pension Partnership



Legacy Manager Performance

BRUNEL Pension Partnership

Legacy Manager Performance – 3 Year

	Annualised Return	Risk (Standard Deviation)	Benchmark Return	Benchmark Standard Deviation
Aberdeen Standard	10.2%	15.0%	3.2%	16.5%
CBRE	2.2%	4.1%	1.7%	2.3%
CQS	3.4%	11.0%	4.6%	0.1%
Harbourvest	19.1%	15.5%	3.2%	16.5%
Hermes	1.6%	5.7%	10.1%	0.1%
IFM	9.4%	8.3%	10.1%	0.1%
Insight	0.1%	14.6%	0.2%	14.6%
Royal London	5.8%	7.1%	4.9%	7.9%
Schroders	10.7%	23.3%	8.2%	23.9%
Wellington	13.4%	15.0%	13.4%	14.7%
Dorset County Pension Fund	5.7%	9.9%	6.0%	8.7%

Brunel Portfolios Overview

BRUNEL
Pension Partnership

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. SII*	Excess SII*	Initial Investment
Brunel Diversifying Returns Fund	SONIA Benchmark	164	-1.3%	-1.3%							0.8%	0.8%	31 Jul 2020
Brunel Emerging Market Equity	MSCI EM TR Gross	169	2.1%	0.7%	46.1%	3.3%					13.6%	-0.3%	09 Oct 2019
Brunel Global High Alpha Equity	MSCI World TR Gross	247	3.2%	-0.9%	50.0%	10.9%					23.9%	10.4%	15 Nov 2019
Brunel Global Sustainable Equities	MSCI AC World GBP Index	325	0.4%	-3.3%							3.0%	-0.5%	01 Dec 2020
Brunel Smaller Companies Equities	MSCI World Small Cap	165									1.4%	-0.6%	03 Mar 2021
Brunel UK Active Equity	FTSE All Share ex Investment Trusts	166	4.6%	-1.0%	27.5%	2.6%					3.4%	0.3%	21 Nov 2018
Passive Developed Equities	FTSE World Developed	90	4.1%	-0.0%	39.3%	-0.1%					11.8%	-0.1%	24 Jan 2020
Passive Developed Equities (Hedged)	FTSE World Developed Hedged	94	6.4%	-0.0%	50.1%	-0.2%					16.7%	-0.3%	31 Jan 2020

*Since Initial Investment

Performance based on tradeable NAV

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 posttransition 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.

Tradeable NAV performance reflects NET performance. The following product pages reflect the portfolio's NET performance

Brunel Portfolios Overview

BRUNEL
Pension Partnership

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. SII*	Excess SII*	Initial Investment
Passive Smart Beta	SciBeta Multifactor Composite	136	6.4%	0.0%	34.3%	-0.2%					8.2%	-0.3%	25 Jul 2018
Passive Smart Beta (Hedged)	SciBeta Multifactor Hedged Composite	139	8.7%	0.1%	45.2%	0.0%					8.9%	-0.4%	25 Jul 2018
Passive UK Equities	FTSE All Share	107	5.3%	0.1%	27.1%	0.4%					0.1%	0.1%	11 Jul 2018

*Since Initial Investment

Performance based on tradeable NAV

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 posttransition 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.

Tradeable NAV performance reflects NET performance. The following product pages reflect the portfolio's NET performance

Passive Developed Equities

BRUNEL Pension Partnership

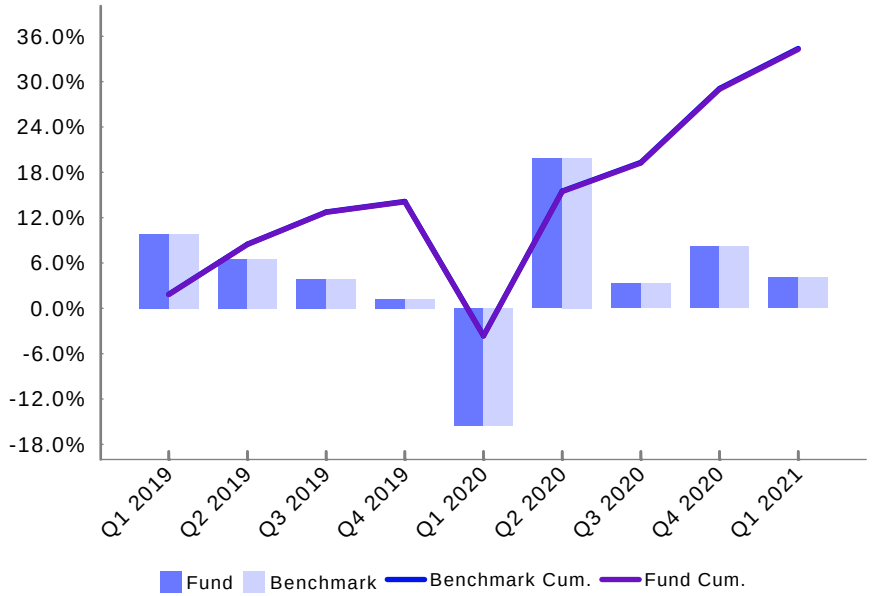
Overview

	Description
Portfolio Objective:	Provide exposure to FTSE Developed World using a low cost highly liquid approach.
Investment Strategy & Key Drivers:	Geographically diversified range of equities.
Liquidity:	High
Risk/Volatility:	High absolute risk with very low tracking error.
Total Fund Value:	£2,227,951,544

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	4.1%	4.1%	0.0%
Fiscal YTD	39.4%	39.4%	-0.1%
1 Year	39.4%	39.4%	-0.1%
3 Years			
5 Years			
10 Years			
Since Inception	11.4%	11.5%	0.0%

Rolling Performance*



* Partial returns shown in first quarter

• In Q1 2021, global equity markets continued their rebound from late Q4 2020, with an increasing rate of vaccination in many developed markets raising the hope that locked-down economies will be able to fully re-open in mid-2021. The benchmark FTSE Developed World Index was up 4.1% over this period. The index also delivered extremely strong positive performance over the 12-month period following the initial coronavirus downturn in March 2020, up 39.4% in absolute terms to quarter-end. The Passive Developed Equities product closely replicated the performance of the benchmark over both periods.

• GBP appreciated against a basket of developed market currencies over the quarter, up 5% vs the euro, 8% against JPY and up 0.9% vs USD. As a consequence, the GBP-hedged product outperformed the unhedged product, with 6.38% outperformance over the quarter.

• In sterling terms, all sectors performed positively over the quarter. Energy, Financials, Industrials and Basic Materials were the main beneficiaries in terms of sector. These areas were particularly unloved during the uncertainty of pre-vaccine 2021, when the likelihood of near-term demand and recovery were still in the balance; however, with the prospect of economic re-opening, they have surged back strongly. Financials have also benefitted from the expectation of potentially higher interest rates, which would become more likely if this economic recovery leads to inflation.

Passive Developed Equities (Hedged)

BRUNEL Pension Partnership

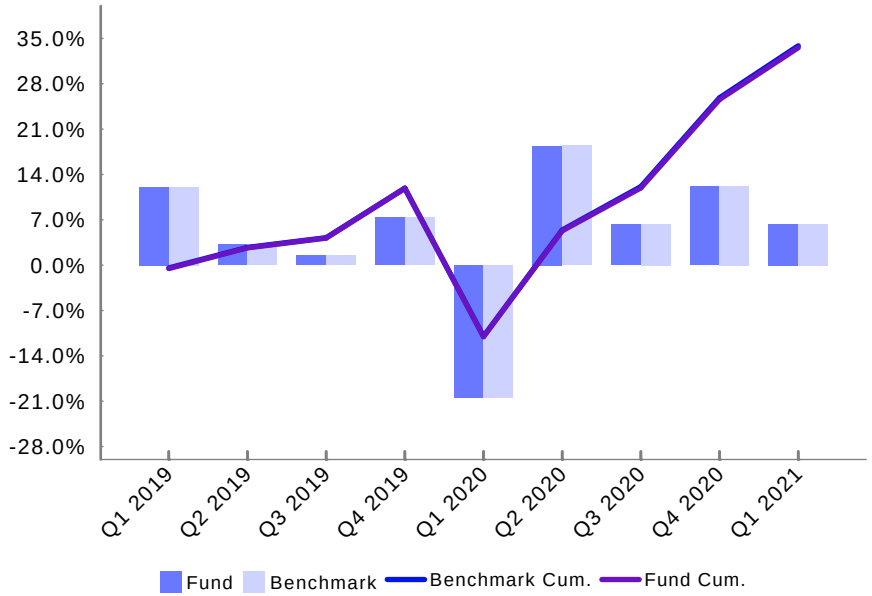
Overview

	Description
Portfolio Objective:	Provide exposure to FTSE Developed World using a low cost highly liquid approach.
Investment Strategy & Key Drivers:	Geographically diversified range of equities.
Liquidity:	High
Risk/Volatility:	High absolute risk with very low tracking error.
Total Fund Value:	£663,021,378

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	6.4%	6.4%	0.0%
Fiscal YTD	50.2%	50.4%	-0.2%
1 Year	50.2%	50.4%	-0.2%
3 Years			
5 Years			
10 Years			
Since Inception	11.3%	11.4%	-0.1%

Rolling Performance*



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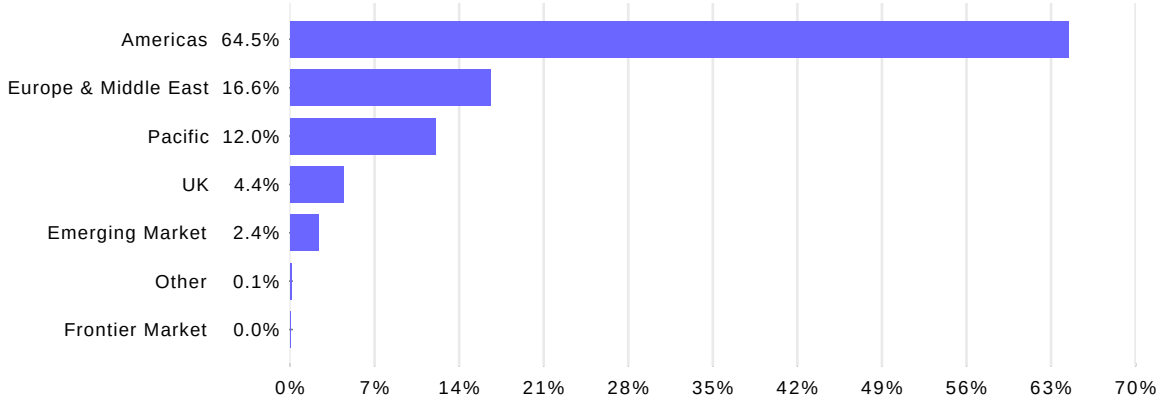
Passive Developed Equities – Region & Sector Exposure

BRUNEL Pension Partnership

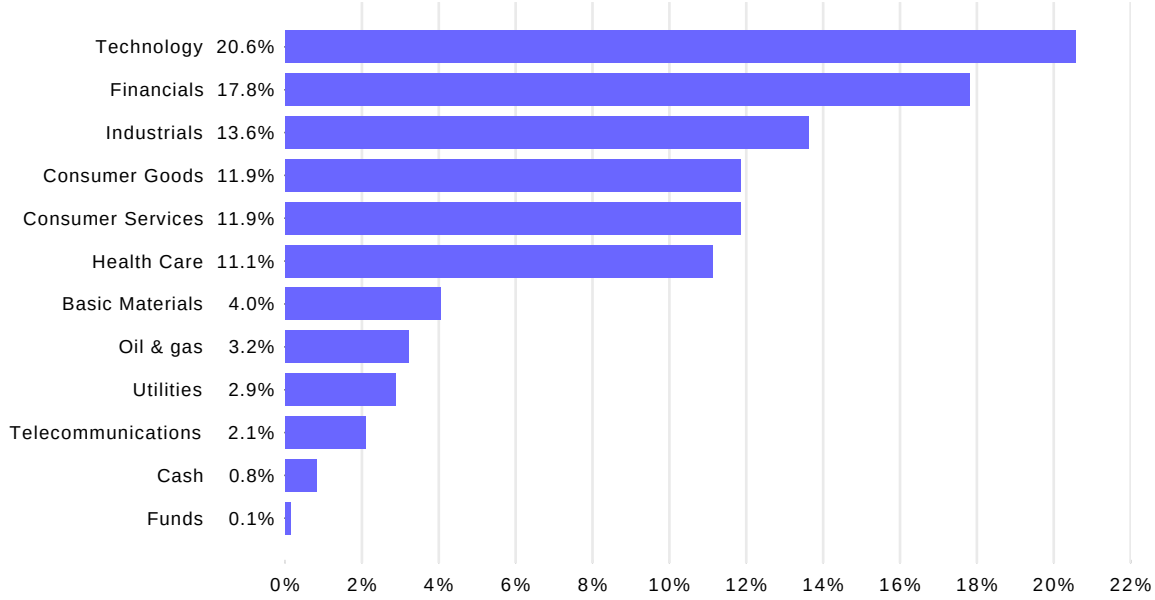
Top 20 Holdings

	Mkt. Val.(GBP)
APPLE INC	100,084,896
MICROSOFT CORP	91,311,294
AMAZON.COM INC	67,838,725
FACEBOOK INC-CLASS A	36,564,171
ALPHABET INC-CL A	32,006,718
ALPHABET INC-CL C	31,093,664
TESLA INC	26,445,431
JPMORGAN CHASE & CO	23,849,840
JOHNSON & JOHNSON	22,392,346
VISA INC-CLASS A SHARES	18,496,687
UNITEDHEALTH GROUP INC	18,167,944
SAMSUNG ELECTRONICS CO LTD	17,418,868
WALT DISNEY CO/THE	17,247,551
PROCTER & GAMBLE CO/THE	17,063,710
HOME DEPOT INC	16,958,127
BERKSHIRE HATHAWAY INC-CL B	16,927,996
NVIDIA CORP	16,304,115
MASTERCARD INC - A	16,250,972
NESTLE SA-REG	15,866,957
BANK OF AMERICA CORP	15,480,018

Regional Exposure



Sector Exposure



Passive Developed Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. ASML HOLDING NV	64.6	84.4
2. NEXTERA ENERGY INC	70.3	32.8
3. HONEYWELL INTERNATIONAL INC	64.4	65.4
4. TEXAS INSTRUMENTS INC	63.0	76.7
5. ACCENTURE PLC	62.5	61.1
6. NESTLE SA	58.7	48.6
7. SAP SE	64.1	31.6
8. SCHNEIDER ELECTRIC SE	71.6	50.0
9. PROCTER & GAMBLE CO/THE	57.9	70.5
10. ENEL SPA	71.5	28.8

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. AT&T INC	43.4	32.7
2. SAMSUNG ELECTRONICS CO LTD	47.6	67.2
3. VISA INC	46.2	29.5
4. JPMORGAN CHASE & CO	47.1	62.3
5. JOHNSON & JOHNSON	42.9	83.4
6. AMAZON.COM INC	49.4	50.0
7. FACEBOOK INC	42.0	58.4
8. MICROSOFT CORP	48.5	35.1
9. ALPHABET INC	44.8	57.6
10. APPLE INC	46.5	50.1

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	53.3	53.7
Passive Dev Equities	53.3	53.7

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

Weighted Average Carbon Intensity (WACI)

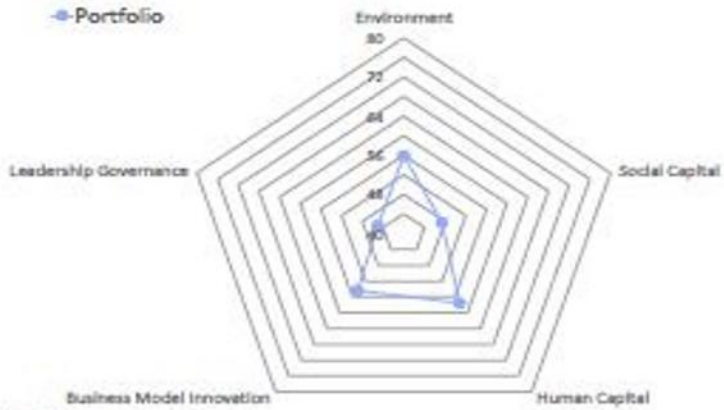
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	3.0	2.9	7.5	7.6
Passive Dev EQ	3.0	2.9	7.5	7.6

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

Brunel Assessment:

- **Texas Instruments** (Technology), have released a major advancement in electric vehicle (EV) battery management systems (BMS), enabling automakers to improve the reliability, efficiency and range of EV's
- **AT&T** (Telecom Services), is committing $2 billion over the next three years to make internet access affordable for more Americans by opening 'connected learning centers'. The initiative is an attempt to narrow the gap in access to education and job opportunities, known as the digital divide.
- **SAP** (Software and IT Services) have redrawn their diversity policies in a bid to improve recruitment and act to address issues of race more openly in the workplace. The company was also listed in the top 20 of companies to work for globally by Top Employers Institute.
- **Enel** (Electric Utility) buys eleven Brazilian solar projects from Arena Power totalling 519 MW. The company has also teamed up with Saras to develop a new 'renewable hydrogen' technology produced via electrolysis of water and powered exclusively by renewable electricity.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The carbon intensity of the benchmark (and index tracking Portfolio) remained largely unchanged this quarter.

Passive Smart Beta

BRUNEL Pension Partnership

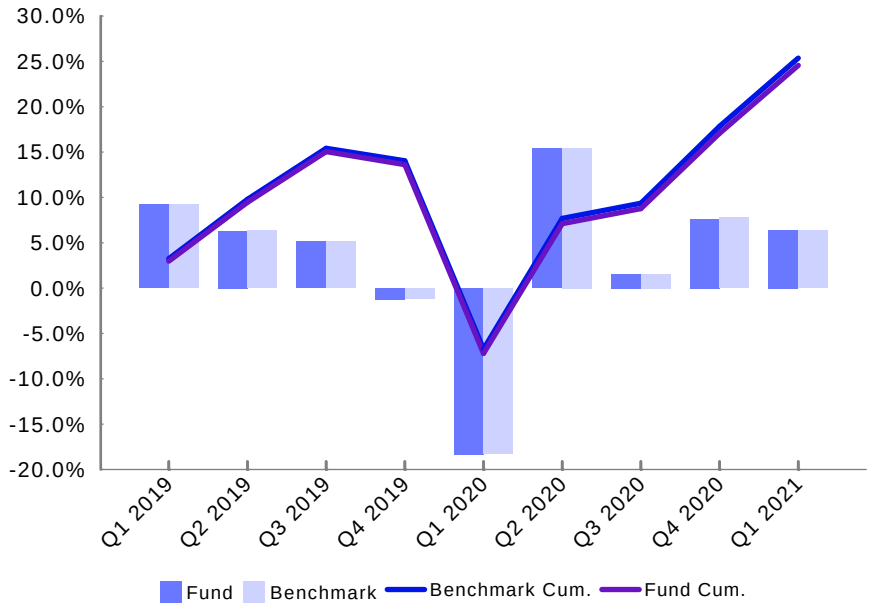
Overview

	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
Total Fund Value:	£833,704,758

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	6.4%	6.4%	0.0%
Fiscal YTD	34.2%	34.4%	-0.2%
1 Year	34.2%	34.4%	-0.2%
3 Years			
5 Years			
10 Years			
Since Inception	8.5%	8.7%	-0.3%

Rolling Performance*



* Partial returns shown in first quarter

The Passive Smart Beta portfolio returned +34.2% in the year ending 31 March 2021, 4.9% less than the MSCI World Index. Appreciation of sterling led the GBP-hedged version of the product to outperform the unhedged portfolio by 11.1%.

• Factor strategies in general struggled over the first half of the reporting year, particularly in the first quarter, where the Value and Low Volatility elements of the strategy underperformed the MSCI World Index.

• Positive Covid-19 vaccine test results in November signalled the beginning of a period of stronger performance for Value. Further impetus was added in Q1 2021, with the approval of a $1.9 trillion stimulus package. This raised the propect of higher growth, benefitting cyclical stocks. A rise in US Treasury yields also contributed to Value outperforming higher duration growth stocks.

• Value factor returns for Q1 2021 are among the best recorded since the inception of Sci Beta Indices, at the top of the first quintile of three-month returns in some regions. Over the quarter, the portfolio returned +6.4%, outperforming the MSCI World Index by 2.3%.

Passive Smart Beta (Hedged)

BRUNEL Pension Partnership

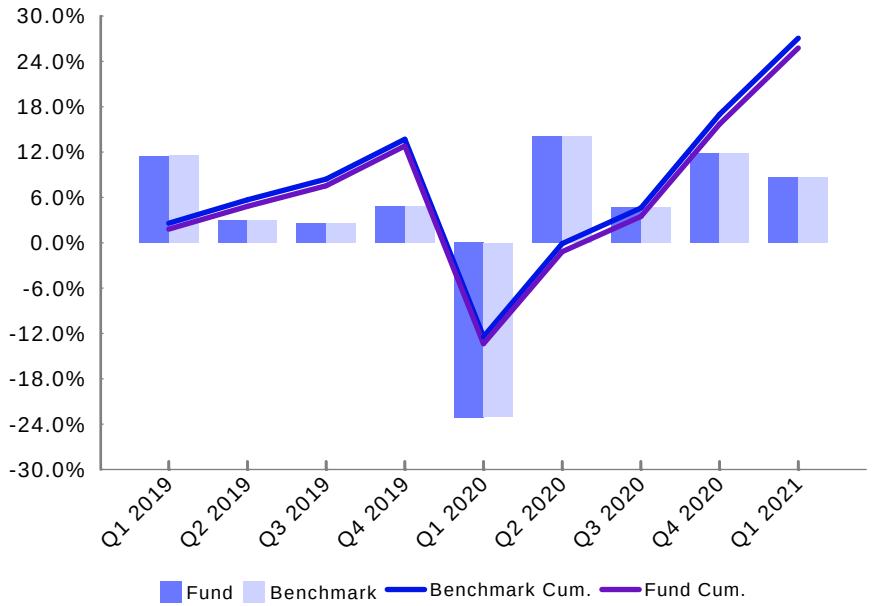
Overview

	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
Total Fund Value:	£138,642,421

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	8.7%	8.6%	0.1%
Fiscal YTD	45.2%	45.1%	0.0%
1 Year	45.2%	45.1%	0.0%
3 Years			
5 Years			
10 Years			
Since Inception	8.9%	9.3%	-0.4%

Rolling Performance*



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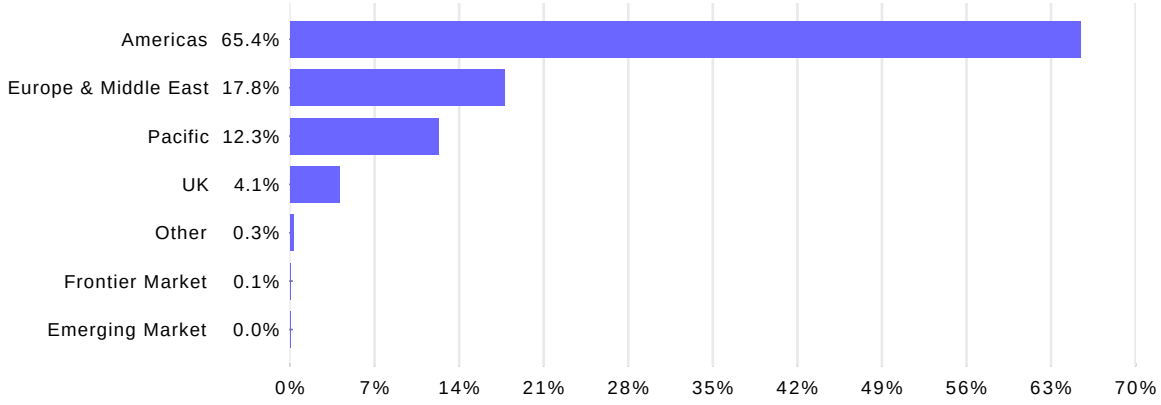
Passive Smart Beta – Region & Sector Exposure

BRUNEL Pension Partnership

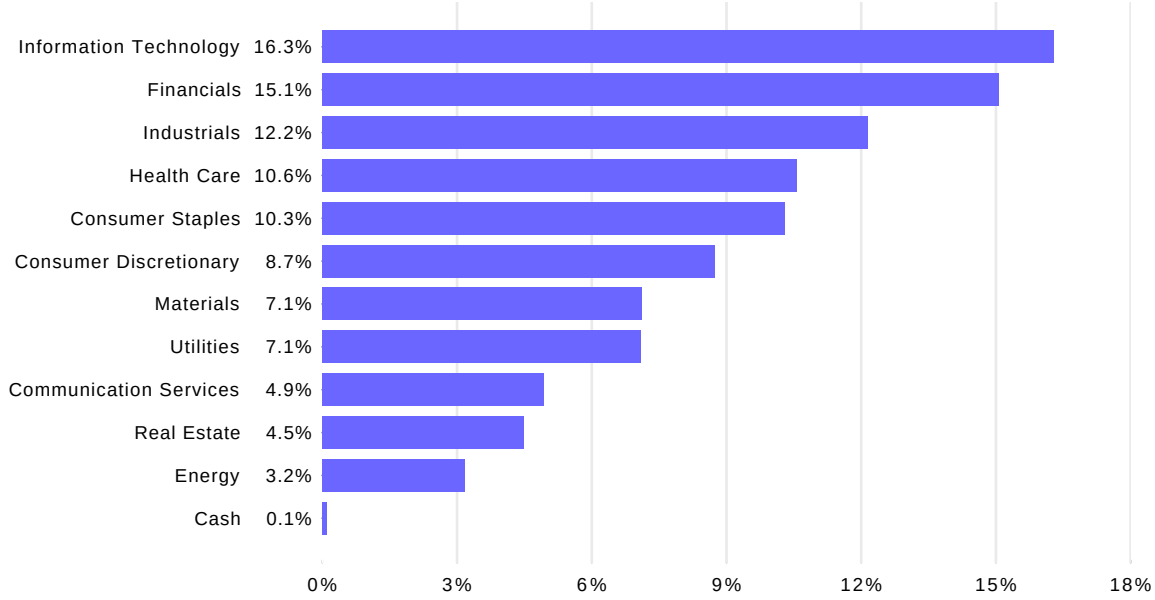
Top 20 Holdings

	Mkt. Val.(GBP)
TRANE TECHNOLOGIES PLC	6,499,040
CUMMINS INC	5,658,378
ABBOTT LABORATORIES	5,528,138
WALMART INC	5,427,705
COGNIZANT TECH SOLUTIONS-A	5,415,293
VERIZON COMMUNICATIONS INC	5,413,299
BERKSHIRE HATHAWAY INC-CL B	5,364,540
ALPHABET INC-CL A	5,282,525
JPMORGAN CHASE & CO	5,217,746
SYNOPSYS INC	5,214,511
COMCAST CORP-CLASS A	5,112,734
EATON CORP PLC	5,101,928
APPLIED MATERIALS INC	5,084,956
WALGREENS BOOTS ALLIANCE INC	5,076,359
EXXON MOBIL CORP	5,068,982
EBAY INC	5,013,558
TE CONNECTIVITY LTD	5,012,842
PFIZER INC	4,990,018
APPLE INC	4,749,908
XILINX INC	4,685,985

Regional Exposure



Sector Exposure



Passive Smart Beta – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TRANE TECHNOLOGIES PLC	66.6	68.8
2. EATON CORP PLC	69.0	21.6
3. CUMMINS INC	66.9	37.8
4. TERADYNE INC	76.2	69.2
5. APPLIED MATERIALS INC	64.6	81.5
6. EMERSON ELECTRIC CO	66.9	69.6
7. ECOLAB INC	71.3	63.6
8. TE CONNECTIVITY LTD	64.1	61.7
9. AIR PRODUCTS AND CHEMICALS INC	66.7	35.6
10. PUBLIC SERVICE ENTERPRISE GROUP INC	68.2	30.9

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. MARKEL CORP	31.1	50.0
2. TRAVELERS COS INC/THE	42.5	17.8
3. ALPHABET INC	44.8	57.6
4. WALGREENS BOOTS ALLIANCE INC	43.4	77.6
5. SKYWORKS SOLUTIONS INC	37.5	14.9
6. CINCINNATI FINANCIAL CORP	25.9	37.4
7. ALLSTATE CORP/THE	38.3	28.8
8. HARTFORD FINANCIAL SERVICES GROUP INC/	34.6	31.2
9. CHUBB LTD	34.7	50.0
10. COGNIZANT TECHNOLOGY SOLUTIONS CORI	36.8	33.1

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	55.2	55.7
Passive Smart Beta	55.2	55.7

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)

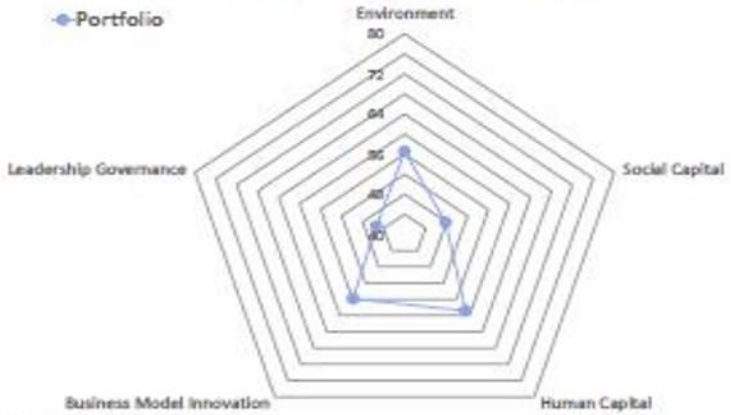
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	4.0	4.1	11.3	11.3
Pass. Smart Beta	4.0	4.1	11.3	11.3

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

Brunel Assessment:

- **Alphabet** (Big Tech) will contribute 25 million euros to the newly set up European Media and Information Fund to combat fake news. Regulatory scrutiny however continues, the UK has launched a new watchdog, the Digital Markets Unit (DMU) to look at how a code of conduct could govern the relationship between digital platforms, such as small businesses and news publishers.
- **Skyworks** (Semiconductors) will acquire the infrastructure and automotive business of Silicon Labs as the company looks to expand into electric and hybrid vehicles. The transaction is expected to close during the third quarter of 2021.
- **TE Connectivity** (Electrical Equipment) achieves Dow Jones Sustainability Index listing for ninth consecutive year. The company has also been named one of Fast Company's top 100 places to work for innovators.
- **Air Products** (Chemicals) has teamed up with Hyundai Oilbank, a major South Korean refiner, to develop hydrogen technology for the use in vehicles and power generation. The technology will focus on 'blue' hydrogen that is produced from natural gas and uses less CO2 and 'green' hydrogen which uses renewable energy and water.

60% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
Smart Beta remains a high-carbon Portfolio, and active dialogue continues with the providers to find potential solutions.

Passive UK Equities

BRUNEL Pension Partnership

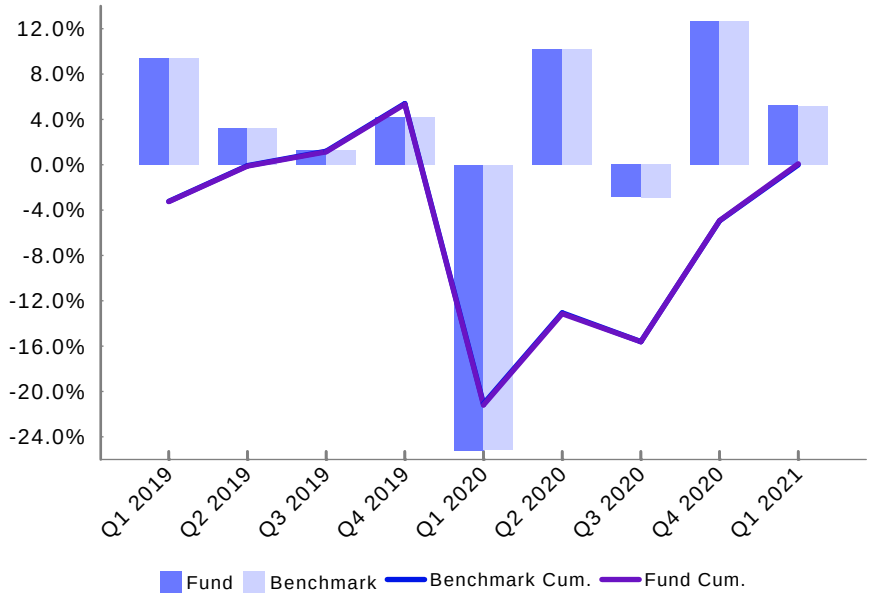
Overview

	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:	High absolute risk with very low tracking error.
Total Fund Value:	£823,433,947

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	5.3%	5.2%	0.1%
Fiscal YTD	27.0%	26.7%	0.3%
1 Year	27.0%	26.7%	0.3%
3 Years			
5 Years			
10 Years			
Since Inception	0.0%	0.0%	0.0%

Rolling Performance*



* Partial returns shown in first quarter

• The UK stock market performed well in Q1 2021, with the benchmark FTSE All-Share Index returning 5.19% through the period. The Brunel Passive UK Equities product performed in line with the benchmark, returning 5.27%.

• Much like global indices, most sectors in the FTSE All-Share performed positively over the quarter. Leading the recovery were Basic Materials and Energy, following on from strong performance in Q4 2020, as the prospect of lockdown relaxations and rejuvenated demand, coupled with buoyant commodity prices, took hold. Healthcare was the only negatively-performing sector over the quarter, although, at -0.9%, falls were range-bound.

• Over the 12 months to 31 March 2021, the FTSE All-Share has returned 26.7%, less than the global indices, but with strong returns in Basic Materials, Industrials and Consumer Discretionary. Negative returns in the Energy and Healthcare sectors over the period were drags on the overall returns of the index.

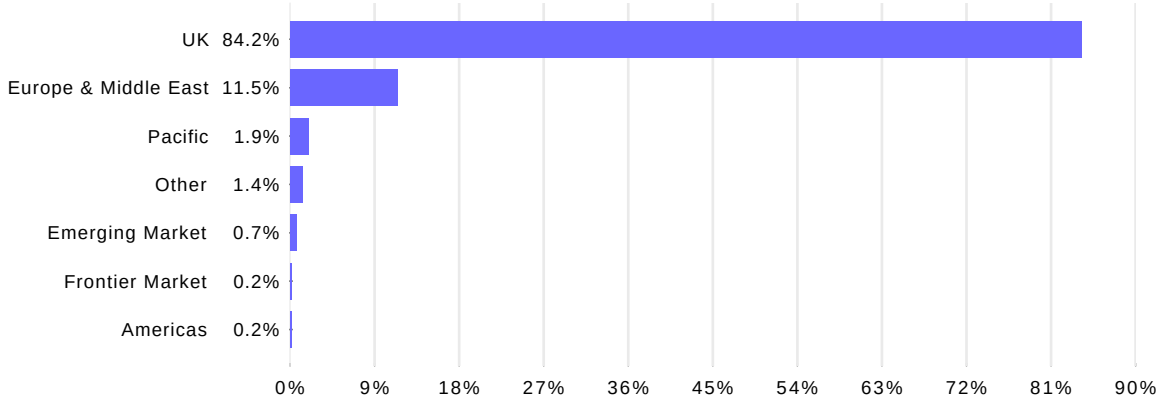
Passive UK Equities – Region & Sector Exposure

BRUNEL Pension Partnership

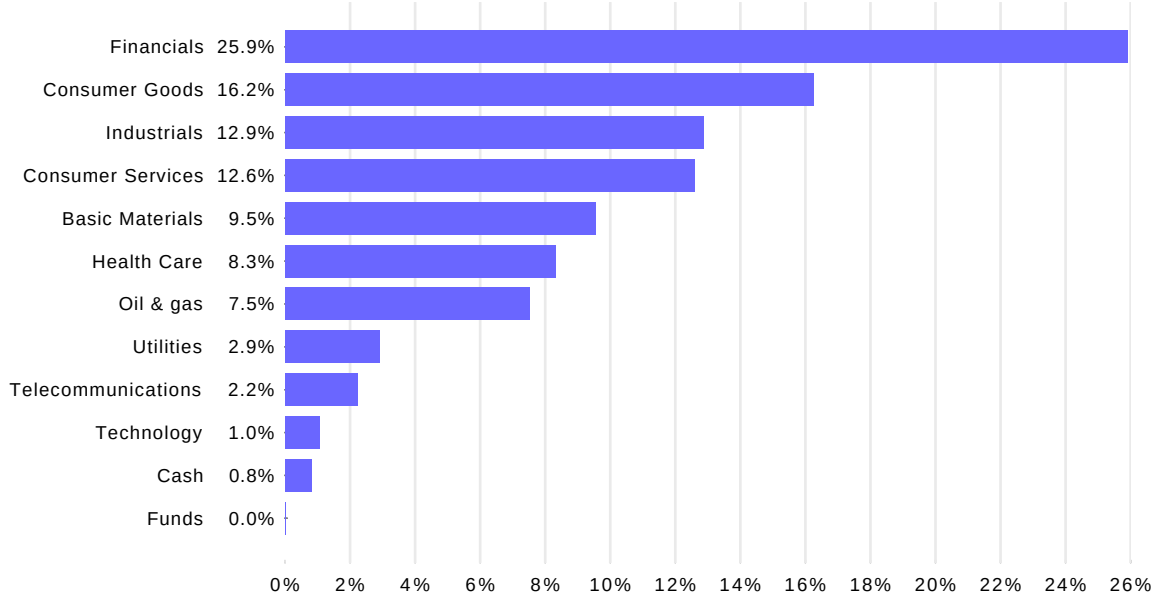
Top 20 Holdings

	Mkt. Val.(GBP)
UNILEVER PLC	36,949,014
ASTRAZENECA PLC	34,097,792
HSBC HOLDINGS PLC	30,903,991
DIAGEO PLC	24,577,484
GLAXOSMITHKLINE PLC	22,753,969
BRITISH AMERICAN TOBACCO PLC	22,690,832
RIO TINTO PLC	21,592,372
BP PLC	20,939,347
ROYAL DUTCH SHELL PLC-A SHS	20,834,135
ROYAL DUTCH SHELL PLC-B SHS	17,738,158
BHP GROUP PLC	15,604,372
RECKITT BENCKISER GROUP PLC	14,688,180
PRUDENTIAL PLC	14,397,393
VODAFONE GROUP PLC	12,661,486
ANGLO AMERICAN PLC	12,525,841
RELX PLC	12,116,142
BARCLAYS PLC	11,515,029
GLENCORE PLC	10,984,772
NATIONAL GRID PLC	10,978,814
LLOYDS BANKING GROUP PLC	10,721,867

Regional Exposure



Sector Exposure



Passive UK Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. NATIONAL GRID PLC	65.7	55.0
2. UNILEVER PLC	58.4	50.0
3. DIAGEO PLC	59.3	54.6
4. BP PLC	59.6	72.0
5. SSE PLC	69.0	69.9
6. CRH PLC	62.5	33.7
7. ROYAL DUTCH SHELL PLC	57.0	66.3
8. CRODA INTERNATIONAL PLC	71.6	26.4
9. COMPASS GROUP PLC	60.3	61.7
10. LEGAL & GENERAL GROUP PLC	63.0	66.0

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. RSA INSURANCE GROUP PLC	33.6	22.6
2. GLENCORE PLC	49.4	69.7
3. FLUTTER ENTERTAINMENT PLC	45.4	57.5
4. BARCLAYS PLC	45.8	74.3
5. EXPERIAN PLC	39.1	35.7
6. RECKITT BENCKISER GROUP PLC	45.9	82.7
7. BRITISH AMERICAN TOBACCO PLC	47.7	39.8
8. ASTRAZENECA PLC	49.4	31.9
9. GLAXOSMITHKLINE PLC	46.2	58.6
10. HSBC HOLDINGS PLC	44.9	59.0

From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	55.0	55.3
Passive UK Equities	55.0	55.3

* Position 1 is the top contributor/detractor.

TruValue Labs & SASB

Weighted Average Carbon Intensity (WACI)

Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	5.5	5.0	19.2	16.3
Passive UK EQ	5.5	5.0	19.2	16.3

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

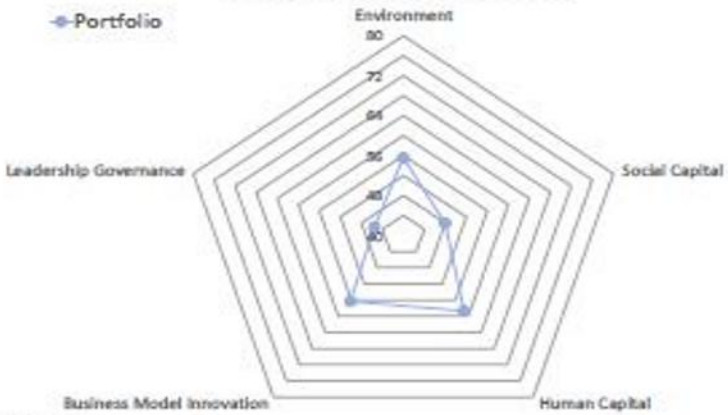
Brunel Assessment:

- **HSBC** (Bank), was facing a shareholder resolution from a coalition of investors, including Brunel. Following intense engagement, this was withdrawn and in its place a board backed resolution will be put to shareholders. The proposal commits the bank to set short-and medium-term targets to align provision of finance with the Paris agreement and to publish a coal policy by the end of 2021.
- **Unilever** (Consumer Goods) seeks to eliminate fossil fuel based chemicals from its cleaning and laundry product formulations by 2030, last quarter they launched the first laundry capsule made from industrial carbon emissions, instead of fossil fuels, at no additional cost to consumers.
- **Experian** (Services) has partnered with FinScore, to deliver alternative credit scoring to help financial institutions reduce high default rates and prevent fraudulent activity, whilst simultaneously bridging the financial inclusion gap for unbanked individuals in the Philippines.
- **Croda International** (Chemicals), which uses smart science to create, make and sell speciality chemicals that improve lives, has recently been ranked first in the Most Sustainable International Company rankings by Barron's, a leading source of financial news for the American Stock Exchange.

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

The carbon intensity of the benchmark (and index tracking Portfolio) remained largely unchanged this quarter.

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Diversifying Returns Fund

BRUNEL Pension Partnership

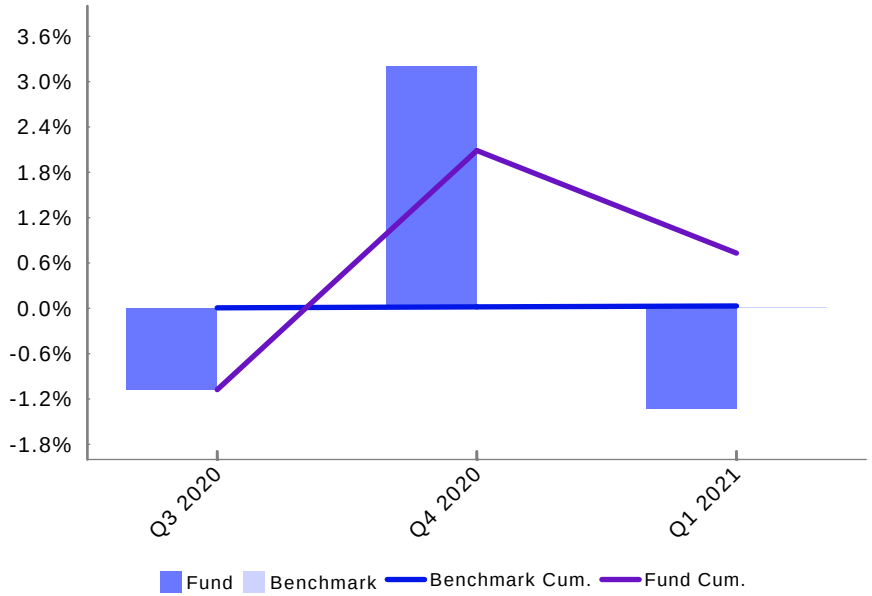
Overview

	Description
Portfolio Objective:	Provide exposure to a range of alternative return drivers and a degree of downside protection from equity risk.
Investment Strategy & Key Drivers:	Actively managed to achieve growth at moderate absolute risk, diversified between asset classes and by geography.
Liquidity:	Managed Liquidity.
Risk/Volatility:	Moderate absolute risk against cash.
Total Fund Value:	£1,359,561,086

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-1.3%	0.0%	-1.3%
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	0.7%	0.0%	0.7%

Rolling Performance*



* Partial returns shown in first quarter

The Diversifying Returns Fund launched on 27 July 2020 and delivered returns of 0.7% to 31 March 2021.

• The Diversifying Returns Fund returned -1.3% over the first quarter of 2021.

• William Blair has been the strongest performer since fund launch. Exposure to equity beta made a strong contribution to performance and was only partially offset by negative returns from fixed income and security selection. Lombard Odier has also derived a positive return from equities, as well as from commodities exposure. Sovereign bonds offset a portion of the positive returns derived elsewhere in their portfolio.

• UBS has delivered marginally positive returns since portfolio inception. Notable contributions to performance came from a short position in the Swiss franc and long exposure to the Mexican peso and South African rand.

• J.P. Morgan made a negative contribution to fund returns from the portfolio's inception. The biggest detractors included the equity quality and fixed income carry signals. However, they continued to bring diversification benefits to the portfolio in Q1 2021. Their equity trend and value signals, along with a

Continued Commentary

short duration position, enabled them to benefit from steepening yield curves and a rally in cyclical equities that presented a more challenging environment for the other managers.

• Lombard Odier's exposure to sovereign bonds was a major contributor to negative returns in the first quarter of 2021. Steepening US yield curves also negatively affected the Japanese yen, a lower-yielding currency. Long exposure to the yen was the biggest detractor from UBS's performance over the period. A growth bias in the security selection element of William Blair's strategy led to negative performance over the quarter, as Value outperformed. However, this growth bias is generally seen as a strength from a portfolio construction perspective, as it tends to deliver positive returns during equity market sell offs and contributes to the Fund's defensive characteristics.

Brunel Emerging Market Equity

BRUNEL Pension Partnership

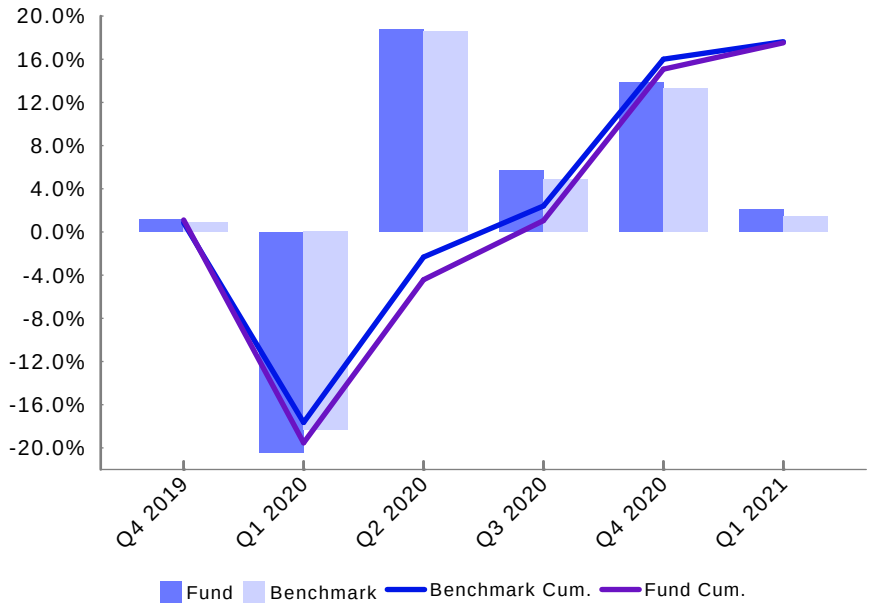
Overview

	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.
Total Fund Value:	£1,533,342,283

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	2.1%	1.4%	0.7%
Fiscal YTD	46.0%	42.8%	3.2%
1 Year	46.0%	42.8%	3.2%
3 Years			
5 Years			
10 Years			
Since Inception	12.3%	12.4%	-0.1%

Rolling Performance*



* Partial returns shown in first quarter

Emerging market equities continued their upward trend in Q1 2021. Returns over the quarter were modest, with the MSCI Emerging Markets Index returning +1.4% in GBP terms.

Return dispersion by country was notably large, when compared to the previous quarter. Taiwanese equities had a very strong quarter, returning +9.9%, mostly driven by robust demand for semiconductors. However, other significant country constituents like Brazil had a very different experience, contracting by 10.8% over the same period. The underperformance in Brazil was driven by a combination of COVID setbacks and sensitivity to the rising interest rate environment in the US. Rising rates in the US brought into question Brazil's ability to sustain its debt, given its negative current account balance (c. -1.5%) and net international investment position (c. -30%).

Sector dispersion was also present in Q1, though less significant than country dispersion. Materials was by far the strongest performing sector in Q1 2021; the sector currently comprises 7.7% of the MSCI Emerging Markets Index. The biggest winners within the sector were oil and industrial metals, notably copper. Copper and oil appreciated by +14% and +22% respectively, driven by growing prospects for global economic activity. Healthcare was one of the weakest

Brunel Emerging Market Equity

Continued Commentary

performers in emerging markets over the quarter, falling by 5.4% in GBP terms, partially driven by profit-taking.

One of the major stories over the quarter was the dismissal of Naci Agbal - governor of the Central Bank of Turkey – after just three months in the role. Recep Tayyip Erdogan dismissed the governor in favour of an academic, Sahap Kacioglu, who has consistently lobbied for lower interest rates. The decision to remove Agbal shocked financial markets; the Turkish lira fell as much as 14% in one day; equity markets suffered similar losses.

The portfolio had another strong quarter, returning +2.1% net of fees, which was +0.7% ahead of the benchmark. Ninety-One and Wellington did particularly well, outperforming the index by +2.6% and +1.4% respectively. Genesis lagged the benchmark this quarter, underperforming by 1.3%. The primary driver of relative returns across all managers was stock selection; there was almost no impact from the allocations to country, sector, market cap or style.

• The portfolio once again benefitted from strong stock selection, particularly in China. Significant value was added by underweights to larger Chinese technology-orientated index stocks, which fell in value. Examples of this include Pinduoduo, Xiaomi and NIO, which fell by -25%, -23% and -21% respectively. These names came under intense pressure following discount rate rises in the US, much like their developed market peers. Pinduoduo also suffered from the exit of CEO and founder Colin Huang Zheng. Held names also added to relative performance. Examples of this include China Longyuan and Country Garden Services, which rose +34% and +48% respectively.

• Value stocks continued to outperform the broader market at the start of 2021, in line with developed market peers. MSCI Emerging Markets value stocks outperformed the broad market index by +1.8% over the quarter. The most significant style observation was not Value vs Growth but in fact the momentum indicator. High momentum stocks were volatile and eventually underperformed the main market index by 6% in Q1 2021; they were outperforming by as much as +6% in mid-February. The portfolio is typically style neutral, with a modest tilt towards Quality, which performed in line with the main market.

• The portfolio has now outperformed the benchmark for four consecutive quarters on a net-of-fees basis. As a result, since inception, performance is almost flat versus the benchmark, erasing the significant underperformance observed in Q1 2020. Since-inception relative performance is now -0.04%

• One-year performance was strong in both absolute and relative terms. The portfolio returned +46.1%, comfortably ahead of the benchmark, which returned +42.8% over the same period.

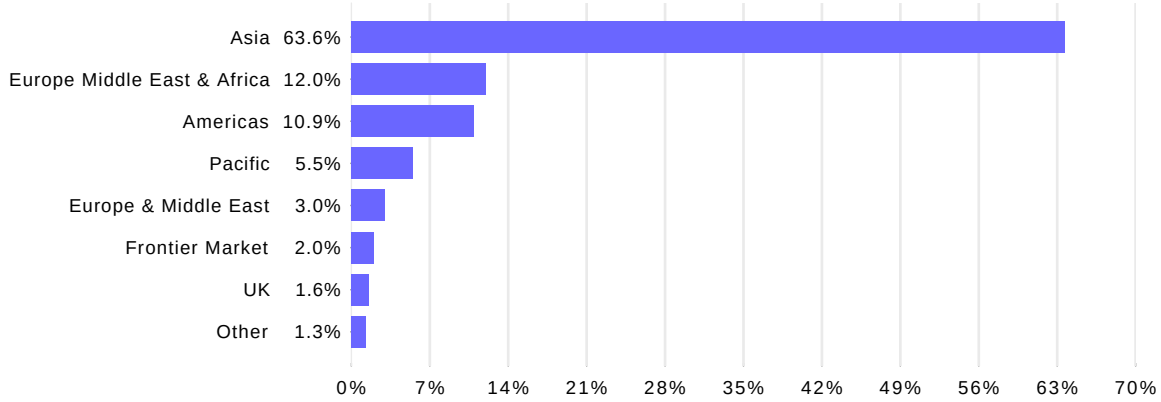
Brunel Emerging Market Equity – Region & Sector Exposure

BRUNEL Pension Partnership

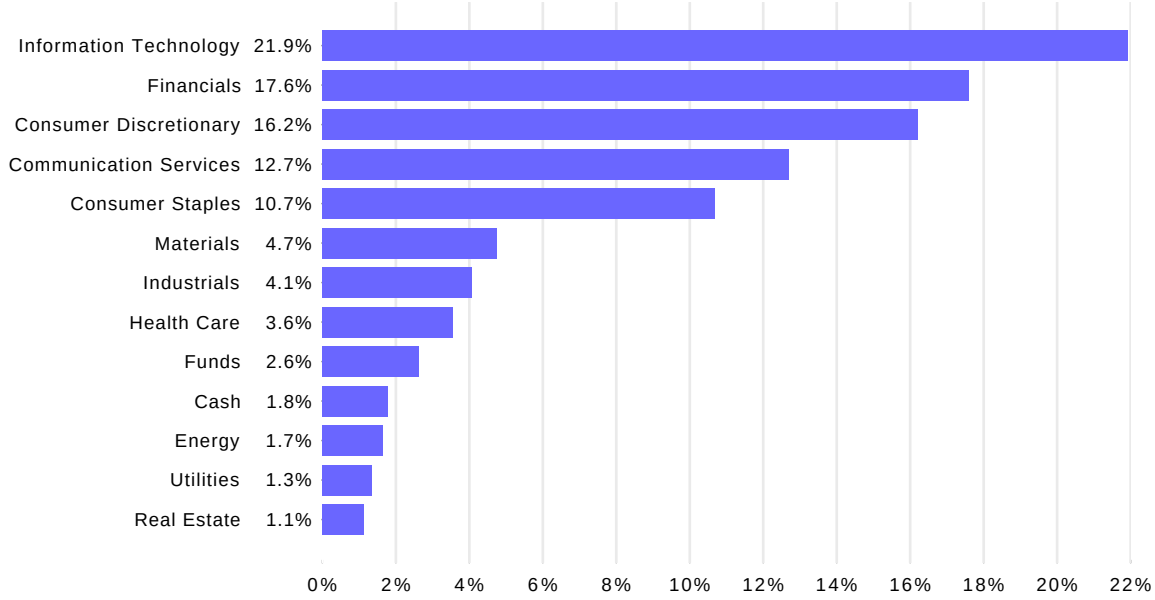
Top 20 Holdings

	Mkt. Val.(GBP)
TAIWAN SEMICONDUCTOR MANUFAC	110,478,180
TENCENT HOLDINGS LTD	100,026,354
SAMSUNG ELECTRONICS CO LTD	62,938,011
ALIBABA GROUP HOLDING-SP ADR	49,629,795
ISHARES MSCI INDIA ETF	38,824,397
SBERBANK PJSC -SPONSORED ADR	32,831,701
ALIBABA GROUP HOLDING LTD	27,831,422
AIA GROUP LTD	27,358,546
NASPERS LTD-N SHS	23,102,366
INFOSYS LTD-SP ADR	22,583,755
HDFC BANK LTD-ADR	20,399,843
MEDIATEK INC	16,242,206
PING AN INSURANCE GROUP CO-H	16,208,815
YANDEX NV-A	16,012,374
SAMSUNG ELECTRONICS-PREF	15,607,353
CHINA CONSTRUCTION BANK-H	15,524,413
WULIANGYE YIBIN CO LTD-A	14,988,294
BID CORP LTD	14,233,337
COUNTRY GARDEN SERVICES HOLD	14,113,620
CIE FINANCIERE RICHEMO-A REG	12,520,932

Regional Exposure



Sector Exposure



Brunel Emerging Market Equity – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TAIWAN SEMICONDUCTOR MANUFACTURIN	62.0	37.5
2. DELTA ELECTRONICS INC	74.9	28.8
3. CHINA LONGYUAN POWER GROUP CORP LTD	68.8	40.5
4. MEDIATEK INC	63.3	67.5
5. INFOSYS LTD	58.3	81.4
6. OTP BANK NYRT	64.6	63.3
7. HANON SYSTEMS	69.2	83.8
8. WEICHAI POWER CO LTD	70.4	50.0
9. SINO-AMERICAN SILICON PRODUCTS INC	68.2	38.6
10. OPAP SA	64.8	78.9

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. GRUPO MEXICO SAB DE CV	42.6	30.4
2. ICICI BANK LTD	43.2	57.5
3. WULIANGYE YIBIN CO LTD	46.3	91.2
4. NETEASE INC	43.2	78.5
5. YANDEX NV	45.8	36.6
6. KIMBERLY-CLARK DE MEXICO SAB DE CV	37.5	10.9
7. ANTA SPORTS PRODUCTS LTD	37.2	17.6
8. ALIBABA GROUP HOLDING LTD	48.6	25.1
9. SAMSUNG ELECTRONICS CO LTD	47.6	67.2
10. TENCENT HOLDINGS LTD	45.6	30.6

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

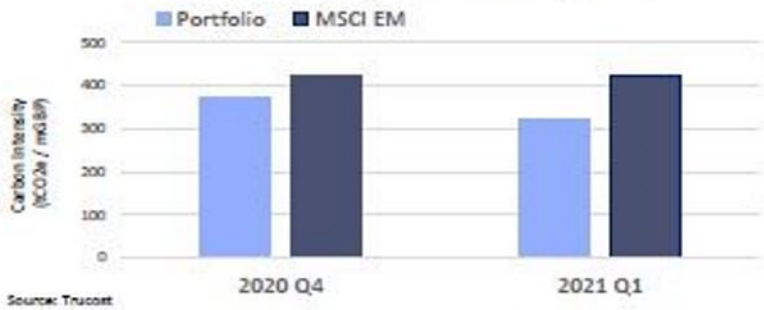
Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	53.5	53.6
MSCI EM	53.6	53.7

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)



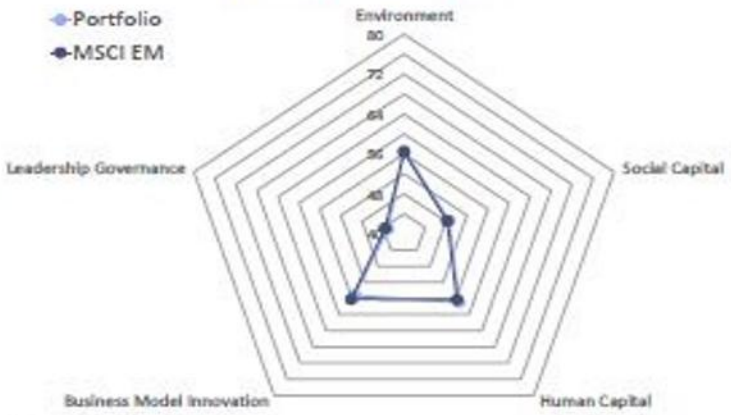
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	2.5	2.3	4.0	3.8
MSCI EM	2.9	3.4	8.0	8.2

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

Brunel Assessment:

- **Taiwan Semiconductor Manufacturing** (Semiconductors) production has been impacted by the worst drought in Taiwan in 56 years. This was exacerbated when construction damaged power supply and an estimated loss of 30,000 wafers and NT$1 billion.
- **Hanon Systems** (Transportation) has agreed to back Volta Energy Technologies, a $150 million energy storage start up fund. The investment comes at a time when interest in energy storage solutions couldn't be higher.
- **Yandex** (Internet Media and Services), the Russian internet giant, has been accused of violating competition law on its search engine at the expense of other companies. The Russian Competition watchdog says that it must allow third-party services to be included in search results on similar terms to its own services.

80% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The carbon intensity of the Portfolio and its benchmark decreased over the quarter, following market movements. The Portfolio remains below its benchmark, the MSCI Emerging Markets for both extractives revenue exposures and extractive industries value of holdings.

Brunel Global High Alpha Equity

BRUNEL
Pension Partnership

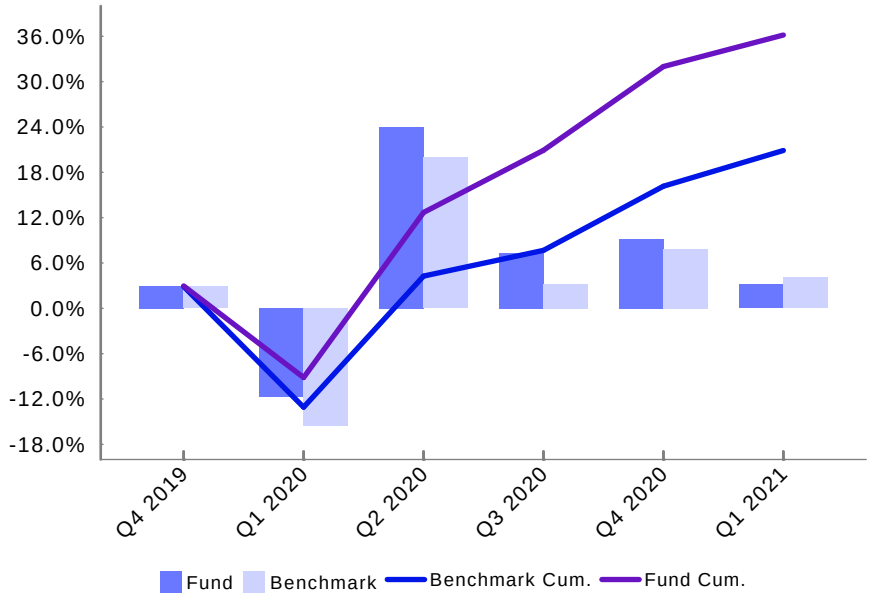
Overview

	Description
Portfolio Objective:	Provide global equity market exposure together with excess returns from accessing leading managers.
Investment Strategy & Key Drivers:	High conviction, concentrated portfolios with strong style/factor biases invested in a unconstrained manner.
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.
Total Fund Value:	£3,326,658,961

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	3.2%	4.1%	-0.9%
Fiscal YTD	49.9%	39.1%	10.8%
1 Year	49.9%	39.1%	10.8%
3 Years			
5 Years			
10 Years			
Since Inception	26.4%	15.5%	10.9%

Rolling Performance*



* Partial returns shown in first quarter

Over the last 12 months, the fortunes of global equity markets have been indelibly entwined with the impacts of Covid as governments, businesses and individuals have responded to the pandemic and investors have tried to understand the implications. Global developed equities (as proxied by the MSCI World index) delivered a 4.1% return over the quarter, consolidating the more significant returns seen over recent quarters.

In broad terms, the market rotation out of stocks deemed to have prospered from the COVID-induced slowdown into those stocks most hurt by the pandemic, continued this quarter. The two best-performing sectors by far were Energy and Financials, continuing their outperformance from last quarter. Dispersion of returns was in evidence throughout the quarter, both between sectors and within sectors, and the portfolio saw these themes play out.

The portfolio returned 3.3% over the quarter, underperforming the benchmark by 0.8%, thus ending a run of quarterly outperformance that began at inception in December 2019. The quarterly performance was robust given an environment that provided headwinds for a portfolio with a negative Value and pro-Growth tilt.

Brunel Global High Alpha Equity

BRUNEL
Pension Partnership

Continued Commentary

The quarterly underperformance was largely driven by stock selection, with weak performance in the Financials; the more Quality-diversified financial names held as overweights (such as MSCI and Moody's) suffered, whilst the more cyclical Value names which are underrepresented in the portfolio (such as Wells Fargo and Bank of America) performed strongly. Weak stock selection in the Consumer Discretionary sector highlighted another trend over the quarter, as overweight Growth names gave up recent strong gains (Pinduoduo, Peloton, Tal Education and NIO all fell by more than 20%). On a positive note, the portfolio was able to participate in the 'recovery trade' in the materials sector with overweights in companies such as Steel Dynamics, Reliance Steel, Anglo and Glencore.

On a sector allocation basis, the negative impact of being underweight Energy and Financials sectors outweighed the benefit of being underweight Consumer Staples and Utilities, the two lowest-performing sectors. On a country allocation basis, the portfolio's overweight to China detracted, whilst the underweight to US had a neutral impact.

Managers' performance continues to reflect their different investment styles. Harris and RLAM performed strongly in market conditions that rewarded their more value-driven approaches. Despite their smaller allocations within the fund, their material contribution to fund returns partially offset the negative contribution of the larger allocation to more Growth-oriented managers, such as AB and BG, which struggled over the quarter.

Over one year, the portfolio performed strongly in both absolute and relative terms, returning 50.7%, and thus outperforming the benchmark by +11.6%. This excellent outcome was largely the result of positive stock selection, which is important for a portfolio where the focus is on fundamental managers selected for their ability to select concentrated portfolios of high-conviction names.

During the quarter, £185m was redeemed from the portfolio as two clients rebalanced their wider asset portfolios. The outflow was used to rebalance the underlying manager allocations back towards target.

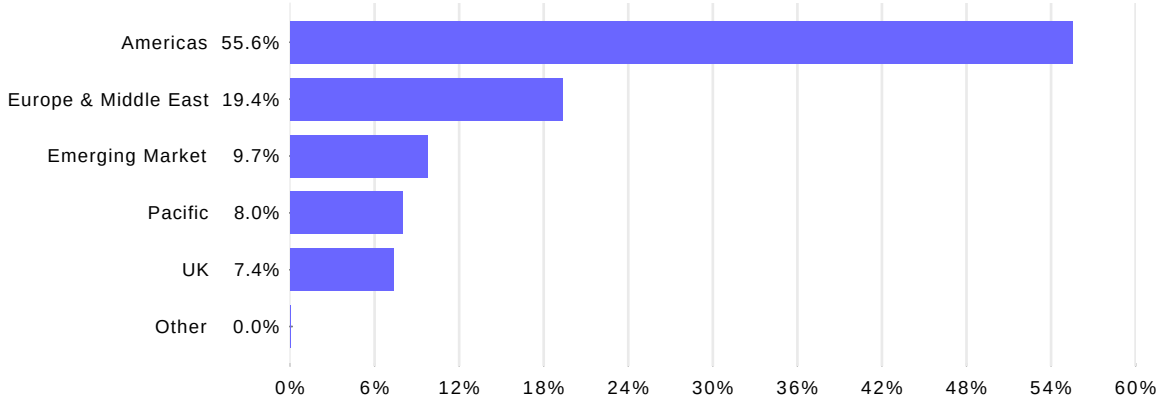
Brunel Global High Alpha Equity – Region & Sector Exposure

BRUNEL Pension Partnership

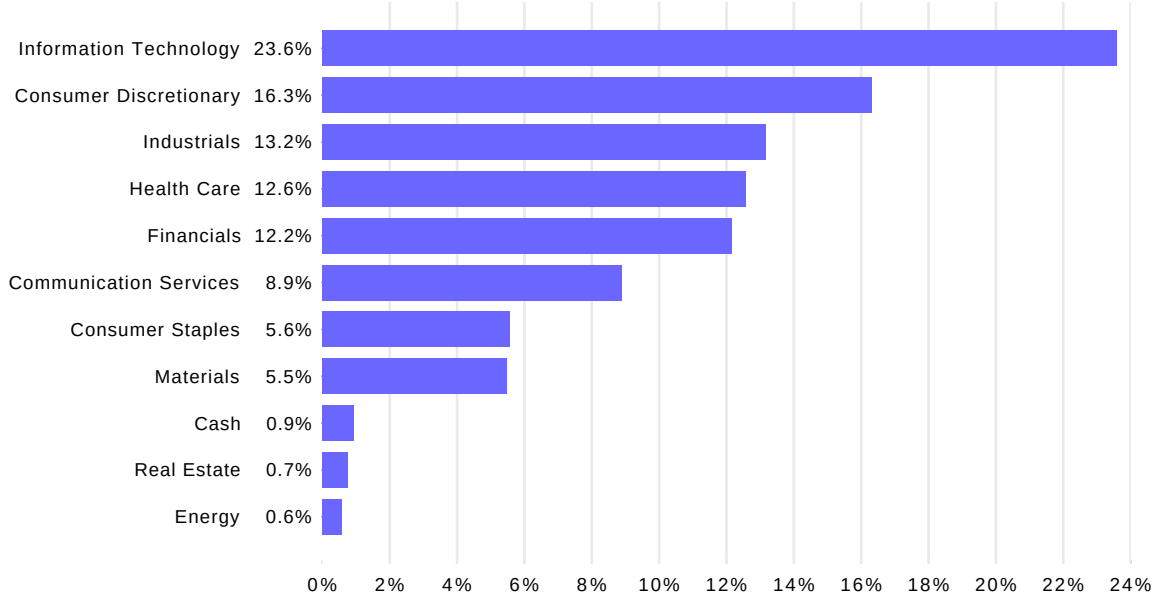
Top 20 Holdings

	Mkt. Val.(GBP)
MICROSOFT CORP	136,151,420
MASTERCARD INC - A	95,610,898
ALPHABET INC-CL A	88,404,184
TAIWAN SEMICONDUCTOR-SP ADR	74,233,520
MOODY'S CORP	70,640,651
KEYENCE CORP	64,568,931
NESTLE SA-REG	60,625,388
SCHWAB (CHARLES) CORP	58,932,632
TJX COMPANIES INC	58,337,880
ASML HOLDING NV	51,622,766
AMAZON.COM INC	48,936,546
TENCENT HOLDINGS LTD	48,149,789
NIKE INC -CL B	45,570,596
ALIBABA GROUP HOLDING-SP ADR	43,661,552
CAPGEMINI SE	40,041,095
NIDEC CORP	40,002,600
JOHNSON & JOHNSON	38,537,341
APTIV PLC	38,434,511
AUTOMATIC DATA PROCESSING	36,443,179
FACEBOOK INC-CLASS A	36,367,956

Regional Exposure



Sector Exposure



Brunel Global High Alpha Equity – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TAIWAN SEMICONDUCTOR MANUFACTURIN	62.0	57.5
2. ASML HOLDING NV	64.6	84.4
3. RECRUIT HOLDINGS CO LTD	67.5	25.4
4. MURATA MANUFACTURING CO LTD	69.7	86.0
5. CAPGEMINI SE	63.4	69.6
6. NIDEC CORP	61.5	26.2
7. SPIRAX-SARCO ENGINEERING PLC	69.6	54.8
8. STEEL DYNAMICS INC	63.8	62.3
9. NESTLE SA	58.7	48.6
10. CARRIER GLOBAL CORP	63.7	83.5

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. ALIBABA GROUP HOLDING LTD	46.6	25.1
2. BECTON DICKINSON AND CO	44.2	75.3
3. NIKE INC	47.2	66.8
4. TENCENT HOLDINGS LTD	45.6	30.8
5. JOHNSON & JOHNSON	42.9	83.4
6. FACEBOOK INC	42.0	58.4
7. AUTOZONE INC	36.4	81.8
8. TJX COS INC/THE	41.0	22.5
9. MICROSOFT CORP	46.5	35.1
10. ALPHABET INC	44.8	57.6

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	53.7	54.1
MSCI World	53.2	53.7

* Position 1 is the top contributor/detractor.

0 50 100

TruValue Labs & SASB

Weighted Average Carbon Intensity (WACI)

Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	1.6	1.5	3.3	3.2
MSCI World	3.2	3.0	7.5	7.6

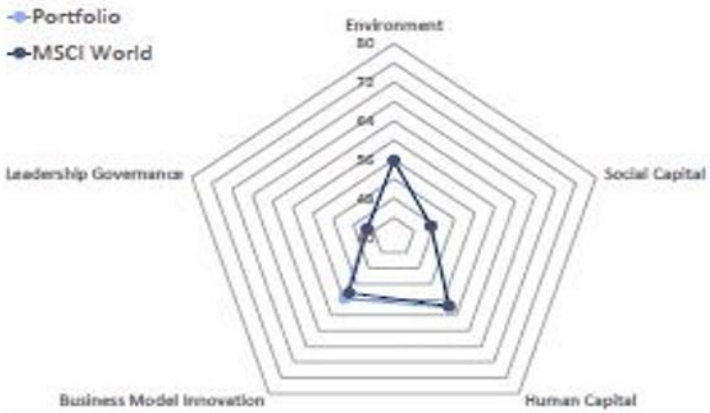
1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Brunel Assessment:

- **Taiwan Semiconductor Manufacturing** (Semiconductors) production has been impacted by the worst drought in Taiwan in 56 years. This was exacerbated when construction damaged power supply and an estimated loss of 30,000 wafers and NT$1 billion.
- **ASML Holding NV** (Semiconductors) has signed a 10 year green power purchase agreement with RWE. ASML aim to source 100% of their energy from responsible, renewable sources, such as wind, solar and geothermal energy in 2025.
- **Capeminin** (Technology) entered a collaboration with YuWaah, UNICEF, and United Nations Global Compact Network India (UNGCNI) to work together to skill India's young people. The company has also joined the 'Partnering for Racial Justice in Business Initiative' launched by the World Economic Forum.
- **Autozone** (Technology) has been involved in a multimillion-dollar battle between car companies lobbying about the 'right to repair law', parties have been criticised for scaremongering advertisements. The law would give independent mechanics access to car's diagnostic codes, supporters seek to avoid a monopoly on car repairs whilst opposers have concerns over data protection.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The Portfolio continues to have a carbon intensity significantly lower than its benchmark. Revenues from extractive activity are half that of its benchmark..

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Global Sustainable Equities

BRUNEL
Pension Partnership

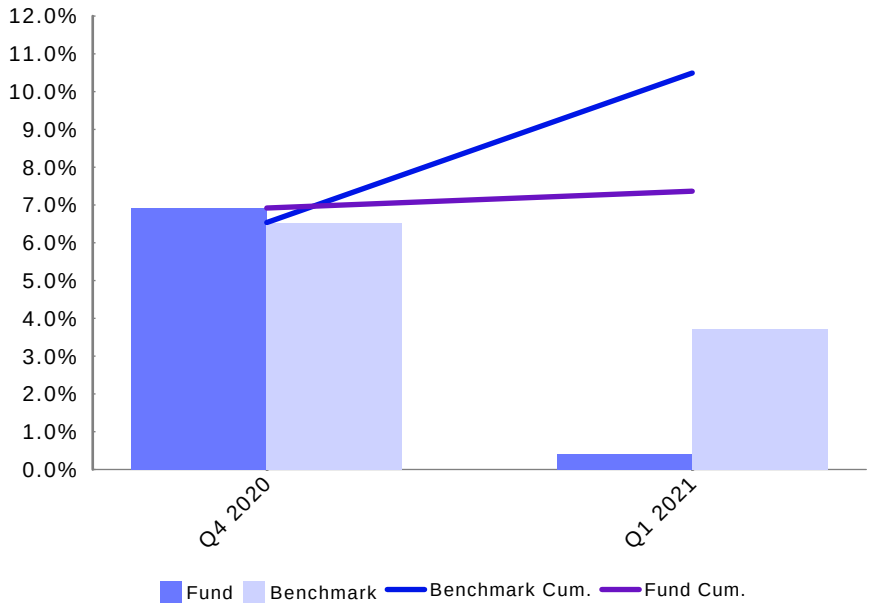
Overview

	Description
Portfolio Objective:	To provide exposure to global sustainable equities markets, including excess returns from manager skill and ESG considerations.
Investment Strategy & Key Drivers:	Actively managed, diversified by sector and geography. Consideration for a companies Environmental & Social sustainability.
Liquidity:	Managed Liquidity.
Risk/Volatility:	High, representing an equity portfolio.
Total Fund Value:	£1,864,556,822

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	0.4%	3.7%	-3.3%
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	7.4%	10.5%	-3.1%

Rolling Performance*



* Partial returns shown in first quarter

The Global Sustainable Equity portfolio launched on 19 October. From inception through to 31 March 2021, the MSCI ACWI index returned 10.5%, whilst the portfolio returned 7.4% on a net-of-fees basis.

• This quarter we saw a continued rally for value stocks, carrying on from the renewed vaccine hopes that marked the end of 2020. Notably, the Energy and Finance (especially Banks) outperformed and were the main contributors to the fund's relative underperformance over the quarter. Energy and Financials returned 17% and 11% respectively; the portfolio has an underweight allocation to Energy and an underweight allocation to banks, which were the main contributors to financial sector returns. These sectors usually exhibit unsustainable characteristics and the underweights are to be expected in the portfolio.

• Whilst there have been value headwinds since inception, we take comfort that the three managers have provided varying alpha characteristics and continue to operate with sustainability at the forefront of their processes.

Brunel Global Sustainable Equities

Continued Commentary

• Nordea outperformed the MSCI ACWI over the quarter by 1.7%, as its thematic Climate and Environment Strategy gives it increased exposure to small/mid-caps, which outperformed large-cap stocks over the quarter. Its selection of industrial stocks also contributed to outperformance. Ownership and RBC both underperformed, however, as they are considered to be broader sustainable managers with more exposure to the larger end of the market cap scale. Ownership manages a concentrated bottom-up portfolio, with an overweight to growth sectors such as Technology, which underperformed over the quarter. RBC's underperformance can largely be attributed to positions in renewable energy securities such as Orsted and Neste, both of which gave way as older-economy energy securities rose.

• Whilst it is still very early in this portfolio's journey, the performance of the fund has been in line with expectations, given the obvious headwinds of a Value rally in the less sustainable parts of the market. We are also pleased that the portfolio's sustainable characteristics are aligned with those expressed during the construction phase. The fund exhibits a carbon reduction relative to the MSCI ACWI of ~30%, as well as demonstrating an ESG score that is superior to the benchmark, as measured by our ESG data provider. The WACI has increased slightly since last quarter due to a coverage update from the data provider, where portfolio coverage has increased from 87% to 96%. However, the fund still offers a sizeable WACI reduction.

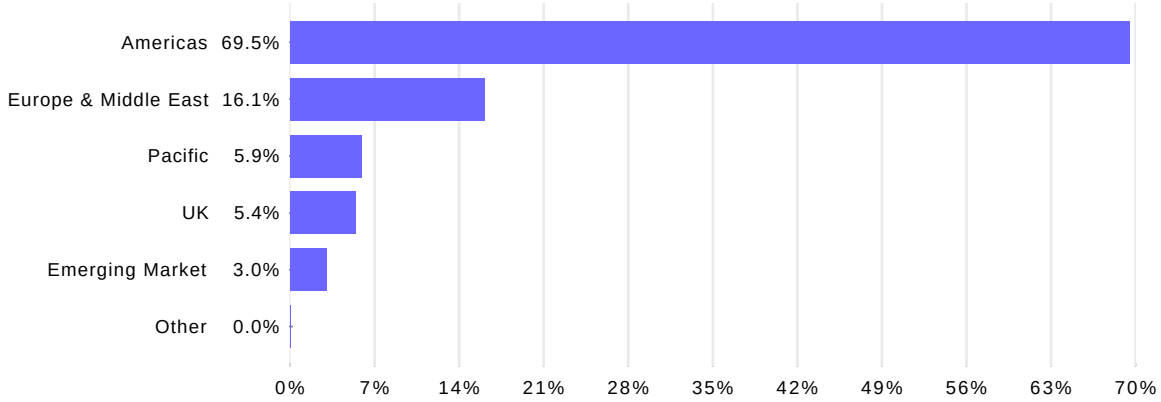
Brunel Global Sustainable Equities – Region & Sector Exposure

BRUNEL Pension Partnership

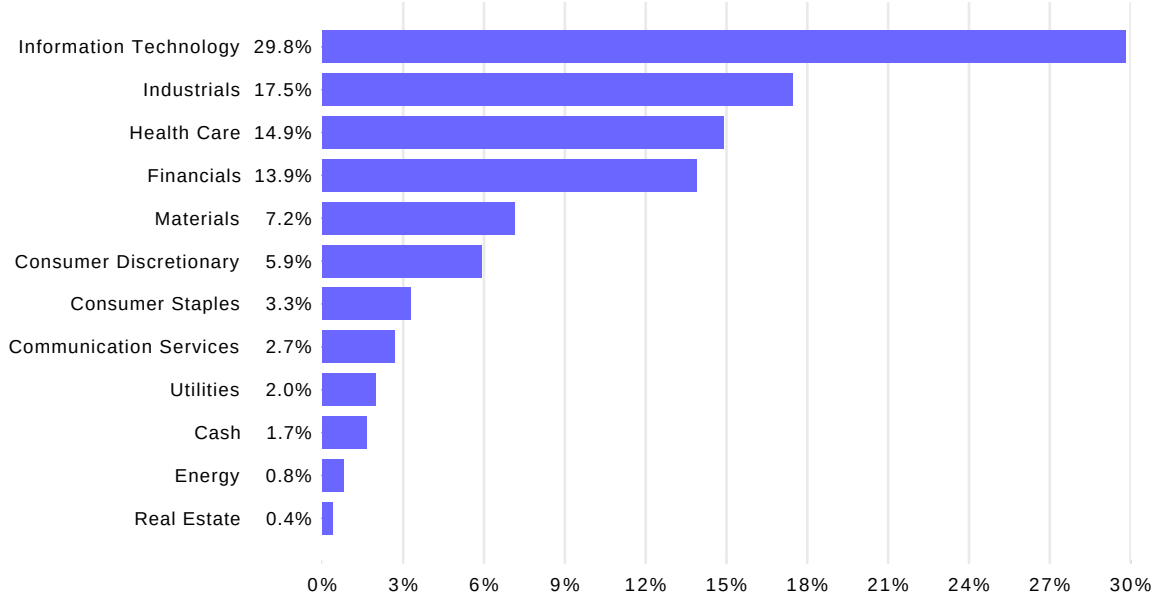
Top 20 Holdings

	Mkt. Val.(GBP)
MARKETAXESS HOLDINGS INC	59,072,056
MASTERCARD INC - A	54,356,548
ANSYS INC	49,227,331
ADYEN NV	47,405,278
WORKDAY INC-CLASS A	42,643,163
MICROSOFT CORP	36,572,237
TRADEWEB MARKETS INC-CLASS A	35,872,146
MASIMO CORP	34,361,984
ALPHABET INC-CL A	34,167,166
ECOLAB INC	33,028,973
INTUIT INC	32,794,638
PTC INC	32,110,847
BIO-TECHNE CORP	31,985,971
PAYPAL HOLDINGS INC	31,519,676
EDWARDS LIFESCIENCES CORP	31,493,745
ROCHE HOLDING AG-GENUSSCHEIN	31,252,502
INTERCONTINENTAL EXCHANGE IN	30,817,628
ILLUMINA INC	30,387,024
FIRST REPUBLIC BANK/CA	29,637,935
UNITEDHEALTH GROUP INC	28,272,098

Regional Exposure



Sector Exposure



Brunel Global Sustainable Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. WORKDAY INC	71.0	23.5
2. MARKETAXESS HOLDINGS INC	66.5	81.1
3. ECOLAB INC	71.3	63.6
4. MASIMO CORP	67.4	80.5
5. ORSTED AS	71.9	34.0
6. PTC INC	66.4	45.3
7. CRODA INTERNATIONAL PLC	71.6	28.4
8. TERADYNE INC	76.2	69.2
9. FORTIVE CORP	65.4	20.2
10. ZEBRA TECHNOLOGIES CORP	71.4	64.1

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. MASTERCARD INC	55.0	70.8
2. AMAZON.COM INC	49.4	50.0
3. VISA INC	46.2	29.5
4. TYLER TECHNOLOGIES INC	49.1	12.1
5. ROCHE HOLDING AG	50.4	48.1
6. PAYPAL HOLDINGS INC	49.8	74.7
7. INTERCONTINENTAL EXCHANGE INC	47.7	68.6
8. MICROSOFT CORP	46.5	35.1
9. TJX COS INC/THE	41.0	22.5
10. ALPHABET INC	44.8	57.6

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	58.8	59.2
MSCI ACWI	53.3	53.7

* Position 1 is the top contributor/detractor.

0 50 100

TruValue Labs & SASB

Weighted Average Carbon Intensity (WACI)

Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	1.7	2.9	3.4	3.8
MSCI ACWI	3.1	3.0	7.5	7.7

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

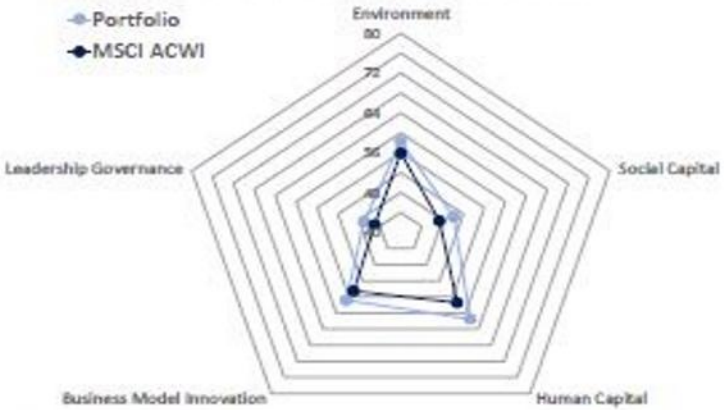
Brunel Assessment:

- **MarketAxess** (Services), the largest green bond marketplace, announced the success of its 'Trading for Trees' program. The initiative plants 5 trees for every $1 million of green bond executed and saw over 134,000 trees planted in 2020 alone.
- **Croda** (Chemicals) has been named first in Barron's 'Most Sustainable International Companies' listing. The company that uses science to make speciality chemicals, and has been heavily involved in vaccine contracts, tops the list which measures companies against 230 key ESG indicators.
- **Zebra Technologies** (Technology & Communications), has backed a Chicago logistics start up called FourKites that has launched a logistics software that tracks one million shipments a day. Zebra Technologies was recently named as one of the 'Best Workplaces for Innovators' by Fast Company.
- **Masimo** (Medical Equipment & Supplies) has announced FDA approval or a new real-time and wireless Bluetooth connectivity patient monitoring device. The technology will reduce clutter in operating rooms where space is at a premium and improve safety as cables can accidently be pulled on conventional patient monitoring equipment.

80% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

As expected from this Sustainable Portfolio, the carbon intensity and exposure to extractive industries are significantly below benchmark. The Portfolio has considerably higher ESG scores compared to its Benchmark across Environment, Social and Human Capital categories.

Absolute Weighted ESG Scores



TruValue Labs & SASB

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Brunel Smaller Companies Equities

BRUNEL Pension Partnership

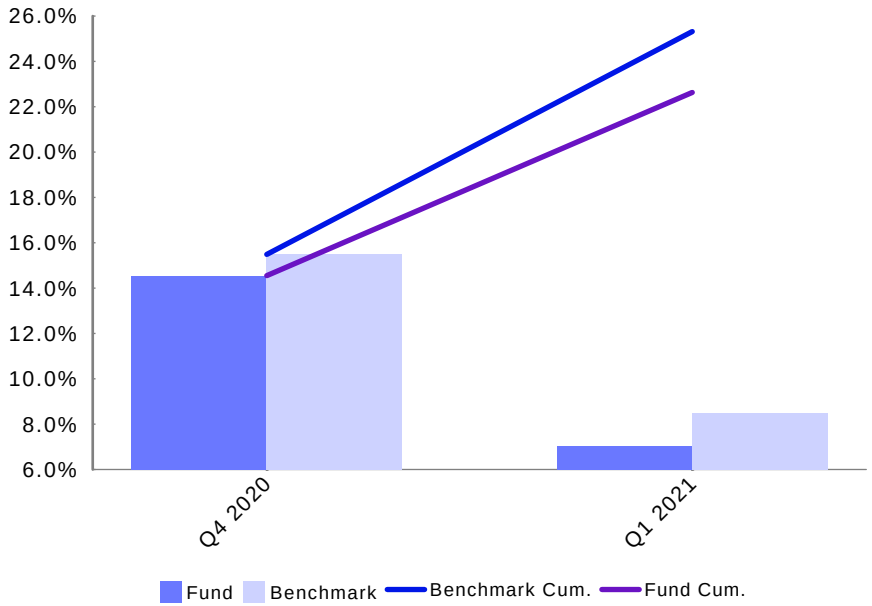
Overview

	Description
Portfolio Objective:	To provide exposure to global small capitalisation company equities together with excess returns from manager skill.
Investment Strategy & Key Drivers:	Actively managed, diversified by geography. Small capitalisation companies will be as defined by the relevant index provider.
Liquidity:	Managed liquidity. Traditionally lower than broader market.
Risk/Volatility:	High to very high absolute risk with moderate to high relative risk, around 5%.
Total Fund Value:	£768,413,810

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	7.1%	8.5%	-1.5%
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	22.6%	25.3%	-2.7%

Rolling Performance*



* Partial returns shown in first quarter

Over the quarter, global small cap equity markets (proxied by the MSCI World Small Cap Index) delivered an 8.51% return as investor sentiment remained positive on encouraging COVID-19 vaccination efforts and their potential impact on global economic growth. Since global small cap performance can act as a proxy for economic growth expectations, the upswing was broad, although value stocks continued to outperform growth stocks during the first quarter of 2021.

The Global Small Cap Equities portfolio returned 7.2% this quarter, modestly underperforming the MSCI World Small Cap benchmark by 1.3%. The underperformance was primarily a result of the portfolio's modest overall growth bias. Stock selection in the Finance and Health Technology sectors detracted, as did an underweight allocation to the Energy sector.

Dispersion in manager performance primarily occurred due to individual manager characteristics and style biases.

• Kempen outperformed the benchmark by 9.0%, reflecting its value bias. Strong stock selection, particularly in the retail trade sector, further boosted relative performance.

Brunel Smaller Companies Equities

BRUNEL
Pension Partnership

Continued Commentary

• Montanaro underperformed the benchmark by 9.2%, a reflection of its significant bias towards Quality and Growth. A strong overweight to Technology Services also negatively contributed, as did stock selection in the Finance sector.

• American Century underperformed to a lesser extent (-2.8% relative to the benchmark), due to its more moderate Growth bias. Stock selection in the Financial Services sector detracted from performance.

The sub-fund increased in size over the quarter due to subscriptions from two clients, totalling c. £175.5m. The AUM of the sub-fund totalled c. £754m AUM at the end of the quarter.

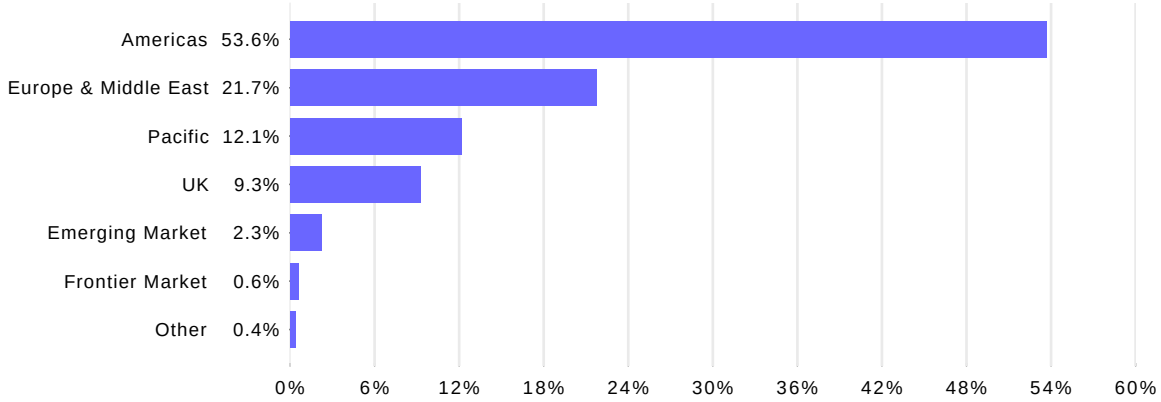
Brunel Smaller Companies Equities – Region & Sector Exposure

BRUNEL Pension Partnership

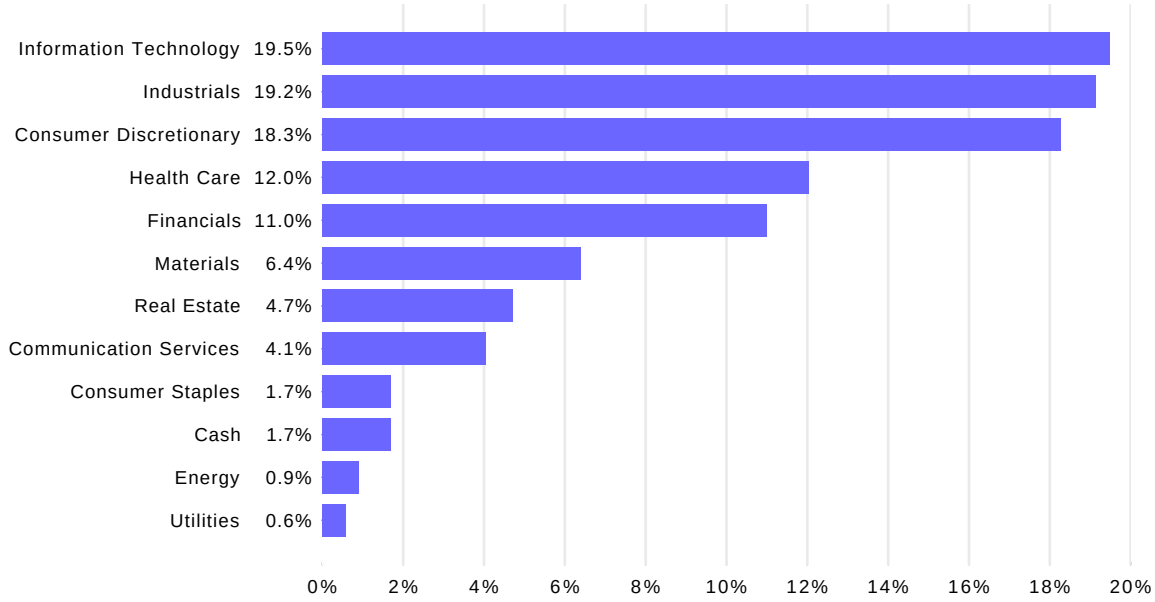
Top 20 Holdings

	Mkt. Val.(GBP)
JABIL INC	11,901,048
BRUNSWICK CORP	10,343,648
NOVA MEASURING INSTRUMENTS	10,280,166
TCF FINANCIAL CORP	9,063,705
DIALOG SEMICONDUCTOR PLC	8,427,748
HOULIHAN LOKEY INC	8,203,430
TECHNOLOGY ONE LTD	8,010,415
THERMON GROUP HOLDINGS INC	7,883,535
ABERCROMBIE & FITCH CO-CL A	7,730,236
WINTRUST FINANCIAL CORP	7,715,213
HASEKO CORP	7,592,508
PRO MEDICUS LTD	7,467,394
CSW INDUSTRIALS INC	7,319,717
WEST FRASER TIMBER CO LTD	7,307,856
TREX COMPANY INC	7,124,436
ICON PLC	7,123,839
DENA CO LTD	7,035,512
FOX FACTORY HOLDING CORP	6,928,767
ASR NEDERLAND NV	6,829,161
ARGO GROUP INTERNATIONAL	6,725,800

Regional Exposure



Sector Exposure



Brunel Smaller Companies Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. BRUNSWICK CORP/DE	78.1	82.3
2. ASR NEDERLAND NV	72.5	83.3
3. HYPOPORT SE	80.5	19.0
4. ELECTROCOMPONENTS PLC	77.0	21.6
5. WEST FRASER TIMBER CO LTD	67.3	70.3
6. PAYLOCITY HOLDING CORP	71.8	83.2
7. ENERSYS	68.7	22.8
8. SOITEC	78.0	50.0
9. KILLAM APARTMENT REAL ESTATE INVESTME	77.6	28.3
10. SOLAREDGE TECHNOLOGIES INC	65.1	70.6

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. SP PLUS CORP	43.0	10.7
2. KINSALE CAPITAL GROUP INC	20.4	86.3
3. TCF FINANCIAL CORP	51.6	80.5
4. R1 RCM INC	42.1	16.4
5. MIZRAHI TEFAHOT BANK LTD	32.5	14.7
6. HOULIHAN LOKEY INC	49.3	44.2
7. FUJITEC CO LTD	42.8	5.9
8. RENAISSANCERE HOLDINGS LTD	27.6	76.5
9. ARGO GROUP INTERNATIONAL HOLDINGS LT	41.9	18.2
10. QUALYS INC	37.3	29.6

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	58.5	58.0
MSCI World Small Cap	56.9	57.1

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]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	0.8	1.0	1.7	1.6
MSCI W. Sm. Cap	2.8	2.6	3.7	3.8

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

Brunel Assessment:

- **West Fraser Timber** (Building Products) named one of Canada's Top Employers for Young People for 2021, the fifth time they have received the award. The company pays for tuition and books while apprentices are in school and provides additional living allowance, salary continuance, and an interest-free loan to purchase tools.
- **Killam Apartment REIT** (Real Estate) Commitment to ESG translated into a Green Star Rating from GRESB. The GRESB survey evaluates hundreds of real estate companies worldwide in areas such as management, governance, sustainability, environmental and social programs, and policies.
- **Argo Group** (Insurance) has announced catastrophe and pandemic-related estimated losses of $47m in the first quarter of 2021. About a quarter of these estimated losses relate to the impacts of winter storm Uri in the US.

10% of the bottom 10 ESG detractors are covered by engagement or specific voting activities. Holding size, scope for impact and opportunities for collaborative engagement are all inputs into engagement plans. We therefore see higher coverage rates for our large cap Portfolios.

The carbon intensity and extractives exposure of this Portfolio are significantly below its benchmark. The Portfolio also has a higher ESG score at an aggregate level, as well as outperforms across Social and Human Capital categories vs its benchmark.

Absolute Weighted ESG Scores

TruValue Labs & SASB

Brunel UK Active Equity

BRUNEL
Pension Partnership

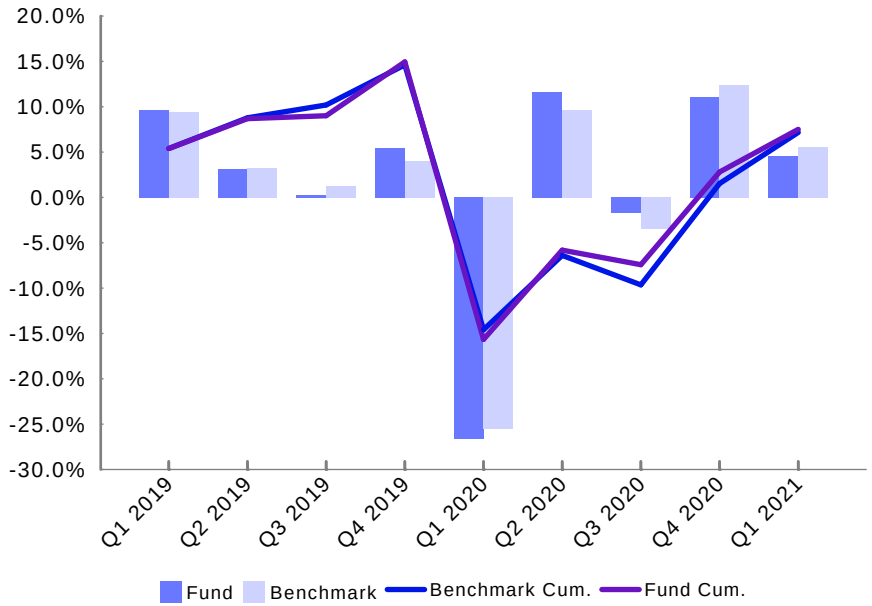
Overview

	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.
Total Fund Value:	£1,438,041,573

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	4.6%	5.6%	-1.0%
Fiscal YTD	27.5%	25.5%	2.0%
1 Year	27.5%	25.5%	2.0%
3 Years			
5 Years			
10 Years			
Since Inception	3.2%	3.0%	0.1%

Rolling Performance*



* Partial returns shown in first quarter

The FTSE All-Share Index excluding Investment Trusts returned 5.6% as UK equities outperformed global indices over the quarter. UK market sentiment was supported by strong progress in the UK vaccination programme, which resulted in Covid recovery stories being favoured above those companies already seen to have benefitted during the pandemic. This was apparent when looking at sector performance - those sectors that have struggled over previous quarters (financials, basic materials and energy) significantly outperformed, whilst the more defensive sectors such as healthcare and utilities were weaker.

• Over the quarter, the portfolio returned 4.6%, underperforming the index by 1%. Attribution analysis shows relative fund performance was driven by a negative impact from stock selection, as we saw underperformance from some of the higher quality names that fared well since the pandemic began. This was particularly noticeable in the Consumer Discretionary and Real Estate sectors, with higher quality names such as Games Workshop and Rightmove among the significant detractors. This underperformance is not unexpected given the fund's material overweight to Quality in a period where high earnings quality names have underperformed their poorer quality peers.

• Sector allocation had a neutral effect, with the benefit from being underweight to Consumer Staples, Healthcare and Utilities, offsetting the negative

Continued Commentary

impact of the underweight to Energy and Basic Materials which were the best performing sectors over the quarter.

• Both managers underperformed during the quarter. Baillie Gifford's stock selection in Technology, Financials and Consumer Discretionary sectors were the main detractors, reflecting the underperformance of quality names described above. Invesco underperformed to a similar degree, with the positive impact from their value factor exposure more than offset by the negative impact of other factor exposures, continuing the theme from last quarter.

• Over the year to 31 March 2021, a period commencing after the large drawdown of March 2020, UK equities returned 25.5%. The portfolio delivered a strong absolute return of 27.5%, outperforming the index by 2%. The relative story is very much one of positive sector allocation impacts, with the portfolio benefitting significantly from an underweight to Healthcare and Energy sectors and an overweight to the Consumer Discretionary sector. The portfolio also gained from its small cap tilt, as smaller companies within the index benefitted in the early recovery post-March 2020, and also from the market rotation phase after the autumn vaccine news. The small cap factor was the standout performer within UK equities over the 12-month period. It is worth noting that the portfolio was restructured in September 2020 as Avon divested from the portfolio and our portfolio therefore moved to a two-manager structure.

• The portfolio remains ahead of the index since inception, at +0.1% net on an annualised basis.

Two broader points of note featuredthis quarter, impacting the portfolio. On 3 March 2021, the **Hill Review submitted its findings that propose a material change to the UK listing regime.** The proposals are aimed at maintaining the competitiveness of the UK stock market and the UK's status as a leading financial centre, whilst also opening a wider dialogue on how to balance the protection of shareholder rights and corporate governance standards.

Proposals include: allowing dual class share structures; lowering of the free float requirement; accepting dual listings in the UK; and allowing Special Purpose Acquisition Companies (SPACs). They also enable changes to financial track record requirements so earlier-stage companies can list (but at the expense of demonstrating revenue generation capability); and lowering the threshold that requires at least 75 per cent of current operations to have a three-year audited record, to allow companies growing by acquisition to list within three years of their most recent significant addition.

There is a further consultation on the proposals planned for later in the year. At this point, it is worth noting the potential impact the proposed changes could have on the characteristics and makeup of the opportunity set for this portfolio.

As of 22 March 2021**, FTSE made changes to the Industry Classification Benchmark** (ICB) used for their equity indexes. The two main changes are:
• The addition of a standalone Real Estate industry classification, reflecting the scale of this sector and allowing more detail at subsector level. This increases the number of the highest-level industries to 11.
• The reclassification of the Oil and Gas Industry as 'Energy', with sub sectors for Oil, Gas and Coal, or Alternative Energy, capturing the rising prominence of energy alternatives to fossil fuels.
The investment guidelines for this portfolio have been reviewed for any impact and no change is necessary. Reporting versus the index reflects these new industry classifications.

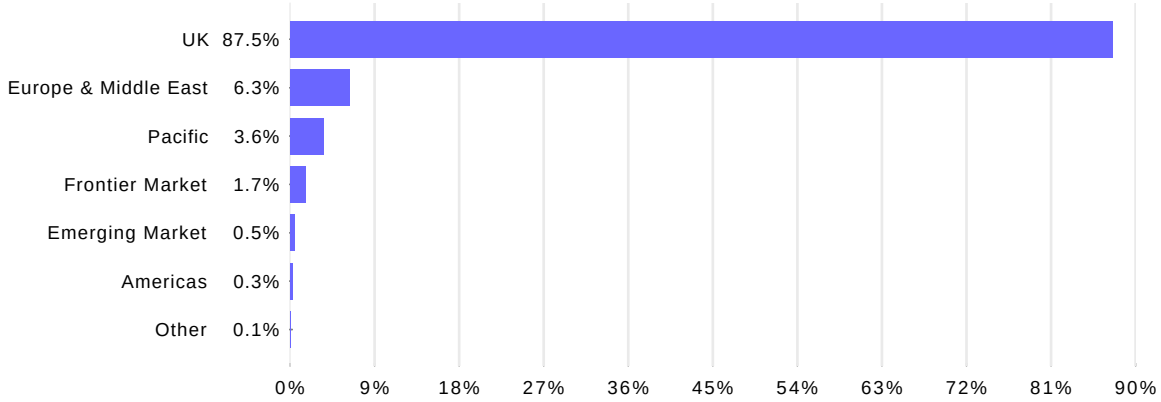
Brunel UK Active Equity – Region & Sector Exposure

BRUNEL
Pension Partnership

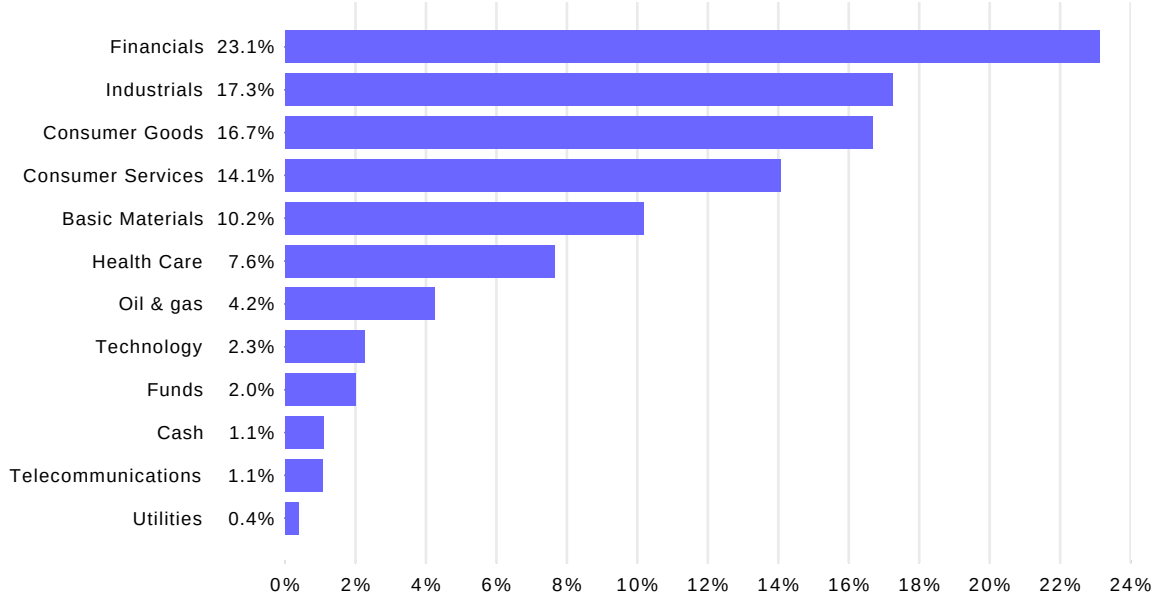
Top 20 Holdings

	Mkt. Val.(GBP)
RIO TINTO PLC	54,453,037
BHP GROUP PLC	51,872,803
ASTRAZENECA PLC	51,501,617
BRITISH AMERICAN TOBACCO PLC	50,528,759
UNILEVER PLC	49,786,913
DIAGEO PLC	36,531,041
LEGAL & GENERAL GROUP PLC	34,299,209
PRUDENTIAL PLC	34,015,786
BAILLIE GIFFORD BR SM-C-ACC	28,728,444
HSBC HOLDINGS PLC	27,441,488
BARCLAYS PLC	26,898,977
BUNZL PLC	26,107,851
ST JAMES'S PLACE PLC	26,057,155
ROYAL DUTCH SHELL PLC-A SHS	25,934,941
RIGHTMOVE PLC	24,183,352
HIKMA PHARMACEUTICALS PLC	23,957,928
ASHTEAD GROUP PLC	23,188,379
AUTO TRADER GROUP PLC	22,127,006
PERSIMMON PLC	21,079,615
EXPERIAN PLC	20,227,461

Regional Exposure



Sector Exposure



Brunel UK Active Equity – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. AUTO TRADER GROUP PLC	70.8	18.2
2. LEGAL & GENERAL GROUP PLC	63.0	66.0
3. TATE & LYLE PLC	73.5	44.6
4. 3I GROUP PLC	66.8	50.0
5. INTERMEDIATE CAPITAL GROUP PLC	64.9	76.0
6. ST JAMES'S PLACE PLC	61.6	86.4
7. UNILEVER PLC	58.4	50.0
8. DIAGEO PLC	59.3	54.6
9. INFORMA PLC	69.5	67.2
10. MONDI PLC	68.3	71.8

Bottom 10 ESG Detractors to Overall Score

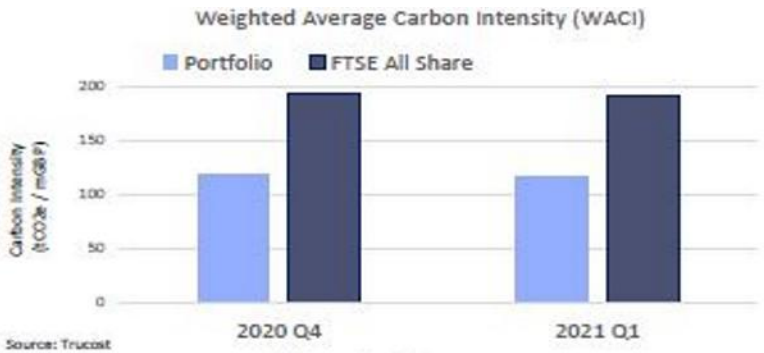
	Insight	Momentum
1. IG GROUP HOLDINGS PLC	44.9	12.6
2. GLAXOSMITHKLINE PLC	46.2	58.6
3. HISCOX LTD	31.2	22.2
4. INCHCAPE PLC	43.4	31.1
5. BARCLAYS PLC	45.8	74.3
6. HSBC HOLDINGS PLC	44.9	59.0
7. ASTRAZENECA PLC	49.4	31.9
8. EXPERIAN PLC	39.1	35.7
9. BRITISH AMERICAN TOBACCO PLC	47.7	39.8
10. LANCASHIRE HOLDINGS LTD	18.2	21.3

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	54.7	55.4
FTSE All Share (ex. Inv.)	54.8	55.3

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.



Extractive Exposure

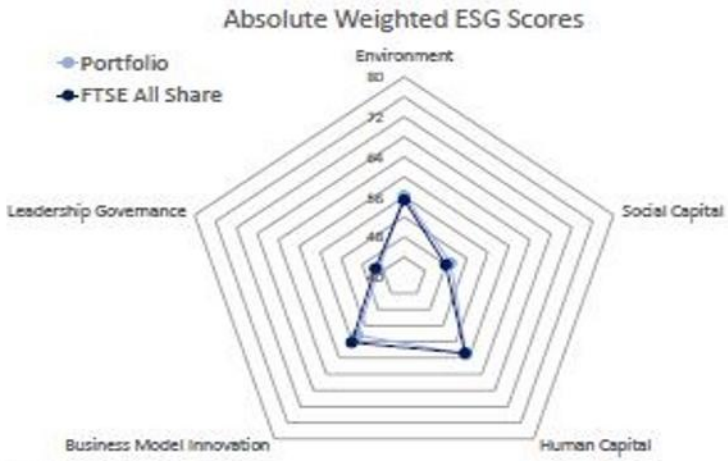
	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	3.8	4.4	13.0	11.2
FTSE All Sh. (ex. Inv)	5.5	5.4	19.3	16.5

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

Brunel Assessment:

- **HSBC** (Bank), faced a shareholder resolution from investors, including Brunel that was withdrawn following intense engagement. A board backed resolution will be put to shareholders instead, committing the bank to setting short and medium-term targets to align provision of finance with the Paris agreement and to publish a coal policy by the end of 2021.
- **Unilever** (Consumer Goods) seek to eliminate fossil fuel based chemicals from cleaning and laundry products by 2030. Last quarter they launched a laundry capsule made from industrial carbon emissions, instead of fossil fuels, at no additional cost to consumers.
- **Experian** (Services) partnered with FinScore, to deliver alternative credit scoring to help financial institutions reduce high default rates and prevent fraud, whilst simultaneously bridging the financial inclusion gap for unbanked individuals in the Philippines.
- **Tate & Lyle** (Processed Foods) in partnership with Bemis Associates, have developed a renewably sourced plant-based adhesive film with a lower carbon footprint compared to petroleum derived materials. Tate & Lyle aspire that all products demonstrate a measurable environmental benefit as compared to their predecessor by 2025.

60% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
Brunel has engaged extensively to improve the carbon intensity of this Portfolio which is now significantly below its benchmark. Since inception, carbon intensity has fallen from 210 to below 120 tCO2e/£m.



Glossary of Terms

Term	Previously referred as	Meaning
Absolute return		The actual return, as opposed to the return relative to a benchmark.
Allocation		Measures the impact of decisions to allocate assets differently from the benchmark.
Alternative Investment Fund (AIF)		An Alternative Investment Fund such as a hedge fund, private equity, real estate fund and other funds focused on alternative asset classes.
Alternative Investment Fund Managers (AIFM)		A fund manager that is authorised (full scope AIFM) or registered (if they manage AIFs with assets under management below certain thresholds) to manage AIFs such as hedge funds, private equity, real estate funds.
Alternative Investment Fund Managers Directive (AIFMD)		This is an EU law that requires each AIF managed within the scope of the Directive to have a single AIFM responsible for ensuring compliance with the Directive.
Annualised		Figures expressed as applying to one year.
Assets Under Management (AUM)		This measures the total market value of all the financial assets which a financial institution such as a mutual fund, venture capital firm, or brokerage house manages on behalf of its clients and themselves.
Attribution		Identifies the drivers of performance relative to the fund benchmark. The relative return is decomposed into two areas; Allocation and Selection.
Authorised Contractual Scheme (ACS)		An investment vehicle and fund manager, based in the UK, that allows LGPS pension funds or other organisations with money to invest alongside each other - while keeping a clear record of who owns what.
Benchmark Return		Expected return based on market indices as dictated by the fund strategy.
Brunel Board	Brunel Manager Board	Board of executive and non-executive directors, leading the Brunel company.
Brunel		Brunel Pension Partnership - The FCA-authorised investment manager entity that manages the pooled investments.
Brunel Executive Directors **(ED)**		The Executive Directors are responsible for overseeing the delivery of the Brunel objectives.

Glossary of Terms

BRUNEL
Pension Partnership

Term	Previously referred as	Meaning
Brunel Pension Partnership Limited **(Brunel)**		One of the eight LGPS Pools in England & Wales. A FCA regulated company, wholly owned by the Administering Authorities, and responsible for implementing the asset allocation strategies of the Brunel Funds by investing Fund assets within defined 'portfolios'. In particular, it will research and select the investment funds needed to meet the requirements of the detailed Strategic Asset Allocations. These investment funds will be operated by professional external investment managers. Brunel Pension Partnership [c£30bn: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, Wiltshire]
Chief Finance Officer **(CFO)**		A corporate officer primarily responsible for managing the financial risks of the corporation. This officer is also responsible for financial planning and record-keeping, as well as financial reporting to higher management. In the Local Authorities this is the S151 officer.
Chief Legal Officer **(CLO)**		The chief lawyer of the legal department, usually in a company or a governmental department who minimizes its legal risks by advising the company's other officers and board members on any major legal and regulatory issues the company confronts, such as litigation risks. In the Local Authorities this is the Monitoring Officer.
Collective Investment Scheme **(CIS)**		This is an investment scheme wherein several individuals come together to pool their money for investing in a particular asset(s) and for sharing the returns arising from that investment as per the agreement reached between them prior to pooling in the money.
Creation, Amendment and Deletion policy **(CAD policy)**		Brunel procedure for creation, amendment and deletion of portfolios
Cross Pool Collaboration Group **(CPCG)**		A collaborative group across the eight UK LGPS pools

Glossary of Terms

Term	Previously referred as	Meaning
Deloitte		Auditors, appointed to provide internal audit services to Brunel
Duration		The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movement in yields.
Environment, Social and Governance **(ESG)**		A subset of non-financial performance indicators used by investors to evaluate corporate behaviour and to determine the future financial performance of companies.
Full Business Case **(FBC)**		Strategic, financial, economic, commercial and management case.
Finance and Legal Assurance Group **(FLAG)**		Finance and Legal Assurance Group (with membership of each AAs equivalent to Chief Finance Officer (CFO) and Chief Legal Officer (CLO)) will sponsor the changes in the Funds and the arrangements for governance of the Brunel company.
Financial Conduct Authority **(FCA)**		This is a financial regulatory body in the United Kingdom, which operates independently of the UK government and is financed by charging fees to members of the financial services industry.
Freedom Of Information Request **(FOI)**		The Freedom of Information Act (FOIA) gives individuals the right to request access to recorded information held by public sector organisations.
Fund Manager		An organisation that provides investment products
FundRock		FundRock is a leading third party UCITS Management Company, Alternative Investment Fund Manager, Authorised Corporate Director and Authorised Contractual Scheme (ACS) Operator. FundRock serves as Brunel's ACS operator.
Fund Return		The total return achieved by the fund or asset class over the period. The return is obtained using the following equation on a monthly basis: ((capital gain/loss + income) / average balance) * 100
Grant Thornton		Auditors appointed to provide external audit services to Brunel
INALYTICS		An investment transition advisor procured by Brunel to initially advise on the passive equities transition

Glossary of Terms

BRUNEL Pension Partnership

Term	Previously referred as	Meaning
Institutional Investors Group on Climate Change **(IIGCC)**		The Institutional Investors Group on Climate Change (IIGCC) is a forum for investors to collaborate on climate change. IIGCC's mission is to mobilise capital for the low carbon future by amplifying the investor voice and collaborating with business, policymakers and investors. IIGCC provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change.
Investment Management Agreement **(IMA)**		The contract with a fund manager
Investment Strategy Statement **(ISS)**	Replaces the Statement of Investment Principles	A document that replaces the Statement of Investment Principles under the 2016 LGPS (Management and Investment of Funds) Regulations. Administering Authorities are required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented, including its approach to pooling.
Know Your Customer **(KYC)**		The process of a business identifying and verifying the identity of its clients. The term is also used to refer to the bank regulation which governs these activities.
Legal & General Investment Management **(LGIM)**		Investment management firm
Local Government Association **(LGA)**		This is an organisation which comprises local authorities in England and Wales. The LGA seeks to promote better local government; it maintains communication between officers in different local authorities to develop best practice. It also represents the interests of local government to national government.
Local Authority Pension Funds Investments **(LAPF)**		A magazine for local authority pension investment specialists.
Local Authority Pension Fund Forum **(LAPFF)**		The collaborative shareholder engagement group for local authority pension funds. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement.
Local Government Pension Scheme **(LGPS)**		This is a nationwide scheme and is a valuable part of the pay and rewardpackage for employees working in local government or working for otheremployers participating in the Scheme and for some councillors.

Glossary of Terms

BRUNEL Pension Partnership

Term	Previously referred as	Meaning
Local Government Pension Scheme **(LGPS)**		The Scheme is administered locally for participating employers through 99 regional pension funds
LGPS (Management and Investment of Funds) Regulations 2016 (Investment Regulations)	Draft LGPS (Management and Investment of Funds) Regulations 2016	Regulations 2016 (Investment Regulations) that came into effect 1 November 2016.
LGPS Code of Transparency (Transparency Code)		A move toward investment fee transparency and consistency, and part of the government's criteria for pooling investments.
Market volatility		The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.
Markets in Financial Instruments Directive II **(MiFID II)**	MiFID	MiFID is the European Union (EU) legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. MiFID applied in the UK from November 2007, and was revised by MiFID II, which took effect in January 2018. MiFID II is made up of MiFID (2014/65/EU) and the Markets in Financial Instruments Regulation (MiFIR - 600/2014/EU).
Money-weighted rate of return		The rate of return on an investment including the amount and timing of cashflows.
Portfolio	Fund	The grouping of the asset types to be available for funds. For example, Global Equities Core, Hedge funds, UK Gilts, LDI.
Portfolio group		The higher level category of asset types. For example, equities, alternatives, fixed interest.
Relative return		The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on index or Benchmark.
Selection		Measures the impact of performance at asset class or manager level in relation to the overall fund.

Glossary of Terms

Term	Previously referred as	Meaning
Time-weighted rate of return		The rate of return on an investment removing the effect of the amount and timing of cashflows.
Yield (Gross Redemption Yield)		The return expected from a board if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

Brunel Committees and Groups

Full name	Abbreviation	Chair	Purpose
Audit, Risk & Compliance Committee	ARC	Patrick Newberry, NED	To oversee key functions of the Regulated Company, including: - Financial and Annual reporting - Internal controls - Compliance and whistleblowing - External audit function
Brunel Investment Committee	BIC	CIO	Formal meeting of the Brunel Investment Team, covering: - Economic and Markets update - Responsible Investment update - Stakeholder input (from Client Relations Team) - Investment proposals (private and listed markets) - Procedures - Forward look
Brunel Investment Risk Committee	BIRC	CIO	To provide challenge and insight in respect of investment risks and exposures. This will include oversight of portfolio guidelines and monitoring.
Brunel Oversight Board	BOB	Ray Theodolou (Glos)	The Oversight Board has been established by the administering authorities participating in the Brunel Pension Partnership. Acting for the administering authorities in their capacity as shareholders in, and clients of, Brunel, the Oversight Board will have responsibility for ensuring that Brunel delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership.The Oversight Board shall comprise of one individual appointee of each administering authority participating in the Brunel Pension Partnership. In addition to the individuals appointed by each of the administering authorities, two members representing Fund members shall be entitled to attend and contribute to meetings of the Oversight Board.
Brunel Operations Committee	BOC	COO	To review the detailed elements of Brunel's operations, including: - Technology and infrastructure - HR policies

Brunel Committees and Groups

Full name	Abbreviation	Chair	Purpose
Brunel Operations Committee	BOC	COO	- Regulatory change (and compliance with) - Finance - Managing supplier relationships - ICAPP oversight
Brunel Risk and Compliance Committee	BRCC	DoR & GC	Second line review overseeing the Compliance and Risk function
Client Group	CG	Sean Collins	Client Group has been established by the administering authorities participating in the Brunel Pension Partnership. Acting for the administering authorities in their capacity as shareholders in, and clients of, Brunel, the Client Group will provide practical and technical support, guidance and assistance to the Oversight Board in its strategic role of ensuring that Brunel delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership.Client Group shall comprise of at least one individual appointee of each administering authority participating in the Brunel Pension Partnership.
The Executive Committee	ExCo	CEO	The core responsibility of ExCo is to oversee delivery of the Brunel objectives. The Executive Committee comprises: - Chief Executive Officer - Chief Investment Officer - Chief Operations Officer - Client Relationship Director
Remuneration Committee	RemCo	Mike Clark, NED	In line with the Shareholders Agreement, to set and monitor remuneration policy including that for senior management remuneration.

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BRUNEL
Pension Partnership

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Pension Fund Committee
15 June 2021
Pensions Administration

For Decision

Portfolio Holder: Cllr S Flower, Leader of the Council

Local Councillor(s): All Councillors

Executive Director: Aidan Dunn, Executive Director, Corporate Development

Report Author: Karen Gibson
Title: Service Manager for Pensions
Tel: 01305 228524
Email: karen.gibson@dorsetcouncil.gov.uk

Report Status: Public

Recommendation:

It is recommended that the Committee note and comment on the contents of the report and approve the content of the draft policies contained in Appendices 2 and 3 plus the interim amendment to the Funding Strategy Statement at Appendix 4. The policies will also need approval of the Pension Board.

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:

- Key Performance Indicators
- Systems Implementation Update
- Employer Flexibilities – new policies
- Employer Update
- Prudential – Update
- Written Ministerial Update on McCloud and the LGPS

- DCPF – update from GAD re section 13 results

2. Financial Implications

N/A

3. Well-being and Health Implications

None

4. Climate implications

None

5. Other Implications

N/A

6. 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

7. Equalities Impact Assessment

N/A

8. Appendices

- Appendix 1 – KPIs (February 20 to April 2021)
- Appendix 2 – DCPF DSA and DDA Policies DRAFT
- Appendix 3 – DCPF Contributions Review Policy DRAFT
- Appendix 4 – DCPF FSS Review DRAFT

9. Background Papers

- LGPS Regulations 2013
- The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020 (legislation.gov.uk)
- Written statements - Written questions, answers and statements - UK Parliament

10. Background

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

11. Key Performance Indicators

11.1 The key performance indicators (KPIs) for the period 1 February to 30 April 2021 are attached at Appendix 1.

11.2 **Systems Implementation**

11.1. The implementation of the new systems is progressing well, and remains on target, though with very tight timescales. There is an exceptional amount of work to be done in preparation for the Go-Live dates, and this is putting a lot of pressure on the team.

11.2. The team are focusing on priorities, with some aspects of the new system to be further developed after the system is live. The transfer of active work cases, which typically average between 4,000 and 5,000, is a particular challenge and will involve careful planning as the workflow system changes, and close control so that cases are not lost, or priority orders shifted. Our main focus will be the smooth transition of retirements, death benefits and transfers

11.3. Because of the considerable amount of work and training necessary to this project, it is anticipated that some work backlogs will be inevitable. It is planned that where our normal workload cannot be completed, Aggregation cases will be the work area of least priority, followed by the processing of deferred benefits. However, there is also the mix of skills and knowledge to take into account. It is therefore anticipated that some work backlogs will accrue over the next few months.

11.4. Some additional resource has already been sourced; however, it is very hard to find temporary staff with experience in our critical areas. Extra resources are instead put to easier tasks, general support and data cleansing.

11.5. I am pleased to report that the crucial end of year processes have been completed by the team in record time this year, and we are extremely grateful to our employers for their support in enabling this to happen. I can also confirm, that as a result of this we were able to issue our deferred benefit illustrations, (20,949 in all) by 11 May this year. In addition, I can also confirm that the data has been successfully extracted for the active annual benefit statements, which will meet our anticipated deadline for dispatch of 25 June 2021.

11.6. Other important milestones towards meeting our deadline for implementation are, the successful application of pensions increases to deferred and pensioner benefits, plus the application of revaluation to CARE accounts. I can also confirm that the annual allowance for 2021 has also been run into our current administration system which, whilst there remains still a considerable amount of work yet to be done, this will enable us to meet the statutory deadline which falls

shortly after the new system has been implemented. We are also hoping to complete our statutory requirement to measure the quality of our data to meet the requirements of the Pensions Regulator before the system is changed.

11.7. Prior to the Go-Live dates, the section will have a 'black-out' period (15 to 28 July) where neither the old nor new system will be live. During this time testing will continue and critical work will be handled by the team with extreme caution. The Go-Live dates have been confirmed as followed, the main administration system will be live from 28 July, followed by the Employer Portal which will be live from 30 July. Finally, the new Member Portal will go live from Monday 2 August.

11.8. The month of August will therefore be extremely difficult for the team. There will be a sizeable backlog of scanning, workloads and work cases to be transitioned to the new system, involving considerable manual input. I am also very aware that it will be very important for the team to try to take some annual leave after such a busy and stressful period.

11.9. There is a specific risk that has been raised previously on the RAID log, and which currently threatens the stability and timing of the project. Dorset Council, who provide the accommodation for the Dorset County Pension Fund, have requested that the team move location prior to the implementation date. This is not feasible at all for the team in the circumstances and this has been fed back to Dorset Council. We are currently waiting for a further update.

11.10. Issues identified within the system have been connected to the functionality of the Member Portal, now resolved with some minor development required after implementation, and to the Annual Allowance screens and calculation functionality. This later issue was of a more serious concern. Civica have addressed the issues raised and are implementing wider system changes to accommodate our requirements and to benefit all users. Some further changes will not be available to us to test until 12 June. The issues and concerns raised by us led to our need to ensure the annual allowance process for 2021 could be run early in the current system, which has been achieved. I am hopeful that the changes coming through will provide the DCPF with everything needed to ensure members continue to have the level of service currently provided in this important and high-risk area.

12. Employer Flexibilities – New Policies

12.1. The LGPS (Amendment) (no 2) Regulations 2020 introduced increased flexibility when dealing with exiting employers, and the ability to review employer contribution rates in between valuations.

12.2. New policies are needed to reflect the changed provisions, and these are included in Appendix 2 and 3. An amendment to the Funding Strategy Statement (FSS) to reflect these new policies is additionally included in Appendix 4. Further amendments to the FSS will be required to take account of the new policies. These policies need to be reviewed and agreed by both the Committee and the Pension Board. Please feed any comments to Karen Gibson.

12.3. Please note that the policies refer to any dispute being referred to the Employer Dispute Resolution Policy. This has not yet been finalised.

12.4. The Deferred Debt and Debt Spreading Agreement Policy – please consider the following points when reviewing the policy where changes have been made to the provisional suggestions of the actuary.

- The timescales stated
- The timescale for a review of the deferred employer's funding position
- The option for the fund to review the employer's covenant

12.5. The Contribution Review Policy – please consider the following points when reviewing the policy where changes have been made to the provisional suggestions of the actuary.

- The timescales stated
- Covenant checks at discretion of fund

13. Employer Update

13.1. Below is an update on recent employer movements within the fund.

New admitted bodies 2021 (and in progress)		
Name	**Date admitted**	**Service**
HPS Services FM Ltd	01/04/2021	Cleaning (Budmouth & Atlantic Academies)
Cucina Restaurants Limited	01/04/2021	Catering (Budmouth & Atlantic Academies)
Horizon Home Care (Southern) Limited	01/04/2021	Care & support service (BCP)
Restorative Solutions	01/05/2021	Restorative Justice Service (OPCC)
Expedite Commercial Cleaning	01/07/2021*	Cleaning (Teach Poole Academy Trust)
*planned date		

Cessations From 01/04/2020	
Name	**Date Ceased**
Care Quality Commission	31/01/2021
Care UK	16/03/2021
SLM Poole Food & Beverage	20/11/2020
Ansbury	31/07/2021

14. Prudential Update

14.1. I wanted to update you on specific issues we, and other LGPS funds, are currently experiencing with the Prudential, our in-house AVC provider. Following a change to the Prudential's internal systems, we have experienced serious delays and communication issues with them. This has caused unacceptable delays to members receiving their retirement benefits, and to the reconciliation of payments. In addition, they have been unable to supply us with the annual schedule of payments which has impacted our ability to run the annual allowance.

14.2. The Prudential is the in-house AVC provider for a number of LGPS funds, and the issues have been raised nationally, through the LGPC Technical Group, and regionally. We have met with them personally to try to address these issues. We received reassurances of improved service, but this has not materialised. We have received a number of complaints from members whose retirements benefits have been delayed because of this.

14.3. The prudential have self-reported to the Pensions Regulator, and have admitted to being in a difficult position, and have stressed their commitment to providing AVCs to the LGPS. We continue to monitor the situation.

15. Written Ministerial Update on McCloud and the LGPS

15.1. On 13 May 2021, Luke Hall, Minister for Regional Growth and Local Government, made a written Ministerial Statement on McCloud and the LGPS. The statement confirms the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. The statement confirms that;

- The age requirement for underpin will be removed

- A member will not need to leave with an immediate entitlement to benefits to qualify for underpin protection
- The remedy period will end on 31 March 2022
- The underpin calculation will be based on final pay at the underpin date, even when this is after 31 March 2022
- There will be two stages to the underpin calculation, the first being on the underpin date (date of leaving or normal pension age under the 2008 scheme), and secondly when the benefits are paid
- The regulations will be retrospective to 1 April 2014

16. DCPF – update from GAD re Section 13 results

16.1. On 14 May, we met with the Government Actuary's Department (GAD), at their invitation to discuss the Fund's Section 13 results. Our actuaries were also included in the meeting.

16.2. MHCLG appointed GAD to report under Section 13 of the Public Service Pensions Act 2013 in relation to the 2019 actuarial valuations of all the English and Welsh LGPS funds. The aim of the report is to consider whether the aims of consistency, compliance, solvency and long-term cost efficiency are met.

16.3. GAD have carried out their initial review and have provided a two page summary for the Dorset County Pension Fund. The Dorset Fund had no amber or red flags, however, it was close in one or more areas. The purpose of the meeting was to discuss what the Fund could do to avoid drifting into being flagged at the next valuation, due in 2022.

16.4. Their main focus during the meeting was the relative funding level against employer contribution rates. This gave us some concerns ahead of setting new employer rates next year following the valuation. It is likely that we will stick with an approach consistent with the 2019 valuation and try to keep contributions affordable for employers following such a difficult time for them.

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 County Pension Fund KPI Report - CMS stats - All Teams

Number of complaints received	1

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)	839	100.00%	30	839
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)	283	100.00%	15	283
Transfers In Actual (DR02A & DR03A, DR03G)	88	98.86%	20	87
Transfers Out (DR09E & DR10E)	134	98.51%	10	132
Transfers Out actual (DR09A & DR10A)	69	98.55%	10	68
Estimates Employee (DR08, DR08A, DR08D, DR08R)	230	98.70%	15	227
Estimates Employer (DR22, DR22I, DR22R & DR22W)	64	96.88%	15	62
Retirements (DR14, DR14W & DR12 & DR12I & DR14I, DR14T, DR12A, DR14A,	809	98.64%	10	798
Deferred Benefits (DR11 & DR11W)	692	98.27%	40	680
Refunds (DR16 & DR16W)	653	100.00%	15	653
Deaths (DR23)	92	97.83%	5	90
Correspondence (DR24 & DR24A)	574	99.13%	30	569
Total	**4527**	**99.14%**		**4488**

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Dorset County Pension Fund

Deferred debt and debt spreading agreement policies

<< Date >>

Contents

Introduction

This document sets out the Dorset County Pension Fund's policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

Dorset County Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, there are two alternatives available: Regulation 64(7A) enables the administering authority to enter into a deferred debt agreement with the employer while Regulation 64B enables the administering authority to enter into a debt spreading agreement.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying any existing or future secondary rate of contributions to fund any current or future deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

This policy document sets out the administering authority's policy for entering into, monitoring and terminating a DDA or DSA.

These policies have been prepared by the administering authority following advice from the Fund Actuary, and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Approach for exiting employers

In the event that an employer becomes an exiting employer and an exit payment is identified, the Fund should seek to receive a payment from the exiting employer equal to the exit payment in full.

The administering authority makes the exiting employer aware an exit payment is due by providing a revised rates and adjustments certificate in the form of a cessation valuation report produced by the Fund Actuary. Details of the Fund's cessation policy can be found in the Fund's FSS.

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the administering authority, along with evidence, that they are unable to do so and may request to enter either a DDA or DSA. If the administering authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted within 30 days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 30 days as per the Fund's Pension Administration Strategy.

Where possible, the administering authority encourages employers who are approaching exit and suspect they will have a deficit to engage with the administering authority in advance in order to understand the options that may be available. An indicative cessation report can be produced to form the basis of discussions.

Choosing a DDA or DSA

Consideration needs to be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

- the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years then perhaps a suspension notice may be more appropriate;
- the employer wants to minimise costs by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to crystallise its debt by becoming an exiting employer. In this case the administering authority may be willing to defer crystallisation of the cessation debt for an appropriately significant period of time, subject to the strength of the employer's covenant or security provided;
- initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; and/or
- the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The administering authority may agree that doing so over an appropriate long period is better for the Fund than risking immediate insolvency of the employer.

On the other hand, it may be more appropriate to enter a DSA if:

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;

- the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pensions risks that could cause the amounts payable to the Fund increasing (or decreasing) in future;
- the employer has ample resources to make the payment within the near future but not immediately; and/or
- the employer is deemed to have a very weak covenant and so the administering authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The administering authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA arrangement from an exiting employer the administering authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the arrangement was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

Managing of costs

On receiving a request the administering authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the administering authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the administering authority will keep the exiting employer up-to-date with any increases. The administering authority will provide information on how and when payments should be made.

Dispute resolutions

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. If a Scheme Employer is dissatisfied with any decision made, they have the right to have their complaint reviewed under the scheme's appeals process.

The Scheme employer will have 30 days from the date of receipt of the results of the formal DDA or DSA arrangement to lodge an appeal.

Deferred Debt Agreements (DDAs)

Entering into a DDA

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

Information required from the employer

When making a request to enter a DDA, the employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will make a decision on whether to enter into a DDA within 30 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the Fund;
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following circumstances the administering authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the administering authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DDA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DDA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DDA

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the administering authority and the exiting employer and will be set out in a formal legal agreement.

The administering authority and the exiting employer (with the assistance of the Fund Actuary) will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the administering authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with the administering authority and following consultation with the exiting employer, taking into account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the Fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 60 days, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the Fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the administering authority;

- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the administering authority and provided to the deferred employer;
- promptly provide all such information that the administering authority may reasonably request in order to administer and manage the agreement; and
- give notice to the administering authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

Monitoring a DDA

A deferred debt agreement is subject to the ongoing approval of the administering authority. The administering authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there was an improvement in the employer's circumstance then the administering authority and employer may agree to amend the terms of the agreement.

The administering authority will monitor a DDA in the following ways:

Change in funding position

The administering authority will request an update of the deferred employer's funding position as part of the triennial valuation in order to review the progress of the DDA.

If the funding position changes by more than 10% (in absolute terms) from the previous review, then the administering authority may engage with the deferred employer to discuss a possible review of the DDA.

The costs of any reviews will fall to the deferred employer as part of the terms for putting in place a DDA.

Change in employer covenant

Once an employer enters into a DDA, the administering authority may review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the administering authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the administering authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

Timeliness of payments

The agreement will set out whether payments are made on a monthly or annual basis, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would

contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

Strength of guarantee or security

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the administering authority will check there has been no change to the security at agreed regular intervals and as a minimum at each valuation cycle. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

Notifiable events from the deferred employer

The deferred employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DDA

Events that may terminate a DDA

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrols new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity.

Termination clauses will be included in the formal DDA legal agreement.

Process of termination

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy).

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's Funding Strategy Statement (FSS).

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the Fund. Where there is a surplus, an exit credit may be payable as determined by the administering authority and in line with the cessation policy set out in the Fund's FSS.

Debt Spreading Agreements (DSAs)

Entering a DSA

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

Information required from the employer

When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will make a decision on whether to enter into a DSA within 30 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exit payment relative to the exiting employer's business cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- there is doubt that the exiting employer can operate as a going concern during the spreading period; or

- the exiting employer cannot afford the payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the administering authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a deferred debt agreement but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set in line with reference to the discount rate in the employer's cessation valuation, for consistency with the liabilities calculated;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to accept the exiting employer's request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DSA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DSA

The administering authority and the exiting employer, with the assistance of the Fund Actuary, will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer's affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary, however, in general the certificate will be prepared and provided to the exiting employer within 60 days of agreeing the structure of the schedule of payments with the exiting employer.

Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there is a change in the exiting employer's circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis and set out in a side agreement as required.

The administering authority will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the schedule of payments are made.

Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the administering authority then the DSA may be reviewed and/or terminated.

Change in employer covenant

The administering authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

Timeliness of payments

The DSA will set out whether payments are made on a monthly or annual basis and how long for, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

Strength of guarantee or security

If a particular schedule of payments has been agreed between the administering authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the administering authority will check there has been no change to the security regularly. The frequency of these reviews may reduce as the level of outstanding debt reduces. The administering authority with advice from the Fund Actuary may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

Notifiable events from the exiting employer

The exiting employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DSA

Events that may terminate a DSA

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.

In the event that the administering authority believes that the exiting employer may not be able to make any of their remaining payments, the administering authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

Process of termination

In the event of a DSA being amended or terminated the administering authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the administering authority will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

If the DSA has to be terminated prematurely the administering authority will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or look at alternative arrangements such as a deferred debt agreement.

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

Dorset County Pension Fund

Contribution review policy

<< Date >>

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Introduction

This document sets out the Dorset County Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations.

Dorset County Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

Under Regulation 62, Dorset Council, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rate and adjustments certificate setting out the contribution rates payable by each Scheme employer for three year period beginning 1 April following that in which the valuation date falls.

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's approach to considering the appropriateness of a review and the process in which a review will be conducted.

This policy has been prepared by the administering authority following advice from the Fund Actuary, and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

The review process

The events that may trigger a review are set out in the Triggering a contribution review section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance but the timeline below provides a rough guide of the administering authority's general expectation.

Following completion of the review process, the administering authority may continue to monitor the Scheme employer's position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the administering authority in order to allow effective monitoring.

Timeline where initiation is made by the administering authority

Where the review is initiated by the administering authority (i.e. under conditions (i) and (ii) in the Triggering a contribution review section), the first stage after the administering authority has conducted its analysis is to engage with the Scheme employer and provide written evidence for requiring the review.

The Scheme employer will be given 30 days from the later of the date of receipt of the evidence provided by the administering authority and the date of receipt of the results of the formal contribution review to respond to the administering authority on the proposal. Should no challenge be accepted within this period then the administering authority will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed review date.

Should the Scheme employer challenge the administering authority's proposal, then the administering authority will continue to engage with the Scheme employer in order to reach an agreeable decision. If no decision has been agreed within 3 months of the initial proposal, then the administering authority may proceed with the revised contribution rates. Further details of the appeals process for the Scheme employer is set out in the Appeals process section.

Although the ultimate decision for review belongs to the administering authority, the administering authority is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

Timeline where initiation is made by the Scheme employer

Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the Triggering a contribution review section.

The administering authority will aim to provide a response to the Scheme employer within 30 days from the date of receipt. This will depend on the quality of the documents provided and any need from the administering authority to request further information from the Scheme employer. The administering authority will provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

Responsibility of costs

Where the review of contributions has been initiated by the administering authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the administering authority as part of the review. These exception costs would be recharged to the Scheme employer.

Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

Triggering a contribution review

As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Conditions (i) and (ii) are triggered by the administering authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

(i) change in the amount of the liabilities arising or likely to arise

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a council due to a move to unitary status
- Restructuring of a Multi Academy Trust
- A significant outsourcing or transfer of staff
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

As part of its participation in the Fund, Scheme employers are required to inform the administering authority of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, the administering authority may identify events that merit a review of contributions.

In addition, the administering authority may initiate a review of contributions if they become aware of any events that they deem could potentially change the liabilities of the Scheme employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

(ii) change in the ability of the Scheme employer to meet its obligations

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution

- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Concerns felt by the administering authority due to behaviour by a Scheme employer's, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the administering authority over a significant period of time.

The administering authority is committed to engaging with Scheme employers on their participation and through this may identify any Scheme employers that might be considered as high risk and whether any Scheme employers have had a significant change in riskiness. This in turn may affect the administering authority's views on whether the ability of a Scheme employer to meet its obligations to the Fund has changed significantly and therefore whether this change may merit a contribution review. This also applies to any employers for whom a review of contributions has already taken place as a further change in an employer's ability to meet its obligations may merit another review.

(iii) request from the Scheme employer for a contribution review

A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This must be triggered by one of the following two conditions:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Any requests not arising from either of these conditions will not be considered by the administering authority.

Requests by a Scheme employer are limited to one review per calendar year.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not accept a request for a review of contributions with an effective date within the 12 months preceding the next rates and adjustments certificate. It is expected in these cases that any requests can be factored in to the formal review and any benefits of carrying out a review just prior to the commencement of a new rates and adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within the 12 months preceding the next rates and adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

Information required from the Scheme employer

In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:

    - Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change
- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
    - The most recent annual report and accounts for the Scheme employer
    - The most recent management accounts
    - Financial forecasts for a minimum of three years
    - The change in security or guarantee to be provided in respect of the Scheme employer's liabilities

The administering authority may require further evidence to support the request and this will be requested from the Scheme employer on a case by case basis.

Assessing the appropriateness of a review

The following general considerations will be taken into account by the administering authority, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

Where the review has been requested by the Scheme employer, the administering authority will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required, and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The administering authority will also consider whether it is necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

Whether any changes require the administering authority to exercise its powers to carry out a contribution review will be assessed on a case by case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the administering authority after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the administering authority, then details of the Appeals process is set out later in this document.

Appropriateness of a review due to change in liabilities

This will be subject to the following considerations in addition to the general considerations set out above:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the administering authority's assessment of the ability of the Scheme employer to meet its obligations.

The administering authority will consider a review if an employer's liabilities has changed, or is likely to change, by more than 10%, or the employer cost of future benefits has changed, or is likely to change, by more than 5% of payroll p.a.

Appropriateness of a review due to change in ability to meet its obligations to the Fund

In assessing whether or not an administering authority will exercise its powers to review a Scheme employer's contribution rates under this condition, the administering authority will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis provided by the Fund Actuary or a covenant specialist

- The perceived change in the value of the indemnity to the administering authority, relative to the size of the Scheme employer's liabilities

It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case by case basis. Further considerations to that set out above may be relevant and will be taken into account by the administering authority as required.

Method used for reviewing contribution rates

If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the administering authority will take advice from the Fund Actuary on the calculation of the Scheme employer's revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer's ability to meet its obligations to the Fund.

The starting point for reviewing a Scheme employer's contribution rates will in some cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date.

	General approach
Member data	In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point. In most cases, given the review is due to an anticipated change in membership, the administering authority and Scheme employer should work together to provide updated membership data for use in calculations. There may be instances where updated membership data is not required if it is deemed proportionate to use the most recent actuarial valuation data without adjustment. Where the cause for a review is due to a change in a Scheme employer's ability to meet its obligations to the Fund, updated membership data may not need to be used unless any significant membership movements since the previous Fund valuation are known.
Approach to setting assumptions	This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement.
Market conditions underlying financial assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those at the most recent actuarial valuation.
Conditions underlying demographic assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.
Funding target	The funding target adopted for a Scheme employer will be set in line with the Fund's Funding Strategy

	Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.
Surplus/deficit recovery period	The surplus/deficit recovery period adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.

The Fund Actuary will be consulted throughout the review process and will be responsible for providing revised rates and adjustments certificate. Any deviations from the general approaches set out above will be agreed by the administering authority and the Fund Actuary.

Appeals process

If a Scheme Employer is dissatisfied with any decision made in relation to the contribution review, they have the right to have their complaint reviewed under the scheme's appeals process.

The Scheme employer will have 28 days from the date of receipt of the results of the formal contribution review to lodge an appeal.

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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.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

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 mainly 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.

Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy which can be accessed here. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

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 employer will be due to the Fund as an exit payment, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer, or if an alternative arrangement is agreed.

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.

Managing exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document here. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

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.

MJ HUDSON

REPORT PREPARED FOR

Dorset County Pension Fund - Pension Fund Committee

June 2021

Alan Saunders, MJ Hudson
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INVESTMENT OUTLOOK

Equities made further gains in the first quarter with the UK performing well but government bond markets sold off sharply. Rising inflation concern explained the rise in bond yields while the continuing success of the vaccination rollout, especially in the US and UK, boosted equity sentiment as evidence mounts of a significant economic recovery this year. Fiscal policy continues to be supportive with President Biden proposing not one but three expansionary bills to Congress.

Equity markets are now also beginning to notice the rising inflation numbers and have paused their rally as they begin to anticipate the response of the central banks to a higher inflation environment. While the rally continued into April, May has seen headwinds and it may be that we are about to enter the consolidation phase I argued last quarter was overdue. Certainly, technology stocks have corrected markedly with the running taken up by more cyclical value stocks.

The bigger picture though is, barring setbacks through new Covid variants, that confidence is returning to consumers and business and a sharp recovery in economic activity started in March This has sufficient traction that the BoE has raised its forecast to 7.25% GNP growth this year. While markets may have discounted this to a large extent, they should hold on to current levels or better during the year even if central banks take the first steps to tighten monetary policy.

ECONOMY

The $1.9mn US fiscal support package is probably more than the economy needs when the recovery is under way, but Biden has also proposed two additional five-year programmes of infrastructure spending and of social welfare spending which may struggle in Congress. The Federal Reserve has said it will tolerate inflation rising temporarily over its 2% target, but the latest inflation number jumped up to a disturbing 4%., partly driven by higher energy prices. With rising consumer demand and the prospect of some supply shortages, much will depend on how much slack there is in the labour market as to whether wages will respond to higher prices and lock in higher inflation levels. With China factory gate prices rising, it is easy to see why the US bond market has sold off.

This debate is at a less advanced stage in the UK though the latest inflation number popped up to 1.5%, ahead of expectations. With activity rising in March, Q1 GNP fell only 1.5%, a far better response than a year ago when the economy fell over 15% during the first lockdown. Manufacturing and construction are leading the way with services still struggling though as retail reopens that should improve. Growth is expected between 3-4% for the current quarter. Supply shortages and signs of incipient wage inflation are now putting pressure on consumer prices. Inflation should reach 2.5% before the end of the year but that is unlikely to lead to monetary tightening this year. Instead, the BoE may not complete the full amount of QE it promised. Looking into next year, it is more likely to start reversing QE by selling gilts than to increase interest rates. The March budget continued the support measures, but these will begin to taper off and the overall budget deficit will be lower than last year. The BoE's more optimistic forecast now puts the UK recovery ahead of other countries, but we start from a lower base of course. Brexit had clearly a dampening effect in Q1 through exports, but the impact has been eclipsed by Covid effects.

Elsewhere, the EU economies are expected to grow some 4% this year and next, helped by an EU long term fiscal support package over five years, equivalent to 5% GNP, modest compared to the US 9% stimulus! More limited vaccination success and intermittent lockdowns have impacted the recovery. In contrast, China is expected to grow 6% last year after last year's flat performance, still better than developed countries.

Finally, a word on currencies. In the last report, I commented on the weakness of the dollar which had helped sterling to recover to 1.40. The dollar is now recovering on the back of economic recovery and associated concerns over monetary tightening which would be dollar supportive. Sterling has held up pretty well, but the yen and euro have weakened.

MARKETS

Global equity markets in sterling terms rose 4% in Q1 and were 40% up on the depressed levels of a year ago, indicating the strength of the rally. The UK equivalent figures are 5% and 26% respectively so the UK is still well behind despite some recent catch up. The US and emerging markets have led the way while Europe and Japan have also lagged. In the UK, small and mid- cap stocks have strongly outperformed over both time periods. In terms of sector composition, Q1 saw technology stocks fall off sharply while resource stocks led the way, like energy and commodities. Banks have also staged a recovery on the back of rising interest rates. In style terms, this has meant that the dominance of growth stocks both before and during the pandemic is now being challenged by the revival in more cyclical value stocks as the business cycle begins to turn upwards.

While the year-end momentum carried on through the first quarter and indeed April, markets are now consolidating. Both the US and UK were up around 10% to mid-May so a pause is understandable and the FTSE 100 index is clinging on to the 7000level. Many new issues confirm the recovery in investor confidence though some have proved overpriced at issue. Markets were driven by fiscal support and vaccine success but are now considering the inflation news and possible policy response. There is an age-old debate as to whether inflation is good for equities, but the evidence is very mixed. Modest increases which allow companies to pass on cost increases and raise margins is supportive. A wage price spiral which leads to policy tightening is not however as both bonds and equities sell off after a lag. Given that

central banks appear to be looking through the current inflation numbers, markets should hold on to recent gains though they may become more volatile after such a long uptrend.

Bond markets are a different matter. There has been a very sharp rise in yields with 20-year gilt yields rising from 0.7% to 1.4% during Q1, a level they are maintaining. Implied inflation has risen from 3.3% to 3.6% so real yields have risen by 0.3% in consequence. Long dated gilts and index linked stocks have fallen 12% and 8% respectively during the quarter. Corporate bonds have also fallen in Q1, but credit spreads have remained unchanged suggesting markets are relaxed about bankruptcy risk as a consequence of the pandemic.

Property values have appeared to stabilise with prices rising some 1% in Q1, the second quarter running. Industrial property remains very popular and there are signs that the office market is beginning to bottom out. With a resumption of shopping, hopefully the same will be true soon of retail and areas like hospitality though the number of retail bankruptcies casts a shadow over the sector. It will not be until later in the year that we have proper visibility about the strength of any recovery in the overall property market.

INVESTMENT STRATEGY

The portfolio should now be broadly aligned with the agreed investment strategy following the major restructuring of the global equity portfolio in the first quarter. Any further changes would be relatively marginal, such as trimming the corporate bond portfolio or property. The strong market rally should have helped the funding ratio recover from its setback of a year ago. Similarly, the LDI portfolio has recovered all the losses of 2019 and Q1 2020 when the RPI wedge issue became a threat to the inflation hedging strategy. Not only has the market not adjusted for the full removal of the wedge but the recent rise in inflation concern has increased the value of the hedges. Hedging remains at around 30% of inflation risk and leverage has dropped markedly allowing for some increase in the hedge to be possible without more collateral.

FOR FURTHER INFORMATION

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

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Pension Fund Committee
Tuesday, 15 June 2021
Pension Fund Administrator's Report

For Decision

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: David Wilkes
Title: Service Manager (Treasury and Investments)
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Email: david.wilkes@dorsetcouncil.gov.uk

Report Status: Public

Recommendation:

That the Committee review and comment upon the activity and overall performance of the pension fund.

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.

1. 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 March 2021. 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.

The estimated value of the pension fund's assets at 31 March 2021 was £3,340M compared to £2,696M at the start of the financial year. This has been driven by rises across all listed markets after the falls in March 2020 in reaction to the impact of COVID 19.

The pension fund's estimated funding position at 31 March 2021 is approximately 85% - that is, assets were estimated to be 85% of the value needed pay for the expected benefits accrued to that date. This compares to 92% calculated by the pension fund's actuary following their full assessment as at 31 March 2019 for the most recent triennial valuation.

The total return from the pension fund's investments over the financial year to 31 March 2021 was 23.8%, compared to the combined benchmark return of 20.6%.

As at 31 March 2021, approximately 29% of the pension fund's liabilities were hedged against inflation sensitivity through the Liability Driven Investment (LDI) mandate with Insight Investment.

As at 31 March 2021, approximately 56% of the pension fund's assets were under the management of Brunel Pension Partnership.

2. Financial Implications

The Local Government Pension Scheme (LGPS) is a national pension scheme administered locally. Dorset Council is the administering authority for the LGPS in Dorset which provides pensions and other benefits for employees of the Council, other councils and a range of other organisations within the county.

The LGPS is a 'defined benefit' scheme which means that benefits for scheme members are calculated based on factors such as age, length of membership and salary. Member benefits are not calculated on the basis of investment performance as they would be in a 'defined contribution' scheme.

Administering authorities are required to maintain a pension fund for the payment of benefits to scheme members funded by contributions from scheme members and their employers, and from returns on contributions invested prior to benefits becoming payable.

Contribution levels for scheme members are set nationally, and contribution levels for scheme employers are set locally by actuaries engaged by administering authorities.

As scheme member rates cannot be changed locally and benefits are defined, the risk of investment underperformance is effectively borne by scheme employers.

3. Wellbeing and Health Implications

No wellbeing and health implications arising from this report have been identified.

4. 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.

At its meeting in September 2020, the Committee agreed to a strategy of decarbonisation meaning a reduction in allocations of investment to companies which are high carbon emitters and looking to influence the demand for fossil fuels and their financing, not just their supply.

5. Other Implications

No other implications arising from this report have been identified.

6. Risk Assessment

The pension fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks

The risks associated with the pension fund's investments are assessed in detail and considered as part of the strategic asset allocation.

7. Equalities Impact Assessment

There are no equalities implications arising from this report.

8. Appendices

Appendix 1: Corporate Bonds (RLAM) Q4 2020
Appendix 2: Multi Asset Credit (CQS) Q4 2020
Appendix 3: Property (CBRE) Q4 2020
Appendix 4: Liability Driven Investment (Insight) Q4 2020

9. Background Papers

Investment Strategy Statement (March 2018)
Funding Strategy Statement (March 2020)

10. Asset Valuation Summary

10.1 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 2020, together with the target allocation as agreed at the meeting of the Committee on 10 September 2020.

	31-Mar-20		31-Mar-21		Target Allocation	
Asset Class	**£M**	**%**	**£M**	**%**	**£M**	**%**
UK Equities	491.0	18.2%	348.6	10.4%	334.0	10.0%
Overseas Equities	682.8	25.3%	1,210.2	36.2%	1,169.1	35.0%
Emerging Markets Equities	83.8	3.1%	169.3	5.1%	167.0	5.0%
Total Listed Equities	***1,257.6***	***46.6%***	***1,728.1***	***51.7%***	***1,670.2***	***50.0%***
Corporate Bonds	220.6	8.2%	192.3	5.8%	133.6	4.0%
Multi Asset Credit	120.4	4.5%	170.4	5.1%	167.0	5.0%
Diversified Returns	152.8	5.7%	164.2	4.9%	200.4	6.0%
Infrastructure	195.3	7.2%	220.0	6.6%	267.2	8.0%
Private Equity	98.1	3.6%	96.1	2.9%	167.0	5.0%
Property	301.0	11.2%	313.2	9.4%	334.0	10.0%
Cash	53.4	2.0%	74.1	2.2%	-	0.0%
F/X Hedging	-9.7	-0.4%	0.7	0.0%	-	0.0%
Total Return Seeking Assets	**2,389.5**	**88.6%**	**2,959.1**	**88.6%**	**2,939.6**	**88.0%**
Liability Matching Assets	306.8	11.4%	381.3	11.4%	400.8	12.0%
Total Asset Valuation	**2,696.3**	**100.0%**	**3,340.4**	**100.0%**	**3,340.4**	**100.0%**

10.2 As at 31 March 2021, approximately 56% of the pension fund's assets were under the management of Brunel Pension Partnership.

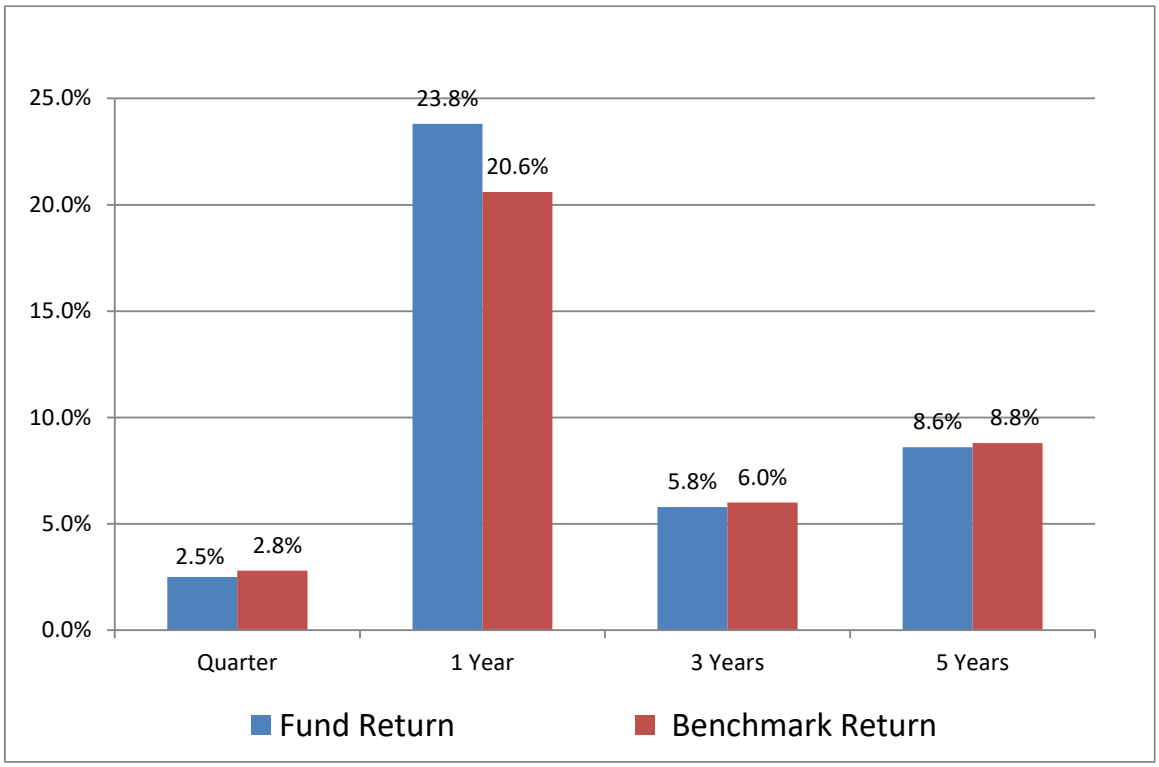
11. Funding Update

11.1 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 2019 when the pension fund had a funding level of 92% i.e. assets were estimated to be 92% 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.

11.2 Barnett Waddingham also carry out an indicative update on the funding position at the end of each quarter. Whilst this is not a full review it is intended to give an understanding of movements in the pension fund's overall funding position between triennial valuations. As at 31 March 2021 the estimated funding position was approximately 85%.

12. Investment Performance Summary

12.1 The overall performance of the pension fund's investments to 31 March 2021 is summarised below (returns for three and five years are annualised figures).



12.2 The Brunel Pension Partnership's performance report for the quarter ending 31 March 2021 is attached as a separate agenda item. This report includes market summaries from Brunel's investment officers and an overall performance summary for the pension fund, together with more detailed information in relation to Dorset's assets under Brunel's management.

13. Performance by Asset Class and Investment Manager

UK Equities

13.1 The performance of the pension fund's external mangers is summarised in the tables below.

Brunel/LGIM Passive - £107.3m assets under management (AUM)

	Performance	Benchmark	Relative
Quarter	5.3%	5.2%	0.1%
12 months	27.1%	26.7%	0.4%
Since inception p.a.	0.1%	0.0%	0.1%

Brunel UK Active - £166.5m AUM

	Performance	Benchmark	Relative
Quarter	4.6%	5.6%	-1.0%
12 months	27.5%	24.9%	2.6%
Since inception p.a.	3.4%	3.0%	0.4%

Schroders - £74.8m AUM

	Performance	Benchmark	Relative
Quarter	10.4%	16.3%	-5.9%
12 months	78.6%	72.7%	5.9%
3 years p.a.	10.7%	8.2%	2.5%
5 years p.a.	14.4%	9.1%	5.3%
Since inception p.a.	11.2%	7.3%	3.9%

Global Developed Markets Equities

13.2 The performance of the pension fund's external global equities managers is summarised in the tables below.

Brunel/LGIM Smart Beta - £136.5m AUM

	Performance	Benchmark	Relative
Quarter	6.4%	6.4%	0.0%
12 months	34.3%	34.4%	-0.1%
Since inception p.a.	8.2%	8.5%	-0.3%

Brunel/LGIM Smart Beta (Hedged) - £138.6m AUM

	Performance	Benchmark	Relative
Quarter	8.7%	8.6%	0.1%
12 months	45.3%	45.1%	0.2%
Since inception p.a.	9.0%	9.3%	-0.3%

Brunel/LGIM Passive Developed - £89.8m AUM

	Performance	Benchmark	Relative
Quarter	4.1%	4.1%	0.0%
Financial Year to Date	39.4%	39.4%	0.0%
Since inception p.a.	11.9%	11.9%	0.0%

Brunel/LGIM Passive Developed (Hedged) - £93.5m AUM

	Performance	Benchmark	Relative
Quarter	6.4%	6.4%	0.0%
Financial Year to Date	50.2%	50.4%	-0.2%
Since inception p.a.	16.7%	17.0%	-0.3%

Bunel Global High Alpha Equity - £247.1 AUM

	Performance	Benchmark	Relative
Quarter	3.2%	4.1%	-0.9%
12 months	50.0%	39.1%	10.9%
Since inception p.a.	23.9%	13.5%	10.4%

Brunel Emerging Markets Equities - £169.4m AUM

13.3 The performance of the Brunel Emerging Markets Equity Fund is summarised below.

	Performance	Benchmark	Relative
Quarter	2.1%	1.4%	0.7%
12 months	46.0%	42.8%	3.2%
Since inception	12.3%	12.4%	-0.1%

Corporate Bonds - £192.4m AUM

13.4 The performance of the pension fund's external Corporate Bonds manager, RLAM, is detailed in Appendix 1, and summarised below.

	Performance	Benchmark	Relative
Quarter	-4.4%	-5.9%	1.5%
12 months	9.7%	8.3%	1.4%
3 years p.a.	5.8%	4.9%	0.9%
5 years p.a.	6.7%	5.6%	1.1%
Since inception p.a.	8.3%	8.0%	0.3%

Multi Asset Credit (MAC) - £170.5m AUM

13.5 The performance of the Fund's external MAC manager, CQS, is detailed in Appendix 2 and summarised below.

	Performance	Benchmark	Relative
Quarter	2.1%	1.0%	1.1%
12 months	25.0%	4.2%	20.8%
3 years p.a.	3.4%	4.6%	-1.2%
Since inception p.a.	3.3%	4.6%	-1.3%

13.6 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 (CBRE) - £287.6m AUM

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

	Performance	Benchmark	Relative
Quarter	2.0%	1.8%	0.2%
12 months	2.2%	1.2%	1.0%
3 years p.a.	2.0%	1.7%	0.3%
5 years p.a.	4.3%	3.9%	0.4%
Since inception p.a.	7.2%	7.0%	0.2%

13.8 In addition to assets under the management of CBRE, the pension fund also has some holdings in secured long income property funds under the management of Brunel.

Private Equity

13.9 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 March 2021 and the total gains or losses on investments.

Manager	Commitment	Drawndown		Distribution	Valuation	Gain
	£m	£m	%	£m	£m	£m
HarbourVest	103.4	81.0	78%	83.1	53.0	55.1
Aberdeen Standard	75.9	60.1	79%	70.6	27.9	38.4
Brunel	60.0	13.4	22%	0.0	15.3	1.9
Total	**239.3**	**154.5**	**65%**	**153.6**	**96.2**	**95.4**

13.10 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.

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

HarbourVest - £53.0m AUM

	Performance	Benchmark	Relative
Quarter	-1.3%	5.2%	-6.5%
12 months	6.1%	26.7%	-20.6%
3 years p.a.	19.1%	3.2%	15.9%
5 years p.a.	16.1%	6.3%	9.8%
Since inception p.a.	11.6%	5.2%	6.4%

Aberdeen Standard - £27.8m AUM

	Performance	Benchmark	Relative
Quarter	1.4%	5.2%	-3.8%
12 months	-6.5%	26.7%	-33.2%
3 years p.a.	10.2%	3.2%	7.0%
5 years p.a.	8.7%	6.3%	2.4%
Since inception p.a.	3.5%	5.6%	-2.1%

13.12 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.

Infrastructure

13.13 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 - £96.3m AUM

	Performance	Benchmark	Relative
Quarter	2.7%	2.4%	0.3%
12 months	-2.5%	10.0%	-12.5%
3 years p.a.	2.7%	10.0%	-7.3%
5 years p.a.	6.0%	10.0%	-4.0%
Since inception p.a.	6.8%	10.0%	-3.2%

IFM - £107.4m AUM

	Performance	Benchmark	Relative
Quarter	0.3%	2.4%	-2.1%
12 months	2.8%	10.0%	-7.2%
3 years p.a.	9.4%	10.0%	-0.6%
5 years p.a.	12.0%	10.0%	2.0%
Since inception p.a.	12.0%	10.0%	2.0%

13.14 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) - £381.3m AUM

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

13.16 LDI strategies allow pension schemes to continue investing in return-seeking assets while hedging out their liability risks through the use of leverage. As at 31 March 2021, 11.4% of the pension fund's assets were invested in the mandate but 29% of the pension fund's liabilities were hedged against inflation sensitivity i.e. if liabilities increased by £100M as a result of changes to inflation expectations, the value of the assets under management would be expected to increase by approximately £29M.

13.17 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.

13.18 The performance of the manager is detailed in Appendix 4 and summarised below.

	Performance	Benchmark	Relative
Quarter	4.5%	4.4%	0.1%
12 months	28.4%	27.0%	1.3%
3 years p.a.	1.0%	0.8%	0.2%
5 years p.a.	11.5%	8.2%	3.4%
Since inception p.a.	8.8%	7.8%	1.0%

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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RLPPC OVER 5 YEAR CORPORATE BOND FUND

Quarterly Report 31 March 2021

For professional clients only, not suitable for retail investors

CONTENTS

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]	10.4 years	10.3 years
Gross redemption yield[4]	2.77%	2.00%
No. of stocks	194	746
Fund size	£193.5m	-

Source: RLAM, Launch date: 20.07.2007.

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

[2]Conventional credit bond allocation includes exposure to non-sterling credit bonds and CDs, where applicable.

[3]Excluding cash

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

Reported yields reflect RLAM's current perception of market conventions around timing of bond cash flows. Heightened uncertainty due to the COVID 19 crisis may impact these timings for bonds with callable feature.

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q1 2021	**-4.42**	**-5.94**	**1.53**
Year-to-date	-4.42	-5.94	1.53
Rolling 12 months	9.83	8.25	1.58
3 years p.a.	5.90	4.89	1.01
5 years p.a.	6.78	5.55	1.23
Since inception p.a. 02.07.2007[2]	7.71	6.42	1.29

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.

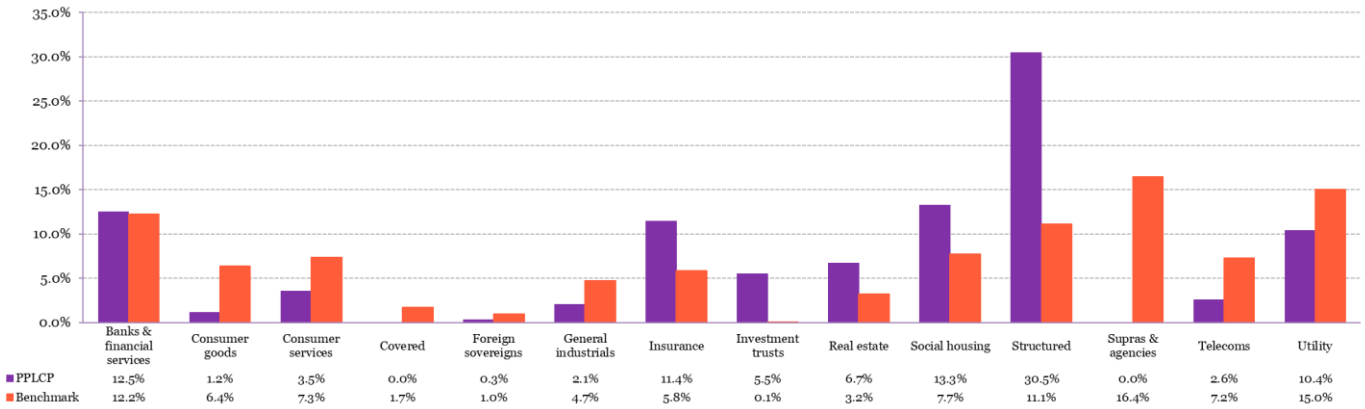
Source: RLAM, [1]Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.

[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.

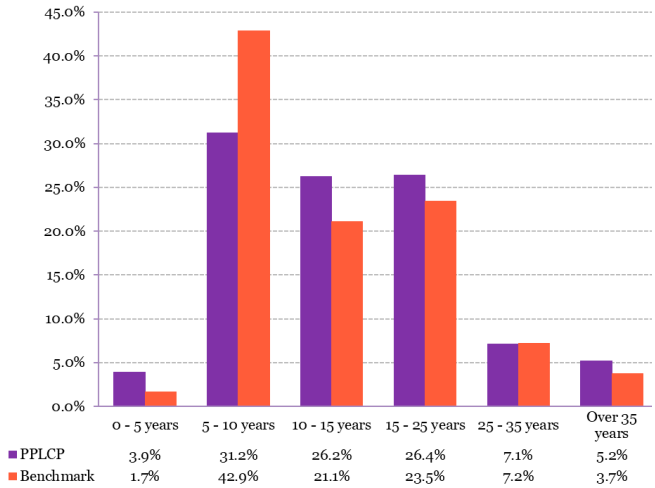
RLPPC OVER 5 YEAR CORPORATE BOND FUND

Sector breakdown

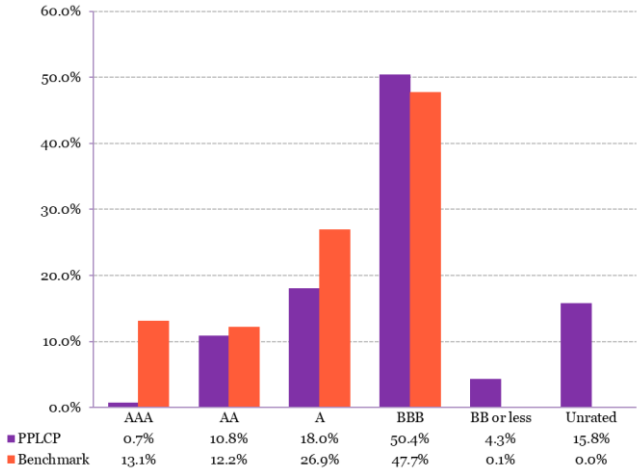


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio

Maturity profile



Credit breakdown



Ten Largest Holdings

	Weighting (%)
HSBC Bank 5.375% 2033	2.4
M&G Plc 5.7% 2063	1.6
Électricité De France 6% 2114	1.6
E On International Finance 6.125% 2039	1.5
Finance for Residential Social Housing 8.368% 2058	1.5
Thames Water Utilities 2 7.738% 2058	1.5
Barclays Plc 3.25% 2033	1.4
Exchequer Partnership 5.396% 2036	1.4
Dali Capital 4.79924% 2037	1.3
Annes Gate Property 5.661% 2031	1.3
Total	**15.6**

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

RLPPC OVER 5 YEAR CORPORATE BOND FUND

Market overview

- The year started with cautious optimism about vaccination programmes that offered the prospect of the reopening of the global economy and a strong recovery from mid-year, tempered by concerns about new strains of Covid-19 and extended lockdown measures in the short term. This balance shifted over the quarter with vaccine rollouts exceeding expectations in the UK and US. Meanwhile, the Democrats' victory in the Georgia Senate runoffs in January and President Biden's $1.9tn fiscal package shifted investors' expectations to a more pronounced recovery in the US, leading to higher and steeper bond yields. In addition, there were concerns that higher inflation from frictions in global supply chains and positive base effects over the coming months could lead to central bank tightening sooner than previously anticipated. Despite this, central banks remained committed to accommodative monetary policies.
- As a result of these shifting expectations, the benchmark 10-year gilt yield rose from 0.20% to 0.85% over the quarter, leading gilts to return -7.24% on an all maturities basis (FTSE Actuaries). This, however, only takes gilt yields back to the level at which they started 2020. In comparison, credit markets were a relative bystander with investment grade credit spreads broadly unchanged over the quarter. The average sterling investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightened from 0.99% to 0.96%.
- Nearly all sterling credit sectors outperformed gilts during the quarter but, with the rise in gilt yields, total returns were negative across the board. Financials performed strongly, particularly subordinated insurance and covered bonds, as did structured bonds. In contrast, the real estate, utilities and healthcare sectors were notably weak. Supranationals performed surprisingly strongly given the more 'risk on' environment, but this was largely driven by positive duration as shorter-dated bonds notably outperformed longer-dated issues. Otherwise, ratings had a mixed effect: while the AAA band outperformed AA and A rated bonds, BBB rated bonds also outperformed.
- A notable feature of the market was the continued unwinding of the effects of the Bank of England's (BoE) Corporate Bond Purchase Scheme, which played a major role in the recovery of the sterling credit market following the Covid-19 crisis. The BoE bought an additional £10bn of corporate bonds under the pre-existing scheme to support market liquidity. However, the scheme excluded many asset-backed securities (ABS) and all financial bonds, distorting market valuations as eligible bonds (representing c. 28% of typical credit indices) strongly outperformed the wider market. Although the programme was completed on 1 October, these distortions continued to unwind during the first quarter.
- We actively participated in new issues over the quarter. Following weak issuance in January and February, with levels at around 50% of last year, sterling investment grade supply increased sharply in March, reaching the highest level since June 2020. Financials led the way as non-UK banks continued to issue in sterling, along with a number of non-bank financials. Issuance in the euro investment grade credit market was more consistent, although down against the first quarter of 2020 with non-financial supply lower than expected.

Portfolio commentary

- The fund performed strongly, significantly outperforming its benchmark over the quarter, although total returns were negative due to the rise in gilt yields. This primarily reflected three factors: the overweight allocations to structured bonds, including social housing, which outperformed; the overweight position in the insurance sector, particularly subordinated insurance, and security selection within the banking & financial services sector; and the allocations to bonds rated BBB and below and to unrated bonds, which also outperformed the broader market. Each of these factors was to some extent driven by the unwinding of the distortive impact of the BoE Corporate Bond Purchase Scheme as these parts of the market were somewhat excluded from the scheme. This was as we had anticipated, as we saw a similar effect in the quarters following the scheme's original application in 2016. Otherwise, relative performance benefitted from being underweight in the utilities, telecoms and healthcare sectors, and ultra-long-dated bonds.
- Structured bonds performed strongly during the quarter as some of the issuers that were most badly affected last year benefitted from the 'reopening trade'. Sectors such as pubs and restaurants and airports have survived through cost-cutting, government furlough schemes and the supportive approach of bondholders. As the bonds were secured against assets, we were able to take a responsible approach to lending by agreeing to waivers that allowed the issuers more flexibility, while protecting the interests of our clients through time limits and shareholders forgoing dividends to improve cashflow. As our ABS positions currently enjoys a yield advantage over the wider market, security does not come at the expense of lower yields. In addition, the sector also benefitted as less liquid bonds performed strongly as the rally in sterling credit spread across from the most liquid assets.
- We increased our exposure to the financials sectors over 2020 in light of attractive valuations and this paid off during the quarter as these sectors outperformed, particularly subordinated insurance; the tightening of spreads in higher beta bonds was positive for subordinated bonds. Stock selection in the banks sector was also positive for performance. Banks have

benefitted from the government's support for struggling companies and the reopening of the economy over the next quarter will be a boost.

- There were no defaults in our portfolios during the quarter and across the corporate sector failures remain at low levels. While defaults are likely to increase from the current very low levels as we transition back to more normal economic conditions, we believe that our sterling credit strategies are well positioned for this. Over the last 12 months we have been meeting with issuers as we sought to protect our clients' interests, while appreciating the need to be responsible lenders at a time of unprecedented economic and social disruption. Our orientation towards bonds with security has been highly valuable in enabling this, providing a natural justification for regular meetings. The holders of unsecured bonds do not get the same opportunities, particularly if the bonds have weak covenants, leaving them exposed to the vicissitudes of the market.
- Our credit philosophy is based on the sustainability of our lending position over the long term. Environmental, social and governance (ESG) integration has to be a part of this consideration: these factors can play a part in determining the financial future of a company and any effective assessment of credit risk has to include ESG. As part of our analysis on spread compensation for ESG risks, we took the opportunity to sell high carbon intensity names and fossil fuel-related names at attractive spreads that did not compensate for longer-term risks. At the margin, this reduces carbon footprint, while maintaining our credit spread premium at the portfolio level. We have had a bias towards reducing exposure to gas distribution in favour of water or electricity holdings, as the former is more exposed to the risk of stranded assets. In addition, we believe that this gives us a more robust utilities exposure in a net-zero world.

Outlook

- The success of the UK vaccination programme promises a return to more normal social and economic conditions by the third quarter. However, the economy is likely to be compromised over the medium term by higher taxes given the surge in government debt, the impact of which has so far been neutralised by central bank buying. We expect this quantitative easing (QE) to continue in the near term because the government and BoE will wish to avoid the increase in government bond yields that would result from a substantial increase in net supply. Nevertheless, the level of QE is likely to be reduced over time, and that diminished support for the market is likely to result in higher long-term yields. While this should not be excessive, we favour short duration strategies over the medium term.
- Otherwise, the pandemic has heightened geopolitical tensions. Vaccine nationalism and success rates in vaccinations, differing economic recoveries, changing leadership in the US, the inexorable rise of China and the desire to protect perceived national interests – all have contributed to a more inward-looking mindset. This may be bad for globalisation, which has been a significant factor in keeping inflation low over recent decades. Inflation expectations have risen sharply this year with President Biden passing his initial $1.9tn relief package and announcing a $2tn infrastructure spending programme. In addition, frictions in global supply chains and positive base effects over the coming months could exacerbate headline inflation. While there is a risk of interest rates rising sooner than currently anticipated, which could cause a 2013-style 'taper tantrum', central banks remained committed to accommodative monetary policies and there are still significant headwinds to inflation. Nonetheless, we will continue to be vigilant for signs of higher inflation, particularly in the labour market.
- The recovery in credit spreads over the last 12 months has been remarkable and they are now towards the lower end of their normal range, so the potential for further contraction is limited for the wider market. However, there are pockets of value in some sectors and securities that will reward diligent active managers. In addition, income generation will become an increasingly important source of returns. This plays out as excess income is compounded over time. Our strategies are well positioned for this, since we have long maintained a yield advantage over the index by investing in assets that we consider undervalued. A good example of this is social housing, where our preferences have been in the higher yields parts of the sector in which we found more value. Crucially, this yield advantage can be realised without compromising security.
- We remain committed to ensuring that we are sufficiently compensated for all of the risks that we take. We believe that our approach of capturing excess income, while mitigating risk through strong covenants, a preference for secured bonds, and security and portfolio diversification is ideally suited for the challenges that may lie ahead.
- You can find more of our thoughts on the opportunities and risks in the sterling credit sector at rlam.co.uk.

ROYAL LONDON
ASSET MANAGEMENT

IMPORTANT INFORMATION

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Summary

CQS

Portfolio Summary

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

Performance Update[3]

Dorset Council Pension Fund Investment returns (Class E1 GBP)		
Since Inception (Dec 2017)	Q1 2021	12m to Q1 2021
11.45%	**2.06%**	**24.97%**

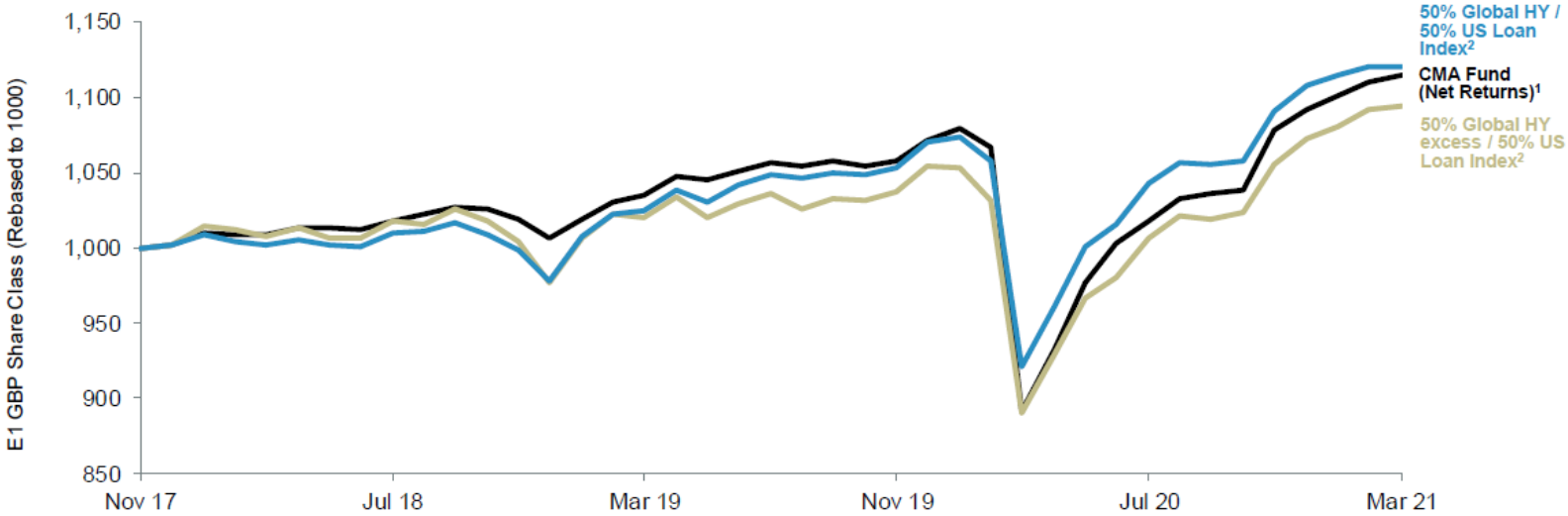
Q1 2021 Performance

- The first three months of 2021 saw investor attention turn increasingly to the prospect of a stronger economic recovery as countries roll out their vaccination programmes. While this was broadly supportive of risk assets, the spectre of inflation prompted further weakness in sovereign bonds. This was a significant theme in credit markets, with high duration instruments such as investment grade bonds significantly underperforming high yield, for example, where interest-rate duration is lower.
- Senior Secured Loans contributed most to returns in Q1, with strong performance from the US and European books. The story was similar for High Yield bonds. Asset Backed Securities performed well, led by BB and BBB rated European CLOs. Financials continued to perform well, followed by Convertibles, in spite of mark-to-market volatility towards the end of the period. Finally, our selective investments in investment grade corporate credit made a modest contribution to returns.
- The Fund remains tilted towards floating-rate assets such as senior secured loans and Asset Backed Securities in this environment. We deployed capital in lagging asset classes where we identified strong relative value, including ABS, where we added to European CLOs, and European Financials, reducing the level of cash we held at the start of the period. Within Loans, we rotated the portfolio further towards Europe, while in High Yield we took profits in a number of European names in favour of specific opportunities in the US market.
- As we stand today, our target exposure to Loans is approximately 43.0%, High Yield is 19.5%, ABS is 18.5%, Financials is 10.0%, Convertibles is 4.5%, and investment grade Corporate Credit is 1.0%. The target cash weighting, therefore, is 3.5%. Inevitably, intra-month these allocations could change, especially given the high level of volatility we have seen in markets

Responsible Investing

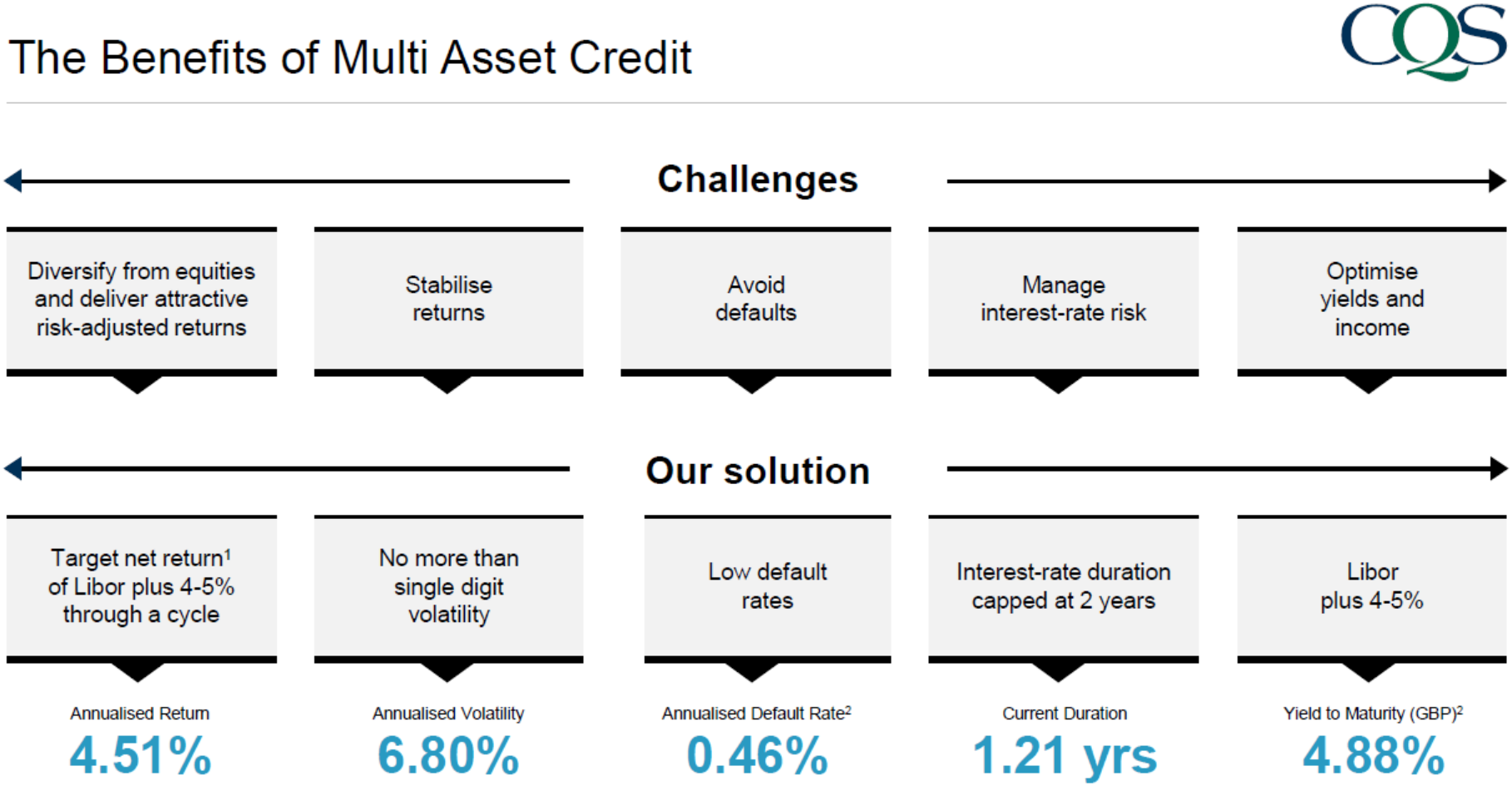
- As part of our continued work on responsible investing we have started an audit of all portfolio companies to examine in detail how they are responding to the transition to a low carbon economy. Importantly, this will provide a forward-looking understanding of the portfolio. This is a significant undertaking, and we hope to share further details later this year on how the broad spectrum of companies within sub-Investment Grade credit markets plans to respond to both climate risk and opportunity.

Performance Since Inception



CQS Credit Multi Asset Fund (net of fees, GBP)	2020	**1.99%**	Q1 2021	**2.06%**	Last 12 months (to Q1 2021)	**24.97%**	Annualised Return Since Investment	**3.30%**
50% Global HY / 50% US Loans	2020	**3.50%**	Q1 2021	**1.18%**	Last 12 months (to Q1 2021)	**21.70%**	Annualised Return Since Investment	**3.47%**
50% Global HY excess / 50% US Loans	2020	**1.68%**	Q1 2021	**2.02%**	Last 12 months (to Q1 2021)	**22.91%**	Annualised Return Since Investment	**2.72%**
Libor+4% (GBP)	2020	**4.27%**	Q1 2021	**1.01%**	Last 12 months (to Q1 2021)	**4.14%**	Annualised Return Since Investment	**4.56%**

The Benefits of Multi Asset Credit



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DORSET COUNTY PENSION FUND

QUARTERLY REPORT
Q1 2021

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 reflects 9% of DC's total assets, which represents approximately £300m. The strategy is to transition the portfolio gradually to a 50/50 split between Secure Long Income ("SLI") and Conventional properties, with SLI properties within the Conventional portfolio counting towards the total. Sales of £7.2m were made from the Conventional portfolio during the quarter.

£287.6M
Capital Value
(Combined Dorset Portfolios)

35
Assets

	CONVENTIONAL	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly over 5 years	LPI +2% p.a.
Capital Value (Q1 2021)	£249.9m (87%)	£37.7m (13%)
Number of assets	26	9
Target portfolio size	£175m*	£125m
Value of purchases during quarter	-	-
Value of sales during quarter	£7.2m	-
Net initial yield (p.a.)	4.5%	3.9%
Average unexpired lease term (to break)	9.1 years (8.1 years)	66.5 years (18.0 years)

* The Conventional portfolio includes SLI assets (c.15%), therefore the total SLI allocation will be 50%.

COMBINED VALUATION

Direct Property (Q1 2021 values)	£260.7m
Indirect Assets (Q1 2021 values)	£26.9m
Total Portfolio Valuation	£287.6m

PERFORMANCE	CONVENTIONAL	SLI**	COMBINED	MSCI QUARTERLY UNIVERSE
Q1 2021	2.0%	0.8%	1.9%	1.8%
12 months	2.2%	2.2%	2.4%	1.2%
3 yrs p.a.	2.0%	1.9%	2.3%	1.7%
5 yrs p.a.	4.3%	-	4.4%	3.9%

** Conventional & Combined are Nominal returns and SLI are Real returns. SLI's Nominal returns for Q1 1.3%, 12 months to March 2021 3.7% and 3 years 4.1% with RPI Q1 0.5%, 12 months 1.5% and 3 years 2.2%.

CBRE GLOBAL INVESTORS

ECONOMIC AND PROPERTY UPDATE

- The UK economy suffered a much milder hit in the latest lockdown than in Spring 2020, as consumers and businesses adapted to Covid-19 restrictions. Recent weeks have been characterised by rising economic optimism and a sharp improvement in business activity surveys.

- A surge in consumer spending can be expected later in the year since the OBR estimates that households have amassed £180bn of savings during the pandemic, equivalent to almost 10% of UK GDP.

- Consequently, Oxford Economics now forecast GDP growth of 6.8% in 2021, a sharp upgrade from forecasts at the turn of the year. This revision is largely offset in later years, leaving the five-year GDP growth forecast of 3.5% p.a. broadly unchanged.

- Our latest UK property market forecast shows an All Property total return of 5.4% p.a. over the coming five years, a small downgrade from the H2 2020 forecast (6.2% p.a.).

STRATEGY

Size	▪ Target size £300m – current size £287.6m. DC's allocation to property is 9% of total assets, which represents approximately £300m. ▪ 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 MSCI (formerly 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 benchmark income return. ▪ Continue to focus on reducing the vacancy rate and maintaining 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

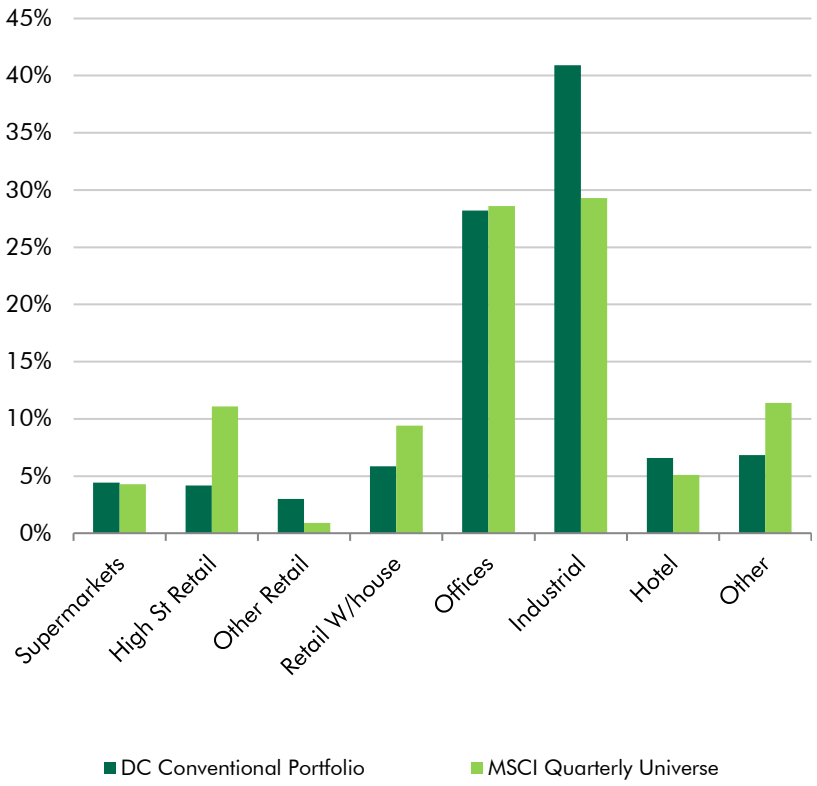
	Q1 2021
Direct market value	£223.0m
Indirect market value	£26.9m
Total Conventional Portfolio market value	**£249.9m**
No. of assets (direct avg. value)	26 (£9.7m)
No. of lettable units (direct avg. value)	69 (£3.2m)
Vacancy rate (% direct ERV)	2.7% (14.7%)*
Avg. unexpired direct lease term (to break)	9.1 years (8.1 years)
Direct net initial yield (p.a.)	4.5%
% of income direct RPI / index linked	10.1%
Rent with +10 years remaining (% of direct rent)	17.9%
Rent with +15 years remaining (% of direct rent)	7.6%
Largest Tenant	WorldPay Limited £1.2m p.a. (10.1% of direct income)

*Vacancy rate plus active development projects, which represent 12% of ERV

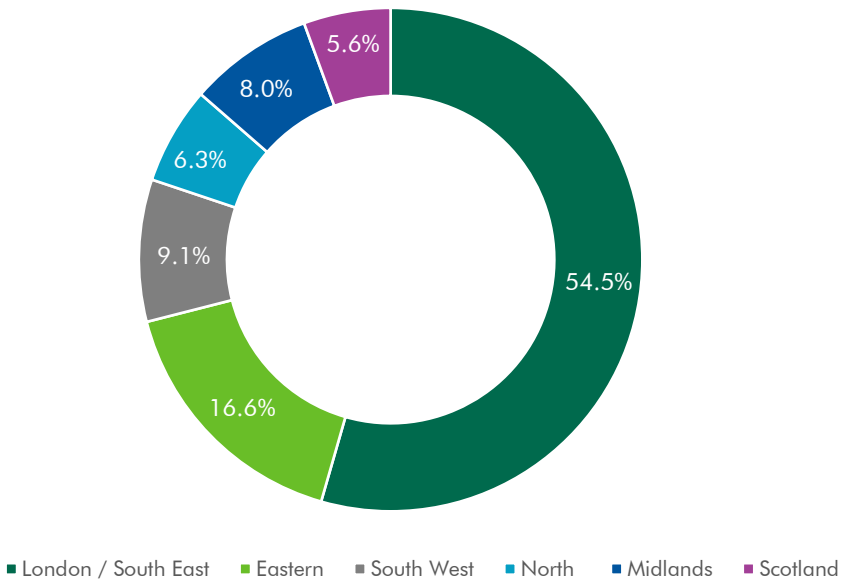

Euroway Industrial Estate, Swindon

CONVENTIONAL PORTFOLIO ANALYSIS

SECTOR BREAKDOWN INCLUDING INDIRECT HOLDINGS



GEOGRAPHICAL BREAKDOWN EXCLUDING INDIRECT HOLDINGS



SLI PORTFOLIO INFORMATION

SLI PORTFOLIO INFORMATION

	Q1 2021
Direct market value	£37.7m
Indirect market value	£0m
Total SLI Portfolio market value	**£37.7m**
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)	66.5 years (18.0 years)
Net initial yield (p.a.)	3.9%
% of income index linked	71.8%
Rent with 15+ years remaining (% of rent)	65.6%
Largest Tenant	Mears Plc £0.4m p.a. (27.7% of contracted income)

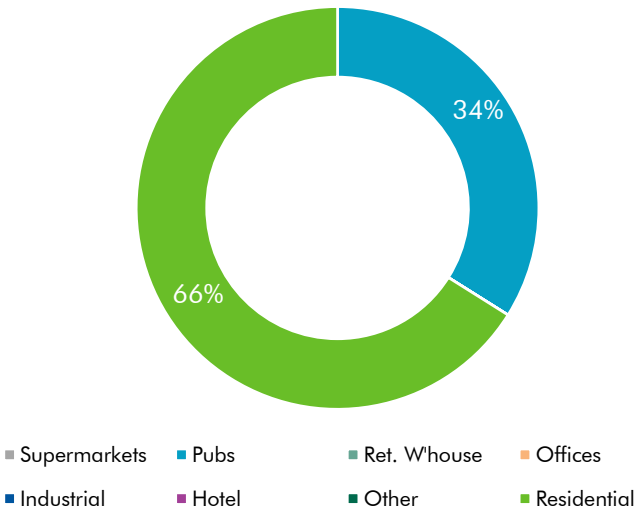
*Assumes each residential portfolio is treated as a single lettable unit.

Red Lion, London SW1

SLI PORTFOLIO ANALYSIS

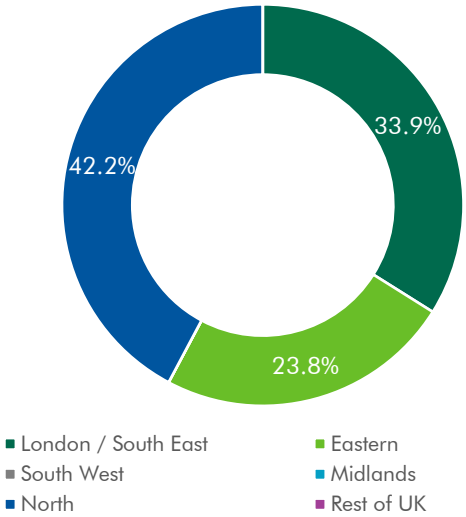
Elgin Bar & Grill, London W9

SECTOR BREAKDOWN (% OF TOTAL VALUE)




Ingersley Building, Macclesfield

GEOGRAPHICAL BREAKDOWN (% OF TOTAL VALUE)



ENVIRONMENTAL, SOCIAL, GOVERNANCE

Responsible ESG practices are fundamental to Dorset County Pension Fund's strategy and we are targeting a Gold ambition level. We focus on three key pillars and the targets to 2022 are set out in each of these below.

COMPLIANCE

- Energy ratings
- Policies
- TCFD
- Compliance Risk
- Green Leases

All Environmental Compliance Risks

TRANSPARENCY

- Building certifications
- Reporting
- Stakeholder engagement
- Data coverage

GRESB Outperformance

CARBON

- Energy
- Water
- Waste
- Tenant Workshops

18% Carbon Intensity Reduction

% of units with EPC rating lodged A-E

2020 Performance	2021 Performance	2022 Target
100%	100%	100%

% of floor area environmental data has been collected

2019 Performance	2020 Performance	2022 Target
0%	14%	40%

GRESB score in the Standing Investments Assessment

2019 Score	2020 Score	2022 Target Score
0 / 100	60 / 100	64 / 100

% Portfolio Covered by Workshops by Asset Value

2020 Performance	2021 Performance	2022 Target
0%	0%	25%

KEY FUND ACTIONS COMPLETED IN Q1 2021

ACTION	OUTCOME			
BREEAM In Use	Three BREEAM In Use assessments have been proposed to the fund for Oldfield Lane, London; Euroway Industrial Estate, Swindon and Cathedral Park Retail, Norwich.	x	x	x
EPC	Instructed a total of 12 EPCs as part of ongoing efforts to mitigate and minimise MEES related risk.	x		x
Tenant Data Collection	Initiated tenant data collection through CRMs and PMs with support from green lease clauses, tenant workshops and BIU contacts.	x	x	x

LEGISLATION UPDATE

The UK Government has been conducting three consultations on building energy performance and carbon emissions. Through its Future Buildings Standard, the government has been reviewing building regulations with the aim of facilitating the delivery of carbon neutral buildings and implementing the proposed changes "as soon as possible". Secondly, the Government has confirmed its intention to set a minimum EPC standard of B by 1st April 2030 for all lettings and issued a consultation on how to implement this enhanced standard. The consultation includes a series of suggested improvements to enforcement, exemptions and the implementation methods as well as an interim requirement of C by 1st April 2027. Alongside this, the Government has issued a broad consultation on the proposed introduction of a "NABERS style" operational performance rating standard for commercial properties over 1,000 m2. Considering the UK is hosting COP26 in November 2021 and has set a new 78% by 2035 carbon target, we should expect consultation responses and regulations to follow quite quickly after consultations close.

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CBRE GLOBAL INVESTORS

Dorset County Pension Fund

Investment report: Q1 2021

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

Executive summary

Insight INVESTMENT

Portfolio performance summary

- **Q1 2021**
  - Benchmark returns over the quarter were +**4.41% (+£14.2m).** This was driven by a rise in inflation expectations across the curve and partly offset by a rise in gilt yields.
  - The portfolio outperformed the benchmark over the quarter, with relative performance of **+0.11% (+£0.4m)**
- **Since inception:**
  - Benchmark returns of **+7.8% pa (+£127.5m)** since inception as a result of falls in long-term interest rates
  - Discretionary positioning has added **+1.0% pa (+£21.3m)** to the Fund's portfolio return

Portfolio position

- Your inflation hedge ratio (as a % of actuarial liabilities) was **29.1%** at the end of March.
- The portfolio leverage is **c.2.13x** as at 31 March 2021, which means it can withstand a c.1.4% fall in inflation expectations prior to the leverage exceeding c.3.5x

Dorset County Pension Fund

Key metrics at 31 March 2021

Insight INVESTMENT

Inflation hedge ratios

	31-Dec-20, £k	31-Mar-21, £k
Portfolio IE01	1,676.6	1,509.8
Benchmark IE01	1,676,7	1,512.1
Actuarial liability IE01*	5,175.3	5,188.3
Portfolio inflation hedge ratio*	**32.4%**	**29.1%**
Benchmark inflation hedge ratio*	**32.4%**	**29.1%**

IE01: Sensitivity (in £ terms) to a 0.01% (basis point) increase in inflation.

This table shows an estimate of the proportion of the Fund's actuarial liabilities that are hedged by the portfolio. This also shows the portfolio is very close to the benchmark in terms of its total inflation sensitivity.

Change in long-term inflation expectations

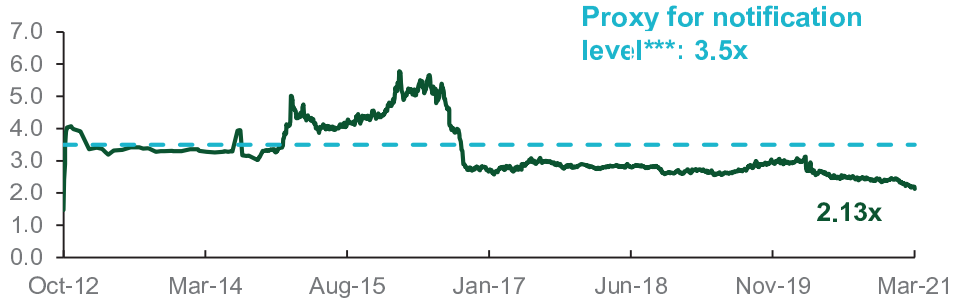
	0.0%	-0.5%	-1.0%	-1.5%	-2.0%	-2.5%
Expected value of collateral (£m)	381.4	302.9	234.2	173.9	120.9	74.1
Leverage multiple	2.13	2.45	2.90	3.60	4.78	7.23

- The above table shows stress tests for long-term inflation rates. The Fund can support a >2.5% fall in long-term inflation expectations prior to running out of collateral to support the hedge.
- The exposure value of inflation-linked liabilities hedged was £811.5m at 31 March 2021.

Performance

	3 months %	1 year %	3 years % ann.	5 years % ann.	Since inception % ann.
Portfolio	4.52	28.35	0.96	11.51	8.83
Benchmark	4.41	27.04	0.80	8.15	7.79
Relative	**0.11**	**1.31**	**0.17**	**3.35**	**1.04**

Leverage (through time)**



- A c.1.4% fall in inflation would take the Fund to c.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?

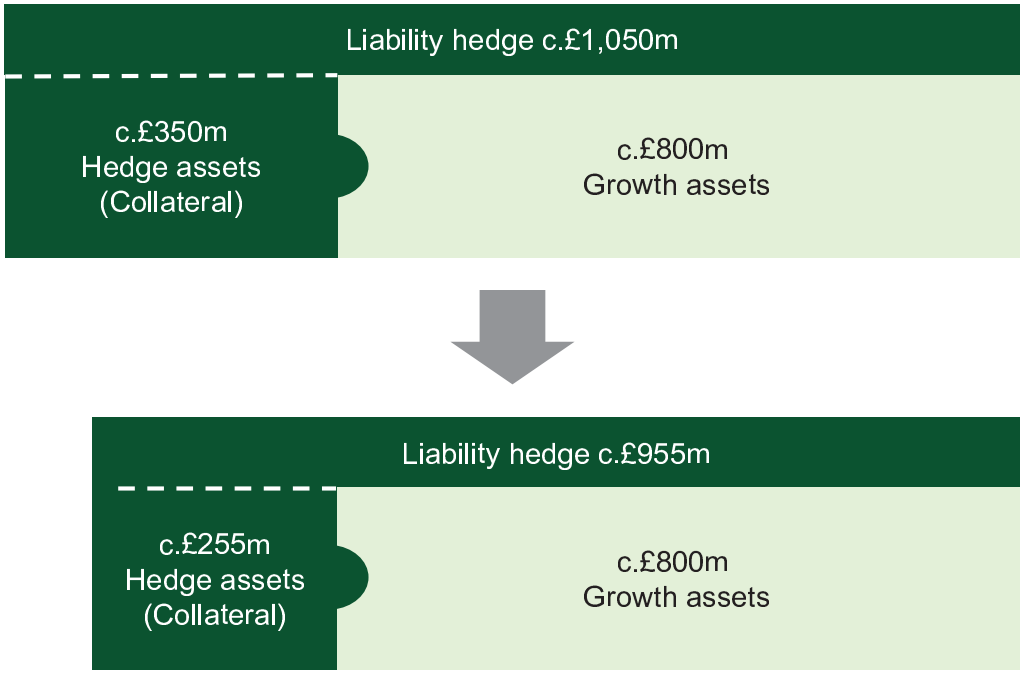
Insight INVESTMENT

Example

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

Duration (average maturity) of 20 years

Leverage is 3.0x



Scenario: Inflation expectations falls by 0.5%

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

Hedge assets fall in value by c.£95m

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

Overall this increases leverage from 3.0x to 3.7x

For illustrative purposes only.

Dorset County Pension Fund

Valuation and exposure at 31 March 2021

Insight INVESTMENT

	Value	Interest rate sensitivity (PV01)		Inflation sensitivity (IE01)	
	£m	£k	% of liabilities	£k	% of liabilities
Conventional gilts	-3.5	-24.7	3.9%	0.0	0.0%
Index-linked gilts	506.8	-1,253.6	199.6%	1,226.1	81.1%
Corporate bonds	4.8	-11.6	1.8%	11.3	0.7%
Repurchase agreements	-109.5	1.9	-0.3%	0.0	0.0%
RPI Swaps	-4.8	-7.5	1.2%	272.4	18.0%
Interest rate swaps	-40.5	651.9	-103.8%	0.0	0.0%
Liquidity	16.5	0.0	0.0%	0.0	0.0%
Futures	0.2	16.6	-2.6%	0.0	0.0%
High Grade ABS Fund	11.3	0.0	0.0%	0.0	0.0%
Total return swap	0.0	0.0	0.0%	0.0	0.0%
Total assets	**381.4**	**-627.0**	**99.8%**	**1,509.8**	**99.8%**
Liability benchmark	**330.3**	**-628.1**	**100.0%**	**1,512.1**	**100.0%**
Liability benchmark inflation only	**811.5**	**-**	**-**	**1,512.1**	**100.0%**
Leverage	**2.1x**				

- The value of the liability benchmark reflects the Net Asset Value of the portfolio of gilts and swaps that are used as the benchmark for the liability hedging portfolio which was last updated on 3 March 2020.

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

Leverage = exposure value of inflation linked liabilities hedged / portfolio asset value

Insight INVESTMENT

Performance

Performance summary

As at 31 March 2021

Insight INVESTMENT

	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a.
Portfolio	4.52	28.35	0.96	11.51	8.83
Benchmark	4.41	27.04	0.80	8.15	7.79
Relative	**0.11**	**1.31**	**0.17**	**3.35**	**1.04**

	3 months £	1 year £	3 years cumulative £	5 years cumulative £	Since inception cumulative £
Portfolio	14,602,073	75,197,501	3,282,632	122,075,810	148,833,387
Benchmark	14,246,515	71,972,899	1,313,765	86,967,266	127,486,740
Relative	**355,558**	**3,224,602**	**1,968,867**	**35,108,543**	**21,346,647**

Data stated as at 31 March 2021. Performance is quoted gross of fees and in sterling terms. Inception date: 31 October 2012

Quarter 1 2021:

- Unleveraged return: if we adjust for the leverage in the portfolio, the benchmark return over the quarter was 1.68% as a proportion of the value of the inflation exposure hedged and the portfolio return was 1.72% on that basis.
- The Asset Benchmark Return (to compare to State Street) was 3.88% over the quarter.
- The benchmark performed positively over the quarter. This was driven by a rise in inflation expectations across the curve and partly offset by a rise in gilt yields.
- The portfolio outperformed the benchmark over the quarter, primarily as a result of the tightening of z-spreads (the difference between gilt and swap yields) as the portfolio is overweight to gilts versus swaps.

Benchmark performance attribution

As at 31 March 2021

Insight INVESTMENT

Over Q1, the benchmark rose in value due to a rise in inflation expectations, partly offset by gilt yields increasing

Dorset County Pension Fund

Benchmark performance attribution to 31 March 2021

Insight INVESTMENT

£m	2012 -2013	2014	2015	2016	2017	2018	2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Total
Interest rates	-10.0	73.2	14.8	32.3	5.2	-5.1	41.3	32.5	8.5	-5.0	1.2	-34.9	**154.1**
Inflation	52.1	-42.9	-6.9	55.7	-12.2	-0.7	-79.0	-67.3	29.4	5.5	1.8	52.4	**-12.2**
Overnight index swap curve	0.0	0.0	0.0	0.0	0.0	0.8	-0.5	0.0	0.0	0.0	0.0	0.0	**0.3**
Gilt spread to swap	-0.5	-4.6	-10.1	7.6	6.6	-0.1	10.3	-9.8	1.9	-1.7	5.7	0.6	**5.8**
Gilt inflation spread to swap	-1.2	-1.0	1.9	-0.5	0.7	-0.8	7.8	-9.9	15.1	-0.2	-0.8	-2.1	**8.9**
Bond specific risk	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.1	-0.1	0.2	-0.2	**-0.3**
Carry	3.9	0.7	0.9	0.5	0.5	1.5	2.3	0.3	0.0	-0.1	-0.1	-0.1	**10.2**
Other	-3.3	-2.0	-9.0	-10.0	-4.3	-2.8	-3.5	0.8	-1.8	-0.8	-1.2	-1.4	**-39.4**
Total	**40.7**	**23.3**	**-8.4**	**85.4**	**-3.5**	**-7.2**	**-21.4**	**-53.5**	**53.3**	**-2.3**	**6.8**	**14.2**	**127.5**

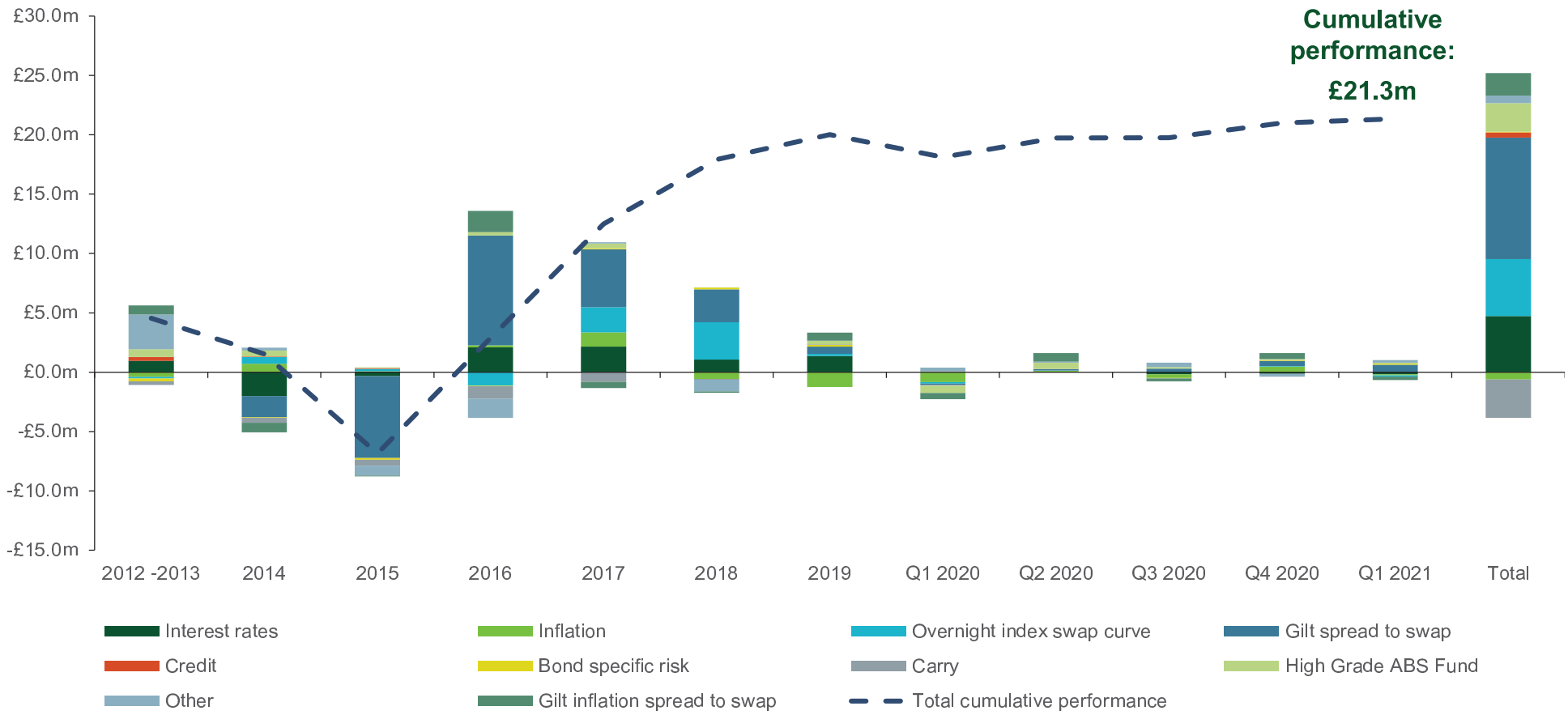
Total cumulative performance	40.7	64.1	55.6	141.0	137.5	130.4	109.0	55.5	108.8	106.5	113.2	127.5	-

Relative performance attribution

As at 31 March 2021

Insight INVESTMENT

The portfolio outperformed the benchmark over Q1 2021 as a result of its overweight position to gilts relative to swaps



Dorset County Pension Fund

Relative performance attribution to 31 March 2021

Insight INVESTMENT

£m	2012 -2013	2014	2015	2016	2017	2018	2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Total
Interest rates	1.0	-2.0	-0.3	2.1	2.2	1.1	1.4	0.0	0.0	-0.2	-0.1	-0.2	**4.7**
Inflation	-0.4	0.7	0.1	0.2	1.2	-0.6	-1.2	-0.8	0.1	-0.3	0.5	-0.1	**-0.6**
Overnight index swap curve	-0.1	0.6	0.2	-1.1	2.1	3.2	0.2	-0.1	0.0	0.0	0.0	-0.1	**4.8**
Gilt spread to swap	0.0	-1.8	-6.9	9.3	4.9	2.8	0.6	-0.1	0.1	0.3	0.4	0.6	**10.2**
Gilt inflation spread to swap	0.8	-0.8	-0.1	1.8	-0.5	-0.1	0.7	-0.5	0.7	-0.3	0.5	-0.3	**1.9**
Credit	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.4**
Bond specific risk	-0.2	0.0	-0.1	0.0	0.1	0.2	0.1	0.1	0.0	0.0	0.1	0.1	**0.1**
Carry	-0.3	-0.4	-0.5	-1.0	-0.8	-0.1	0.1	-0.1	0.0	0.0	0.0	0.0	**-3.2**
High Grade ABS Fund	0.7	0.5	0.1	0.3	0.4	0.0	0.3	-0.6	0.5	0.1	0.1	0.1	**2.4**
Other	2.9	0.2	-0.8	-1.6	0.1	-1.0	0.0	0.3	0.1	0.4	-0.2	0.2	**0.6**
Total	**4.5**	**-3.0**	**-8.4**	**9.7**	**9.6**	**5.4**	**2.1**	**-1.9**	**1.6**	**0.0**	**1.2**	**0.4**	**21.3**
Total cumulative performance	4.5	1.5	-6.8	2.9	12.5	17.9	20.0	18.1	19.7	19.8	21.0	21.3	-

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