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Pension Fund Committee

Date: Tuesday, 13 June 2023
Time: 10.00 am
Venue: Committee Room 1, County Hall, Dorchester, DT1 1XJ

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

Chief Executive: Matt Prosser, County Hall, Dorchester, Dorset, DT1 1XJ

For more information about this agenda please contact Democratic Services
Meeting Contact joshua.kennedy@dorsetcouncil.gov.uk

Members of the public are welcome to attend this meeting, apart from any items listed in the exempt part of this agenda.

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Agenda

Page No

1. APOLOGIES

To receive any apologies for absence.

2. MINUTES 5 - 10

To confirm the minutes of the meeting held on 14 March 2023.

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 decision 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

Representatives of town or parish councils and members of the public who live, work, or represent an organisation within the Dorset Council area are welcome to submit either 1 question or 1 statement for each meeting. You are welcome to attend the meeting in person or via MS Teams to read out your question and to receive the response. If you submit a statement for the committee this will be circulated to all members of the committee in advance of the meeting as a supplement to the agenda and appended to the minutes for the formal record but will not be read out at the meeting. The **first 8 questions and the first 8 statements received from members of the public or organisations for each meeting will be accepted on a first come first served basis in accordance with the deadline set out below.** Further information read [Public Participation - Dorset Council]

All submissions must be emailed in full to Joshua.kennedy@dorsetcouncil.gov.uk by 08:00am Thursday 8 June 2023.

When submitting your question(s) and/or statement(s) please note that:

- You can submit 1 question or 1 statement.
- A question may include a short pre-amble to set the context.
- It must be a single question and any sub-divided questions will not be permitted.
- Each question will consist of no more than 450 words, and you will be given up to 3 minutes to present your question.
- When submitting a question please indicate who the question is for (e.g., the name of the committee or Portfolio Holder).
- Include your name, address, and contact details. Only your name will be published but we may need your other details to contact you about your question or statement in advance of the meeting.
- Questions and statements received in line with the council's rules for public participation will be published as a supplement to the agenda.
- All questions, statements and responses will be published in full within the minutes of the meeting.

5. QUESTIONS FROM COUNCILLORS

To receive questions submitted by councillors.

Councillors can submit up to two valid questions at each meeting and sub divided questions count towards this total. Questions and statements received will be published as a supplement to the agenda and all questions, statements and responses will be published in full within the minutes of the meeting.

The submissions must be emailed in full to Joshua.kennedy@dorsetcouncil.gov.uk by 08:00am Thursday 8 June 2023.

Dorset Council Constitution – Procedure Rule 13

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. BRUNEL PENSION PARTNERSHIP QUARTERLY REPORT 11 - 66

To consider the quarterly performance report of Brunel Pension Partnership, the pension fund's Local Government Pension Scheme (LGPS) investment pooling manager.

8. INVESTMENT STRATEGY REVIEW 67 - 80

To consider the annual report of the pension fund's independent governance adviser on the governance of the pension fund.

9. PENSIONS ADMINISTRATION REPORT 81 - 90

To consider the quarterly report on pension fund administration.

10. BRUNEL GOVERNANCE / SCHEME ADVISORY BOARD UPDATE

To receive a verbal update from Cllr John Beesley in his capacity as the Committee's representative on the Brunel Oversight Board and as a member of the Scheme Advisory Board (SAB) for the Local Government Pension Scheme (LGPS).

11. INDEPENDENT INVESTMENT ADVISORS REPORT 91 - 96

To consider the quarterly report of the pension fund's independent investment adviser on the outlook for the pension fund's investments.

12. FUND ADMINISTRATORS REPORT 97 - 176

To consider the quarterly report on the funding position, the value and performance of investments and other related issues.

13. DATES OF FUTURE MEETINGS

To confirm the dates of the meetings of the Committee in 2023/24:
19 September 2023
29 November 2023
26 March 2024

14. **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.

15. **Investment Management Changes** 177 - 182

Para 3

To receive an update on any changes to investment management arrangements.

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON TUESDAY 14 MARCH 2023

Present: Cllrs Toby Johnson, Simon Christopher, Andy Canning (Chairman), Peter Wharf (Vice-Chairman), David Brown, Howard Legg and Adrian Felgate (Scheme Member Representative)

Present remotely: Cllrs John Beesley and Mark Roberts

Also present: Luke O'Donnell and Faith Ward (Brunel Pension Partnership), Peter Scales (Independent Governance Advisor, MJ Hudson) and Steven Tyson (Independent Investment Advisor, MJ Hudson)

Officers present (for all or part of the meeting):
Karen Gibson (Service Manager for Pensions), Sean Cremer (Corporate Director for Finance and Commercial) and David Wilkes (Service Manager for Treasury and Investments)

192. **Apologies**

There were no apologies for absence.

193. **Minutes**

The minutes of the meeting held on 29 November 2022 were confirmed and signed.

194. **Declarations of Interest**

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

195. **Public Participation**

No questions or statements from members of the public were made at the meeting.

196. **Questions From Councillors**

No questions from Councillors were made at the meeting.

197. **Urgent items**

There were no urgent items.

198. **BRUNEL PENSION PARTNERSHIP QUARTERLY REPORT**

The Committee considered the quarterly report of Brunel Pension Partnership (Brunel), the pension fund's Local Government Pension Scheme (LGPS) investment pooling manager, and Brunel's updated Climate Change Policy for 2023 to 2030 following the conclusion of the 'stocktake' of the previous policy.

As of 31 December 72% of the pension fund's investment assets were under Brunel's management. The transition of any further assets to Brunel from legacy arrangements would require a decision by the Committee. Original investment pooling guidance was that government wanted LGPS funds to move substantially all their assets to the investment pools. Revised guidance on investment pooling was expected shortly.

The performance of Brunel's active portfolios was mostly ahead of benchmark for the quarter. Lags in pricing of private market assets meant that the falls seen in public markets earlier in the year were beginning to feed through into private market valuations. A briefing note on Silicon Valley Bank would be issued by Brunel.

Whilst performance broadly had improved, there was still some way to go to make up for the underperformance over the last year which had been driven largely by underweight positions in fossil fuels across the Brunel portfolios. There had been an increase in the demand for fossil fuels as governments looked to improve energy security but in the longer-term Brunel believed this would be a further 'push' towards renewables.

199. **BRUNEL GOVERNANCE / SCHEME ADVISORY BOARD UPDATE**

Cllr John Beesley, the pension fund's representative on the Brunel Oversight Board (BOB), and also a member of the LGPS Scheme Advisory Board (SAB), updated the Committee on governance matters relating to investment pooling.

SAB expected there to be a consultation on changes to investment pooling guidance shortly driven by government concerns that some LGPS funds (but not Dorset or the other Brunel funds) had not fully engaged with the spirit of pooling.

Reporting from Brunel had improved greatly but Cllr Beesley reminded Committee members to continue to let him know if there were any further requirements. There had been signs of improvement in Brunel's investment performance but there was still some catching up to do. It was agreed that investment performance had not been good enough to date. It was important that Brunel officers continued to attend Committee meetings so that they could be held to account for underperformance and so that Committee members felt more engaged in Brunel's activities.

To improve recruitment and retention of key staff, Brunel were seeking to make changes to their people strategy, including the benchmarking of salaries against other LGPS investment pools. These changes had not been approved by all ten shareholders as was required under the terms of the shareholder agreement. Resolution of this issue could become a distraction for Brunel's management and was not going to help the drive for improved investment performance.

All non-executive directors were reappointed for a further 12 months at Brunel's Annual General Meeting (AGM) held 9 March 2023.

200. **INDEPENDENT ANNUAL GOVERNANCE REVIEW**

The Committee considered the annual report on governance compliance from Peter Scales, MJ Hudson, the pension fund's Independent Governance Adviser.

A good standard of governance had been maintained despite the introduction of new pensions administration systems which were always extremely challenging to implement.

Significant changes to the governance framework for LGPS funds were expected and these changes were expected to lead to significant additional pressure on administering authorities.

This was the last report from Mr Scales before his retirement and the Chairman thanked him on behalf of the Committee for his valued contribution and advice. There would be a review of governance requirements and internal resources before any decision to appoint replacement external advisers.

201. **PENSIONS ADMINISTRATION REPORT**

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

Performance against Key Performance Indicators (KPIs) was generally good with two exceptions, retirement quotes and 'transfers out', which were primarily due to a lack of experienced technical staff.

The McCloud remedy was expected to generate a significant amount of additional work and AON Hewitt had been appointed to provide support to the administration team.

The Vice-Chairman noted that both Dorset Council and BCP Council held regular meetings with local Members of Parliament (MPs) and that these and other connections could be used to raise matters of importance relating to the LGPS with government on behalf of the Committee.

The project to undertake existence checks on all overseas pensioners was nearly complete. Benefits would be suspended where such checks had not been successful by the end of March 2023.

Richard Bates, formerly the chief financial officer for Dorset County Council, had been appointed as the independent chairman of the Local Pension Board.

202. **INDEPENDENT INVESTMENT ADVISER'S REPORT**

The Committee considered a report from Steve Tyson, MJ Hudson, the pension fund's Independent Investment Adviser, that gave his views on the economic and

market background to the pension fund's investments, the outlook for different asset classes and key market risks.

Inflation was peaking but not clear what level it would settle at and there could be further 'waves' of high inflation. Interest rates had risen rapidly and may still rise further. Recession was a risk and corporate profits may be challenged which would exert downward pressure on equity valuations. Corporate bonds looked more attractive than they had for many years but there was the threat of defaults, although this was partly already 'priced in' to valuations.

The failure of Silicon Valley Bank was symptomatic of a long period of low interest rates and growth in the technology sector. The impact appeared to have been contained by the regulators but there were still concerns that there might be other banking failures.

Investment performance had not been good in 2022. Brunel's under performance in the first half of the year was largely due to underweight positions in fossil fuels but it was also questioned whether their underlying managers had overpaid when acquiring companies with good Responsible Investment (RI) credentials. Officers, advisers and the Committee should continue to scrutinise and hold Brunel to account but options needed to be developed should performance still be poor in two/three years' time.

The last quarter of 2022 saw private market valuations follow the earlier decline in public markets due to lags in pricing of illiquid assets. The performance of private markets' investments was generally compared to public markets' indices which made comparison difficult on a quarterly basis, particularly at times of heightened volatility. This will be investigated to see if any improvements to reporting can be made.

203. **FUND ADMINISTRATOR'S REPORT**

The Committee considered a report from officers on the pension fund's funding position, asset valuation, investment performance and asset allocation as at 31 December 2022.

The value of the pension fund's assets at 31 December 2022 was £3.4 billion compared to £3.7 billion at the start of the financial year, with just under three quarters of assets now under the management of Brunel.

The pension fund's actuary, Barnett Waddingham, had now concluded the triennial valuation as at 31 March 2022 and the pension fund's Funding Strategy Statement had been updated. Compared to the last valuation as at 31 March 2019, the funding level had improved from 92% to 96%.

Decision

That the draft Funding Strategy Statement be published for consultation with key parties.

204. **PENSION FUND TREASURY MANAGEMENT STRATEGY 2023/24**

The Committee considered a report by officers setting out the Treasury Management Strategy (TMS) for 2023-24.

Although the pension fund had no strategic allocation to cash, cashflows needed to be managed to ensure there was 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 cash investments.

The TMS for 2023-24 was largely unchanged from 2022-23 and broadly followed the TMS for Dorset Council, the administering authority for the pension fund, where applicable.

Decision

That the Treasury Management Strategy for 2023-24 be approved.

205. **DATES OF FUTURE MEETINGS**

10am Tuesday 13 June 2023 - County Hall, Dorchester.
10am Tuesday 19 September 2023 - County Hall, Dorchester.
10am Wednesday 29 November 2023 - County Hall, Dorchester.
10am Tuesday 26 March 2024 - County Hall, Dorchester.

206. **Exempt Business**

Decision

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

207. **INVESTMENT MANAGEMENT CHANGES**

The Service Manager (Treasury and Investment) gave an update on the implementation of changes to investment management arrangements agreed by the Committee at previous meetings. The Committee also considered some further proposed changes and investment opportunities.

Decision

That ‘top-up’ commitments to Brunel Cycle 3 private markets portfolios of £10m to Private Equity, £10m to Infrastructure and £10m to Secured Income be approved.

Duration of meeting: 10.00 am - 1.15 pm

Chairman

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Dorset County Pension Fund Performance Report

Quarter ending 31 March 2023

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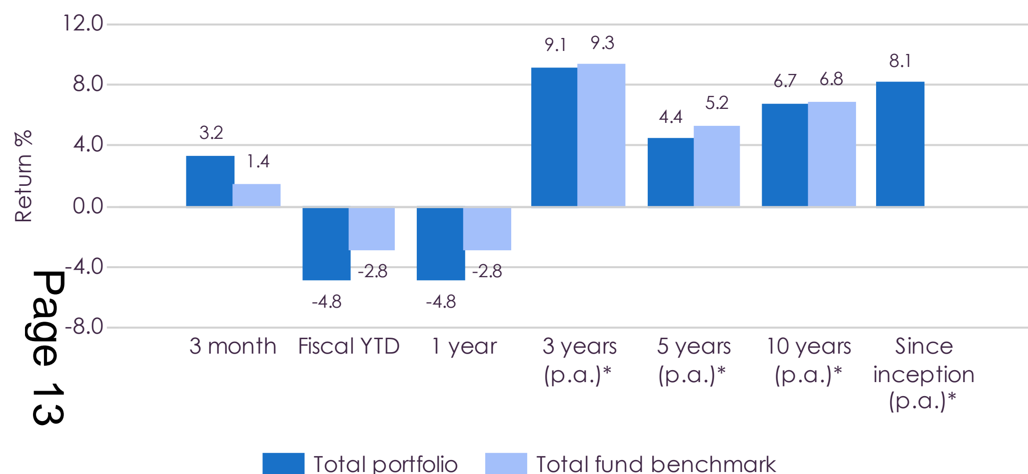
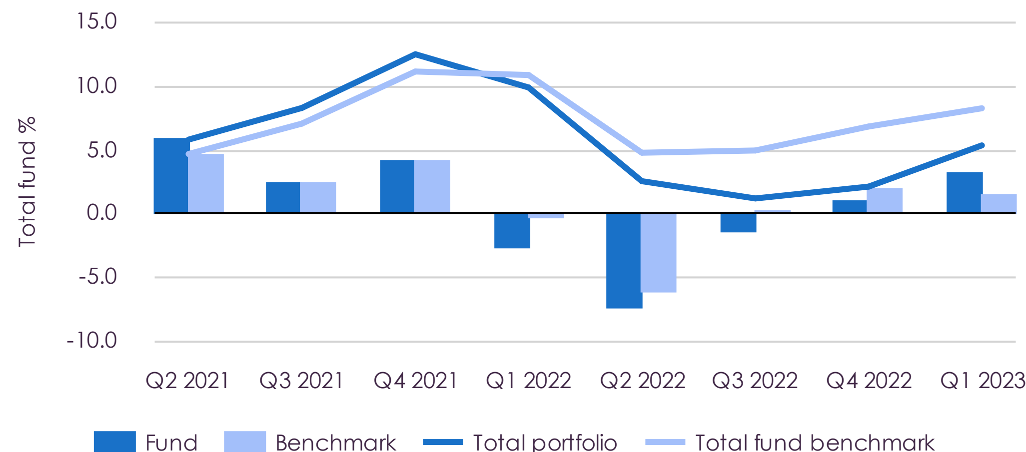
Pension Fund performance

Performance (annualised)



Source: State Street Global Services
*per annum. Net of all fees.

Quarterly performance



Source: State Street Global Services. Net of all fees.

Key events

Global Equities started the year strongly, but this was derailed in March by the collapse of Silicon Valley Bank and the rushed takeover of Credit Suisse by UBS. This in turn led to a rush onto 'safe haven' assets such as Government Bonds. Investors believe that these events may lead to pressure on policy rates to rise. This view is also supported by signs that the inflationary pressures are starting to ease. Meanwhile, Brunel published its new Climate change Policy after completion of the Climate Stocktake.

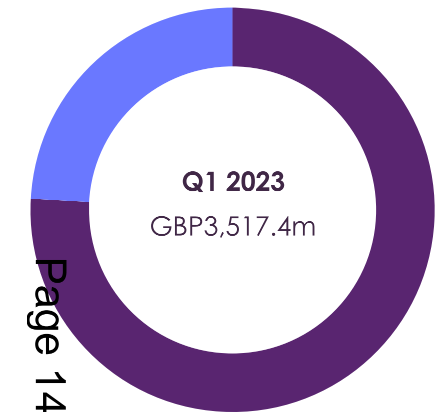
The total portfolio rose 3.2%, whilst the benchmark rose 1.4%. For 12 months, the total portfolio lagged the benchmark (-4.8% vs -2.8%).

The relative performance of Brunel's active equity portfolios during the quarter was broadly ahead of benchmark (the exception being UK Active Equities, which underperformed). Both the Sterling Corporate Bond and the Multi Asset Credit portfolios produced positive returns ahead of benchmark.

During the quarter, there were further investments made across a wide range of Brunel strategies (including passive equities, actively-managed equities, and actively-managed bonds.

Asset summary

Assets transitioned to Brunel



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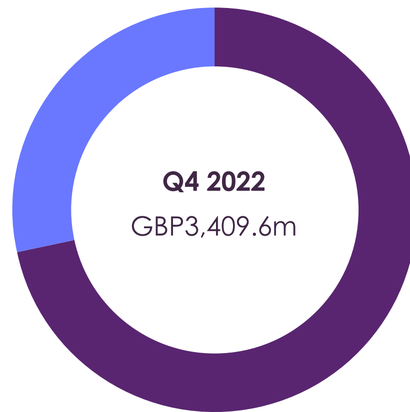
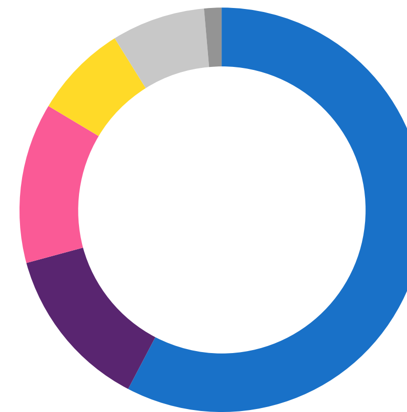


Source: State Street Global Services. Net of all fees.

Asset allocation breakdown



Source: State Street Global Services. Net of all fees.
Data includes legacy assets

Overview of assets

Detailed asset allocation

Equities	£2,027.87m	57.65%
Global Sustainable Equities	£347.68m	9.88%
Global High Alpha Equities	£269.88m	7.67%
Global Small Cap Equities	£225.50m	6.41%
UK Active Equities	£184.87m	5.26%
Passive Smart Beta	£159.41m	4.53%
Passive Smart Beta (Hedged)	£147.85m	4.20%
Emerging Markets Equities	£142.25m	4.04%
Passive UK Equities	£125.12m	3.56%
Passive Developed Equities	£102.49m	2.91%
Passive Developed Equities (Hedged)	£97.38m	2.77%
PAB Passive Global Equities (Hedged)	£54.36m	1.55%
CTB Passive Global Equities	£54.31m	1.54%
CTB Passive Global Equities (Hedged)	£54.27m	1.54%
PAB Passive Global Equities	£54.26m	1.54%
Legacy Assets	£8.26m	0.23%

Fixed income	£461.54m	13.12%
Multi-Asset Credit	£232.45m	6.61%
Sterling Corporate Bonds	£68.89m	1.96%
Legacy Assets	£160.20m	4.55%

Private markets (incl. property)	£715.72m	20.35%
Secured Income Cycle 1	£56.34m	1.60%
Private Equity Cycle 1	£45.66m	1.30%
Infrastructure Cycle 3	£9.70m	0.28%
Private Equity Cycle 3	£0.00m	0.00%
Legacy Assets	£604.02m	17.17%

Other	£262.97m	7.48%
Diversifying Returns Fund	£236.50m	6.72%
Legacy Assets	£26.47m	0.75%

Cash not included

Performance attribution

Pension fund performance attribution - to quarter end

	End market value £'000	Actual % allocation at end of quarter	Strategic asset allocation (%)	Difference (%)	Fund return (%)	Contribution to return
Aberdeen Standard	20,236	0.6%	2.50%	-1.9%	7.3%	0.0%
CBRE	264,879	7.5%	10.00%	-2.5%	2.6%	0.2%
Harbourvest	69,954	2.0%	2.50%	-0.5%	-3.9%	-0.1%
Hermes	93,750	2.7%	4.00%	-1.3%	-4.1%	-0.1%
IFM	154,272	4.4%	4.00%	0.4%	0.9%	0.0%
Insight	18,955	0.5%	12.00%	-11.5%	1.2%	0.0%
Internally Managed UK Equities	7,487	0.2%	-	0.2%	0.9%	0.0%
Ninety One	429	0.0%	-	0.0%	-1.7%	-0.0%
Royal London	160,203	4.6%	4.00%	0.6%	3.0%	0.1%
Wellington	344	0.0%	-	0.0%	-1.3%	-0.0%
Global High Alpha Equities	269,882	7.7%	7.50%	0.2%	7.1%	0.5%
Global Sustainable Equities	347,678	9.9%	10.00%	-0.1%	5.5%	0.5%
UK Active Equities	184,868	5.3%	5.00%	0.3%	2.3%	0.1%
Emerging Markets Equities	142,249	4.0%	5.00%	-1.0%	2.4%	0.1%
Global Small Cap Equities	225,495	6.4%	5.00%	1.4%	5.0%	0.3%
Diversifying Returns Fund	236,496	6.7%	6.00%	0.7%	0.1%	0.0%

Performance attribution

Pension fund performance attribution - to quarter end

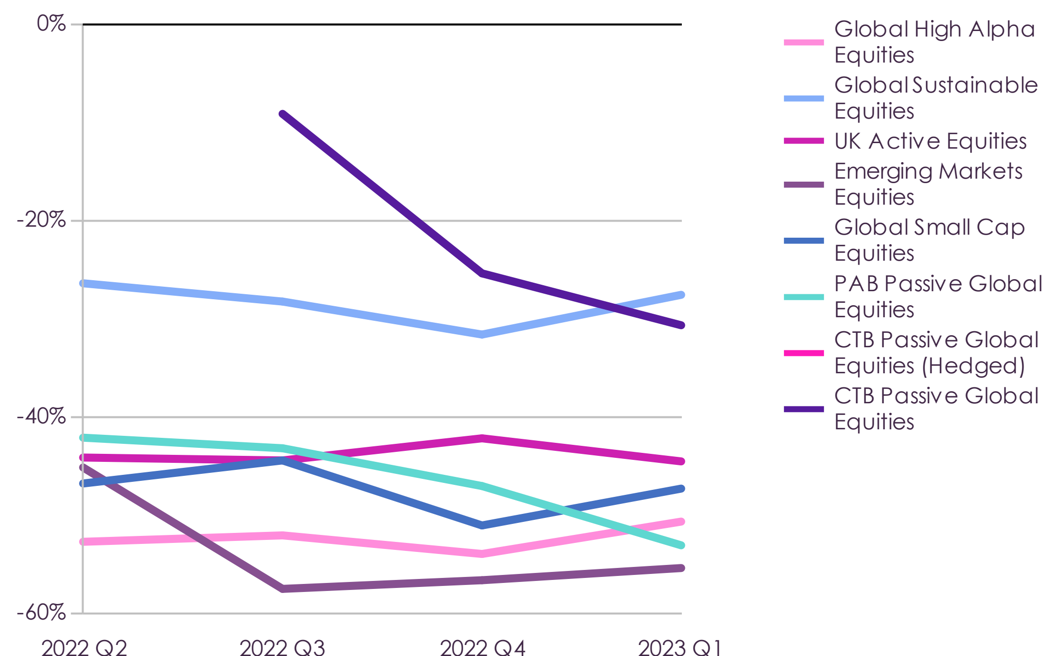
	End market value £'000	Actual % allocation at end of quarter	Strategic asset allocation (%)	Difference (%)	Fund return (%)	Contribution to return
Multi-Asset Credit	232,449	6.6%	5.00%	1.6%	2.7%	0.2%
Sterling Corporate Bonds	68,888	2.0%	-	2.0%	2.7%	0.0%
PAB Passive Global Equities	54,261	1.5%	-	1.5%	6.7%	0.1%
PAB Passive Global Equities (Hedged)	54,356	1.5%	-	1.5%	9.2%	0.1%
CTB Passive Global Equities	54,306	1.5%	-	1.5%	6.5%	0.1%
CTB Passive Global Equities (Hedged)	54,266	1.5%	-	1.5%	9.0%	0.1%
Passive Developed Equities	102,485	2.9%	2.50%	0.4%	4.8%	0.1%
Passive Developed Equities (Hedged)	97,383	2.8%	2.50%	0.3%	7.4%	0.2%
Passive UK Equities	125,124	3.6%	3.00%	0.6%	3.1%	0.1%
Passive Smart Beta	159,407	4.5%	3.75%	0.8%	1.4%	0.0%
Passive Smart Beta (Hedged)	147,854	4.2%	3.75%	0.5%	3.9%	0.2%
Private Equity Cycle 1	45,659	1.3%	-	1.3%	-3.2%	-0.0%
Infrastructure Cycle 3	9,696	0.3%	-	0.3%	-2.0%	-0.0%
Secured Income Cycle 1	56,345	1.6%	-	1.6%	-1.6%	-0.0%
Cash	49,231	1.4%	2.00%	-0.6%	-0.2%	-0.0%

Stewardship and climate metrics

Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
Global High Alpha Equities	**89**	**82**	**1.3**	**1.2**	**3.3**	**3.6**
MSCI World*	193	166	2.8	3.3	7.8	9.2
Global Sustainable Equities	**152**	**140**	**2.6**	**2.6**	**3.1**	**5.6**
MSCI ACWI*	222	193	2.8	3.3	7.8	9.1
UK Active Equities	**93**	**84**	**3.5**	**5.0**	**15.9**	**11.3**
FTSE All Share ex Inv Tr*	160	152	4.9	6.3	21.7	19.5
Emerging Markets Equities	**196**	**186**	**0.8**	**1.1**	**5.0**	**4.1**
MSCI Emerging Markets*	453	418	3.3	3.6	7.3	7.8
Global Small Cap Equities	**115**	**109**	**1.4**	**3.0**	**3.0**	**3.2**
MSCI Small Cap World*	234	207	2.9	3.2	5.0	5.9
PAB Passive Global Equities	**102**	**79**	**0.9**	**0.6**	**1.7**	**3.4**
FTSE Dev World TR UKPD*	194	168	2.7	3.1	7.7	9.4
PAB Passive Global Equities (Hedged)	**102**	**79**	**0.9**	**0.6**	**1.7**	**3.4**
CTB Passive Global Equities	**145**	**117**	**2.7**	**1.6**	**4.9**	**6.2**
CTB Passive Global Equities (Hedged)	**145**	**117**	**2.7**	**1.6**	**4.9**	**6.2**
FTSE Dev World TR UKPD*	194	168	2.7	3.1	7.7	9.4
Passive Developed Equities	**193**	**169**	**2.6**	**2.7**	**7.6**	**9.4**
Passive Developed Equities (Hedged)	**193**	**169**	**2.6**	**2.7**	**7.6**	**9.4**
Passive UK Equities	**158**	**151**	**3.6**	**5.1**	**21.3**	**19.2**
Passive Smart Beta	**329**	**308**	**3.2**	**2.9**	**7.8**	**12.6**
Passive Smart Beta (Hedged)	**329**	**308**	**3.2**	**2.9**	**7.8**	**12.6**

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

Weighted Average Carbon Intensity relative to benchmark



Stewardship reporting links

Engagement records
www.brunelpensionpartnership.org/stewardship/engagement-records/
Holdings records
www.brunelpensionpartnership.org/stewardship/holdings-records/
Voting records
www.brunelpensionpartnership.org/stewardship/voting-records/

Risk and return summary

Brunel portfolio performance - 3 year

	Annualised return	Risk (standard deviation)	Benchmark return	Benchmark standard deviation
Global High Alpha Equities	17.9%	15.4%	17.1%	13.8%
UK Active Equities	12.3%	13.5%	13.9%	12.7%
Emerging Markets Equities	7.1%	14.9%	8.3%	14.2%
Passive Developed Equities	16.7%	13.7%	16.8%	13.7%
Passive Developed Equities (Hedged)	16.1%	17.1%	16.2%	17.1%
Passive UK Equities	14.0%	12.7%	13.8%	12.7%
Passive Smart Beta	16.2%	11.8%	15.7%	11.8%
Passive Smart Beta (Hedged)	15.7%	15.2%	15.1%	15.2%
Private Equity Cycle 1	18.4%	14.1%	16.0%	13.0%
Secured Income Cycle 1	1.2%	5.4%	5.9%	2.1%

Since portfolio inception

Risk and return summary

Legacy manager performance - 3 year

	Annualised return	Risk (standard deviation)	Benchmark return	Benchmark standard deviation
Aberdeen Standard	10.6%	17.2%	13.8%	12.7%
Cash	0.0%	-	-	-
CBRE	2.7%	11.1%	1.3%	9.5%
Harbourvest	22.8%	23.2%	13.8%	12.7%
Hermes	4.0%	7.7%	10.0%	0.1%
IFM	13.8%	8.8%	10.0%	0.1%
Insight	6.2%	15.5%	6.4%	15.4%
Royal London	-3.0%	11.5%	-5.0%	12.7%
Dorset County Pension Fund	9.1%	8.6%	9.3%	7.7%

Portfolio overview

Portfolio	Benchmark	Outperformance target	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Equities (57.42%)			**2,019.61**									
Global High Alpha Equities	MSCI World	+2-3%	269.88	7.1%	2.1%	0.4%	0.9%	17.9%	0.8%	12.0%	2.2%	15 Nov 2019
Global Sustainable Equities	MSCI ACWI	+2%	347.68	5.5%	0.9%	-1.3%	-0.3%	-	-	4.2%	-2.3%	01 Dec 2020
UK Active Equities	FTSE All Share ex Inv Tr	+2%	184.87	2.3%	-1.1%	2.3%	-1.6%	12.3%	-1.6%	4.3%	-1.3%	21 Nov 2018
Emerging Markets Equities	MSCI Emerging Markets	+2-3%	142.25	2.4%	1.2%	-5.1%	-0.7%	7.1%	-1.3%	0.4%	-1.8%	09 Oct 2019
Global Small Cap Equities	MSCI Small Cap World	+2%	225.50	5.0%	3.4%	-2.9%	0.1%	-	-	0.3%	-1.0%	03 Mar 2021
PAB Passive Global Equities	FTSE Dev World PAB	Match	54.26	6.7%	-	-	-	-	-	3.0%	-0.2%	23 Nov 2022
PAB Passive Global Equities (Hedged)	FTSE Dev World PAB	Match	54.36	9.2%	-	-	-	-	-	4.5%	-0.2%	15 Dec 2022
CTB Passive Global Equities	FTSE Dev World CTB	Match	54.31	6.5%	-	-	-	-	-	5.2%	-0.1%	15 Dec 2022
CTB Passive Global Equities (Hedged)	FTSE Dev World CTB	Match	54.27	9.0%	-	-	-	-	-	4.3%	-0.2%	15 Dec 2022
Passive Developed Equities	FTSE Developed	Match	102.49	4.8%	-	-0.6%	-0.1%	16.7%	-0.1%	8.7%	-0.1%	24 Jan 2020
Passive Developed Equities (Hedged)	FTSE Developed	Match	97.38	7.4%	-	-6.2%	-0.1%	16.1%	-0.1%	7.2%	-0.2%	31 Jan 2020
Passive UK Equities	FTSE All Share	Match	125.12	3.1%	-	3.0%	0.1%	14.0%	0.2%	3.3%	0.1%	11 Jul 2018
Passive Smart Beta	SciBeta Multifactor Composite	+0.5-1%	159.41	1.4%	0.1%	2.2%	0.5%	16.2%	0.5%	8.1%	0.3%	25 Jul 2018
Passive Smart Beta (Hedged)	SciBeta Multifactor Hedged Composite	+0.5-1%	147.85	3.9%	0.2%	-3.5%	0.6%	15.7%	0.6%	6.5%	0.2%	25 Jul 2018

Portfolio overview

Portfolio	Benchmark	Outperformance target	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Fixed income (8.57%)			**301.34**									
Multi-Asset Credit	SONIA +4%	0% to +1.0%	232.45	2.7%	0.8%	-3.4%	-9.8%	-	-	-2.7%	-8.1%	01 Jun 2021
Sterling Corporate Bonds	iBoxx Sterling Non Gilt x	+1%	68.89	2.7%	0.3%	-	-	-	-	0.6%	-0.4%	14 Dec 2022
Private markets (incl. property) (3.18%)			**111.70**									
Private Equity Cycle 1	MSCI ACWI	+3%	45.66	-3.3%	-7.8%	13.7%	14.6%	19.8%	3.8%	19.5%	8.9%	26 Mar 2019
Private Equity Cycle 3	MSCI ACWI	+3%	-	-	-4.5%	-	-	-	-	-	-2.4%	30 Nov 2022
Infrastructure Cycle 3	n/a - absolute return target	net 8% IRR	9.70	-0.9%	-2.2%	-	-	-	-	-3.2%	-7.3%	13 Oct 2022
Secured Income Cycle 1	CPI	+2%	56.34	-1.6%	-2.9%	-12.1%	-22.2%	-0.1%	-6.0%	-0.2%	-4.7%	15 Jan 2019
Other (6.72%)			**236.50**									
Diversifying Returns Fund	SONIA +3%	0% to +2.0%	236.50	0.1%	-1.6%	-2.9%	-8.2%	-	-	1.9%	-2.0%	31 Jul 2020
Total Brunel assets (excl. cash) (75.89%)			**2,669.15**									

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*Since initial investment

Portfolio overview

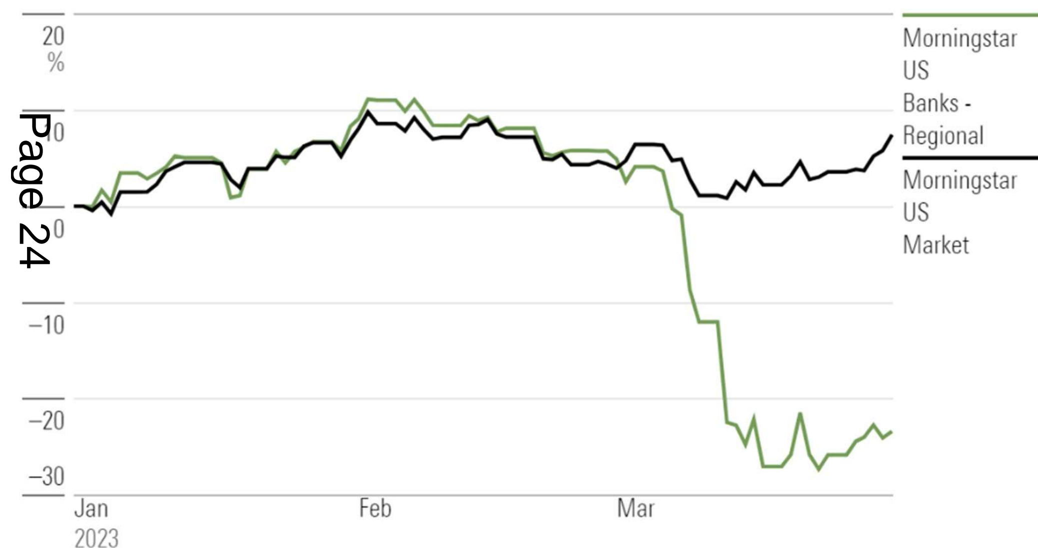
Legacy assets

Portfolio	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Fixed income (4.55%)			**160.20**							
Royal London	160.20	3.0%	-0.1%	-13.9%	1.3%	-3.0%	2.0%	6.0%	0.6%	01 Jul 2007
Private markets (incl. property) (17.17%)			**604.02**							
CBRE	264.88	2.6%	14.5%	-11.7%	-2.8%	2.7%	1.4%	6.7%	0.1%	01 Jan 2000
Aberdeen Standard	20.24	7.3%	4.2%	10.0%	7.1%	10.6%	-3.3%	5.3%	-0.5%	01 Jun 2006
Harbourvest	69.95	-3.9%	-7.0%	-2.6%	-5.5%	22.8%	9.0%	13.8%	8.3%	01 May 2006
Hermes	93.75	-4.1%	-6.5%	6.5%	-3.5%	4.0%	-6.0%	6.7%	-3.4%	01 Feb 2015
IFM	154.27	0.9%	-1.5%	16.4%	6.5%	13.8%	3.8%	14.2%	4.2%	01 Apr 2016
Brunel PM Cash	0.93	117.2%	117.2%	85.8%	85.8%	-	-	24.9%	-	01 Jun 2020
Other (1.94%)			**68.19**							
Insight	18.96	1.2%	-	-19.9%	-0.3%	6.2%	-0.1%	4.4%	0.5%	01 Jul 2012
Cash	49.23	-0.2%	-0.2%	0.7%	0.7%	-	-	0.4%	-	01 Jan 2009
Total legacy assets (excl. cash) (23.67%)	**832.41**									

*Since initial investment

Chief Investment Officer commentary

Listed Markets

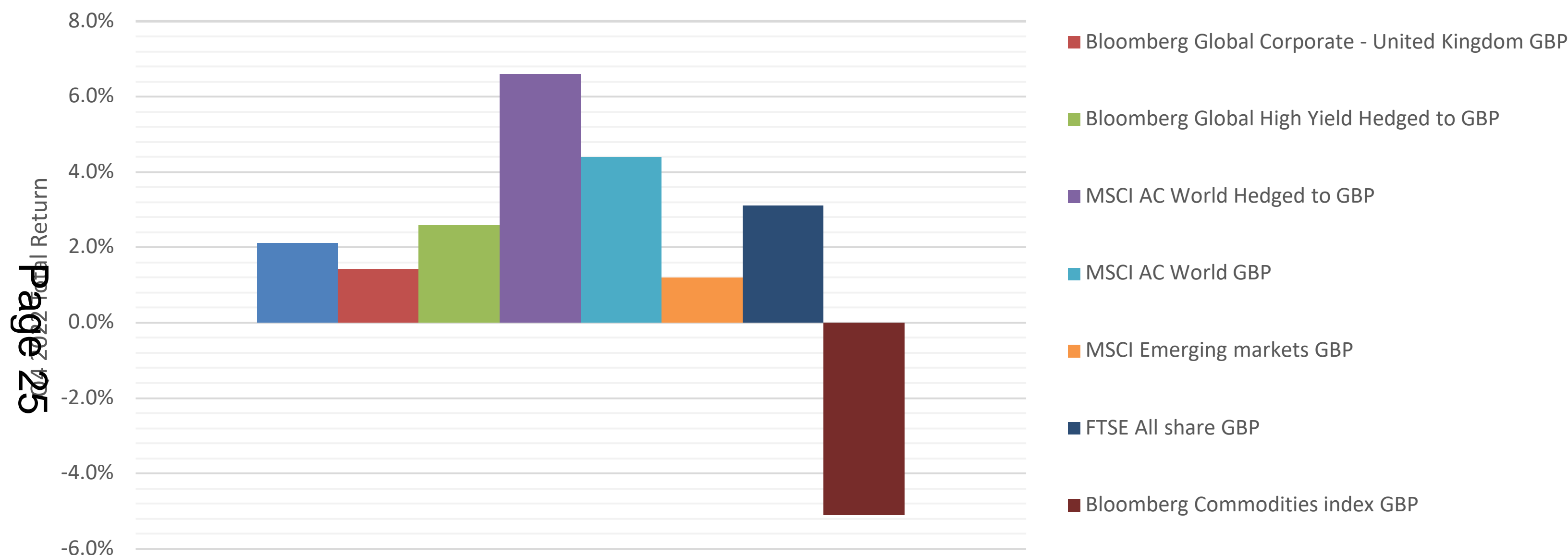


Global equities started the year very strongly and by February, the market was such that predicted 12 month returns had already been achieved leaving commentators to ponder what next! What next was the collapse of Silicon Valley Bank (SVB) followed by an emergency takeover of Credit Suisse by UBS and fears of a sequel to the banking crisis of 2008. Understandably this led to a broad market sell off as volatility spiked. Interestingly it also led to a return of investors buying "safe haven" Government bonds which duly rallied. Perversely it was a large loss on government bonds held by SVB that sparked the rout in the first place. However, fears of a systemic crisis have abated following placatory measures by the Federal Reserve and data that indicated to the market that inflation was cooling. Markets eventually resumed their rise – albeit at a more muted pace.

As fears surrounded the smaller regional banks in the US (those deemed systemically unimportant) deposits fled in their trillions to the larger "too big to fail" banking franchises. In the US the regional banks have played a disproportionate role in lending and thus economic growth, their diminished role has certainly tightened the recessionary noose around the US economy, as has the resultant tightening of lending standards. In a similar way we are also seeing this in the UK as lots of the smaller banks are withdrawing from the mortgage market, pushing lending costs higher. It has been estimated that the effect could be as much as 1% in equivalent interest rates rises.

Within equity markets, emerging markets posted positive returns but were a laggard. Chinese shares originally still buoyed by the reopening sentiment soured as US-China tensions ratcheted up following the shooting of a Chinese high-altitude balloon in US airspace. The European stock market was the best performing market led by information technology and consumer discretionary sectors. Indeed, this pattern was evident in all developed markets with Growth and Quality stocks significantly outperforming Value stocks -namely the banking and commodity sectors. Large caps also outperformed small caps.

Chief Investment Officer commentary



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This was a broadly supportive backdrop for our active equity franchise; however, it is worthy of note that within the US the majority of the gains were driven by only 5% of companies; namely the large cap growth stocks. This is not where we are typically positioned. Also, such a concentration of gains is a very unhealthy state of affairs and masks broader weakness.

Elsewhere there has been something for everyone in the recent economic data. The inflationist camp saw the unemployment rate fall to 3.5%, almost at an all-time record low, whilst those looking for evidence that inflation is moderating saw lower payroll growth and a fall in job openings. Inflation is stalling, as headline CPI rose only 0.1% in March after a 0.4% rise in the previous period. To put it into perspective, the US Federal Reserve is looking for unemployment to rise to 4.5% as a signal that rate rises are having the desired cooling effect.

Chief Investment Officer commentary

Private Markets

These themes and others where dominant in private markets. SVB had been the biggest provider of capital to private equity and VC and its demise will certainly have ramifications for funding, where deal flow was already slowing due to higher rates, inflation, and economic uncertainty. Most directly it has impacted the issuance of Private debt, which is a significant tool used by the Private equity industry. Net asset values across private markets are gradually, beginning to reflect the worst of 2022 and have remained (outside of property) quite resilient.

SVB highlights that 2023 will be, as we have written before, the year when the economic effects of significantly higher rates begin to bite, sometimes in unintended and surprising ways. There is a lag to rising rates, but we are close to catching up. It is estimated that in the UK 1.4m mortgages need to be refinanced this year, and most of them currently have rates below 2%. With the average UK mortgage rate being 7.22% as of end of March 2023(1), spending will need to be reduced to fund this huge increase in housing costs, which will have a knock on to the broader economy. Corporate debt shares a similar dynamic. This is the dilemma that central banks face, but they also see high inflation and tight labour markets; can they land precisely, and stop, on the 4.5% unemployment number? It has to be a low probability outcome and so we should brace for further market turbulence this year.

Responsible Investment Update

Finally, we launched our climate policy and completed our climate stocktake, both can be seen on our website. The climate policy was an evolution of our current stance but has further "turned the screws" on what we expect of our managers and of the companies the partnership owns. For example, we have prioritised metrics relating to alignment and credibility of alignment over carbon intensity. An approach that gets to the heart of what Net Zero is trying to achieve, which is real world change. We have also stated targets to tackle debt and private markets with the same drive by which we have always targeted listed equity markets.

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1 United Kingdom BBA Mortgage Rate - March 2023 Data - 1995-2022 Historical (tradingeconomics.com)

Global High Alpha Equities

Investment strategy & key drivers

High conviction, unconstrained global equity portfolio

Liquidity

Managed

Benchmark

MSCI World

Outperformance target

+2-3%

Total fund value

£4,006m

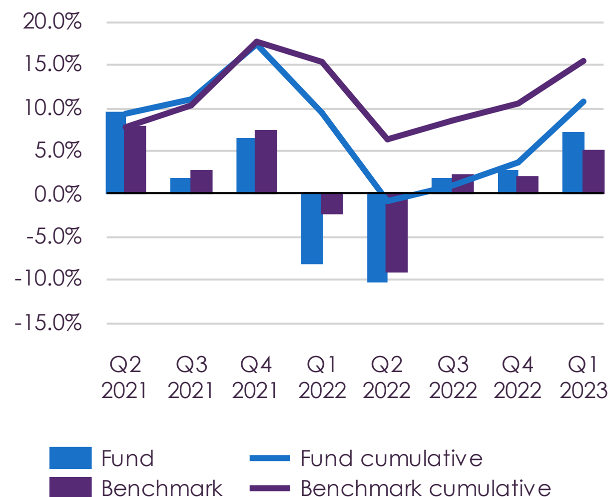
Risk profile

High

Dorset's Holding:

GBP270m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	7.1	0.4	12.7
Benchmark	4.9	-0.5	10.5
Excess	2.1	0.9	2.2

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

Global developed equities (as proxied by the MSCI World index) returned 4.9% in GBP terms over the quarter. Strong economic news in January generated positive sentiment and allayed fears of recession before concerns about the banking sector in March shifted focus to the stability of the global financial system causing volatility in markets.

Style characteristics were again evident in the quarter with growth outperforming value, high quality outperforming low quality and large outperforming small. Once again, the largest names dominated the index performance – the six largest index holdings (Apple, Microsoft, Amazon, Alphabet, NVIDIA and Tesla) contributed c3.2% to index returns.

The portfolio returned 7.1% during the period, outperforming the benchmark by 2.1%. Sector allocation was positive as both the Fund's largest active sector positions added to relative performance (an overweight to Consumer Discretionary, the best performing sector, and an underweight to Energy the worst performing sector). Positive stock selection also contributed to relative returns with the strongest selection in Industrials with contributions across several names, this offset weaker selection in Consumer Discretionary in which an underweight to Tesla was the largest detractor.

Four of the five managers outperformed. RLAM's consistency continues to be in evidence, and they have outperformed in 11 out of 13 full quarters since inception in very volatile and differentiated market environments. Baillie Gifford were the strongest performing manager this quarter, benefitting from the growth driven environment. Sector attribution showed selection within IT as the main driver. An overweight holding in NVIDIA which returned 85% contributed circa 3% to Baillie Gifford's relative return. AB underperformed this quarter by 3%, following outperformance last quarter. The majority of underperformance occurred in March. An overweight holding in Charles Schwab was particularly painful costing circa 2.2% in relative return, as the company's banking operation was caught up in concerns about falling client deposits and paper losses in the bank's bond portfolio. In addition, not owning big tech names (Apple, NVIDIA, Tesla and Meta) cost AB close to 2.4% in relative return.

Since inception the portfolio is outperforming the benchmark by 2.2% p.a.

Global High Alpha Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MICROSOFT CORP	5.37	3.82	14,503,966
AMAZON.COM INC	3.04	1.77	8,193,884
ALPHABET INC	2.63	2.23	7,105,208
MASTERCARD INC	2.57	0.58	6,938,988
UNITEDHEALTH GROUP INC	2.01	0.83	5,428,216

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
MASTERCARD INC	2.57	0.58
TAIWAN SEMICONDUCTOR	1.86	-
MICROSOFT CORP	5.37	3.82
HDFC BANK LTD	1.34	-
MOODY'S CORP	1.43	0.09

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	0.71	4.91
META PLATFORMS INC	-	0.89
EXXON MOBIL CORP	-	0.85
JPMORGAN CHASE & CO	-	0.72
PROCTER & GAMBLE CO/THE	-	0.66

Largest contributors to ESG risk

	ESG risk score* Q4 2022	ESG risk score* Q1 2023
AMAZON.COM INC	30.28	30.28
MICROSOFT CORP	15.24	15.00
ALPHABET INC-CL A	24.14	24.60
NESTLE SA-REG	24.13	27.37
MASTERCARD INC - A	16.98	17.02

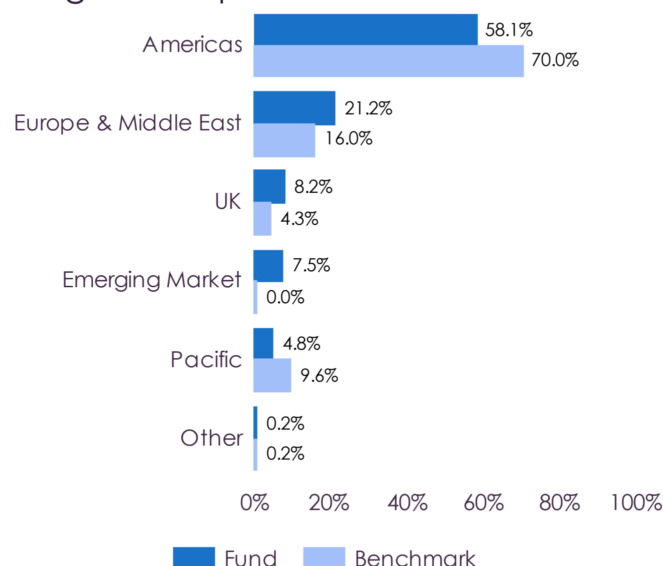
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

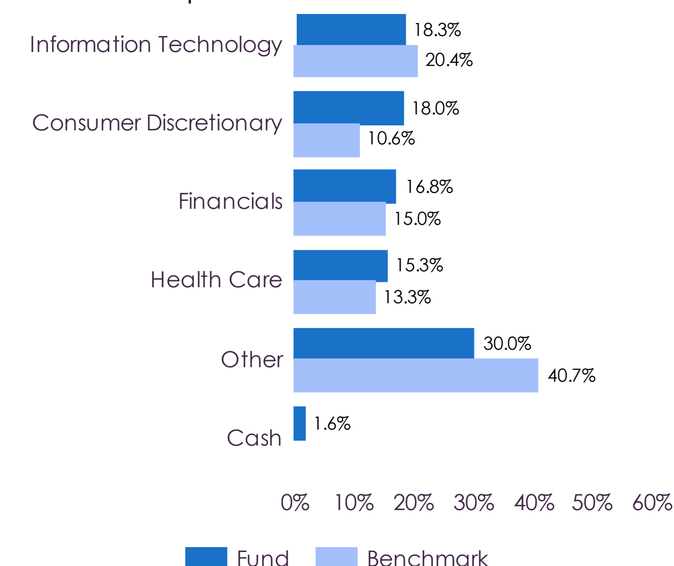
Portfolio	WACI 2022 Q4	WACI 2023 Q1	Extractives revenues[1] 2022 Q4	Extractives revenues[1] 2023 Q1	Extractives reserves[2] 2022 Q4	Extractives reserves[2] 2023 Q1
Global High Alpha	89	82	1.29	1.19	3.32	3.60
MSCI World*	193	166	2.81	3.26	7.83	9.22

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

Regional exposure



Sector exposure



Global Sustainable Equities

Investment strategy & key drivers

Global equity exposure concentrating on ESG factors

Liquidity

Managed

Benchmark

MSCI ACWI

Outperformance target

+2%

Total fund value

£3,321m

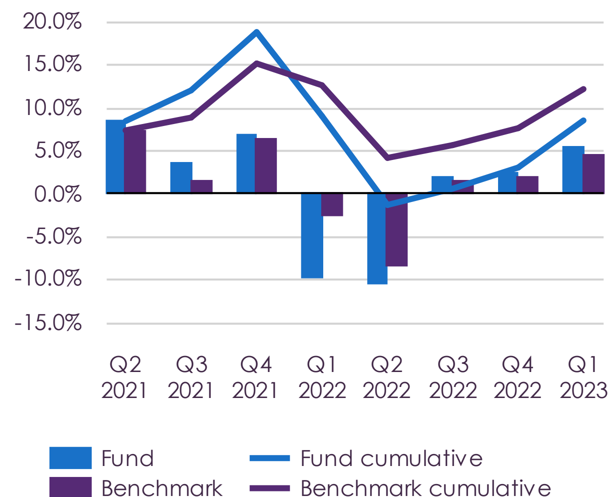
Risk profile

High

Dorset's Holding:

GBP348m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	5.5	-1.3	5.8
Benchmark	4.5	-0.9	9.0
Excess	0.9	-0.3	-3.3

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The fund returned 5.5% over the quarter, a relative outperformance of 1% against the MSCI ACWI. The fund is relatively flat over the 1-year period, returning -0.9% on a gross basis, in line with the MSCI ACWI.

Over the quarter there was a notable disparity in returns between the Growth style of investing and the Value style of investing. If we use Dividend Yield as a proxy for Growth and Value, the top performing Growth decile returned 14.4%, whilst the top Value decile returned 1.2%. Growth outperformed Value consistently throughout the quarter.

There was a notable outperformance of Growth during a recovery period through January and again during the second half of March as the market began to price in an expected reduction in the FED's interest rate rises. As discussed in the CIO commentary, the expected reduction in interest rate rises was a consequence of cooling inflation data and financial sector volatility.

The fund has positive exposure to the Growth style and a notable under exposure to the Value parts of the market, this contributed to the quarterly outperformance. On a sector basis, the overweight positioning in the IT sector, notably the Software sub sector, contributed to most of the outperformance. However, the fund also has notable underweight positions in both the Energy and Financials sectors, both which significantly underperformed the broader MSCI ACWI.

Given the CIO commentary, it should be noted that the fund itself does have minimal exposure to the overall Bank sector, a 5% underweight position (although a part of the fund's bank exposure) is to the regional bank sub sector. Unfortunately, the only two positions in regional banks within the fund were in SVB, which is now effectively valued at 0, and First Republic, which suffered an 80% loss. These 2 positions, through 2 different managers, cost the fund around 70bps in absolute performance. However, due to fund 's underweight position in Banks, the sector had very little impact on relative performance and the fund's positioning in the broader Financials sector contributed positively to relative performance.

All 5 managers were able to demonstrate diversified sources of absolute positive performance over the quarter. Ownership & Nordea notably Outperforming the ACWI.

Global Sustainable Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MICROSOFT CORP	2.57	3.40	8,920,688
MASTERCARD INC	2.51	0.52	8,727,206
ANSYS INC	2.43	0.05	8,453,826
MARKETAXESS HOLDINGS INC	2.30	0.02	7,984,322
ADYEN NV	2.09	0.06	7,251,347

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
ANSYS INC	2.43	0.05
MARKETAXESS HOLDINGS INC	2.30	0.02
ADYEN NV	2.09	0.06
MASTERCARD INC	2.51	0.52
INTUIT INC	1.79	0.20

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	-	4.37
ALPHABET INC	0.85	1.98
TESLA INC	-	0.93
MICROSOFT CORP	2.57	3.40
META PLATFORMS INC	-	0.79

Largest contributors to ESG risk

	ESG risk score* Q4 2022	ESG risk score* Q1 2023
MASTERCARD INC - A	16.98	17.02
MICROSOFT CORP	15.24	15.00
MARKETAXESS HOLDINGS INC	16.07	16.07
FORTIVE CORP	35.01	34.76
ADYEN NV	16.41	16.23

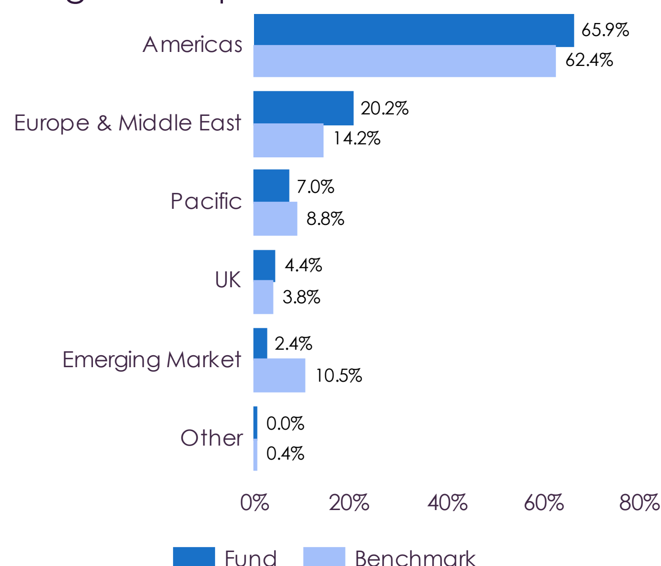
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

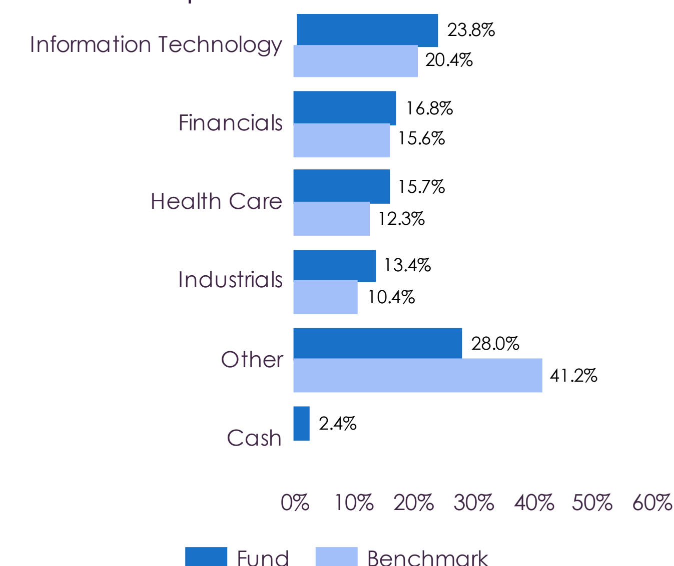
Portfolio	WACI 2022 Q4	WACI 2023 Q1	Extractives revenues[1] 2022 Q4	Extractives revenues[1] 2023 Q1	Extractives reserves[2] 2022 Q4	Extractives reserves[2] 2023 Q1
Global Sustainable	152	140	2.65	2.64	3.13	5.64
MSCI ACWI*	222	193	2.82	3.27	7.76	9.06

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

Regional exposure



Sector exposure



UK Active Equities

Investment strategy & key drivers

Active stock and sector exposure to UK equity markets

Liquidity

Managed

Benchmark

FTSE All Share ex Inv Tr

Outperformance target

+2%

Total fund value

£1,356m

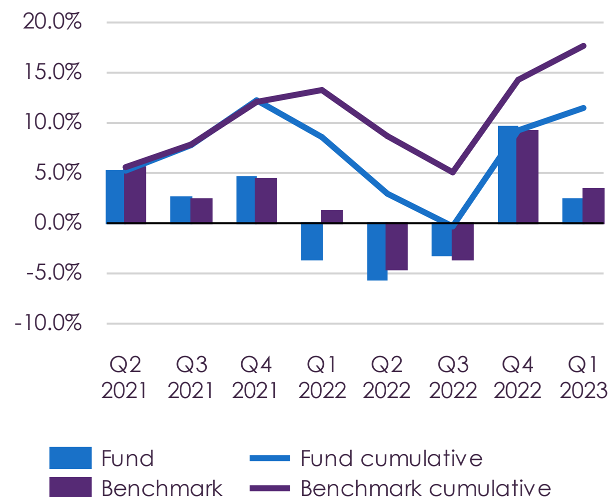
Risk profile

High

Dorset's Holding:

GBP185m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	2.3	2.3	4.2
Benchmark	3.4	3.9	5.6
Excess	-1.1	-1.6	-1.4

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The FTSE All-Share Index, excluding Investment Trusts, returned 3.4% over the quarter, underperforming the developed market index (MSCI World). Partly explained by the UK's under-exposure to large global growth tech names that performed so well across the quarter. Underperformance of the quality factor in the UK was notable (considering it broadly outperformed in the US, Europe and Asia), as the banking crisis drove investors into stocks less vulnerable to the possible economic consequences. In the UK the higher quality debt driven signals did not perform as strongly as they did globally.

The portfolio returned 2.3% during the period, underperforming the benchmark by 1.1%. Attribution analysis shows positive contribution from allocation unable to fully offset negative effects from selection. The positive impact of overweight allocations to Industrials and Consumer Discretionary were the largest allocation effects. Poor selection in Financials and Industrials were the largest contributors to negative selection. Within Industrials, the overweight position in Inchcape (premium car importer and distributor) detracted following a negative market reaction (concerns about the execution risks linked to an acquisition and uncertainty around the outlook for consumer discretionary spending on luxury cars). Financials, the overweight holdings in Legal and General and Lancashire Holdings were the largest detractors. Both names were impacted by general concerns about the insurance sector and the negative impact of rising interest rates on the value of bond portfolios.

Baillie Gifford outperformed by 0.3% consolidating a strong outperformance last quarter. Positive allocation impact arising from overweights to Consumer Discretionary and Industrials sectors more than offset negative impact from selection. Baillie Gifford also benefited from its underweight position in the largest companies in the index as they underperformed the broad index.

Invesco underperformed the index by 2% this quarter. Unusually, all three of the factors targeted by Invesco detracted (Value, Momentum and Quality). In particular, the Value factor underperformed as the fear of a banking crisis drove investors out of attractively valued stocks.

From inception to quarter-end, the portfolio underperformed the benchmark by 1.4% per annum.

UK Active Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
ASTRAZENECA PLC	**6.34**	**7.55**	**11,727,159**
UNILEVER PLC	**5.17**	**4.84**	**9,557,181**
SHELL PLC	**3.93**	**7.46**	**7,257,149**
HSBC HOLDINGS PLC	**3.18**	**5.03**	**5,885,856**
BP PLC	**3.10**	**4.16**	**5,736,464**

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
BUNZL PLC	**2.20**	**0.47**
LEGAL & GENERAL GROUP PLC	**2.26**	**0.64**
BURBERRY GROUP PLC	**2.04**	**0.45**
HOWDEN JOINERY GROUP PLC	**1.54**	**0.17**
BAILLIE GIFFORD UK & BALANCED	**1.31**	**-**

Top 5 active underweights

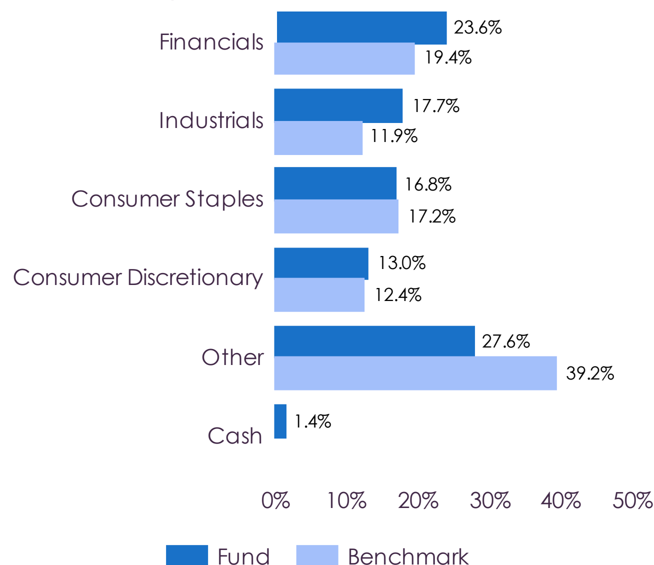
	Weight %	Benchmark weight %
SHELL PLC	**3.93**	**7.46**
HSBC HOLDINGS PLC	**3.18**	**5.03**
GSK PLC	**0.76**	**2.60**
NATIONAL GRID PLC	**-**	**1.82**
RECKITT BENCKISER GROUP PLC	**0.48**	**2.00**

Largest contributors to ESG risk

	ESG risk score*	
	Q4 2022	Q1 2023
SHELL PLC	**37.65**	**37.65**
ASTRAZENECA PLC	**22.21**	**22.47**
UNILEVER PLC	**23.98**	**24.12**
BP PLC	**32.67**	**33.81**
RIO TINTO PLC	**30.68**	**30.68**

*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Sector exposure



Carbon metrics

Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
UK Active Equities	**93**	**84**	3.48	5.02	15.89	11.30
FTSE All Share ex Inv	**160**	**152**	4.95	6.28	21.71	19.50

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

Emerging Markets Equities

Investment strategy & key drivers

Equity exposure to emerging markets

Liquidity

Managed

Benchmark

MSCI Emerging Markets

Outperformance target

+2-3%

Total fund value

£1,088m

Risk profile

High

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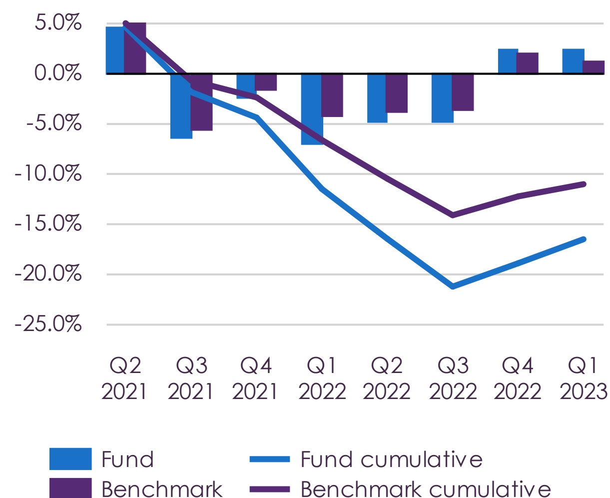
Dorset's Holding:

GBP142m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	2.4	-5.2	-0.4
Benchmark	1.2	-4.5	1.4
Excess	1.2	-0.7	-1.7

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

Emerging markets experienced a rollercoaster start to 2023. The year started with optimism around the Chinese economy reopening and gathering steam; however, this soon dissipated as geopolitics and banking fears tipped emerging markets into negative territory by mid-March. Only a very late rally, fuelled by the US support for domestic banks, pushed emerging market equities back into positive territory. Returns over the period – proxied by MSCI Emerging Markets Index - were +1.2% in GBP terms.

The portfolio had another positive quarter, returning +121bps over the benchmark on a net of fees basis. This was mixed at manager level. Genesis, Wellington & Ninety-One had gross relative returns of +170bps, +47bps and +163bps respectively. Genesis benefitted from country allocation because of India and the Middle East significantly underperforming. Ninety-One showed strong selection skill in Taiwan, particularly in Semiconductors. Wellington lagged the other managers due to poorer selection, particularly in China and Korea.

Mercadolibre – a LatAm focussed e-commerce platform - was the standout performer at a stock level, returning approximately +51%. Price appreciation was driven by belief that the company would gain further market share. On the negative side, Hapvida – a Brazilian hospital and clinic operator – fell approximately -48% over the quarter due to disappointing 4th quarter earnings and increased investor concerns over cash conversion and debt management.

Styles exhibited dispersion during the quarter. Deep Value and Quality Value outperformed the main market by approximately +2-3%. The Defensive style was by far the weakest, underperforming the broader market by almost -6%. Ultimately, these investment styles didn't impact relative performance.

Looking forward there are still many reasons to be positive about emerging markets. Firstly, the banking crisis in Europe and the US should not have a significant impact given the lack of contagion and the fact that emerging banks are well versed in handing turmoil. Secondly, valuations are still very attractive in both absolute terms and vs developed markets. Finally, emerging markets are much further through the tightening cycle vs their developed peers, allowing them more room to manoeuvre in the near term.

Emerging Markets Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
TAIWAN SEMICONDUCTOR	7.60	6.58	10,808,683
TENCENT HOLDINGS LTD	4.69	4.67	6,671,521
SAMSUNG ELECTRONICS CO LTD	4.24	4.10	6,030,065
ALIBABA GROUP HOLDING LTD	2.96	2.89	4,211,629
AIA GROUP LTD	2.31	-	3,280,554

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
AIA GROUP LTD	2.31	-
HDFC BANK LTD	1.31	-
ISHARES CORE MSCI EM IMI UCITS	1.04	-
TAIWAN SEMICONDUCTOR	7.60	6.58
NASPERS LTD	1.63	0.62

Top 5 active underweights

	Weight %	Benchmark weight %
RELIANCE INDUSTRIES LTD	0.57	1.32
CHINA CONSTRUCTION BANK CORP	0.23	0.96
BAIDU INC	-	0.64
AL RAJHI BANK	-	0.59
PETROLEO BRASILEIRO SA	0.13	0.63

Largest contributors to ESG risk

	ESG risk score* Q4 2022	Q1 2023
TAIWAN SEMICONDUCTOR	13.62	13.62
TENCENT HOLDINGS LTD	22.18	21.76
SAMSUNG ELECTRONICS CO LTD	19.59	19.53
ALIBABA GROUP HOLDING LTD	26.36	26.36
HDFC BANK LTD-ADR	31.45	30.92

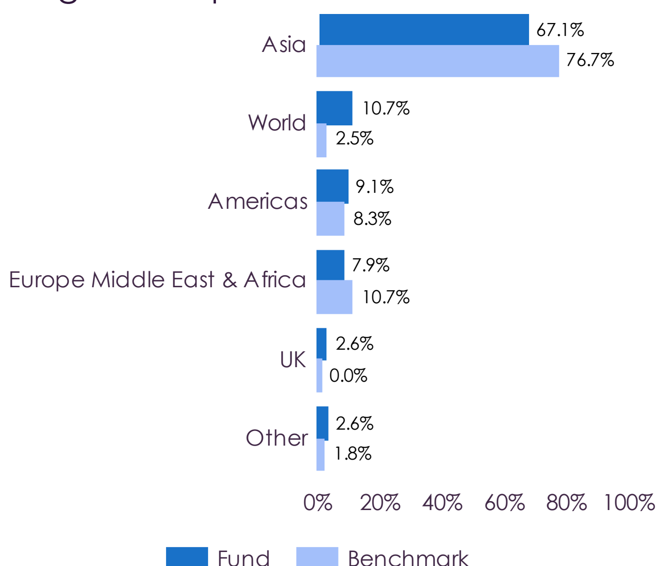
*Source: Sustainalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

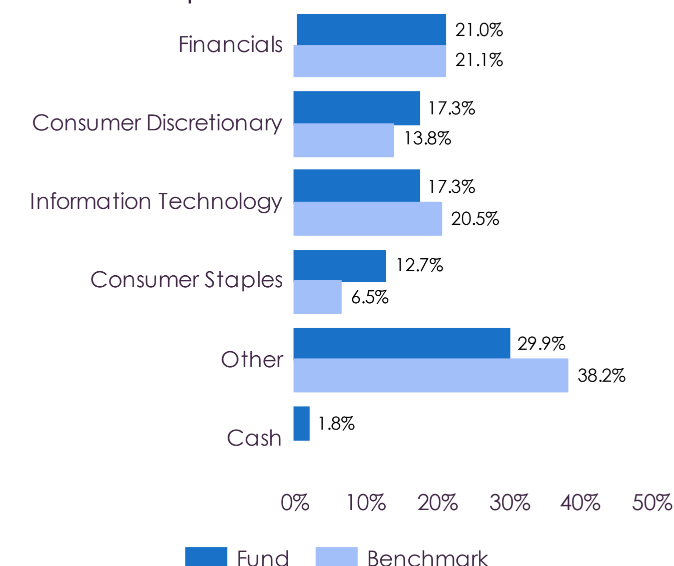
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
Emerging Markets	196	186	0.81	1.05	5.03	4.06
MSCI Emerging	453	418	3.29	3.61	7.26	7.78

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

Regional exposure



Sector exposure



Global Small Cap Equities

Investment strategy & key drivers

Global equity exposure to smaller capitalisation companies

Liquidity

Managed

Benchmark

MSCI Small Cap World

Outperformance target

+2%

Total fund value

£897m

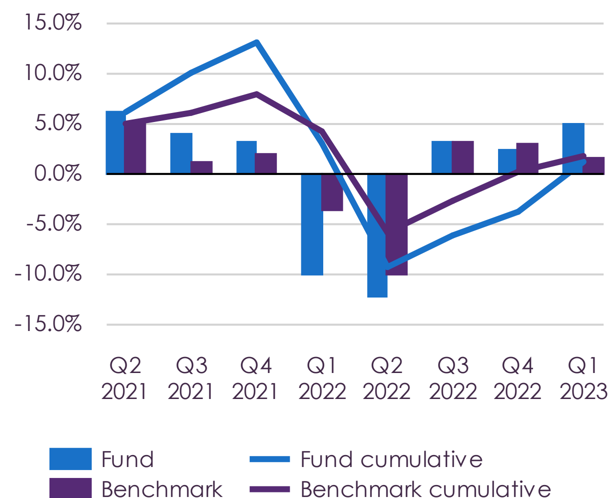
Risk profile

High

Dorset's Holding:

GBP225m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	5.0	-2.8	8.2
Benchmark	1.6	-3.0	9.9
Excess	3.4	0.2	-1.6

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

In Q1 2023 the global small cap market, proxied by the MSCI World Small Cap index, delivered positive returns. Small cap equities rallied in January on speculation that global central banks would soon end interest rate hikes. These hopes faded in February as relatively strong economic data renewed inflation fears. Concerns about the banking system led to increased volatility in March, however a quick response from regulators helped to calm markets by the end of the quarter.

The Global Small Cap Equity Fund returned 5.0% over the quarter, outperforming the benchmark by 3.4%. The portfolio's outperformance was driven by strong stock selection in the Technology sector. There was also a positive impact from the portfolio's overweight allocation to Technology, which outperformed other sectors over Q1.

In terms of individual manager performance, American Century returned 3.7% over the quarter, outperforming the benchmark by 2.1%. Stock selection in Technology, notably in software and semiconductor holdings, was a key contributor.

Kempen returned 5.8% in absolute terms, outperforming the benchmark by 4.2%. Kempen's outperformance was driven by positive stock selection in Technology and Industrials sectors. The overweight allocation to the Technology sector also contributed to relative returns.

Montanaro returned 6.3% over the quarter, outperforming the benchmark by 4.7%. Montanaro's stock selection in the Consumer Discretionary sector was the largest contributor to relative returns. The underweight exposure to Financials and overweight to Technology also contributed to relative returns.

Fortnox, the Swedish provider of cloud accounting software, was the largest stock contributor to performance over Q1. The company benefitted from implementing price increases across all its products, positively impacting the bottom line.

We expect continued volatility over the coming period, as markets grapple with the outlook for inflation, interest rate expectations and potential recession. Following the banking sector turmoil in March, the sector may face heightened competition, increasing funding costs and decreasing profitability. As banks become more selective lenders, this could lead to potential funding issues for smaller companies. It is worth nothing, however, that the portfolio's debt ratios are more attractive than the benchmark, given the portfolio's overall bias towards Quality companies.

Global Small Cap Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
JABIL INC	1.59	0.18	3,585,219
FORTNOX AB	1.27	0.05	2,855,087
PRO MEDICUS LTD	1.16	0.03	2,607,223
THERMON GROUP HOLDINGS	1.14	0.01	2,570,129
MTU AERO ENGINES AG	1.13	-	2,547,759

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
JABIL INC	1.59	0.18
FORTNOX AB	1.27	0.05
MTU AERO ENGINES AG	1.13	-
4IMPRINT GROUP PLC	1.13	-
THERMON GROUP HOLDINGS INC	1.14	0.01

Top 5 active underweights

	Weight %	Benchmark weight %
BUILDERS FIRSTSOURCE INC	-	0.19
DECKERS OUTDOOR CORP	-	0.18
FIVE BELOW INC	-	0.17
LIFE STORAGE INC	-	0.17
REXFORD INDUSTRIAL REALTY INC	-	0.16

Largest contributors to ESG risk

	ESG risk score* Q4 2022	ESG risk score* Q1 2023
FUJITEC CO LTD	36.04	29.88
MTU AERO ENGINES AG	27.80	27.69
SITIME CORP	-	39.88
THERMON GROUP HOLDINGS	23.70	23.70
FORTNOX AB	-	21.00

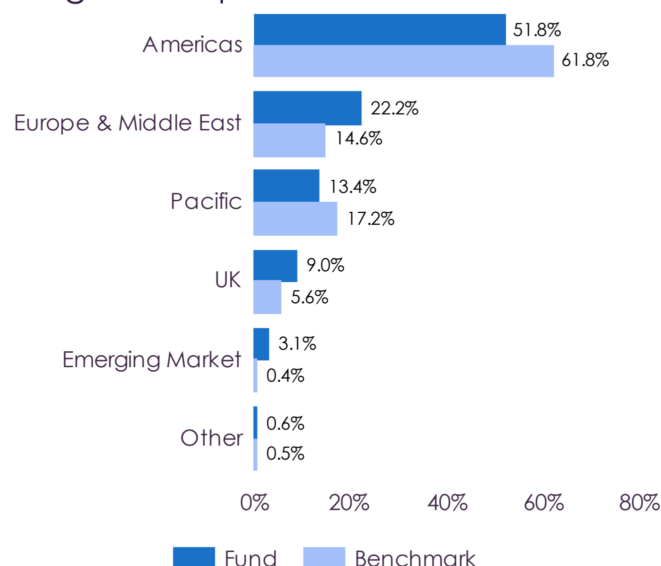
*Source: Sustainalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

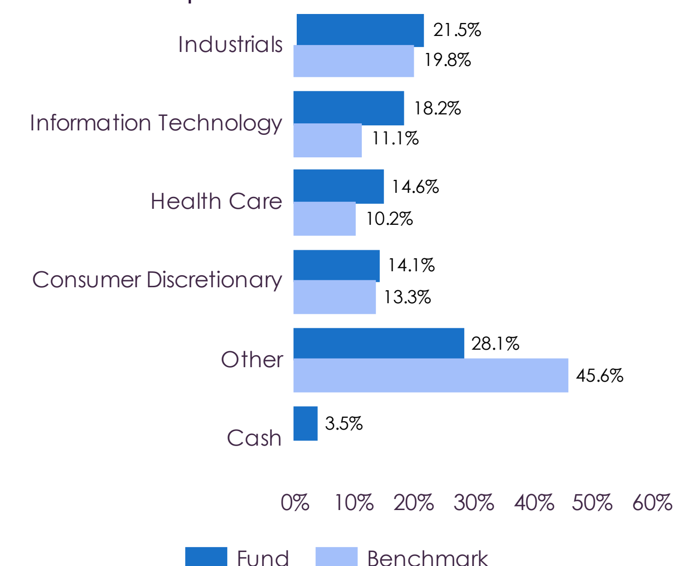
Portfolio	WACI 2022 Q4	WACI 2023 Q1	Extractives revenues[1] 2022 Q4	Extractives revenues[1] 2023 Q1	Extractives reserves[2] 2022 Q4	Extractives reserves[2] 2023 Q1
Global Small Cap	115	109	1.40	2.97	2.99	3.18
MSCI Small Cap	234	207	2.86	3.16	4.96	5.87

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

Regional exposure



Sector exposure



Diversifying Returns Fund

Investment strategy & key drivers

Strategy utilising currencies, credit, rates and equities

Liquidity

Managed

Benchmark

SONIA +3%

Outperformance target

0% to +2.0%

Total fund value

£1,373m

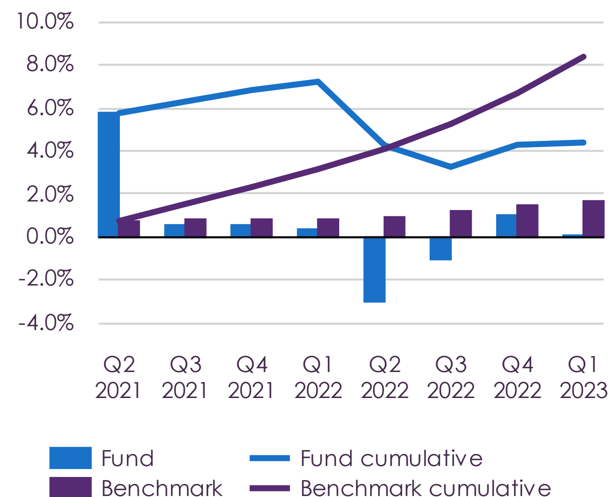
Risk profile

Moderate

Dorset's Holding:

GBP236m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	0.1	-2.8	1.9
Benchmark	1.7	5.3	4.0
Excess	-1.6	-8.2	-2.1

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The Diversifying Returns Fund returned 0.1% over the first quarter of 2023. The benchmark return was 1.7%. The portfolio returned -2.8% for the year ending 31st March 2023, underperforming the cash plus 3% benchmark which returned 5.3%. The sterling hedged 50/50 equity/bond index we monitor returned 4.8% over the quarter and -7.7% over one year.

Fulcrum lost 2.5% over the quarter. The positive contribution made by the strategic equities component of the strategy was more than offset by negative returns from fixed income, where Fulcrum were short interest rate, on the view that inflationary pressures have been underestimated. Within the relative value bucket, volatility strategies detracted from performance.

JPM returned -0.8% for the quarter. The biggest detractor from returns was the fixed income trend signal which was positioned short rates as yields came in over the period. Equity value and quality signals also detracted from returns while fixed income carry and value signals made a positive contribution to returns.

Lombard Odier recorded a positive return of 2.7%. Positioning in developed market equities and sovereign bonds were the largest positive contributors. The structure of the fund, investing largely through derivatives, was also beneficial with interest earned on cash making an 80bps contribution to quarterly performance. All asset class exposures, except for long volatility, made a positive contribution to returns.

UBS returned -0.25% over the three-month period. The long position in the Norwegian Kroner weighed on performance as oil prices continued to retreat and the Norges Bank maintained a lower policy rate than the ECB. The long position in the Japanese Yen also made a negative contribution to returns as Bank of Japan guidance remained dovish. Short positions in the US and New Zealand dollar made a positive contribution to returns, along with long positions in the Brazilian Real and Columbian and Chilean Peso.

Multi-Asset Credit

Investment strategy & key drivers

Exposure to higher yield bonds with moderate credit risk

Liquidity

Managed

Benchmark

SONIA +4%

Outperformance target

0% to +1.0%

Total fund value

£599m

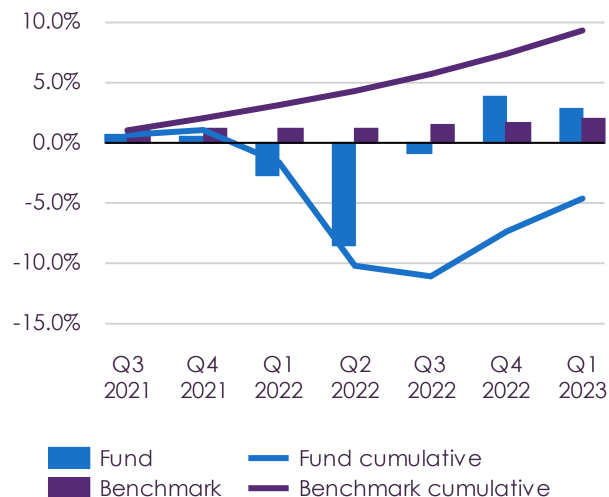
Risk profile

Moderate

Dorset's Holding:

GBP232m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	2.7	-3.4	-3.0
Benchmark	1.9	6.3	5.5
Excess	0.8	-9.8	-8.4

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

Sub-investment grade credit endured a challenging start to 2023. The past quarter was filled with exceptionally high levels of volatility, which impacted both rates and credit spreads.

The quarter began with an aggressive rally as investors bet on peak inflation. This soon changed as US data releases - mentioned in the CIO Commentary - on payrolls and inflation implied that the economy was not slowing. The collapse of Silicon Valley Bank in March caused a U-turn in credit markets. Creating a risk off environment, where government yields fell and credit spreads rose simultaneously.

The banking fears ultimately resulted in Credit Suisse being forced to merge with UBS. As part of the merger terms, FINMA – the regulation authority in Switzerland - forced 100% losses on the AT1 bonds whilst preserving some value in equity capital. This subsequently caused the entire AT1 market to reprice, as investors expressed doubt that AT1 bonds across Europe would remain higher in the capital structure.

Miraculously, most asset classes within sub-IG credit ended the quarter in positive territory. High yield bonds – proxied by the Bloomberg Global High Yield Index – returned +2.6% on a GBP hedged basis. Loans, proxied by the Morningstar LSTA US Leveraged Loan Index, also made a positive return of +2.6% in GBP hedged terms. The only clear laggard was Bank Capital, which fell approximately -6% over the quarter in local terms; this was down as much as -12.5% intra-quarter.

The MAC portfolio returned +2.7% over the quarter. This was ahead of the SONIA+4% cash benchmark and composite benchmark, which returned +1.9% and +2.6% respectively.

The underlying managers had very different experiences, mostly driven by their exposures to Bank Capital. Oaktree – who have no Bank Capital - were the standout performer, returning +353bps. CQS – who hold almost 20% in Bank Capital - were the weakest performer, returning +212bps. CQS lost over -100bps in performance from owning a Credit Suisse AT1 instrument alone. Neuberger Berman have a modest exposure to bank capital and returned +281bps.

The medium to longer term outlook in credit remains unchanged from a pricing standpoint. The portfolio now yields an attractive 9% on a yield to worst basis. However, Q1 2023 brutally reminded investors that default risks are here to stay and that managers should remain vigilant when assessing issuers.

Sterling Corporate Bonds

Investment strategy & key drivers

Managed credit selection to generate excess sterling yield returns

Liquidity

Managed

Benchmark

iBoxx Sterling Non Gilt x

Outperformance target

+1%

Total fund value

£2,017m

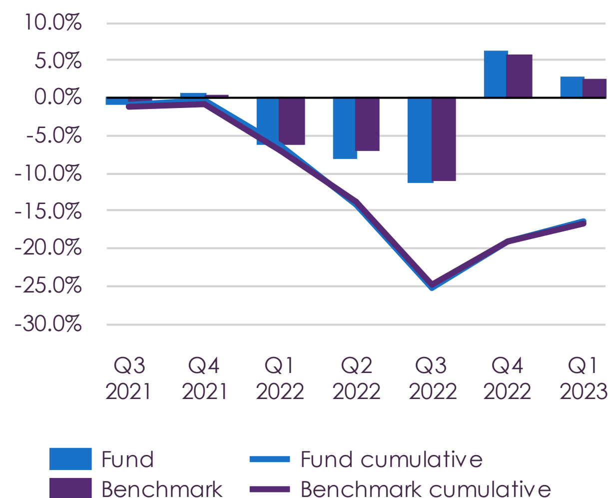
Risk profile

Moderate

Dorset's Holding:

GBP69m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	2.7	-10.7	-9.7
Benchmark	2.4	-10.2	-9.8
Excess	0.3	-0.5	0.1

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

Stronger than expected economic data early in the year suggested most major economies would avoid a recession, but the banking sector turbulence at the end of the period reignited growth fears. It was expected that the banking sector would respond by lending more cautiously and hence tightening credit conditions. The Bank of England (BoE) raised rates twice over Q1, with rates ending the quarter at 4.25%.

The sterling investment grade credit market returned 2.4% over the quarter, boosted by the fall in gilt yields and additional carry from credit holdings, while credit spreads ended the quarter broadly unchanged.

Over the period, the Sterling Corporate Bonds portfolio returned 2.7% (net of fees), outperforming the benchmark.

The portfolio's outperformance over the quarter was primarily driven by positive sector allocation, with a positive contribution from the overweight exposure to the social housing and structured sectors. This was partially offset by overweight exposure to insurance. The modest overweight allocation to banks had a neutral impact overall, however, within banks the exposure to AT1 issues detracted from relative returns. It is worth noting that the portfolio had no exposure to subordinated debt issued by Credit Suisse, and the overall allocation to AT1s was relatively low at 2.3%.

Security selection detracted from relative performance. This mainly reflected security selection in banks and insurance, which outweighed positive security selection in consumer services and utilities.

In terms of credit rating bands, the most significant contribution to outperformance came from the overweight to BBB bonds and unrated bonds. The impact of duration was neutral and yield curve positioning was mildly positive.

In terms of outlook, RLAM expect that inflation has peaked. Driven by the view that energy prices will moderate, and weaker GDP growth will reduce the tightness of the labour market. Nonetheless, RLAM believe that UK interest rates are likely to rise slightly further as the BoE continues to focus on bringing inflation under control. While credit spreads remain at reasonably attractive levels, it is likely that higher rates will lead to a slowdown in the UK, impacting company earnings and leading to some increase in credit rating downgrades and default rates.

PAB Passive Global Equities

Investment strategy & key drivers

Passive global equity exposure aligned to Paris Agreement climate goals

Liquidity

High

Benchmark

FTSE Dev World PAB

Outperformance target

Match

Total fund value

£620m

Risk profile

High

Dorset's Holding:

GBP54m

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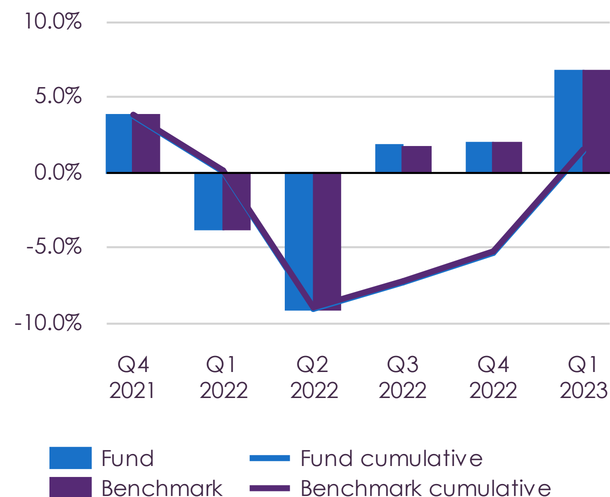
Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	6.7	0.7	0.4
Benchmark	6.8	0.7	0.5
Excess	-	-0.1	-0.1

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The FTSE Developed Paris Aligned index (PAB) began the year strongly, up 6.8% over Q1 2023. The PAB Passive Global Equities strategy closely replicated the benchmark's performance over this period.

Sector performance was varied over the quarter with three sectors doing particularly well: Communication Services, Consumer Discretionary and IT. These sectors were up by more than 10% over the quarter.

Large positions in US IT companies were strong drivers of performance, notably Apple, Microsoft, and NVIDIA, whilst Alphabet drove performance in the Communication Services sector.

Within Consumer Discretionary Amazon and Tesla were significant positive contributors to performance as these stocks rebounded strongly from a difficult Q4.

The Health Care and Financials sectors were the worst performing sectors over the period, with negative absolute performance.

The Energy sector was a further detractor for the market cap weighted index, and the worst performing sector in Q1 2023; however, the FTSE Developed Paris Aligned index (PAB) currently has no exposure to the Energy sector. This exposure combined with a limited allocation to the Financials sector proved positive for performance over Q1 2023.

PAB Passive Global Equities

Top 5 holdings

	Weight %	Client value (GBP)*
APPLE INC	5.68	3,082,645
TESLA INC	5.60	3,040,934
MICROSOFT CORP	5.54	3,008,351
ALPHABET INC	4.96	2,691,061
AMAZON.COM INC	4.47	2,425,444

*Estimated client value

Largest contributors to ESG risk

	ESG risk score*	
	Q4 2022	Q1 2023
TESLA INC	-	28.82
AMAZON.COM INC	30.28	30.28
APPLE INC	16.68	16.91
MICROSOFT CORP	15.24	15.00
ALPHABET INC-CL A	24.14	24.60

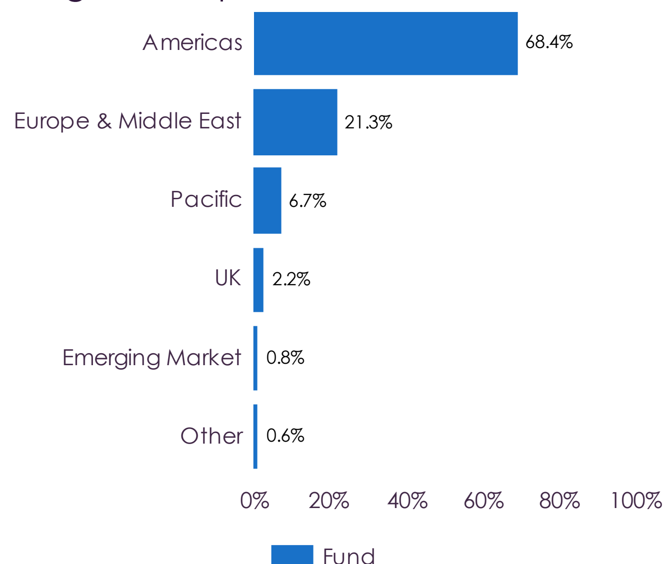
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

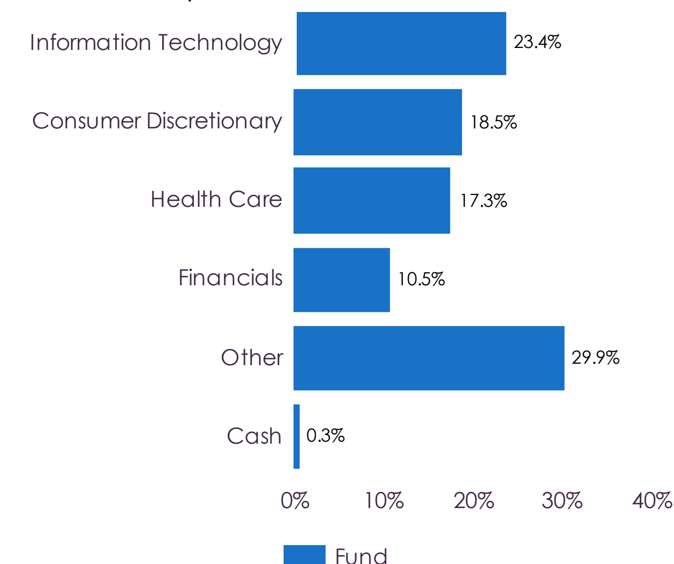
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
PAB Passive Global	102	79	0.91	0.61	1.68	3.42
FTSE Dev World TR	194	168	2.69	3.10	7.69	9.44

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

Regional exposure



Sector exposure



PAB Passive Global Equities (Hedged)

Investment strategy & key drivers

Passive global equity exposure aligned to Paris Agreement climate goals - hedged

Liquidity

High

Benchmark

FTSE Dev World PAB

Outperformance target

Match

Total fund value

£797m

Risk profile

High

Dorset's Holding:

GBP54m

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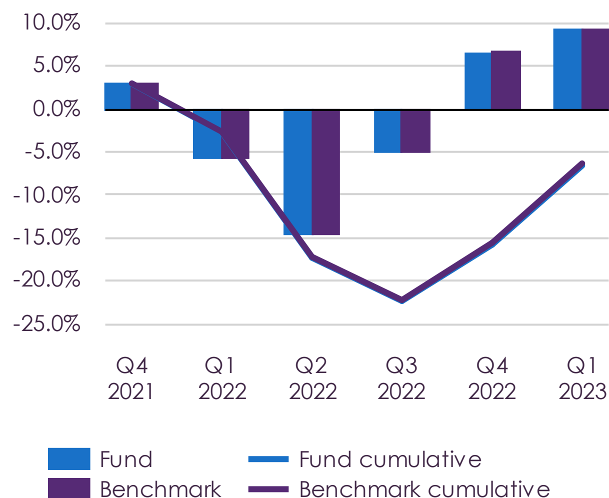
Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	9.2	-5.6	-5.9
Benchmark	9.2	-5.4	-5.8
Excess	-	-0.2	-0.2

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The FTSE Developed Paris Aligned index (PAB) began the year strongly, up 6.8% over the first quarter.

Sterling appreciated against a basket of developed market currencies over the period, up 1% against the Euro, 2.8% against the US Dollar and 3.7% against the Japanese Yen. Because of this currency appreciation the hedged product outperformed the unhedged product, returning 9.2% over Q1 2023. The PAB Passive Global Equities (Hedged) strategy closely replicated the benchmark's performance over the period.

Sector performance was varied over the quarter with three sectors doing particularly well: Communication Services, Consumer Discretionary and IT. These sectors were up by more than 10% over the quarter. Large positions in US IT companies were strong drivers of performance, notably Apple, Microsoft, and NVIDIA, whilst Alphabet drove performance in the Communication services sector. Within Consumer Discretionary Amazon and Tesla were significant positive contributors to performance as these stocks rebounded strongly from a difficult Q4.

The Health Care and Financials sectors were the worst performing sectors over the period, with negative absolute performance.

The Energy sector was a further detractor for the market cap weighted index, and the worst performing sector in Q1 2023. However, the FTSE Developed Paris Aligned index (PAB) currently has no exposure to the Energy sector. This exposure combined with a limited allocation to the Financials sector proved beneficial to the product's performance over Q1 2023.

PAB Passive Global Equities (Hedged)

Top 5 holdings

	Weight %	Client value (GBP)*
APPLE INC	5.68	3,088,042
TESLA INC	5.60	3,046,259
MICROSOFT CORP	5.54	3,013,618
ALPHABET INC	4.96	2,695,773
AMAZON.COM INC	4.47	2,429,691

*Estimated client value

Largest contributors to ESG risk

	ESG risk score*	
	Q4 2022	Q1 2023
TESLA INC	-	28.82
AMAZON.COM INC	30.28	30.28
APPLE INC	16.68	16.91
MICROSOFT CORP	15.24	15.00
ALPHABET INC-CL A	24.14	24.60

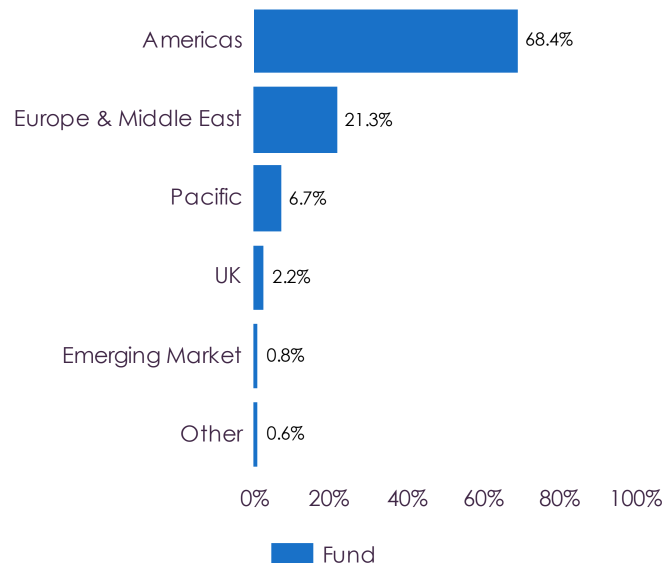
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

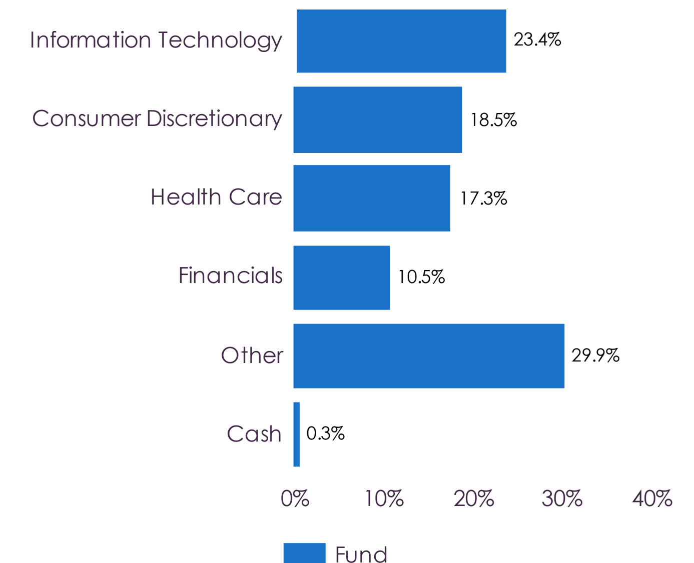
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
PAB Passive Global	102	79	0.91	0.61	1.68	3.42

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

Regional exposure



Sector exposure



CTB Passive Global Equities

Investment strategy & key drivers

Passive global equity exposure aligned to Climate Transition goals

Liquidity

High

Benchmark

FTSE Dev World CTB

Outperformance target

Match

Total fund value

£641m

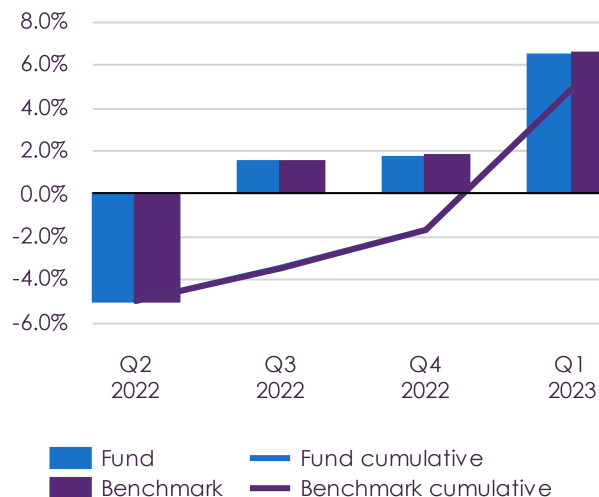
Risk profile

High

Dorset's Holding:

GBP54m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	6.5	-	4.6
Benchmark	6.5	-	4.6
Excess	-	-	-

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The FTSE Developed Climate Transition index (CTB) performed strongly over Q1 2023, up 6.5%. The CTB Passive Global Equities product closely replicated the performance of the benchmark over this period.

Sector performance was varied over the quarter with three sectors doing particularly well: Communication Services, Consumer Discretionary and IT. These sectors were up by more than 10% over the quarter.

Large positions in US IT companies were strong drivers of performance, notably Apple, Microsoft, and NVIDIA, whilst Alphabet drove performance in the Communication Services sector.

Within Consumer Discretionary Amazon and Tesla were significant positive contributors to performance as these stocks rebounded strongly from a difficult Q4.

The Energy sector was the worst performing sector over the period with negative absolute performance, alongside Financials and Health Care. The strategy has a limited allocation to these sectors compared to the traditional market cap weighted index, which proved beneficial to performance over Q1 2023.

CTB Passive Global Equities

Top 5 holdings

	Weight %	Client value (GBP)*
APPLE INC	5.65	3,066,663
MICROSOFT CORP	5.47	2,968,875
TESLA INC	5.44	2,954,538
ALPHABET INC	4.97	2,697,781
AMAZON.COM INC	3.97	2,155,499

*Estimated client value

Largest contributors to ESG risk

	ESG risk score* Q4 2022	ESG risk score* Q1 2023
TESLA INC	-	28.82
AMAZON.COM INC	30.28	30.28
APPLE INC	16.68	16.91
MICROSOFT CORP	15.24	15.00
ALPHABET INC-CL A	24.14	24.60

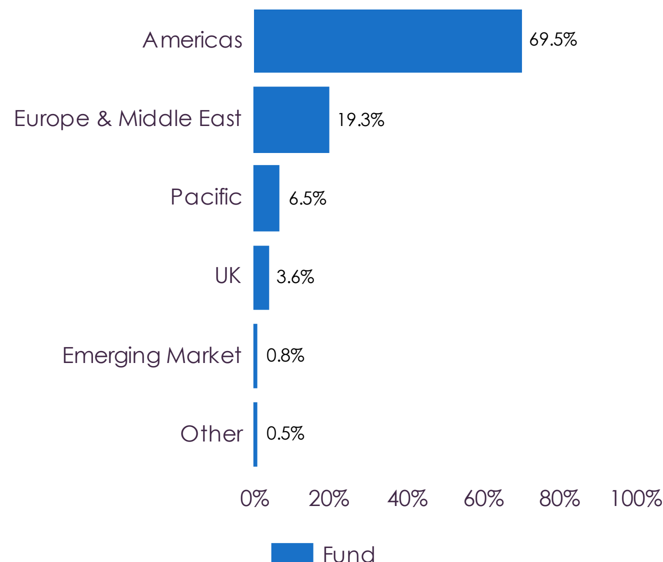
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

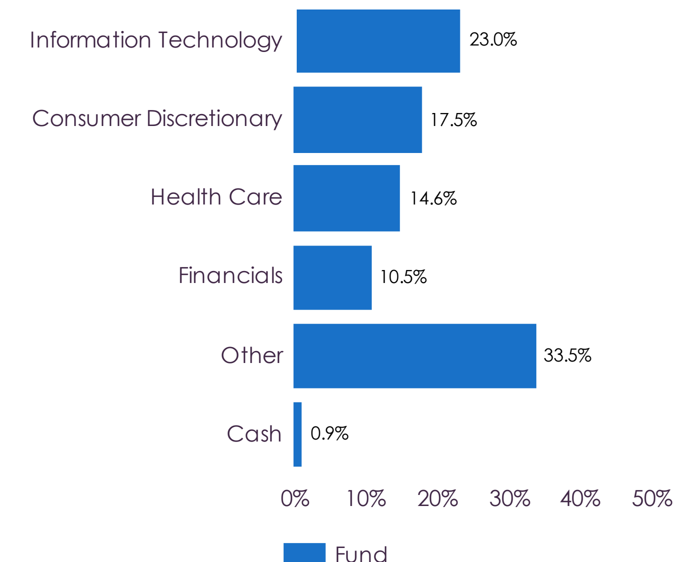
Portfolio	WACI 2022 Q4	WACI 2023 Q1	Extractives revenues[1] 2022 Q4	Extractives revenues[1] 2023 Q1	Extractives reserves[2] 2022 Q4	Extractives reserves[2] 2023 Q1
CTB Passive Global	145	117	2.69	1.59	4.85	6.21
FTSE Dev World TR	194	168	2.69	3.10	7.69	9.44

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

Regional exposure



Sector exposure



CTB Passive Global Equities (Hedged)

Investment strategy & key drivers

Passive global equity exposure aligned to Climate Transition goals - hedged

Liquidity

High

Benchmark

FTSE Dev World CTB

Outperformance target

Match

Total fund value

£54m

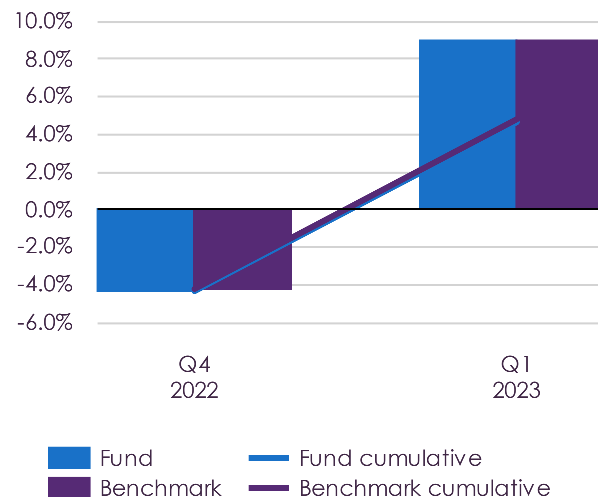
Risk profile

High

Dorset's Holding:

GBP54m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception*
Fund	9.0	-	4.3
Benchmark	9.0	-	4.4
Excess	-	-	-0.2

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The FTSE Developed Climate Transition index (CTB) performed strongly over Q1 2023, up 6.5% to the end of the period.

Sterling appreciated against a basket of developed market currencies over Q1 2023, up 1% against the Euro, 2.8% against the US Dollar and 3.7% against the Japanese Yen. Because of this appreciation the hedged product outperformed the unhedged product, returning 9% over Q1 2023. The CTB Passive Global Equities (Hedged) product closely replicated the performance of the benchmark over this period.

Sector performance was varied over the quarter with three sectors doing particularly well: Communication Services, Consumer Discretionary and IT. These sectors were up by more than 10% over the quarter.

Large positions in US IT companies were strong drivers of performance, notably Apple, Microsoft, and NVIDIA, whilst Alphabet drove performance in the Communication Services sector.

Within Consumer Discretionary Amazon and Tesla were significant positive contributors to performance as these stocks rebounded strongly from a difficult Q4.

The Energy sector was the worst performing sector over the period with negative absolute performance, alongside Financials and Health Care.

The strategy has a limited allocation to these sectors compared to the traditional market cap weighted index, which proved beneficial to performance over Q1 2023.

CTB Passive Global Equities (Hedged)

Top 5 holdings

	Weight %	Client value (GBP)*
APPLE INC	5.65	3,064,413
MICROSOFT CORP	5.47	2,966,696
TESLA INC	5.44	2,952,370
ALPHABET INC	4.97	2,695,801
AMAZON.COM INC	3.97	2,153,917

*Estimated client value

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Largest contributors to ESG risk

	ESG risk score*	
	Q4 2022	Q1 2023
TESLA INC	-	28.82
AMAZON.COM INC	30.28	30.28
APPLE INC	16.68	16.91
MICROSOFT CORP	15.24	15.00
ALPHABET INC-CL A	24.14	24.60

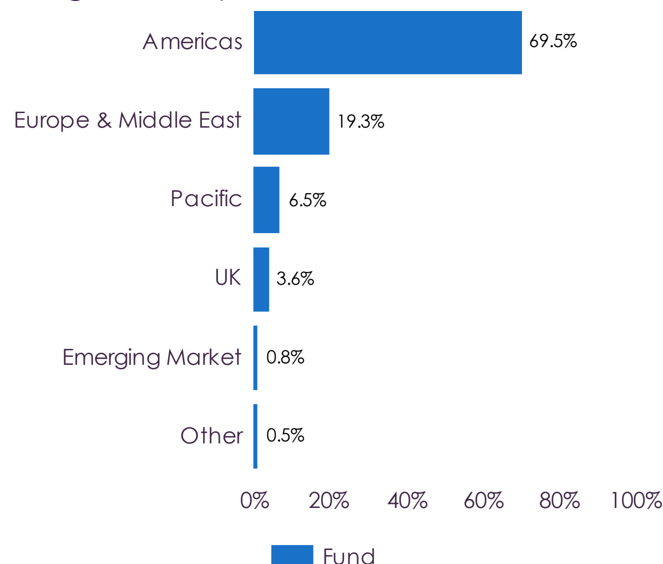
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

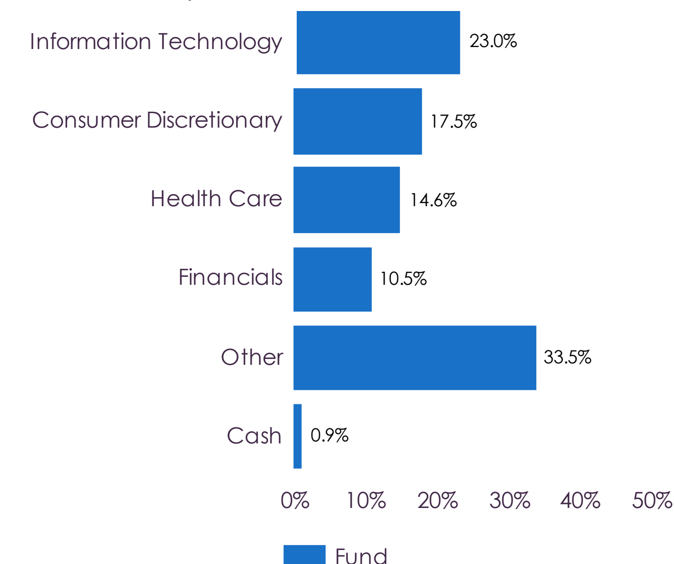
Portfolio	WACI		Extractives revenues¹		Extractives reserves²	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
CTB Passive Global	145	117	2.69	1.59	4.85	6.21

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

Regional exposure



Sector exposure



Passive Developed Equities

Investment strategy & key drivers
Passive global equity exposure

Liquidity
High

Benchmark
FTSE Developed

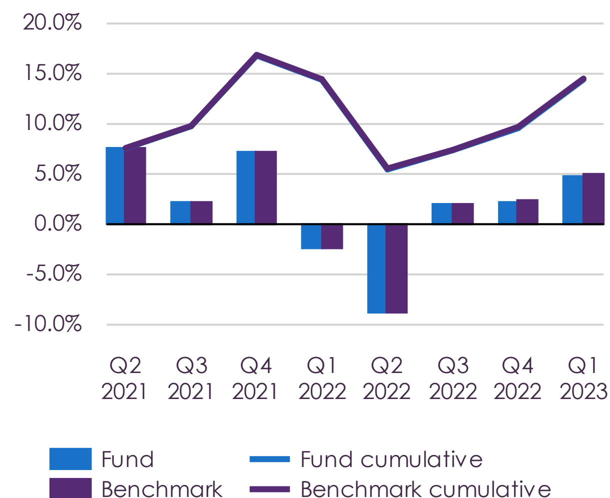
Outperformance target
Match

Total fund value
£887m

Risk profile
High

Dorset's Holding:
GBP102m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	4.8	-0.6	9.5
Benchmark	4.8	-0.5	9.5
Excess	-	-	-

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

Passive Developed Equities returned 4.8% in the first quarter of 2023 and -0.6% over the past year. The fund closely replicated the FTSE Developed World Index.

The Technology sector made a large contribution to returns over the quarter. Within the sector NVIDIA performed particularly well, returning 85%, as the market made a positive assessment of the company's dominant position in A.I. chip manufacturing.

The Consumer Discretionary sector was the second-best performing sector, benefitting from a reassessment of interest rate expectations. Falling interest rate expectations and negative sentiment towards banks following the failure of Silicon Valley Bank and the UBS merger with Credit Suisse resulted in weak performance from the Financial sector and softer energy prices weighed on Energy sector performance.

For Sterling investors, Europe ex. UK was the strongest performing region. With a larger allocation to the Financial and Energy sectors, the UK market's performance was weaker.

Europe was also the strongest performing region over 12 months to 31st March 2023, returning 19.1%. The UK returned 5.1% but North America delivered a negative return of 2.5%.

Passive Developed Equities

Top 5 holdings

	Weight %	Client value (GBP)*
APPLE INC	4.47	4,577,118
MICROSOFT CORP	3.89	3,984,004
ALPHABET INC	2.10	2,157,050
AMAZON.COM INC	1.65	1,695,445
NVIDIA CORP	1.18	1,213,693

*Estimated client value

Largest contributors to ESG risk

	ESG risk score* Q4 2022	Q1 2023
APPLE INC	16.68	16.91
MICROSOFT CORP	15.24	15.00
AMAZON.COM INC	30.28	30.28
EXXON MOBIL CORP	36.47	43.55
META PLATFORMS INC-CLASS A	-	34.54

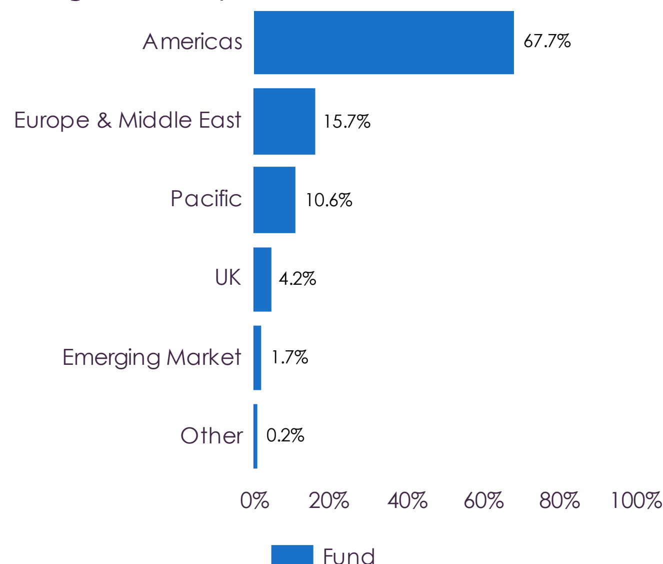
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

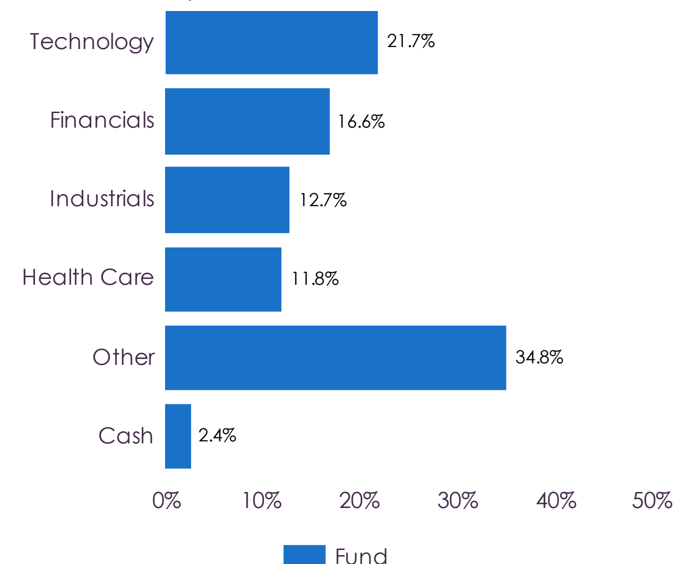
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
Passive Developed	193	169	2.65	2.70	7.58	9.41

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

Regional exposure



Sector exposure



Passive Developed Equities (Hedged)

Investment strategy & key drivers
Passive global equity exposure - hedged

Liquidity
High

Benchmark
FTSE Developed

Outperformance target
Match

Total fund value
£518m

Risk profile
High

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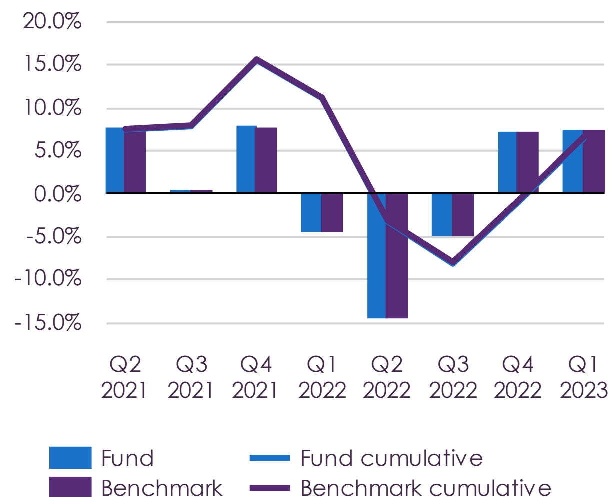
Dorset's Holding:
GBP97m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	7.4	-6.2	7.3
Benchmark	7.4	-6.1	7.4
Excess	-	-0.1	-0.1

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

Passive Developed Equities (GBP Hedged) returned 7.4% in the first quarter of 2023 and -6.2% over the past year. The fund replicated the FTSE Developed World (GBP Hedged) Index in line with expectations.

With a large amount of the fund invested in the US, the GBP/USD exchange rate generally has a large bearing on the performance differential between the hedged and unhedged products. Over the quarter, Sterling appreciated 2.8% against the US Dollar but depreciated 6.1% over the year.

The Technology sector made a large contribution to returns over the quarter. Within the sector NVIDIA performed particularly well, returning 90% in USD, as the market made a positive assessment of the company's dominant position in A.I. chip manufacturing. The Consumer Discretionary sector was the second best performing, benefitting from a reassessment of interest rate expectations.

Falling interest rate expectations and negative sentiment towards banks following the failure of Silicon Valley Bank and news of the UBS merger with Credit Suisse resulted in weak performance from the Financial sector. Softer energy prices weighed on Energy sector performance.

Europe was the strongest performing region in local currency terms over the quarter. With a larger allocation to the Financial and Energy sectors, the UK market's performance was weaker.

Europe was also the strongest performing region over 12 months to 31st March 2023, returning 14.5% in EUR while North America delivered a negative return of 6.3% in USD.

Passive Developed Equities (Hedged)

Top 5 holdings

	Weight %	Client value (GBP)*
APPLE INC	**4.47**	**4,349,235**
MICROSOFT CORP	**3.89**	**3,785,651**
ALPHABET INC	**2.10**	**2,049,656**
AMAZON.COM INC	**1.65**	**1,611,034**
NVIDIA CORP	**1.18**	**1,153,266**

*Estimated client value

Largest contributors to ESG risk

	ESG risk score*	
	Q4 2022	Q1 2023
APPLE INC	**16.68**	**16.91**
MICROSOFT CORP	**15.24**	**15.00**
AMAZON.COM INC	**30.28**	**30.28**
EXXON MOBIL CORP	**36.47**	**43.55**
META PLATFORMS INC-CLASS A	**-**	**34.54**

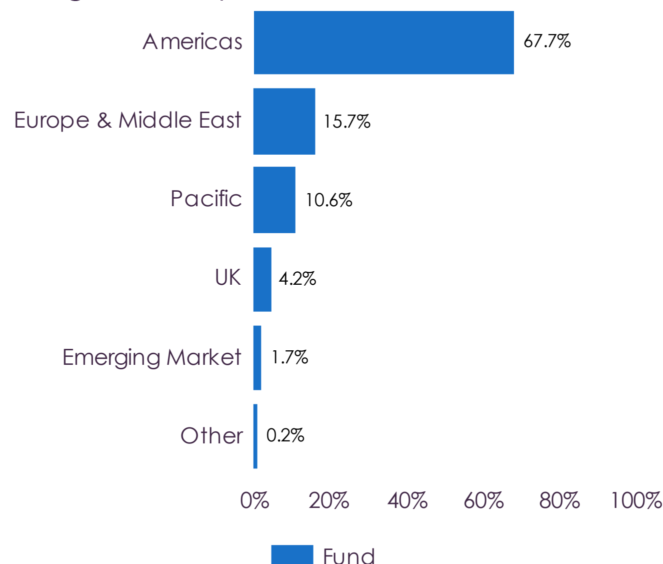
*Source: Sustainalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

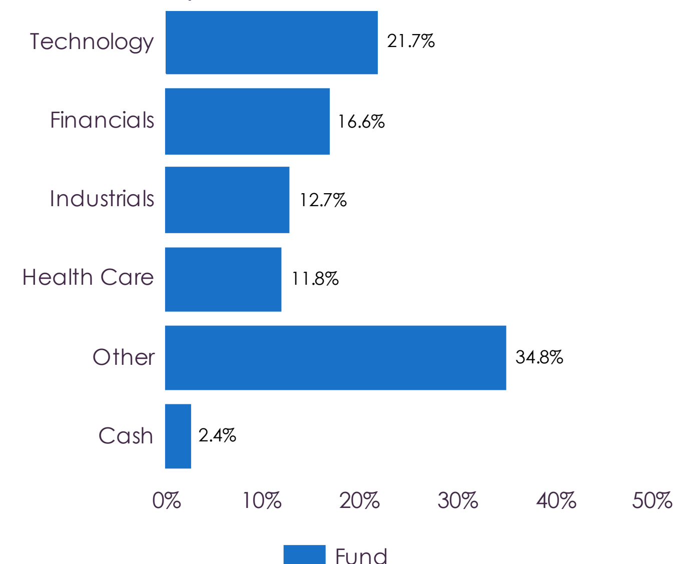
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
Passive Developed	**193**	**169**	2.65	2.70	7.58	9.41

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

Regional exposure



Sector exposure



Passive UK Equities

Investment strategy & key drivers
Passive UK equity exposure

Liquidity
High

Benchmark
FTSE All Share

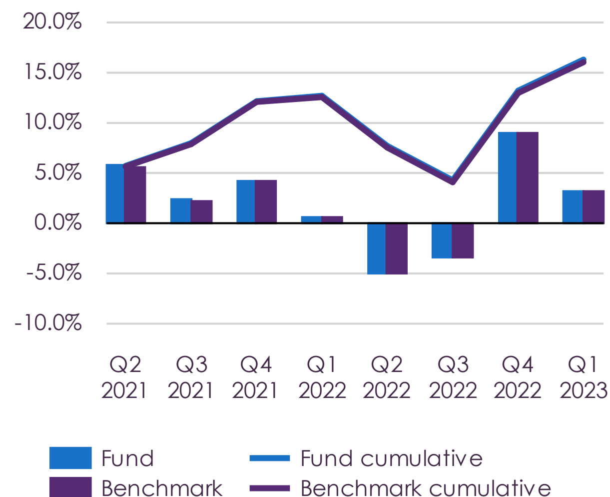
Outperformance target
Match

Total fund value
£125m

Risk profile
High

Dorset's Holding:
GBP125m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	3.1	3.0	3.3
Benchmark	3.1	2.9	3.3
Excess	-	0.1	0.1

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

In the first quarter of 2023 Passive UK Equities returned 3.1% and 3.0%, when considered over a one-year period. The fund performed in line with the FTSE All-Share Index.

The UK market underperformed the FTSE Developed World Index which returned 4.8% over the quarter. The Technology sector accounts for a large portion of the global index and performed well, while the Basic Materials sector in the UK markedly underperformed that of the global index as miners struggled. Financials along with energy companies, which make up a large part of the UK index, also underperformed the broader global index.

The Consumer Discretionary sector was the strongest performing in the UK market as JD Wetherspoons swung to profit for the first half of their reporting year, simultaneously beating analyst expectations. Within this sector, ASOS also performed well, though it should be noted this is only a partial reversal of a longer-term share price decline. The Industrials sector also outperformed with strong contributions coming from CRH Plc, Rolls Royce and BAE Systems. As alluded to previously, the Basic Materials sector was the worst and in fact the only negative performing sector in the UK market over the quarter.

Passive UK Equities

Top 5 holdings

	Weight %	Client value (GBP)*
ASTRAZENECA PLC	6.99	8,751,029
SHELL PLC	6.79	8,493,824
HSBC HOLDINGS PLC	4.67	5,848,129
UNILEVER PLC	4.43	5,542,526
BP PLC	3.82	4,777,093

*Estimated client value

Largest contributors to ESG risk

	ESG risk score* Q4 2022	ESG risk score* Q1 2023
SHELL PLC	37.65	37.65
ASTRAZENECA PLC	22.21	22.47
BP PLC	32.67	33.81
UNILEVER PLC	23.98	24.12
HSBC HOLDINGS PLC	20.36	20.36

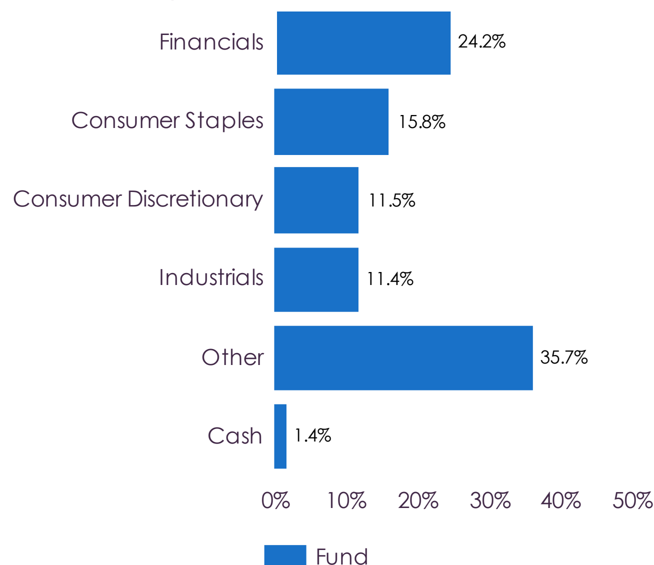
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

Portfolio	WACI 2022 Q4	WACI 2023 Q1	Extractives revenues[1] 2022 Q4	Extractives revenues[1] 2023 Q1	Extractives reserves[2] 2022 Q4	Extractives reserves[2] 2023 Q1
Passive UK Equities	158	151	3.61	5.11	21.34	19.20

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

Sector exposure



Passive Smart Beta

Investment strategy & key drivers

Passive equity exposure utilising alternative smart beta indices

Liquidity

Reasonable

Benchmark

SciBeta Multifactor Composite

Outperformance target

+0.5-1%

Total fund value

£159m

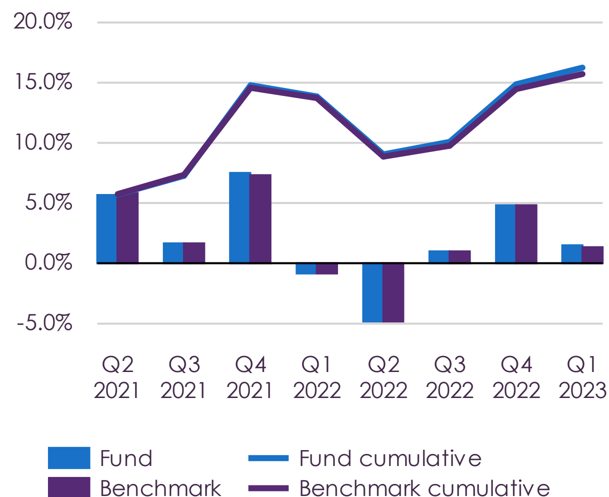
Risk profile

High

Dorset's Holding:

GBP159m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	1.4	2.2	8.1
Benchmark	1.3	1.6	7.9
Excess	0.1	0.5	0.3

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

In the first quarter of 2023 Passive Smart Beta Equities returned 1.4%, underperforming the MSCI World Index which returned 4.9%. The fund tracked the Scientific Beta Index in line with expectations. Over one year, to 31st March 2023, the product returned 2.2%. The MSCI World Index returned -0.5%.

Over the quarter, low volatility was the worst performing of the factors targeted by the fund, penalised as a result of underexposure to the Technology and Consumer Discretionary sectors and overexposure to Utilities relative to the market capitalisation benchmark. The value factor also underperformed the broader market as did the high investment sleeve of the quality factor. However, the high profitability component of the quality factor outperformed the MSCI World Index.

As alluded to above, attribution analysis shows a negative allocation effect from underweight exposure to the Technology and Consumer Discretionary sectors. There was also a large negative contribution from stock selection in both sectors. Stock selection in the Industrials sector and a slight underweight position to the Health Care sector made a positive contribution to returns relative to the market capitalisation index.

Passive Smart Beta

Top 5 holdings

	Weight %	Client value (GBP)*
GILEAD SCIENCES INC	**0.66**	**1,046,849**
WALMART INC	**0.66**	**1,044,289**
CISCO SYSTEMS INC	**0.65**	**1,038,109**
SYNOPSYS INC	**0.61**	**971,503**
JOHNSON & JOHNSON	**0.60**	**958,015**

*Estimated client value

Largest contributors to ESG risk

	ESG risk score*	
	Q4 2022	Q1 2023
META PLATFORMS INC-CLASS A	**-**	**34.54**
SOUTHERN CO/THE	**32.65**	**32.65**
EXXON MOBIL CORP	**36.47**	**43.55**
KRAFT HEINZ CO/THE	**35.17**	**35.28**
GILEAD SCIENCES INC	**22.86**	**22.86**

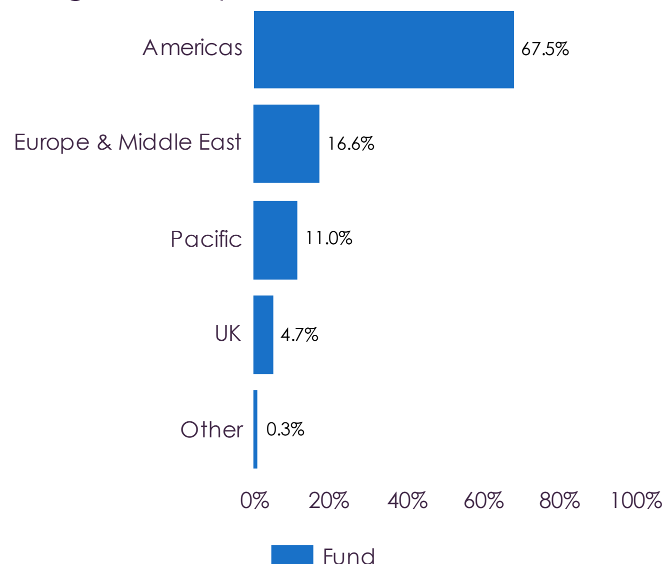
*Source: Sustainalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

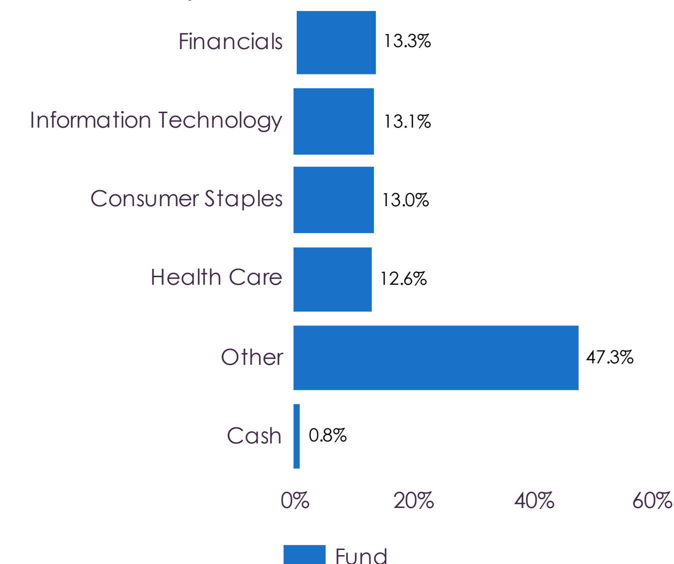
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
Passive Smart Beta	**329**	**308**	3.18	2.90	7.76	12.57

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

Regional exposure



Sector exposure



Passive Smart Beta (Hedged)

Investment strategy & key drivers

Passive equity exposure utilising alternative smart beta indices - hedged

Liquidity

Reasonable

Benchmark

SciBeta Multifactor Hedged Composite

Outperformance target

+0.5-1%

Total fund value

£148m

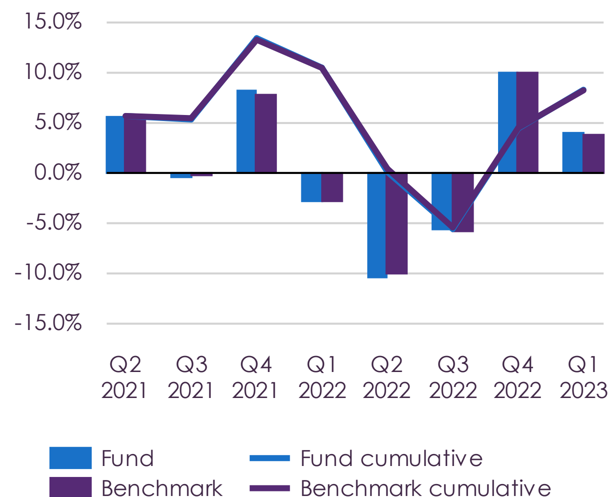
Risk profile

High

Dorset's Holding:

GBP148m

Rolling performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	3.9	-3.5	6.5
Benchmark	3.7	-4.0	6.3
Excess	0.2	0.6	0.2

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

In the first quarter of 2023 Passive Smart Beta Equities GBP Hedged returned 3.9%, outperforming the unhedged Smart Beta product which was hindered by the depreciation of the US dollar versus Sterling. The product underperformed the Passive Developed Equities GBP Hedged product which returned 7.4%. Over a one-year period to 31st March 2023, Passive Smart Beta Equities GBP Hedged returned -3.5%. The product tracked the Scientific Beta index in line with expectations.

Over the quarter, low volatility was the worst performing of the factors targeted by the fund, penalised as a result of underexposure to the Technology and Consumer Discretionary sectors and overexposure to Utilities relative to the market capitalisation benchmark. The value factor also underperformed the broader market as did the high investment sleeve of the quality factor. However, the high profitability component of the quality factor outperformed the MSCI World Index.

As alluded to above, attribution analysis shows a negative allocation effect from underweight exposure to the Technology and Consumer Discretionary sectors. There was also a negative contribution from stock selection in both sectors. Stock selection in the Industrials sector and a slight underweight position to the Health Care sector made a positive contribution to returns relative to the market capitalisation index.

Passive Smart Beta (Hedged)

Top 5 holdings

	Weight %	Client value (GBP)*
GILEAD SCIENCES INC	0.66	970,978
WALMART INC	0.66	968,603
CISCO SYSTEMS INC	0.65	962,871
SYNOPSYS INC	0.61	901,092
JOHNSON & JOHNSON	0.60	888,582

*Estimated client value

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Largest contributors to ESG risk

	ESG risk score* Q4 2022	ESG risk score* Q1 2023
META PLATFORMS INC-CLASS A	-	34.54
SOUTHERN CO/THE	32.65	32.65
EXXON MOBIL CORP	36.47	43.55
KRAFT HEINZ CO/THE	35.17	35.28
GILEAD SCIENCES INC	22.86	22.86

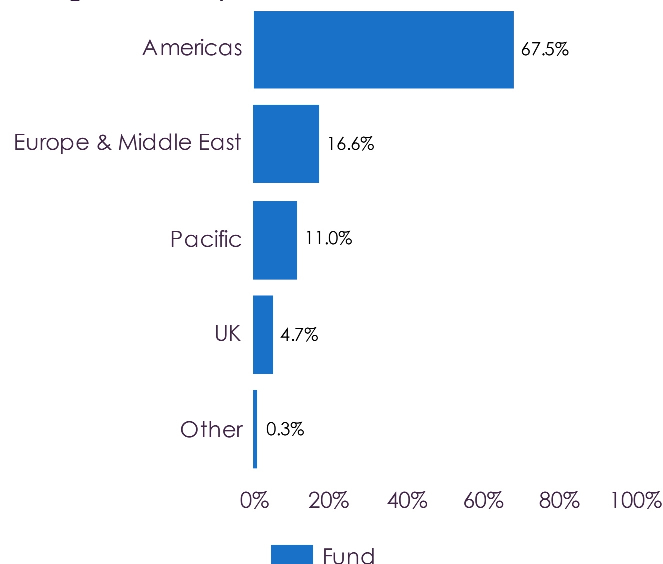
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

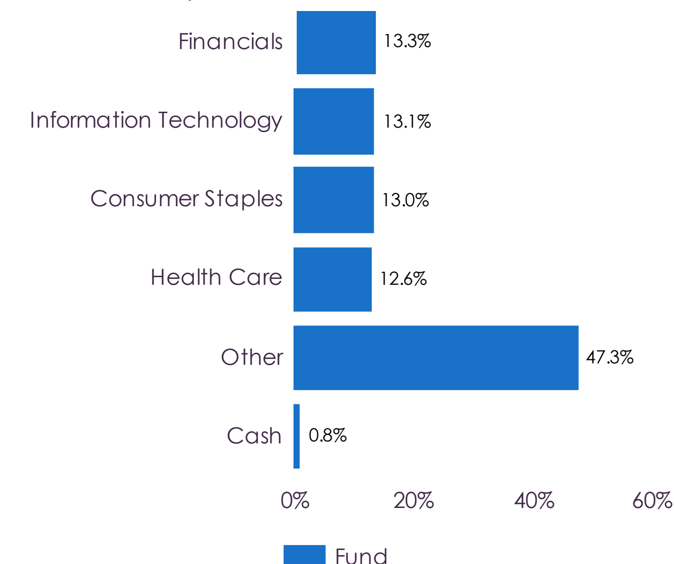
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
Passive Smart Beta	329	308	3.18	2.90	7.76	12.57

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

Regional exposure



Sector exposure



Private Equity Cycle 1

Investment objective
Global portfolio of private equity investments
Benchmark
MSCI ACWI
Outperformance target
+3%
Launch date
1 October 2018
Commitment to portfolio
£60.00m
The fund is denominated in GBP

Commitment to Investment
£61.23m
Amount Called
£36.80m
% called to date
60.10
Number of underlying funds
7
Dorset's Holding:
GBP45.66m

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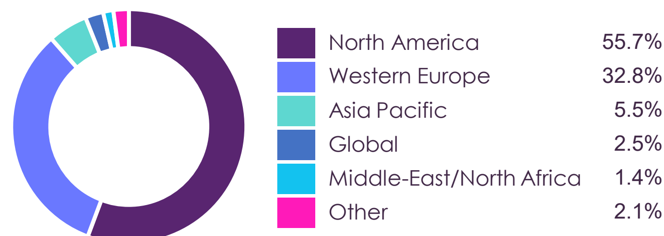
Country

Invested in underlying investments

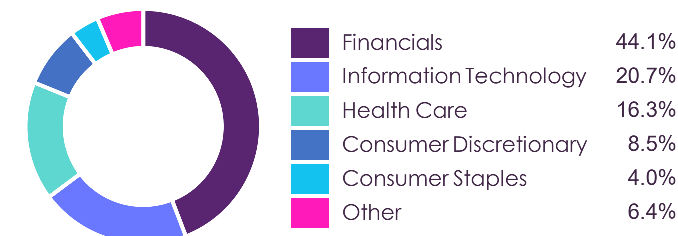


North America	55.7%
Western Europe	32.8%
Asia Pacific	5.5%
Global	2.5%
Middle-East/North Africa	1.4%
Other	2.1%

Source: Colmore
Country data is lagged by one quarter

Sector

GICs level 1



Financials	44.1%
Information Technology	20.7%
Health Care	16.3%
Consumer Discretionary	8.5%
Consumer Staples	4.0%
Other	6.4%

Source: Colmore
Sector data is lagged by one quarter

Performance commentary

Given the episodic nature of M&A markets (currently tending more to ebb than flow), deal activity has continued to slow, reflecting macro-economic headwinds. Major themes seen in 2022 continue to play out: (i) persistent (albeit slowing) inflation; (ii) hawkish central bank policy; (iii) the numerator/denominator effects; and (iv) a slow-down in both sponsor M&A activity and the funding of such via the public debt markets. With respect to the Brunel private equity portfolios, this has created attractive opportunities for secondaries' managers to capture LP stakes in pre-existing portfolios at attractive discounts to NAV. GPs are funding deals via a greater share of equity (versus more scarce debt), which has led to a focus on active management to drive company growth, rather than financial engineering/leverage. For existing holdings, managers remain sensitive to cost management with inflationary pressures for both staffing costs and input prices (with managers generally preferring asset-light businesses with less exposure to the latter). Revenue growth at underlying companies is continuing to grow in most cases, but EBITDA margins (a measure of operating profit) are being stressed by rising costs.

The pace of portfolio deployment remains strong, with the portfolio now over 60% called (buyout funds having now largely matched the deployment levels seen in the secondaries and coinvest funds). Portfolio performance remains positive (albeit with some slight deterioration versus the prior quarter). Fund performance was broadly flat, except for some multiple contraction, most prominent in the portfolio's secondaries funds..

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
45.7	-3.3%	13.7%	19.5%	2,716,487	614,461	2,102,026	-1,522,710	-0.0%	0.1%	0.0%

*Money weighted return. Net of all fees.

Private Equity Cycle 3

Investment objective
Global portfolio of private equity investments

Benchmark
MSCI ACWI

Outperformance target
+3%

Launch date
1 April 2022

Commitment to portfolio
£60.00m

The fund is denominated in GBP

Commitment to Investment
£5.93m

Amount Called
£-m

% called to date
-

Number of underlying funds
1

Dorset's Holding:
GBP-m

Performance commentary

Negative values can be explained by management fees and expenses charged by the GP (APAX). As of 31/03/2023 no capital calls were made by APAX and therefore true valuation should be zero at a client level. The portfolio has made two underlying investments, funded by a credit facility; once a capital call is made, a more accurate Adjusted Value will be reflected in future reports.

The outsourced solution for the remainder of cycle 3 is progressing well and is in late stage legal negotiations, pending fund formation.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
0.0	-	-	-	0	0	0	64,093	0.0%	-0.0%	-0.0%

*Money weighted return. Net of all fees.

Infrastructure Cycle 3

Investment objective
Global portfolio of infrastructure assets, mainly focussed on climate solutions, energy transition and efficiency

Benchmark
n/a - absolute return target

Outperformance target
net 8% IRR

Launch date
1 April 2022

Commitment to portfolio
£70.00m

The fund is denominated in GBP

Commitment to Investment
£70.00m

Amount Called
£9.89m

% called to date
14.12

Number of underlying funds
1

Dorset's Holding:
GBP9.70m

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Performance commentary

Economic growth was set to slow in 2023 in the light of tighter financial conditions and elevated inflation. This downbeat outlook began to ease over the first quarter, with most economies seeing upward revisions to their GDP growth forecasts. Bank failures in March saw the spectre of volatility in markets return, along with uncertainty over policy rate decisions. As a result, market recovery has been inconsistent, with the increase in market volatility highlighting the importance of well-structured infrastructure investments with downside protection, strong inflation linkage and inherent mission-critical objectives.

Since the portfolio's inception, deal flow activity has been strong, and Brunel has been selective. As at the end of Q1, Cycle 3 is circa 27% committed to three Primary investments including Vauban Core Infrastructure IV, Sandbrook Climate Infrastructure Fund and Meadowlark Lands Fund. In addition, as of March 2023, Tactical investments include Project Appellation, a US forestry investment focused on income from carbon credits; Project Ardor, an investment in an operating Indian renewables portfolio and IPP; Suez, the international water and waste company; and Havfram, an offshore wind installation vessel company.

Two further investments were approved in Q1 by Brunel, subject to final due diligence and approvals by Stepstone; a primary commitment to Copenhagen Infrastructure Partners Fund V and a Tactical opportunity to invest alongside Blackstone into a renewables developer in the US.

The investment into Arcus Fund 3 and the co-investment with the same manager that had been approved by Brunel (and were presented to ISG) were ultimately not concluded due to issues relating to key fund terms that were identified as part of StepStone's legal due diligence. Other opportunities are being progressed instead.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
9.7	-0.9%	-	-3.2%	6,577,045	289,067	6,287,978	-69,251	-0.0%	-0.0%	-0.0%

*Money weighted return. Net of all fees.

Secured Income Cycle 1

Investment objective
Portfolio of long-dated income streams, a majority of which are UK inflation-linked

Benchmark
CPI

Outperformance target
+2%

Launch date
1 October 2018

Commitment to portfolio
£60.00m

The fund is denominated in GBP

Commitment to Investment
£60.00m

Amount Called
£59.96m

% called to date
99.94

Number of underlying funds
3

Dorset's Holding:
GBP56.34m

Performance commentary

The M&G Secured Income Property Fund has experienced significant downward movement to reflect the new yield environment, which has now flattened over Q1. The fund looks attractive on a forward-looking returns basis, with a positive illiquidity premium above equivalent bond yields. The fund continues to hold a high-quality real estate portfolio with strong fundamentals and a clear pathway to cover outstanding redemptions, subject to the sales underway completing in due course. The fund is proposing to amend the fund's dealing and deferral terms, which Brunel supports.

The aim is to align payments to investors with the timing of sales proceeds and to increase the redemption notice period to correspond with a reasonable timeframe in which to sell assets.

The abrdn Long Lease Property Fund has also experienced a more muted performance in Q1, with early indications that the level of price declines is slowing. The fund is continuing to make tactical disposals to meet its redemption queue, predominantly where there are ESG issues, tenant covenant concerns or shorter leases. The fund is likely to see a further modest valuation decline as we move through the first half of the year. Despite a challenging period, the fund remains an attractive proposition with a well-diversified portfolio, a strong tenant base and an attractive income return.

Brunel made a further commitment to GRI in Q1 for the Cycle 3 client commitments. The fund continues to offer good diversification, with a forecast hold-to-life IRR of circa 8%. The new top-up is likely to be drawn down by the end of Q3 to fund a strong existing pipeline of opportunities across solar and wind assets. The Greencoat team are seeing a lot of deal flow, with much of the fund's dry powder absorbed last year, allowing them to be more selective, with new additions at keen valuations.

Please note - the large inflows and outflows during this quarter were due to a technicality. It was discovered that an agreed fee discount had not been applied by the manager. To recalculate it, the fund accounting replicated a redemption and a subscription of the fund. The transaction did not actually take place.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
56.3	-1.6%	-12.1%	-0.2%	21,192,006	21,971,485	-779,479	-925,988	-0.0%	-0.2%	-0.0%

*Money weighted return. Net of all fees.

Glossary

Term	Comment
absolute risk	Overall assessment of the volatility that an investment will have
ACS	Authorised Contractual Scheme - a collective investment arrangement that holds and manages assets on behalf of a number of investors
active risk/weight	A measure of the percentage of a holding that differs from the benchmark index; can relate to an equity, a sector or a country/region
amount called	In private investments, this reflects the actual investment amount that has been drawn down
amount committed	In private investments, this is the amount that a client has committed to an investment - it will be drawn down (called) during the investment period
annualised return	Returns are quoted on an annualised basis, net of fees
asset allocation	Performance driven by selecting specific country, sector positions or asset classes as applicable
basis points (BP)	A basis point is 0.01% - so 100bps is 1.0%. Often used for fund performance and management fees
CTB	Climate Transition Benchmark - targets 30% lower carbon exposure from 2020 and then a 7% annual reduction
DLUHC	Department for Levelling Up, Housing & Communities; the government body with oversight of pooling
DPI	Distributed to Paid In; ratio of money distributed to Limited Partners by the Fund, relative to contributions. Used for private markets investments
duration	A measure of bond price sensitivity to changes in interest rates. A high duration suggests a bond's price will fall by relatively more if interest rates increase than a bond with a low duration

Term	Comment
EBITDA margin	An EBITDA margin is a profitability ratio that measures how much in Earnings a company is generating Before Interest, Taxes, Depreciation, and Amortization, as a percentage of revenue.
ESG	ESG is an umbrella term to capture the various environmental, social and governance risks investors factor into their assessment of a company's sustainability profile. Brunel views assessing ESG factors as a central part of our fiduciary duty
ESG Score	MSCI (Morgan Stanley Capital International) score based on its assessment of the ESG credentials of an underlying investment. If the portfolio score is below the index, the portfolio is assessed by MSCI to be investing in companies with a better ESG score
extractive exposures VOH	Value of Holdings of invested companies which derive revenues from extractive industries
GP or general partner	In Private Equity, the GP is usually the firm that manages the fund
gross performance	Performance before deduction of fees
Growth	Growth stocks typically exhibit faster long term growth prospects and are often valued at higher price multiples
IRR	Internal Rate of Return - a return that takes account of actual money invested
legacy assets	Client assets not managed via the Brunel Pension Partnership
Low Volatility	Low Volatility is a strategy that attempts to minimise the return volatility.
LP or limited partner	In private equity, an LP is usually a third party investor in the fund
M&A	Mergers and acquisitions

Glossary

Term	Comment
Momentum	An investment strategy that aims to capitalize on the continuance of existing trends in the market
MWR	Money weighted return - similar to an IRR - it reflects the actual investment return taking into account cashflows
NAV	Net asset value
net performance	Performance after deduction of all fees
PAB	Paris-Aligned Benchmark - targets a 50% lower carbon exposure from 2020 and then a 7% annual reduction
Quality	Quality stocks typically have a high Return on Equity, a very consistent profit outcome and exhibit higher and stable margins
relative risk	Relative volatility when compared with a benchmark
sector/stock selection	Performance driven by the selection of individual investments within a country or sector
since inception	Period since the portfolio was formed
since initial investment	Period since the client made its first investment in the fund
SONIA	Sterling Overnight Index Average - Overnight interbank interest rate - replacement for LIBOR
source of performance data	Source of performance data is provided net of fees by State Street Global Services unless otherwise indicated
standard deviation	Standard deviation is a measure of volatility for an investment using historical data. Volatility is used as a measure of investment risk. A higher number may indicate a more volatile (or riskier) investment but should be taken in context with other measures of risk
time-weighted return	A return measure that helps account for the distorting impacts of flows into and out of a fund

Term	Comment
total extractive exposure	Revenue derived from extractive operations as a % of total corporate revenue
total return (TR)	Total Return - including price change and accumulated dividends
tracking error	A measure of relative volatility around a benchmark. A fund which differs greatly from the benchmark is likely to have a high tracking error
transitioned assets	Client assets that have been transferred to the Brunel Pension Partnership
TVPI	Total Value to Paid In; ratio of the current value of remaining investments within a fund, plus the total value of all distributions to date, relative to the total amount of capital paid in
Value	Value stocks typically have a low valuation when measured on a Price to Book or Price to earnings ratio
WACI	Weighted Average Carbon Intensity; measures the carbon intensity of businesses rather than total carbon emissions. It is expressed as tonnes of CO_2 equivalent per million GBP of investment exposure
yield to worst	Lowest possible yield on a bond portfolio assuming no defaults

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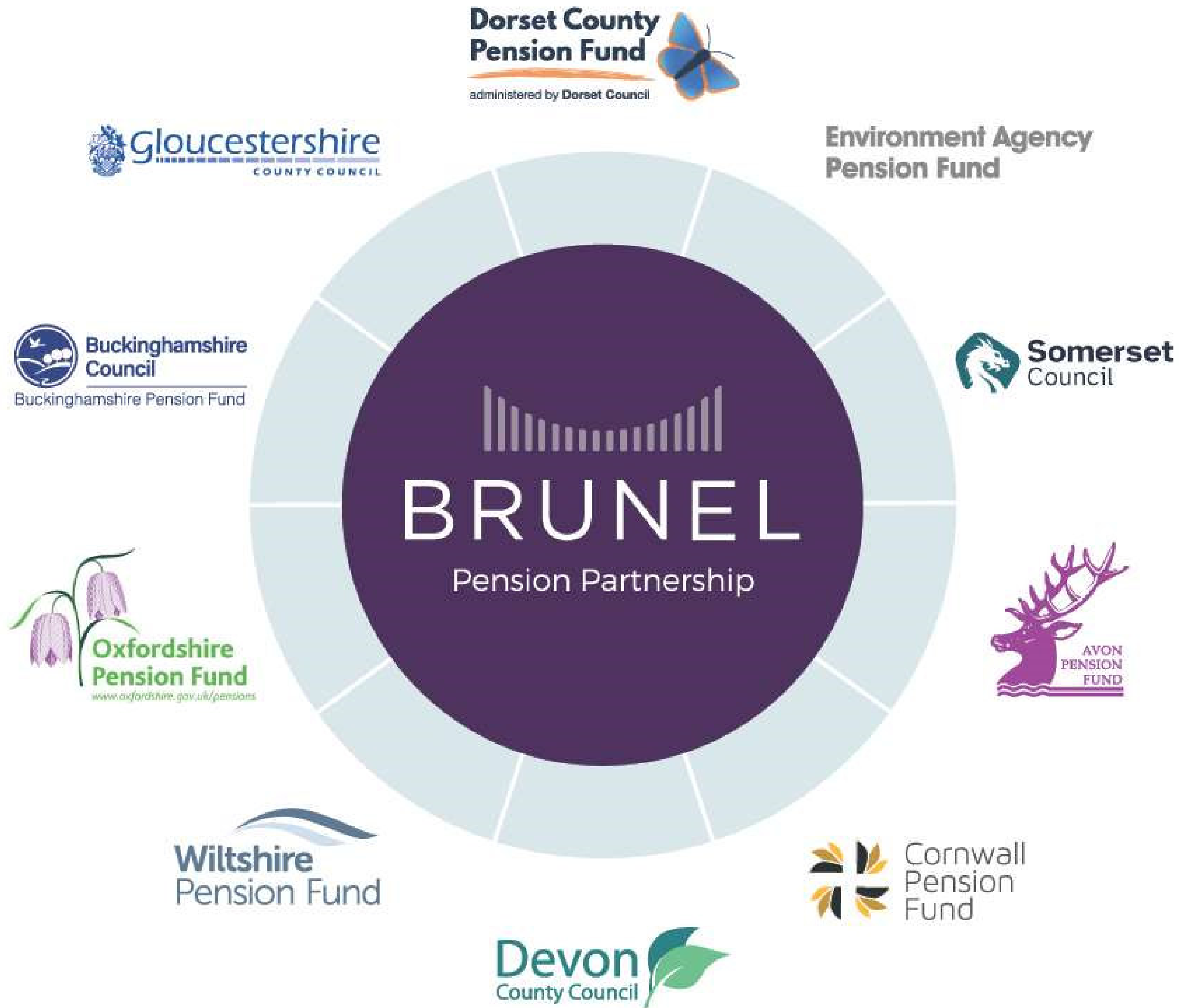

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Pension Fund Committee

13 June 2023

Pension Fund Investment Strategy Review

For Decision

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: David Wilkes
Title: Service Manager (Treasury and Investments)
Tel: 01305 224119
Email: david.wilkes@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary:

Following the conclusion of the latest triennial actuarial valuation of the pension fund's assets and liabilities as at 31 March 2022, investment consultants, Mercer, were engaged to review the pension fund's investment strategy.

The current investment strategy was agreed by the Committee in September 2020, subsequently amended in November 2022 following the decision to terminate the LDI mandate (12% of total assets) and reinvest the sale proceeds in global equities (7%) and fixed income (5%).

After extensive modelling and consideration of a number of alternative strategies, Mercer concluded that the current investment strategy is relatively efficient with no compelling reason to make changes. Mercer estimate that the current asset allocation has a 58% probability of achieving the annual investment return rate of 4.9% used by the actuary to discount liabilities to their present value (compared to a 40% probability of meeting the then discount rate of 5.0% at the last review in 2020). It is therefore recommended that the revised target asset allocation is based on actuals at 31 March 2023 (see paragraph 1.1).

Although Mercer do not propose any change to the total allocation to equities, they do believe that there is scope to reduce the complexity of the pension fund's equity portfolio (see paragraph 2.1). It is recommended that a further review of the 'mix' of equity investments is undertaken to see whether the portfolio can be

rationalised. [This review would also take into consideration the scope for further alignment with climate emergency declarations by Dorset Council, BCP Council and other scheme employers without sacrificing returns or increasing risk.]

Mercer also conclude that they are supportive of the current policy to hedge 50% of the pension fund's foreign currency exposure across its global equities investments.

Recommendation:

That the Committee:

i. agree the proposed investment strategy and strategic asset allocation.
ii. agree a further review of the equity investments portfolio be undertaken.
iii. authorise officers to update the pension fund's Investment Strategy Statement (ISS) as necessary.

Reason for Recommendation:

To ensure that the pension fund has the most efficient and effective investment strategy with respect to risk-adjusted return and the funding position.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities of LGPS funds to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. This statement must be reviewed by the administering authority at least every three years, or more frequently should any significant change occur.

1. **Strategic Asset Allocation**

1.1 The table below sets out (1) the target allocation agreed by the Committee September 2020, (2) the revised target allocation after the decision November 2022 to disinvest from LDI, (3) the actual allocation as at 31 March 2023, and (4) the proposed new target allocation.

Asset Class	**Sep-20 Target**	**Nov-22 Target**	**Mar-23 Actual**	**Jun-23 Target**
UK Equities	10.0%	10.0%	8.8%	9.0%
Global Equities	35.0%	42.0%	44.6%	45.0%
Emerging Markets Equities	5.0%	5.0%	4.0%	4.0%
Total Listed Equities	***50.0%***	***57.0%***	***57.4%***	***58.0%***
Corporate Bonds	4.0%	6.5%	6.5%	6.5%
Multi Asset Credit	5.0%	7.5%	6.6%	6.5%
Diversified Returns	6.0%	6.0%	6.7%	7.0%
Infrastructure	8.0%	8.0%	7.9%	8.0%
Private Equity	5.0%	5.0%	3.9%	5.0%
Property	10.0%	10.0%	8.6%	9.0%
Cash	0.0%	0.0%	1.7%	0.0%
F/X Hedging	0.0%	0.0%	0.2%	0.0%
Total Return Seeking Assets	**88.0%**	**100.0%**	**99.5%**	**100.0%**
Liability Matching Assets	12.0%	0.0%	0.5%	0.0%
Total Asset Valuation	**100.0%**	**100.0%**	**100.0%**	**100.0%**

2. **Listed Equities**

2.1 The table below summarises the pension fund's equity holdings as at 31 March 2023.

	AUM £m	AUM £m
UK Equities:		**310.0**
Brunel UK Active Equity	184.9	
LGIM Passive UK Equities	125.1	
Global (Developed) Equities:		**1,567.6**
Brunel Global Sustainable Equities	347.7	
Brunel Global High Alpha Equity	269.9	
Brunel Smaller Companies Equities	225.5	
LGIM Passive Developed Equities	102.5	
LGIM Passive Dev. Equities (Hedged)	97.4	
LGIM Passive Dev. Equities PAB*	54.3	
LGIM Passive Dev. Equities PAB* (Hedged)	54.4	
LGIM Passive Dev. Equities CTB**	54.3	
LGIM Passive Dev. Equities CTB** (Hedged)	54.3	
LGIM Passive Smart Beta	159.4	
LGIM Passive Smart Beta (Hedged)	147.9	
Emerging Markets Equities:		**142.2**
Brunel Emerging Market Equity	142.2	
Total Equities	**2,019.8**	**2,019.8**

*PAB – Paris Aligned Benchmark
**CTB – Climate Transition Benchmark

3. **Financial Implications**

8.1 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.

8.2 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.

8.3 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 the returns on contributions invested prior to benefits becoming payable.

8.4 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.

4. Climate Implications

9.1 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.

9.2 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.

9.3 The pension fund no longer has any direct investments in individual companies, including ‘fossil fuel’ companies, but it does have indirect exposure to such companies through its holdings in pooled investment vehicles. As at 31 March 2023, the value of the pension fund’s indirect investments in companies primarily involved in the exploration, production, mining and/or refining of fossil fuels was estimated at approximately £66M (1.8% of total investment assets).

5. Well-being and Health Implications

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

6. Other Implications

11.1 No other implications arising from this report have been identified.

7. Risk Assessment

12.1 The risks associated with the pension fund's investments are assessed in detail and considered as part of the strategic asset allocation. The pension fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks.

8. Equalities Impact Assessment

13.1 There are no equalities implications arising from this report.

9. Appendices

Appendix 1: Investment Strategy Review (Mercer)

15. Background Papers

Investment Strategy Statement (December 2020)
Funding Strategy Statement (June 2023)

Mercer

welcome to brighter

Dorset Pension Fund

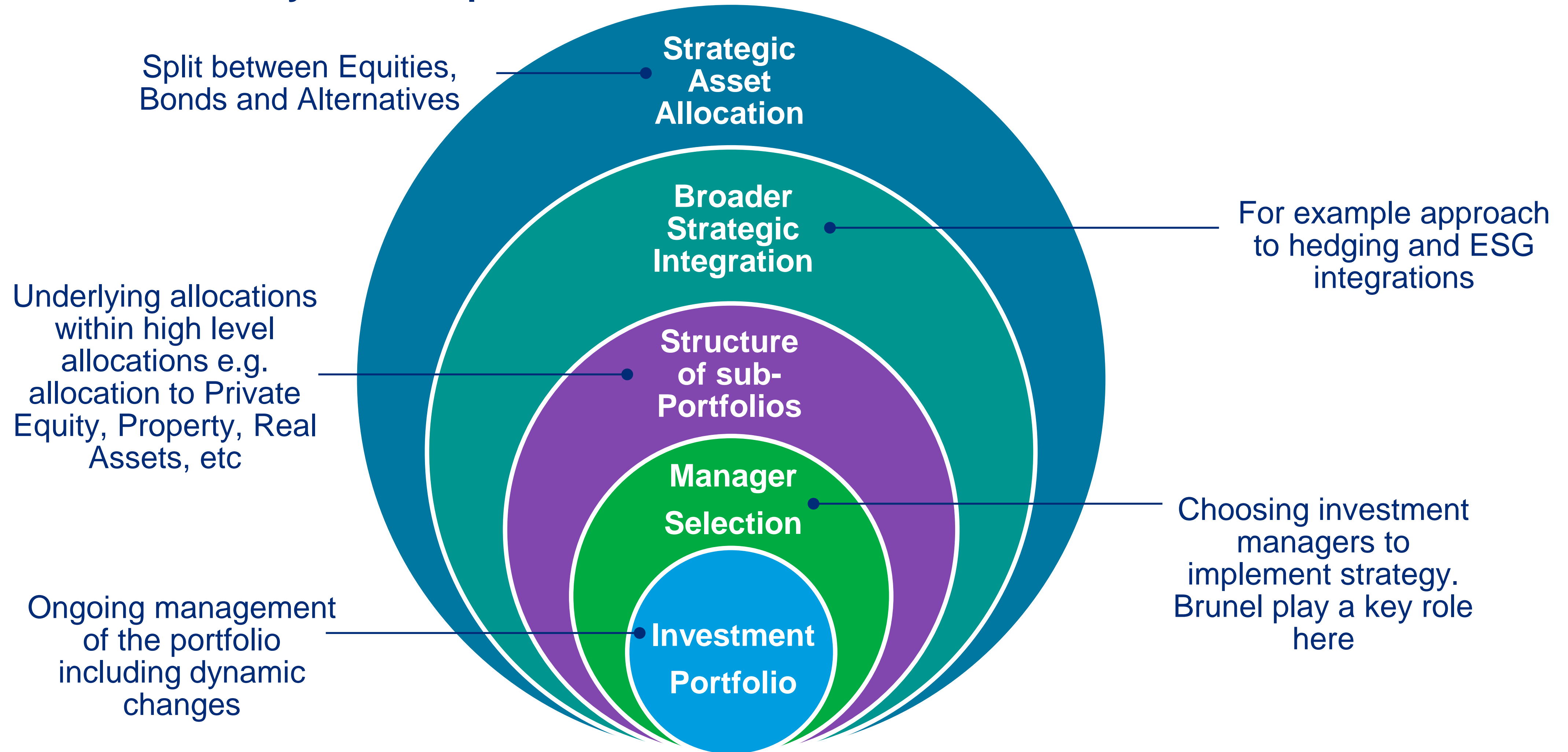
Investment Strategy Review 2023

Steve Turner, Partner
Robbie Sinnott, Principal
June 2023

A business of Marsh McLennan

Investment Strategy

Asset allocation is the key driver of performance



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Top level strategic decisions account for 80/90% of returns

Setting the scene

What is the Fund looking to achieve?

96%

The funding level as at 31 March 2022 as formally calculated by the Fund's actuary.

4.9%

The 31 March 2022 actuarial discount rate

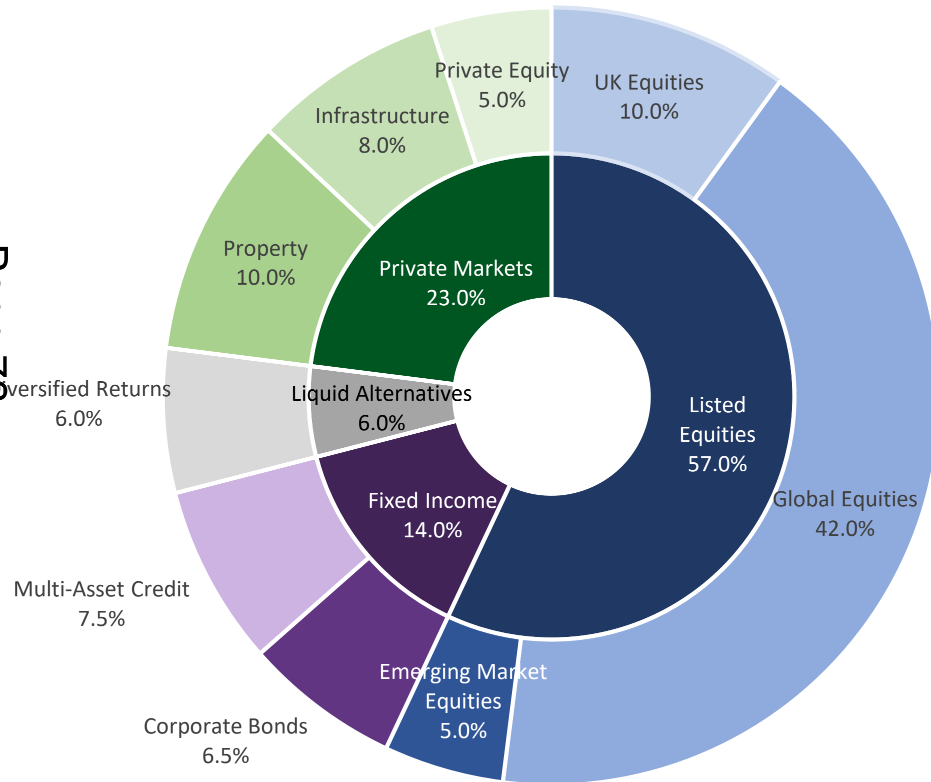
What are we looking to achieve from an investment strategy perspective?

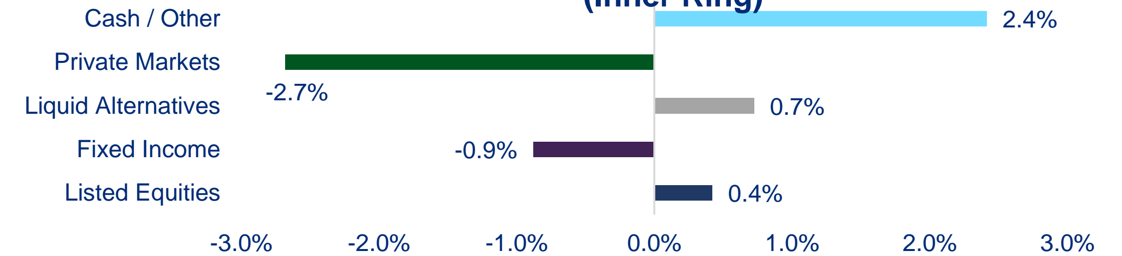
- Keeping contribution rates affordable but stable (need to achieve the discount rate)
- Continue improvement in funding level (need to outperform the discount rate)
- Mitigating impact of potential downside events (need to balance short/medium/long-term investment horizons)

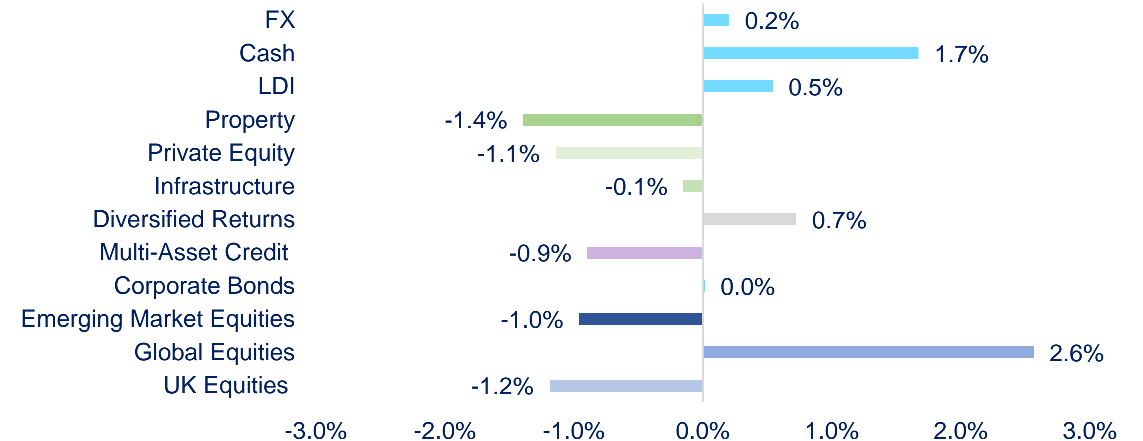
Actuarial Valuation Movements

- **Funding level improved** from **92%** in 2019 to **96%** in 2022
- **Deficit improved** from **£255m** in 2019 to **£154m**
- **Discount rate fell** from **5.0%** in 2019 to **4.9%**
- Improvement has been driven by growth in asset valuations
- Small offsetting of funding gain driven by strengthening of the discount rate

Strategic Asset Allocation







As at 31 March 2023, the Fund was invested broadly in line with the Strategic Asset Allocation

Setting the scene

Key Messages

Background

- In 2022, the Fund terminated its 12% allocation to LDI, reducing its weighting towards inflation hedging assets (by 12%). As a result, the strategic allocation to Global Equities was increased by 7.0% (35.0% to 42.0%). The allocations to Corporate Bonds and Multi Asset Credit were increased by 2.5% respectively (4.0% to 6.5%) and (5.0% to 7.5%).
- Mercer and Officers considered a number of investment strategies as part of this review, only some of which has been shown in this report.

Results of the analysis

- The **probability of achieving the discount rate** is 58% and leaves limited room for de-risking. However, this is **up materially from when we conducted the 2020 strategy review,** where there was a 40% probability of achieving the discount rate (5.0% p.a.).
- One of the key conclusions through the extensive modelling is that **the current investment strategy is relatively efficient,** making it hard to improve the risk/return characteristics given the Fund's return requirements.
- This shows the hard work that the Committee and Officers have put in into building a diversified investment strategy over a significant number of years, and **provides comfort in the Fund's current strategic asset allocation.**
- **While we are comfortable with the current Strategic Asset Allocation, we have highlighted a number of areas for the Committee to consider.**

Potential Ideas

1. The material rises in yields has made Fixed Income more attractive. **The Fund increased allocations to Fixed Income in 2022 and has captured some of this rise in yields.** However, its difficult to increase allocations materially without reducing expected return given where it could be funded from (equities / DGF).
2. Aligning the strategic allocation to property with the current allocation would **remove the need to consider rebalancing property with an investment**. The outlook for commercial property remains uncertain in the current macro environment.

The current investment strategy is relatively efficient - wholesale changes are not required

There is a 1 in 20 chance that assets could fall by c.40% over a 3 year period.

58% chance of meeting the discount rate – up from 40% at the 2020 review

Other potential ideas, but not likely to have large risk/return impacts. To have a material impact would require a large (c.10% increase in equities)

Potential Ideas Continued

3. The Fund has **scope to reduce the complexity of the ~~its~~ equity portfolio**. Further work would be required to review portfolio construction of the equity assets.
4. **We see Affordable Housing as an attractive asset class** from an investment and ESG/Sustainability perspective. It offers diversification versus commercial real estate sectors, is less sensitive to wider economic and financial market risk factors and fits well the government's Levelling-up agenda.
5. The Fund has previously reviewed whether to make an allocation to Private Debt. We continue to see merit in an allocation. Yield rises in public fixed income markets fed through to Private Debt and an allocation to **Private Debt could help meet this discount rate while delivering cashflows for the Fund,** which will become more important as the Fund matures.
6. Rebalancing is an important discipline. **Once the strategy has been agreed, we would suggest the rebalancing policy is reviewed.** Our initial thoughts are some of the tolerances look quite tight.

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Pensions Fund Committee
13 June 2023
Pensions Administration

For Review and Consultation

Local Councillor(s): All

Executive Director: A 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

Brief 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
- LGPS change to the Revaluation Date
- SCAPE Rate change
- Pensions Dashboard Programme Update
- McCloud Update
- Overseas Existence Checks
- Spring Budget
- Death Grant policy changes
- End of Year Processes

Recommendation:

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

Reason for Recommendation:

To update the Committee on aspects of Pensions Administration.

1 Background

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

2 Key Performance Indicators

2.1 The key performance indicators are attached at Appendix 1. These are for the period 1 February 2023 to 30 April 2023.

2.2 The positive impact of new staff is evidenced, with over 900 deferred benefits completed in the last quarter as opposed to 127 previously. Currently over 2,700 are waiting to be checked, these have been completed by the new staff members. This means that we should be on track to clear the accumulated back log of deferred benefits before the impacts of McCloud are felt.

3 LGPS change to Revaluation Date

3.1 On 9 March 2023, the Department for levelling Up, Housing and Communities (DLUHC) laid the LGPS (Amendment) Regulations 2023. These regulations move the annual revaluation date from 1 April to 6 April and were effective from 31 March 2023. Details of the background to this change were outlined in the Administration report of 14 March 2023.

3.2 This has created additional work for the team and changes to our software will follow in due course, with the most significant impact being to the calculation of the annual allowance.

4 SCAPE Rate change - impacts

4.1 On 30 March 2023, the Government published its response to the June 2021 consultation on the methodology used to set the SCAPE rate (superannuation contributions adjusted for past experience) and ministerial statement to confirm the position. Further information about the consultation can be found here.

4.2 The new SCAPE rate will be used for calculating the employer contribution rates in the unfunded public sector schemes. It is anticipated that this new rate will result in significant increases in employer contributions for these schemes, the cost of which will be met by HM Treasury for some, but not all of those impacted.

4.3 The LGPS will be impacted because the change in the SCAPE rate will result in changes to GAD factors. As there will be a delay in the provision by GAD of these factors, certain calculations must be paused, causing a need to stockpile some work areas, until the new factors arrive, and the potential for complaints where members are impacted. Work areas impacted are as follows;

- CETVs for Divorce. This issue has been highlighted in the national press because of the impact to public sector members needing to provide, within set time scales, pension values for court proceedings.
- Non-Club transfers in and out (depending in the relevant date and guarantee period) and some types of Interfund (LGPS) transfers.
- Refunds of pension contributions. Although the calculation of a refund is not impacted, the LGPS regulations require that we provide a CETV to all members eligible for a refund. Therefore, we have been instructed to suspend these as well.

4.4 It is important to be aware of these impacts as this will create issues for the team in managing work and members, and then dealing with the catch-up position later in the year. Once the factors are received, some transfers we will be required to compare the calculation with the old factors, and provide the transfer quoted as the higher or either calculation. LGPS transfers in general are time consuming and complex, and have been subject to numerous additional legislative changes, with more guidance to follow shortly.

5 Pensions Dashboard Programme

5.1 The DWP has announced delays to dashboard connection deadlines due to the challenges in developing the digital architecture. It is not yet clear how connection deadlines for public sector schemes will change. Work and planning continues as normal.

5.2 Engagement with the Pensions Dashboard Programme continues. Due to the high costs materialising from the ISP provision, the DCPF will utilise the National LGPS Framework to ensure we get the best value provider.

6 McCloud Update

6.1 Software. The Fund's software provider has delivered phase 1 of the McCloud remedy. This indicates that approximately 17,772 members are in scope for rectification, and approximately 16,000 will need their service verified.

6.2 **Project Plan.** Work has begun with AON, our project managers for McCloud. A Project Charter for McCloud implementation has been completed. The Project Charter details the project management and oversight, Workstreams, deliverables, anticipated timetables and the Risk Log. A member of the Local Pension Board will be invited to attend the Project Management Group meetings.

6.3 **Data Workstream**. Ensuring the necessary data is obtained to calculate and communicate the correct historic and future benefits following the regulatory changes.

6.4 **Communications Workstream**. Covering all McCloud related communication requirements to members and employers during all phases of the implementation project, as well as those required for ongoing administration.

6.5 **Benefits Rectification Workstream**. Calculating members' 2014 Scheme and 2008 Scheme benefits at their underpin date and/or underpin crystallisation date (for the remedy period) for those members who have ceased to be active members of the Fund since 1 April 2014, e.g. deferred, death, retirement, transfer out, aggregation. Calculating, recording and communicating any amounts required by "McCloud" legislation and best practice (e.g. provisional assumed benefits, provisional underpin amount, final underpin amount), applying and paying (where appropriate) backdated benefits.

6.6 This workstream will also include identification of any other historic events in the period from 1 April 2014 to the effective date, e.g., transfers in and divorce cases that require rework as a result of the remedy legislation. Complex cases may be dealt with by a separate "Specialist areas" workstream

6.7 **Ongoing Administration Workstream.** Adapting processes and working practices to ensure the new underpin calculations are carried out for future cases. Testing new software calculations, amending output statements to ensure members understand their calculations.

6.8 **Specialist Areas.** Covering complex areas such as annual and lifetime allowance calculations and pension Share on Divorce calculations, Ill Health retirements etc

6.9 **McCloud Regulatory and Guidance Updates**: On 6 April 2023, the Department for Levelling Up, Communities and Housing (DLUCH) published their response to the consultation on amendments to the underpin. Published alongside this was a factsheet summarising the remedy for members. DLUCH expects to launch a further consultation this spring to seek views on:

- issues that, because of the consultation responses, they have not yet made a final decision on (such as aggregation and flexible retirement),
- issues not included in the original consultation (such as compensation, interest and excess teacher service), and
- updated draft regulations

6.10 This Act gives relevant government departments powers to rectify McCloud discrimination. This includes, for example, the powers of an administering authority to pay compensation by paying additional benefits and how interest should be calculated.

6.11 DLUCH will finalise the regulations after considering the responses to the further consultation. These will come into force on 1 October 2023, with backdated effect to 1 April 2014.

6.12 On 3 March 2023 the Scheme Advisory Board (SAB) published guidance to assist administering authorities with data issues by setting out options to consider for cases where employers have been unable to provide the required data. This can be used, together with the legal advice provided by Eversheds on McCloud data issues, by authorities setting their own policy approach.

6.13 On 30 May 2023 DLUCH issued a consultation on the McCloud remedy in the LGPS – supplementary issues and scheme regulations. This consultation seeks views and technical comments on the following areas;

- Aggregation – proposed chages to previously proposed underpin qualification.
- Club Transfers – a change to previous proposals connected to eligibility between public sector schemes.
- Flexible Retirement – will prove to be a complex area with both a retrospective second underpin date and proposed treatment for partial flexible retirement.
- Divorce – how pension debits are reflected in underpin calculations.
- Injury Allowances – no special consideration required.
- Excess Teacher Service – excess service to become pensionable in the LGPS rather than the Teachers Scheme
- Compensation – payment and application
- Interest – retrospective payments and compensation

7 Overseas Existence Checks

7.1 This project, run in partnership with Western Union, is now concluded. The final picture confirms to us the value of the project, and it seems that, unsurprisingly, the global pandemic has resulted in far more pensions being suspended or closed than when the review was last conducted in 2017. The 2017 review was the first ever conducted by the Dorset County Pension Fund (DCPF). A further review was due in 2020, but this was not possible during the pandemic.

7.2 In total 3 members were reported as deceased as a result of this communication, and a further 18 pensions remain suspended. These pensions have been suspended due to non-communication by the member or family. They will remain suspended for a period of 12 months, after which the Fund will assume the members are deceased. The total number of pensions we ceased to pay following the 2017 review was 9.

7.3 In all the cost of this project was more than covered by the value of the suspended pensions and the sums recovered as overpaid pension from the three members reported as deceased.

7.4 The project will run again in three years time.

8 Spring Budget 2023

8.1 On 15 March 2023, the Chancellor of the Exchequer delivered his Spring budget. The Finance (No.2) Bill 2022/23 was published on 23 March 2023. This takes effect from 6 April 2023. This proposes to enact some of the changes announced at the Spring budget, changes relevant to LGPS members in particular are;

- Increase in the Annual Allowance from £40,000 to £60,000
- Increasing the adjusted income level for the tapered annual allowance to £260,000

- Abolishing Lifetime Allowance (LTA) charges arising in relation to benefit crystallisation events (BCE) occurring after 6 April 2023
- Changing the taxation of the LTA excess lump sum to the members marginal rate, rather than at 55%
- The LTA will be abolished completely from the 2024/2025 tax year through a future Finance Bill

9 Death Grant Policy Changes

9.1 The DCPF is changing its approach to the payment of discretionary death grants following both national issues raised by other LGPS funds, and the increase in risk and complexity we have experienced over the past few years.

9.2 Legal advice is regularly sought to assist the Fund with its responsibilities in regard to this discretion, and tighter procedures are now in place. The Fund will work with its lawyers to draw up a full new policy to assist the Fund and the administration team in managing this entire area, and I hope to have this in place by the end of the year.

9.3 Failure to properly exercise this discretion, has been added to the Fund's Risk Register to ensure this risk is known and monitored going forward.

10 End Of Year Process 2023

10.1 The End of year processes for 2023 are now largely complete. CARE pay is posted for all members, we are now working through queries with employers. Once this is complete, we will be able to apply the Revaluation to member accounts. We are on track to meet our statutory deadlines.

10.2 Employer engagement was very good, with the majority of returns submitted by the deadline of 30 April. Only 5 employers submitted late returns. The number of financial penalties for late submission, non-notification of joiners and leavers is significantly lower than last year.

10.3 The new system and improved monthly data returns has made a significant impact, and we are confident that our data is of a very high standard.

10.4 A summary of key items is as follows;

- **Total employer returns posted 159**
- **Total active members 24,020**
- **Total CARE pay posted £502,135,219**
- **Total contributions posted £128,426,868**
- **Total queries 5,727**

11 Employer Movements

11.1 Below is the most recent new and exiting employers from the Fund.

New admitted bodies		
Name	**Date admitted**	**Service**

Schools Plus Ltd	20/02/2023	School lettings – Bourne Academy
Wessex Museums Trust	01/04/2023	Wessex Museums Partnership

Cessations	
Name	**Date Ceased**
Stour Valley Poole Partnership (Returned to BCP)	01/04/23

12 Financial Implications

N/A

13 Climate Implications

None

14 Well-being and Health Implications

None

15 Other Implications

N/A

16 Risk Assessment

16.1 HAVING CONSIDERED: the risks associated with this decision; the level of risk has been identified as:

Current Risk: N/A

Residual Risk: N/A

16. Equalities Impact Assessment

N/A

17. Appendices

Appendix 1 – KPIs (February 2023 to April 2023)

18. Background Papers

LGPS Regulations 2013

Public Service Pensions Act 2013 (legislation.gov.uk)

LGPS (Amendment) Regulations 2023

ministerial statement

response to the consultation on amendments to the underpin.

‘McCloud’ remedy in the LGPS – supplementary issues and scheme regulations - GOV.UK (www.gov.uk)

Dorset County Pension Fund KPI Report

Dorset County Pension Fund
administered by Dorset Council

	Period:	February - April 2023				
Top 10 detail - cases completed on time	**Completed in period**	**Performance**	**KPI (days)**	**Cases completed on time or early**	**Total Processes Worked On**	**Average Working Time (Days)**
Admissions	1092	99.73%	30	1089	1092	1.25
Transfers In Quote	76	92.11%	15	70	353	7.33
Transfers In Actual	57	82.46%	15	47	109	21.75
Transfer Out Quote	135	94.07%	15	127	171	6.95
Transfer Out Actual	74	28.38%	15	21	211	88.81
Estimates	214	87.38%	15	187	358	8.57
Retirements	327	92.35%	10	302	452	4.88
Retirements Quote	447	63.76%	10	285	1239	8.18
Deferred Benefits	939	87.65%	40	823	2344	21.08
Refunds	140	100.00%	15	140	837	1.07
Refunds Quote	270	100.00%	15	270	621	1.00
Deaths (Initial Stage)	81	90.12%	5	73	214	5.27
Correspondance	1093	99.45%	15	1087	1093	3.78
Total	**4945**	**91.43%**		**4521**	**9094**	

Total Processes for period	9841
Total Processes worked on in period	15138
Total Phone Calls taken through Pensions Helpline	1638
Total Emails Received	6289
Total Emails Sent	6735

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Dorset Council

Quarterly Report

Steve Tyson, Independent Investment Adviser

JUNE 2023

- Q1 was a strong quarter for equities and bonds, however the headline numbers obscure some dramatic market events that took place. Macroeconomic data was generally resilient in the quarter, as inflation continued to decline (with the exception of the UK), employment data generally showed tight labour markets and Central Banks continued their rate hikes, albeit at a slower pace. The focus on inflation took a brief backseat in early March, as a confidence crisis, which started with US-tech focused Silicon Valley Bank (SVB), spread to other similar US lenders (Signature Bank, First Republic), and then to struggling Swiss bank, Credit Suisse (CS). In the short-term, the underlying causes of the stress (mark-to-market losses on balance sheets combined with competition for deposits, both driven by the sharp rise in rates) remain, and are likely to have medium term repercussions.
- Despite the banking crisis mentioned, equity markets rose over the quarter and were led by growth-oriented stocks (+14.9% for growth, +0.2% for value). However, the quarterly gain of +7.7% for the MSCI World (c. +6% in GBP terms) was not a smooth ride with the index up sharply in January, before declining in February and early March as the banking crisis unfolded, and then rallying strongly to end the quarter up +7.7%. European and Japanese equities performed particularly strongly (around +12% and +7% in GBP terms respectively).

It is worth highlighting the following themes, impacting investment markets:

- **Tighter credit conditions following the banking crisis makes recession more likely.** Keen competition between banks for deposits, together with the reaction to the SNB imposing losses on contingent "AT1" bondholders in the CS rescue, have put significant pressure on bank funding. This has fed quickly through to tighter credit conditions, which, by some measures, are as tight as they were following the 2008 financial crisis. So, while it is important to note that consumption and employment are still relatively strong in most developed economies, they are trending weaker.
- **Inflation – continuing to grind lower, but rates likely to remain elevated for some time.** The UK was the outlier in the quarter with annual CPI rising in February to +10.4%, having fallen for the prior 3 months. However, headline UK inflation is expected to decline in the months ahead (current consensus c. +5% in 2023 and +3% in 2024) as energy prices have fallen from their dramatic highs last year. But while labour markets remain relatively tight, Central banks are likely to maintain high short term rates, and there is potential for the energy genie to return later in 2023. So rate cuts still look to be some way off.
- **Volatility has increased in "stabilising" asset classes (fixed income).** Concerns over the path of US rates, and the fallout from the banking crisis has led to increased volatility in bond markets. While this volatility has affected the rate-sensitive (long) government bond market in particular, the next phase of tighter credit is likely to see increased volatility in asset-classes exposed to credit risk (corporate bonds, private debt etc)
- **Equity valuations rise despite earnings risk.** While US equities rallied strongly in Q1, analysts have at the same time lowered their forecast earnings for Q1 2023 and for full year earnings

MJ HUDSON

2023. Companies have generally been guiding that they expect minimal revenue growth for 2023, and slightly contracting profit margins (albeit still at historically elevated levels of c. 11.2%). This appears to leave scope for disappointment.

- Global equities rose sharply in Q1, as investors initially embraced cooling inflation data in the US before strong US economic data (jobs report, ISM survey) reminded investors that the Fed is still in a rate hiking cycle.
  - In the US, the S&P 500 rose by +7.9% and the NASDAQ soared by +21.6% driven by a handful of technology stocks, specifically Apple, Amazon, Microsoft, Nvidia, Alphabet and Facebook
  - UK equities rose +2.1% in Q1 but underperformed global equities and ending below the February high. Earnings updates from large index constituents in energy and financials drove strong performance. Economic data has also proven more resilient than dire forecasts in late 2022, with a sharp decline in energy prices contributing, and the Bank of England noting that while it still expects a recession in 2023 it now expects a shallower one than previously. The BoE raised the base rate in both February and March, by 50bps and then 25bps, to 4.25% and after quarter-end to 4.5%.
  - The Euro Stoxx 50 rose by 12.4% in Q1, to follow its strong gain last quarter. Economic data was better than expected with falling inflation and a strong PMI index result in February indicating strong business activity. The ECB raised the deposit rate twice by 50bps in the quarter, to 3.5%.
  - Japanese equities outperformed global equity markets, rising by +10.0% in Q1. Japanese equities appeared to be catching up to global equities after a weak Q4, and were buoyed by comments from the incoming new Bank of Japan Governor that he supported the current easy monetary conditions.
  - Emerging market equities rose +4.0%, lower than global equities due to an -8.9% decline in the relatively expensive Indian equities market.
- Medium- and longer-term bond yields fell over the quarter resulting in solid performance for bonds, while very short-term yields rose following various Central Banks rate hikes. The US yield curve inversion as measured by the 10 year yield –2 year yield ended the quarter at -58bps, close to the 2022 year end -61bps, but much steeper than a peak in March of -107bps. In corporate bonds, high-yield credit and investment grade performed roughly in line as credit spreads for the high yield index tightened slightly over the quarter. Emerging market bonds rose 4.8% in local currency, and 1.9% in hard currency.
- Energy prices fell over Q1 which has supported recent headline inflation figures. Warmer weather over winter in Europe has resulted in a sharp downward repricing in natural gas, while for oil, markets continue to grapple with the trade-off between potential economic slowdown from tighter monetary policies vs a boost in demand from China re-opening and OPEC+ production cuts.
- Global listed property continued to decline, with the FTSE EPRA Nareit Global Index falling -2.0% in Q1.

- The Nationwide House Price Index in the UK has continued its decline, with the price index down -1.8% for the quarter, and down -1.0% for the year. While only a modest decline, this is a considerable deterioration from the 9.5% YoY growth in Q3, and 10.7% in Q2.
- European commercial property has also continued to decline in the face of higher interest rates, with the Green Street Commercial Property Price Index down by -2% this quarter and -15% for the past 12 months.

- In currencies, sterling strengthened against the US dollar (+2.1%) and the euro (+0.7%) over the quarter, as the ongoing high and uncertain inflation in the UK is viewed as requiring a more lengthy period of tighter monetary policy. The US dollar fell in Q1 (Dollar index -1.0%), continuing to reverse some of the prior 2022 dollar strength.

Fund Performance and Investment Strategy

Overall performance of the Dorset Pension Fund was greatly improved in Q1 +3.2% versus benchmark performance of +1.4%. The 1-year performance still lags (-4.8% versus -2.8% for the benchmark).

The better Q1 was partly due to a correction in the technical issues of the previous quarter relating to the timing of private markets comparisons, but more importantly the performance of Brunel funds improved greatly. With growth outperforming value, this is a tailwind for many of the Brunel funds, for example with technology outperforming, and energy and banks underperforming. It is gratifying that Brunel performed better even though the technology leadership was quite narrow (with only a few “leaders”) and Brunel are mainly underweight those few stocks. Brunel’s performance needs to continue to be monitored very closely, we should request an update on the current quarter-to-date at the Committee meeting. At the pre-meeting, Brunel indicated performance was mainly slightly behind benchmark quarter-to-date, but this can change quickly.

Another factor in Q1 performance, is that the 2022 troubles are finally taking a toll on our external private market managers such as Harbourvest (private equity) and IFM (infrastructure) as the market environment worsens. However, there is a great deal of past success already banked, so this is not something to be unduly concerned about at this stage. Private market managers can only be judged over very long time periods, and both those managers have stellar track records.

Mercer are presenting the Investment Strategy findings at Committee and preceding Training Day. At the time of writing in late May, the first draft has been presented to the Chairman, officers, and myself. It is somewhat reassuring that no major revisions are proposed. Following the changes to the LDI mandate in 2022, the current strategy has a higher probability of successfully achieving the discount rate of 4.9% than was seen as the previous investment strategy review.

However, we should note there are still many risks relating both to asset strategy and to implementation: a serious global economic and profits recession would hurt equities, corporate bonds and real estate; and we continue to rely heavily on Brunel to match or beat their benchmarks.

Steve Tyson, Independent Investment Adviser

June 2023

1 Frederick's Place, London, EC2R 8AE, United Kingdom | +44 20 7079 1000 | investmentadvisory@mjhudson.com | mjhudson.com

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Pension Fund Committee

13 June 2023

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)
Tel: 01305 224119
Email: david.wilkes@dorsetcouncil.gov.uk

Report Status: Public

Brief 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 2023. 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 2023 was £3,517M compared to £3,694M at the start of the financial year.

The pension fund's actuary, Barnett Waddingham, undertakes a full assessment of the funding position every three years. The results of the latest assessment as at 31 March 2022 are that the pension fund had a funding level of 96% compared to 92% as at 31 March 2019.

The total return from the pension fund's investments over the quarter to 31 March 2023 was 3.2%, compared to the combined benchmark return of 1.4%. The total return for the 12 months to 31 March 2023 was -4.8% compared to the benchmark return of -2.8%. Annualised returns for three years were 9.1% compared to the benchmark return of 9.3% and for five years were 4.4% compared to the benchmark of 5.2%.

As at 31 December 2022, approximately 76% of the pension fund's assets were under the management of Brunel Pension Partnership (Brunel), the pension fund's Local Government Pension Scheme (LGPS) investment pooling manager.

Recommendation:

That the Committee:

i. review and comment upon the activity and overall performance of the pension fund's investments.
ii. approve the final Funding Strategy Statement for publication on the pension fund's website.

Reason for Recommendation:

To ensure that the pension fund has the appropriate management and monitoring arrangements in place, and to ensure that asset allocation in line with agreed strategic targets.

1. Asset Valuation Summary

1.1 The table below shows the pension fund's asset valuation by asset class at the beginning of the financial year and as at 31 March 2023, compared with the target allocation agreed by the Committee September 2020, adjusted for the decision by the Committee November 2022 to divest from Liability Driven Investment (LDI) and reinvest the proceeds in global equities and fixed income.

	31-Mar-22		**31-Mar-23**		**Target Allocation**	
Asset Class	**£M**	**%**	**£M**	**%**	**£M**	**%**
UK Equities	373.4	10.1%	310.0	8.8%	351.7	10.0%
Global Equities	1,305.4	35.3%	1,567.5	44.6%	1,477.3	42.0%
Emerging Markets Equities	150.0	4.1%	142.2	4.0%	175.9	5.0%
Total Listed Equities	***1,828.8***	***49.5%***	***2,019.7***	***57.4%***	***2,004.9***	***57.0%***
Corporate Bonds	186.0	5.0%	229.1	6.5%	228.6	6.5%
Multi Asset Credit	169.3	4.6%	232.4	6.6%	263.8	7.5%
Diversified Returns	243.4	6.6%	236.5	6.7%	211.0	6.0%
Infrastructure	252.1	6.8%	276.2	7.9%	281.4	8.0%
Private Equity	132.2	3.6%	135.8	3.9%	175.9	5.0%
Property	345.8	9.4%	302.8	8.6%	351.7	10.0%
Cash	74.0	2.0%	58.8	1.7%	-	0.0%
F/X Hedging	3.1	0.1%	7.1	0.2%	-	0.0%
Total Return Seeking Assets	**3,234.7**	**87.6%**	**3,498.4**	**99.5%**	**3,517.4**	**100.0%**
Liability Matching Assets	459.0	12.4%	19.0	0.5%	-	0.0%
Total Asset Valuation	**3,693.7**	**100.0%**	**3,517.4**	**100.0%**	**3,517.4**	**100.0%**

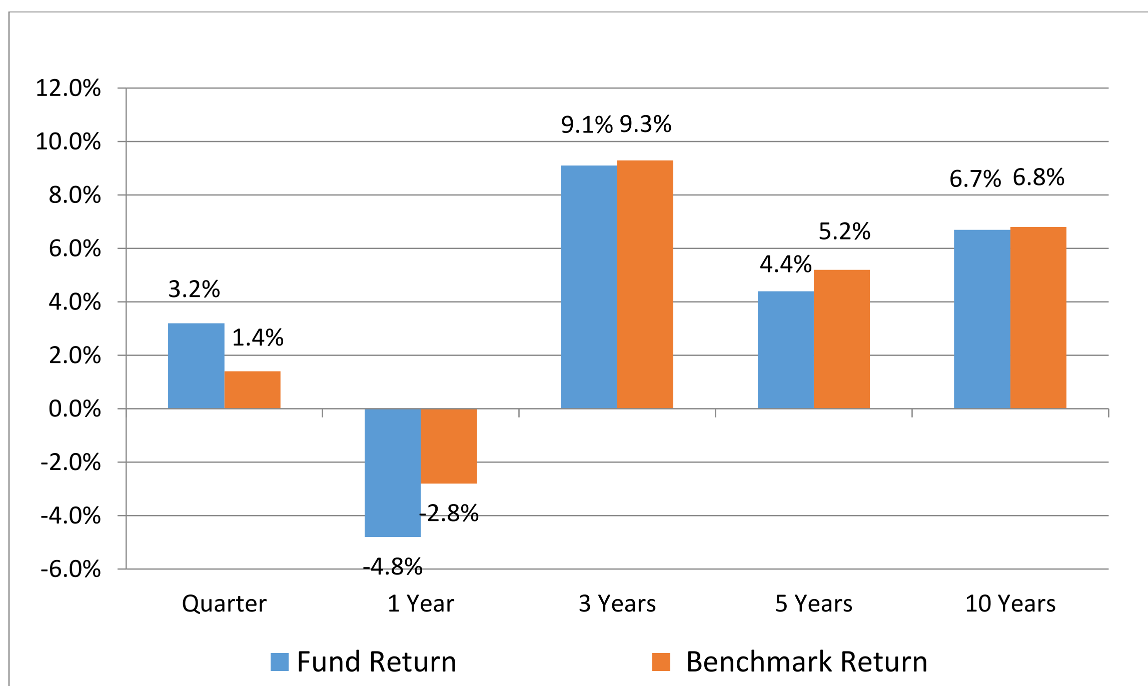
2. **Funding Level**

2.1 The pension fund's actuary, Barnett Waddingham, undertakes a full assessment of the funding position every three years. The results of the latest full assessment as at 31 March 2022 are that the pension fund had a funding level of 96% i.e. assets were estimated to be 96% 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, compared to 92% at the last valuation as at 31 March 2019 (see Appendix 1).

2.2 Following the completion of the triennial valuation the pension fund's Funding Strategy Statement (FSS) was updated and approved by the Committee at its last meeting for publication in draft form for consultation with key parties. The consultation period has now ended with no resulting changes to the FSS (see Appendix 2).

3. **Investment Performance Summary**

3.1 The overall performance of the pension fund's investments to 31 March 2023 is summarised below (returns for three and five years are annualised figures).



4. **Investment Pooling**

4.1 In accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, Dorset participates with nine other LGPS funds to pool investment assets through the Brunel Pension Partnership. Brunel is wholly owned in equal shares by the ten administering authorities that participate in the pool and is authorised by the Financial Conduct Authority (FCA).

4.2 As at 31 March 2023, approximately 76% of the pension fund's assets were under the management of Brunel.

4.3 Brunel's performance report for the quarter ending 31 March 2023 is considered as a separate item on the agenda for this meeting. 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.

5. Performance by Investment Manager

5.1 The following tables summarise by investment manager and investment vehicle the value of Assets Under Management (AUM) as at 31 March 2023 plus each investment's return compared to its benchmark for the quarter, one, three and five years, and 'Since Initial Investment' (SII). All percentages quoted for periods over one year are annualised returns.

Brunel Pension Partnership

Investment	**AUM**	**Qtr**	**1 Yr**	**3 Yr**	**5 Yr**	**SII**
	£m	**%**	**%**	**%**	**%**	**%**
Global Equities:						
Brunel Global Sustainable Equities	**347.7**	5.5	-1.3	-	-	4.2
MSCI AC World GBP Index		4.5	-0.9	-	-	6.5
Excess		1.0	-0.4	-	-	-2.3
Brunel Global High Alpha Equity	**269.9**	7.1	0.4	17.9	-	12.0
MSCI World TR Index		4.9	-0.5	17.1	-	9.8
Excess		2.2	0.9	0.8	-	2.2
Brunel Smaller Companies Equities	**225.5**	5.0	-2.9	-	-	0.3
MSCI World Small Cap		1.6	-3.0	-	-	1.4
Excess		3.4	0.1	-	-	-1.1
Brunel Emerging Market Equity	**142.2**	2.4	-5.1	7.1	-	-0.4
MSCI Emerging Markets		1.2	-4.5	8.3	-	2.2
Excess		1.2	-0.6	-1.2	-	-2.6
LGIM Passive Developed Equities	**102.5**	4.8	-0.6	16.7	-	8.7
FTSE World Developed		4.8	-0.5	16.8	-	8.7
Excess		0.0	-0.1	-0.1	-	0.0
LGIM Passive Dev. Equities (Hedged)	**97.4**	7.4	-6.2	16.1	-	7.2
FTSE World Developed Hedged		7.4	-6.1	16.2	-	7.4
Excess		0.0	-0.1	-0.1	-	-0.2

Investment	AUM	Qtr	1 Yr	3 Yr	5 Yr	SII
	£m	%	%	%	%	%
LGIM Passive Dev. Equities PAB	**54.3**	6.7			-	3.0
FTSE Developed Paris Aligned Net Index		6.8			-	3.2
Excess		-0.1	0.0	0.0	-	-0.2
LGIM Passive Dev. Equities PAB (Hedged)	**54.4**	9.2			-	4.5
FTSE Developed Paris Aligned Net Index (hdgd)		9.2			-	4.6
Excess		0.0	0.0	0.0	-	-0.1
LGIM Passive Dev. Equities CTB	**54.3**	6.5			-	5.2
FTSE Developed Climate Transition Index		6.5			-	5.3
Excess		0.0	0.0	0.0	-	-0.1
LGIM Passive Dev. Equities CTB (Hedged)	**54.3**	9.0			-	4.3
FTSE Developed Climate Transition Index (hdgd)		9.0			-	4.4
Excess		0.0	0.0	0.0	-	-0.1
LGIM Passive Smart Beta	**159.4**	1.4	2.3	16.2	-	8.2
SciBeta Multifactor Composite		1.3	1.6	15.7	-	7.9
Excess		0.1	0.7	0.5	-	0.3
LGIM Passive Smart Beta (Hedged)	**147.9**	3.9	-3.5	15.7	-	6.6
SciBeta Multifactor Hedged Composite		3.7	-4.0	15.1	-	6.3
Excess		0.2	0.5	0.6	-	0.3
UK Equities:						
Brunel UK Active Equity	**184.9**	2.3	2.3	12.3	-	4.3
FTSE All Share ex Investment Trusts		3.4	3.9	13.9	-	5.6
Excess		-1.1	-1.6	-1.6	-	-1.3
LGIM Passive UK Equities	**125.1**	3.1	3.0	14.0		3.3
FTSE All Share		3.1	2.9	13.8	-	3.3
Excess		0.0	0.1	0.2	-	0.0
Fixed Income:						
Brunel Multi Asset Credit	**232.4**	2.7	-3.4	-	-	-2.7
SONIA + 4%		1.9	6.3	-	-	5.4
Excess		0.8	-9.7	-	-	-8.1
Brunel Sterling Corporate Bonds	**68.9**	2.7		-	-	0.6
iBoxx Sterling Non Gilts Overall Return		2.4		-	-	0.9
Excess		0.3	0.0	-	-	-0.3
Other:						
Brunel Diversifying Returns Fund	**236.5**	0.1	-2.9	-	-	1.9
SONIA + 3%		1.7	5.3	-	-	3.9
Excess		-1.6	-8.2	-	-	-2.0
Private Markets:						
Brunel Private Equity	**45.7**	-2.5	17.1	20.8	-	24.6
MSCI AC World Index		4.5	-0.9	16.0	-	10.6
Excess		-7.0	18.0	4.8	-	14.0
Brunel Secured Income	**56.3**	-1.6	-12.2	1.2	-	1.6
CPI		1.3	10.1	5.9	-	4.5
Excess		-2.9	-22.3	-4.7	-	-2.9
Brunel Infrastructure	**9.7**	0.0	-	-	-	0.0
CPI		1.3	-	-	-	4.1
Excess		-1.3	-	-	-	-4.1

All Other Managers

Manager / Investment	AUM	Qtr	1 Yr	3 Yr	5 Yr	SII
	£m	%	%	%	%	%
Royal London / Corporate Bonds	**160.2**	3.0	-13.9	-3.0	-0.3	6.0
iBoxx Sterling Non Gilts > 5 Years		3.1	-15.2	-5.0	-1.8	5.4
Excess		-0.1	1.3	2.0	1.5	0.6
Insight / Liability Driven Investment (LDI)	**19.0**	1.2	-19.9	6.2	-0.6	4.4
Manager Supplied Benchmark		1.2	-19.5	6.4	-0.4	3.9
Excess		0.0	-0.4	-0.2	-1.2	0.5
CBRE / Property	**264.9**	2.5	-11.6	2.3	2.3	6.8
MSCI UK All Properties (Quarterly)		0.1	-12.6	1.9	1.9	6.6
Excess		2.4	1.0	0.4	0.4	0.2
Harbourvest / Private Equity	**70.0**	-3.9	-2.6	22.8	24.1	13.8
FTSE All Share		3.1	2.9	13.8	5.0	5.5
Excess		-7.0	-5.5	9.0	19.1	8.3
Aberdeen Standard / Private Equity	**20.2**	7.3	10.0	10.6	14.1	5.3
FTSE All Share		3.1	2.9	13.8	5.0	5.8
Excess		4.2	7.1	-3.2	9.1	-0.5
Federated Hermes / Infrastructure	**93.7**	-4.0	7.7	5.0	5.1	7.3
10% Absolute Return		2.4	10.0	10.0	10.0	10.0
Excess		-6.4	-2.3	-5.0	-4.9	-2.7
IFM / Infrastructure	**154.3**	0.9	16.4	13.8	13.5	14.2
10% Absolute Return		2.4	10.0	10.0	10.0	10.0
Excess		-1.5	6.4	3.8	3.5	4.2

6. Private Markets

6.1 The pension fund has private equity investments managed by two external managers, HarbourVest and Abrdn (formerly Aberdeen Standard), and Brunel.

6.2 Private Equity is an asset class that takes several years for commitments to be fully invested. The table below summarises the pension fund's commitments, drawdowns, distributions received and closing valuations by manager as at 31 March 2023.

	Commitment	Drawdown		Distributions	Valuation
	£m	£m	%	£m	£m
HarbourVest	112.7	100.1	89%	126.3	69.9
Abrdn	79.6	63.5	80%	93.3	20.2
Brunel	120.0	36.8	31%	3.8	45.7
Total	**312.2**	**200.4**	**64%**	**223.3**	**135.8**

6.3 The pension fund has two external infrastructure managers, Federated Hermes and IFM. The target for each manager is a 10% absolute annual

return and this is used at the benchmark for these investments. In addition to the assets under the management of Federated Hermes and IFM, the pension fund also has holdings in infrastructure funds under the management of Brunel.

6.4 The performance of the pension fund's property investments managed by CBRE is detailed in Appendix 3. In addition to the assets under the management of CBRE, the pension fund also has holdings in secured long income property funds under the management of Brunel.

7. Financial Implications

8.1 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.

8.2 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.

8.3 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 the returns on contributions invested prior to benefits becoming payable.

8.4 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.

8. Climate Implications

9.1 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.

9.2 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.

9.3 The pension fund no longer has any direct investments in individual companies, including ‘fossil fuel’ companies, but it does have indirect exposure to such companies through its holdings in pooled investment vehicles. As at 31 March 2023, the value of the pension fund’s investments in companies primarily involved in the exploration, production, mining and/or refining of fossil fuels was estimated at approximately £66M (1.8% of total investment assets).

9. Well-being and Health Implications

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

10. Other Implications

11.1 No other implications arising from this report have been identified.

11. Risk Assessment

12.1 The risks associated with the pension fund’s investments are assessed in detail and considered as part of the strategic asset allocation. The pension fund’s Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks.

12. Equalities Impact Assessment

13.1 There are no equalities implications arising from this report.

13. Appendices

Appendix 1: Actuarial Valuation as at 31 March 2022 (excluding Rates and Adjustments Certificate)

Appendix 2: Funding Strategy Statement

Appendix 3: Property (CBRE) Quarter 1 2023

15. Background Papers

Investment Strategy Statement

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VALUATION REPORT

Dorset County Pension Fund

Actuarial valuation as at 31 March 2022

Graeme D Muir FFA

Barnett Waddingham LLP

31 March 2023

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Executive summary

Some of the key results contained within this report are set out below:

1. Funding position

Using the agreed assumptions, the Fund had assets sufficient to cover 96% of the accrued liabilities as at 31 March 2022, which has increased from 92% at the 2019 valuation.

2. Contributions

Individual employer contributions are set out in Appendix 5 in the Rates and Adjustments Certificate to cover the period from 1 April 2023 to 31 March 2026. No employer is permitted to pay their deficit over a period greater than 16 years from 1 April 2023.

3. Method and assumptions

The resulting method and assumptions are set out in Appendix 2 and we believe they are appropriate for the 31 March 2022 valuation. The key assumptions used are a discount rate assumption of 4.9% p.a. and a CPI inflation assumption of 3.0% p.a.

4. Investment performance

Investment returns have been strong since the previous valuation, but gains in the funding position have been partially offset by a reduction in future anticipated investment returns net of inflation (i.e. a reduction in the real discount rate).

5. Regulatory changes

There have been a number of important regulatory changes since the 2019 valuation including McCloud, Cost management and Climate risk.

Details of how we have approached each change is detailed in this report.

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Background

We have been asked by Dorset Council, the administering authority for the Dorset County Pension Fund (the Fund), to carry out an actuarial valuation of the Fund as at 31 March 2022. 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.

The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2023 to 31 March 2026 as required under Regulation 62 of the Regulations.

This report summarises the results of the valuation and is addressed to the administering authority of the Fund. It is not intended to assist any user other than the administering authority in making decisions or for any other purpose and neither we nor Barnett Waddingham LLP accept liability to third parties in relation to this advice.

This report is provided further to earlier advice dated 5 September 2022 which set out the background to the valuation and explained the underlying methods and assumptions derivation.

This advice complies with Technical Actuarial Standards (TASs) issued by the Financial Reporting Council – in particular TAS 100: Principles for Technical Actuarial Work and TAS 300: Pensions.

We would be pleased to discuss any aspect of this report in more detail.

Valuation methodology

Setting contributions

The contribution rates consist of two elements, the primary rate and the secondary rate:

- The **primary rate** for each employer is the employer's future service contribution rate (i.e. the rate required to meet the cost of future accrual of benefits) expressed as a percentage of pay.
- The **secondary rate** is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). The secondary rate may be expressed as a percentage of pay or a monetary amount.

Regulation 62 specifies four requirements that the actuary "must have regard" to:

1. The existing and prospective liabilities arising from circumstances common to all those bodies
2. The desirability of maintaining as nearly a constant a primary rate as possible
3. The current version of the administering authority's Funding Strategy Statement (FSS)
4. The requirement to secure the "solvency" of the pension fund and the "long-term cost efficiency" of the Scheme, so far as relating to the pension fund

The wording of the second objective is not ideal in that it appears to be aimed towards the primary rate rather than taking into account the surplus or deficit of the employer. We believe that if we achieve reasonably stable total individual employer rates (which seems like a preferable objective) then we will also meet the regulatory aim.

CIPFA's FSS guidance includes further details, summarised as follows:

- **"solvency"** means ensuring that employers are paying in contributions that cover the cost of benefit accrual and target a fully funded position over an appropriate time period using appropriate actuarial assumptions, and
- **"long-term cost efficiency"** means that employers have the financial capacity to increase contributions (or there is an alternative plan in place) should contributions need to be increased in future.

Assumptions used

We have considered these four requirements when providing our advice and choosing the method and assumptions used.

A number of reports and discussions have taken place with the administering authority before agreeing the assumptions to calculate the results and set contribution rates. In particular:

- The initial results report dated 5 September 2022 provides information and results on a whole fund basis as well as background to the method and derivation of the assumptions.
- The 2022 valuation assumptions summary report dated 21 September 2022 confirming the agreed 2022 valuation assumptions.
- The climate analysis report dated 22 November 2022 which considers climate risk in the context of the Fund's 2022 actuarial valuation. It considers whether the 2022 valuation funding strategy is sufficiently robust in the context of this climate scenario analysis and any potential contribution impacts.
- The FSS which will confirm the approach in setting employer contributions.

Note that not all of these documents may be in the public domain and may be restricted to the administering authority which has no obligation to share them with any third parties.

The assumptions detailed in this report have been agreed with the administering authority. The Fund's FSS has been reviewed in collaboration with the administering authority to ensure that it is consistent with this approach. The FSS complies with the latest version of CIPFA's FSS guidance but we understand that this guidance is currently under review by the Scheme Advisory Board's Compliance and Reporting Committee. This updated guidance had not come into effect as at the date of this report.

We confirm that in our opinion the agreed assumptions are appropriate for the purpose of the valuation. Assumptions in full are set out in Appendix 2.

Valuation of liabilities

To calculate the value of the liabilities, we estimate the future cashflows which will be made to and from the Fund throughout the future lifetime of existing active members, deferred benefit members, pensioners and their dependants. We then discount these projected cashflows using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows or liabilities and their present value we need to formulate assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, rates of mortality and staff turnover etc.

The assumptions used in projecting the future cashflows in respect of both past service and future service are summarised in Appendix 2.

Valuation of assets

We have been provided with Fund accounts for each of the three years to 31 March 2022.

The market asset valuation as at 31 March 2022 was £3.70bn. Please note that this excludes members' additional voluntary contributions (AVCs).

For the purposes of the valuation, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2022 to 30 June 2022. Therefore, we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

The smoothed asset valuation as at 31 March 2022 was £3.64bn. This was based on a smoothing adjustment of 98.2%. More detail can be found in Appendix 1.

The Fund's long-term investment strategy has been taken into consideration in the derivation of the discount rate assumption. The investment strategy is set out in the Fund's Investment Strategy Statement (ISS) that should be made publicly available on the Fund's website.

Previous valuation results

The previous valuation was carried out as at 31 March 2019 by Barnett Waddingham. The results are summarised in the valuation report dated 30 March 2020 and reported a deficit of £255m.

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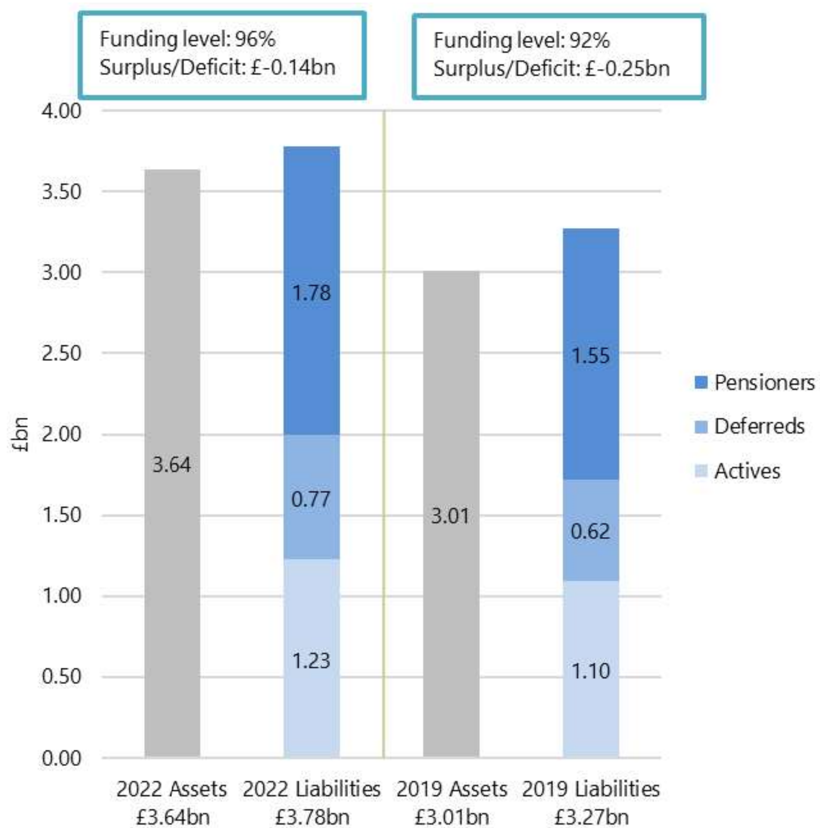
Results

Funding position

A comparison is made of the value of the existing assets with the value of the accrued liabilities. If there is an excess of assets over the liabilities then there is a surplus. If the converse applies there is a deficit.

Using the assumptions summarised in Appendix 2, the funding position is set out in the graph below. This shows the funding position of the Fund at the current and previous valuation dates.

There was a deficit of £141m in the Fund at the valuation date, corresponding to a funding level of 96%.



Contribution rates

Primary rate

Using the assumptions summarised in Appendix 2, the resulting average primary rate across the whole Fund is set out in the table below (after allowing for member contributions). This includes a comparison to the primary rate at the previous valuation.

The primary rate for the whole Fund is the weighted average (by Pensionable Pay) of the individual employers' primary rates.

Primary rate	2022 valuation % of payroll p.a.	2019 valuation % of payroll p.a.
Average total future service rate	25.5%	24.1%
Less average member rate	-6.4%	-6.4%
Fund primary rate	**19.1%**	**17.7%**

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the Regulations.

Please note that expenses are allowed for in the derivation of the discount rate and therefore we make no explicit allowance in the primary rate for expenses.

Secondary rate

The secondary rate is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). Where there is a deficit, contributions should be set to restore the funding positions to 100% over an agreed "recovery period".

The recovery period for individual employers varies across the Fund. The administering authority's approach to setting recovery periods is set out in the FSS. Where there is a surplus, this may also be reflected in contribution rates in line with the Fund's FSS.

The primary and secondary rate of the individual employer contributions payable are set out in the Rates and Adjustments Certificate in 0. These will differ from the primary rate set out above as well as varying from each other as they are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

In Appendix 5 we also disclose the sum of the secondary rates for the whole Fund for each of the three years beginning 1 April 2023.

The secondary contributions agreed with the administering authority have been set at this valuation in order to restore the Fund to a funding position of 100% by no later than 2039.

Projected funding position

Based on the assumptions as set out in Appendix 2 and the contributions certified and set out in Appendix 5, we estimate that the funding position of the whole fund may increase to 99% by 31 March 2025, the next valuation date. This projection is based on the assumptions made for this valuation and contributions being paid at the agreed amounts. This projection does not allow for any actual experience since 31 March 2022 nor any other risks or uncertainties. Some of these additional risks are set out later in this report and in Appendix 3.

Standardised basis

Following the funding valuation, a "Section 13" report (prepared under Section 13 of the Public Service Pensions Act 2013) will be prepared to report on whether the following aims are achieved: compliance, consistency, solvency and long-term cost efficiency, and to identify any funds that cause concerns.

As part of our calculations we have considered the results on a standardised basis as set by the Scheme Advisory Board (SAB). We are required to provide the SAB with the results for the Fund for comparison purposes.

The standardised basis is set using assumptions advice from the Government Actuary's Department (GAD) with some of the assumptions used being set locally (such as mortality) and some are set at Scheme level (including all the financial assumptions). It is not used to set contributions as it does not reflect the Fund's investment strategy or the administering authority's attitude to risk; contributions are set using the funding basis.

The results on the standardised basis as at 31 March 2022 are set out in the dashboard in Appendix 4. The dashboard should assist readers in comparing LGPS valuation reports and the information will be used by GAD in their "Section 13" report.

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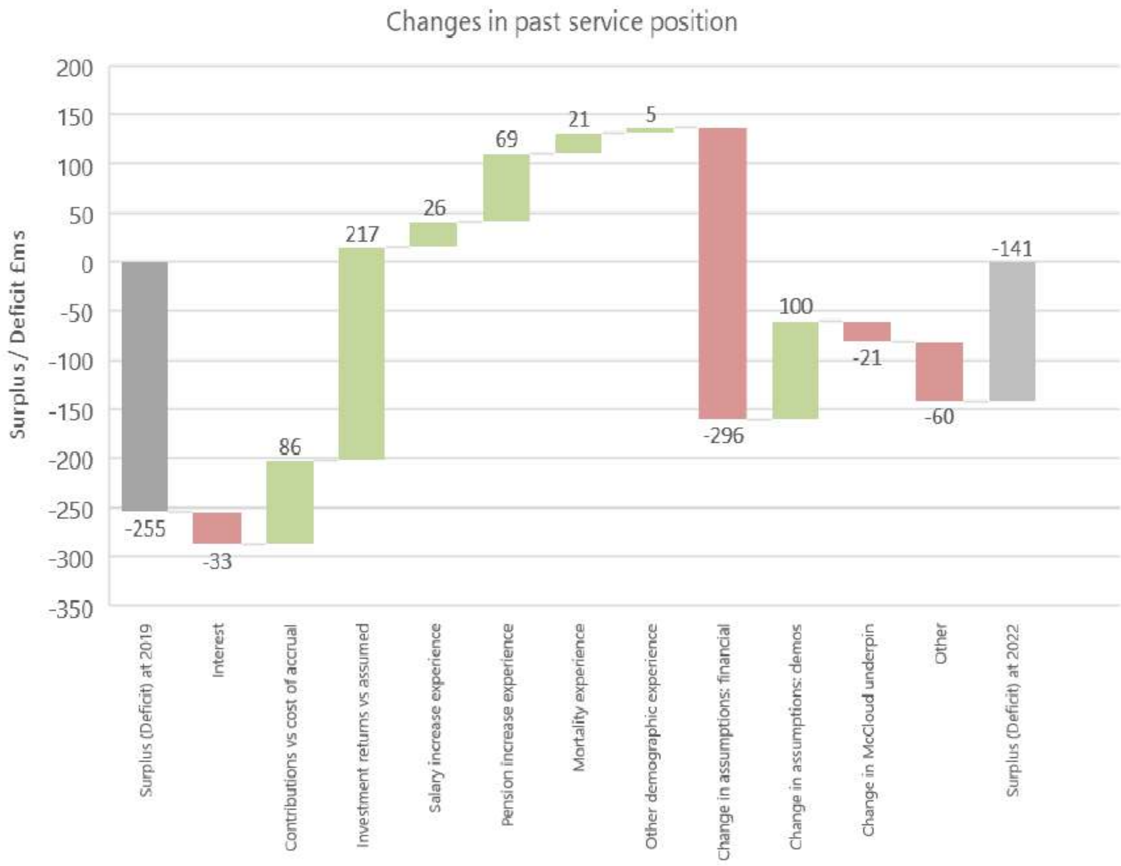
Reconciliation to previous valuation

Funding position

The previous valuation revealed a deficit of £255m. The key factors that have influenced the funding level of the Fund over the period are illustrated in the chart below.



Experience

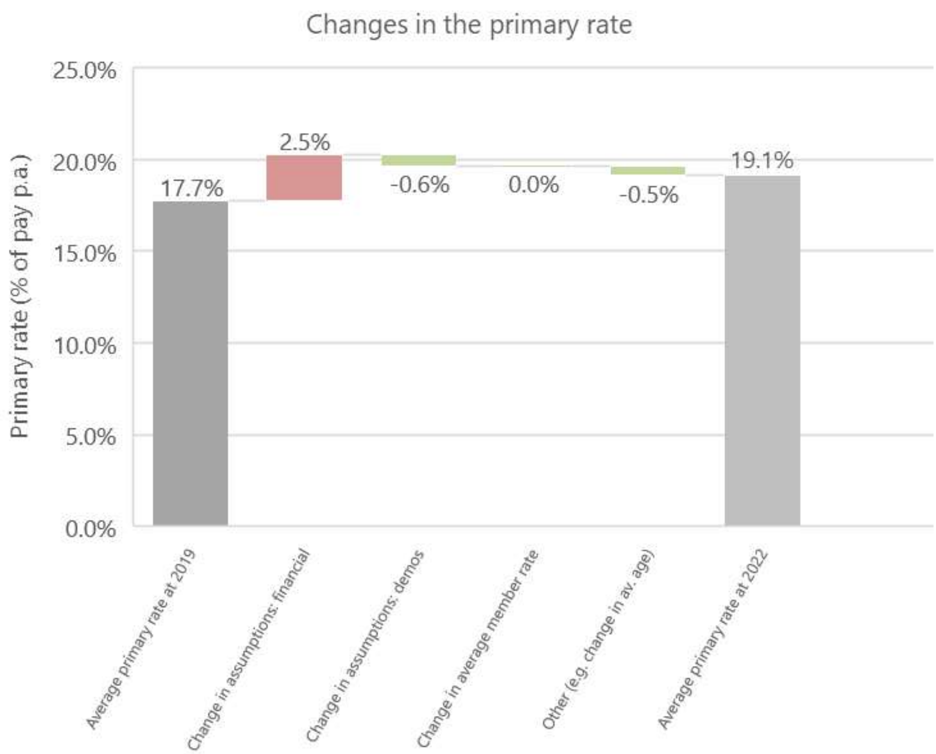
- Investment returns have been stronger than expected since 2019 leading to a net gain of £217m.
- Contributions paid were higher than the cost of benefits accrued as the employers made deficit contributions resulting in a gain of £86m.
- Pension increases were lower than assumed with further gains from salary increases being less than assumed, resulting in an overall gain of £95m.
- The overall impact of mortality and other demographic experience was a small gain of £26m.

Assumptions

- A review of the financial assumptions combined with the change in market conditions resulted in an increase in the deficit of £296m.
- Updating the mortality assumptions to allow for a fall in future life expectancies resulted in a decrease in the deficit of £100m.

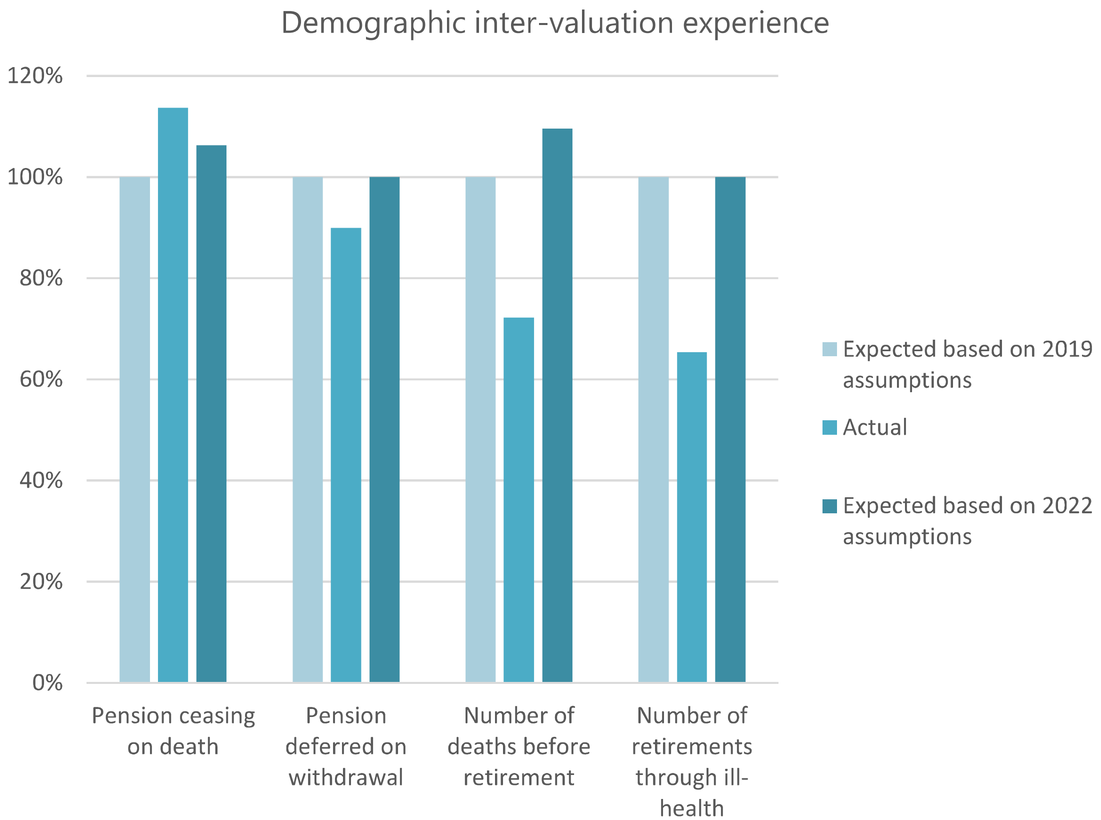
Primary contribution rate

The previous valuation resulted in an average primary rate of 17.7% of Pensionable Pay. The reasons for the change in the cost of future benefit accrual are set out in the reconciliation chart below.



Comparing experience with assumptions

A comparison of the actual demographic experience of members of the Fund over the intervaluation period, with that assumed by the assumptions adopted at the last valuation in 2019 is shown in the graph below. The graph also shows how the assumptions adopted for this valuation would have compared with those adopted at 2019.



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Sensitivities to the liabilities

The results set out in this report are based on a particular set of assumptions. The actual cost of providing the benefits will depend on the actual experience, which could be significantly better or worse than assumed. The sensitivity of the results to some of the key assumptions is set out in the table below.

The figures in the table are shown relative to the deficit of £141m and funding level of 96% on the agreed funding basis.

2022 sensitivity analysis of funding position	2022 Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1% p.a.	Increase salary assumption by 0.5% p.a.	Increase long-term rate of mortality improvement by 0.25% p.a.	Increase initial addition to mortality improvement by 0.5%	Decrease 2020/21 weighting parameter by 5%
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Smoothed asset value	3.64	3.64	3.64	3.64	3.64	3.64	3.64
Total past service liabilities	3.78	3.84	3.84	3.82	3.81	3.83	3.80
Surplus / (Deficit)	**(0.14)**	**(0.20)**	**(0.20)**	**(0.18)**	**(0.17)**	**(0.19)**	**(0.16)**
Funding level	**96%**	**95%**	**95%**	**95%**	**96%**	**95%**	**96%**

Sensitivities to the primary contribution rate

The calculated primary contribution rate required to fund benefits as they are earned from year to year will also be affected by the particular set of assumptions chosen. The sensitivity of the primary rate to changes in some key assumptions is shown below. Please note that the primary rate set out below does not include any adjustment via the secondary rate. The total contribution rate payable by employers will be a combination of the primary rate and a secondary rate adjustment, further details can be found in Appendix 5.

The figures in the table are shown relative to the primary rate of 19.1% of Pensionable Pay on the agreed funding basis.

2022 sensitivity analysis of primary rate	2022 Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1% p.a.	Increase salary assumption by 0.5% p.a.	Increase long-term rate of mortality improvement by 0.25% p.a.	Increase initial addition to mortality improvement by 0.5%	Decrease 2020/21 weighting parameter by 5%
	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.
Average total future service rate	25.5%	26.2%	26.2%	25.5%	25.8%	25.8%	25.7%
Less average member rate	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Fund primary rate	**19.1%**	**19.8%**	**19.8%**	**19.1%**	**19.4%**	**19.4%**	**19.3%**

Further comments

Funding Strategy Statement (FSS)

The assumptions used for the valuation have been documented in a revised Funding Strategy Statement agreed between the Fund Actuary and the administering authority.

Risks

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund are:

- Employer covenant risk
- Investment risk
- Inflation risk
- Mortality risk
- Member options risk
- Regulatory risk
- Climate risk

The sensitivity of the funding results to some of these risks was set out in the sensitivities section of this report. Please note that this is not an exhaustive list. Further information on these risks and more can be found in our initial results report and will be set out in greater detail in the FSS.

Post valuation events

Since the valuation date, there has been some significant market turbulence including material increases in short-term inflation and gilt yields. There is an ongoing cost of living crisis, as well as political turmoil.

However, our funding model is designed to help withstand short-term volatility in markets as it is a longer-term model. We use smoothed assumptions over a six-month period with the ultimate aim of setting stable contributions for employers. The valuation approach and assumptions are not based on gilt yields and

the discount rate is derived from the long-term future expected returns on each asset class with a deduction for uncertainty and risk (our prudence adjustment). Therefore, at this stage, the anticipated effect on the long-term funding position is not significant enough to revise our approach.

Nevertheless, due to the ongoing uncertainty around the shorter-term impact of these issues, we have considered these issues in setting the employer contribution rates to ensure that contributions in to the Fund remain appropriate. Most notably, high inflation will have a significant impact in the short term as higher levels of pensions in payment will need to be paid out of the Fund as a result of the anticipated increase of 10.1% in April 2023.

We will continue to monitor the Fund's funding position and raise any individual employer cases with the Fund that we consider need any special attention. The impact of these events will be fully considered as part of the 2025 valuation when we revisit employer contributions.

The next formal valuation is due to be carried out as at 31 March 2025 however we would recommend that the financial position of the Fund is monitored regularly during the period leading up to the next formal valuation.

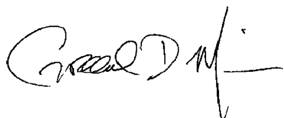
Rates and Adjustments Certificate

The contributions payable in respect of benefit accrual and any deficit contributions under each employer's recovery period have been set out in Appendix 5 in the Rates and Adjustments Certificate in accordance with Regulation 62 of the Regulations and cover the period from 1 April 2023 to 31 March 2026. In this certificate no allowance will be made for additional costs arising which need to be met by additional contributions by the employer such as non-ill health early retirements.

The contributions in the Rates and Adjustments Certificate are set so that each employer's assets (including future contributions) are projected to be sufficient to cover the benefit payments for their members, on the assumptions set out in this report. Where there is currently a deficit for an individual employer, recovery of this deficit is targeted in line with the Fund's FSS and all employers are projected to be fully funded after a recovery period length of no more than 16 years from 1 April 2023.

This document has been agreed between the administering authority and the Fund Actuary. Contributions have been set which in our opinion meet the regulatory requirements and the funding objectives set out in the Fund's FSS.

This report must be made available to members on request.



Graeme D Muir FFA
Partner
Barnett Waddingham LLP

Appendix 1 Summary of data and benefits

Membership data

The membership data has been provided to us by the administrators of the Fund. We have relied on information supplied by the administrator and the administering authority being accurate. The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund's accounts. The numbers in the tables below relate to the number of records and so will include members in receipt of, or potentially in receipt of, more than one benefit.

Any missing or inconsistent data has been queried with the Fund and estimated where necessary. Whilst this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Benefits

Full details of the benefits being valued are set out in the Regulations as amended and summarised on the LGPS website (https://www.lgpsmember.org/). We have made no allowance for discretionary benefits.

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Membership summary

A summary of the membership data used in the valuation is as follows. The membership data from the previous valuation is also shown for comparison. Please note that the average ages at 31 March 2022 are weighted by salary for active members and by pension for deferred and pensioner/dependant members; the average ages at 2019 are weighted by liability.

Data used	Data at 31 March 2022			Data at 31 March 2019		
Active members	Number	Pensionable pay £m	Average age	Number	Pensionable pay £m	Average age
Males	5,862	154	48	6,191	150	53
Females	17,298	301	47	18,325	277	52
Total	23,160	455	47	24,516	427	53
Deferred members (including undecided)	Number	Pension £m	Average age	Number	Pension £m	Average age
Males	9,081	16	50	8,629	14	51
Females	25,965	33	50	24,317	27	51
Total	35,046	50	50	32,946	41	51
Pensioner and dependant members	Number	Pension £m	Average age	Number	Pension £m	Average age
Males	8,648	64	73	8,085	57	69
Females	16,648	57	71	14,381	47	68
Total	25,296	121	72	22,466	104	69

Projected retirements

In the table below we have set out the number of members who are assumed to reach retirement age over the period from 1 April 2022 to 31 March 2026 as required under the Regulations.

Members may retire for a number of reasons including reaching normal retirement age, retiring through ill-health or redundancy. The amounts set out in the table below are the new retirement benefit amounts, as at the current valuation date that are assumed to come into payment in each of the intervaluation years.

Projected new benefits

Year to	Number of members	Retirement benefits £m
31 March 2023	1,570	10
31 March 2024	1,758	12
31 March 2025	1,776	13
31 March 2026	1,640	11

Guaranteed Minimum Pension (GMP) equalisation and indexation

On 23 March 2021, the Government published the outcome to its GMP Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

As with the previous valuation, we have assumed 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, we have assumed that the Fund will be required to pay the entire inflationary increase. We are comfortable that our approach is consistent with the consultation outcome.

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Appendix 2 Summary of assumptions

A summary of the assumptions adopted for the valuation at 31 March 2022 and as at 31 March 2019 is set out below.

Assumptions		2022 valuation	2019 valuation
Financial assumptions (p.a.)			
CPI inflation		3.0%	2.6%
Salary increases		4.0%	3.6%
Discount rate		4.9%	5.0%
Pension increases on GMP		Funds will pay limited increases for members reaching SPA by 6 April 2016, and full increases for others	
Demographic assumptions			
Post-retirement mortality			
	Base table	S3PA tables	S3PA tables
	Multiplier	95% / 100%	90% / 100%
	Dependant Base Table	S3DA tables	S3DA tables
	Dependant Multiplier	100% / 100%	95% / 115%
	CMI Model	2021	2018
	Long-term rate of improvement	1.25% p.a.	1.25% p.a.
	Smoothing parameter	7.0	7.5
	Initial addition to improvement	0.0% p.a.	0.5% p.a.
	2020/21 weighting parameter	5%	n/a
Retirement assumption		Weighted average	Weighted average
Pre-retirement decrements		GAD 2016 scheme val: no salary scale, 50% multiplier to ill-health rates, 115% multiplier to pre-retirement mortality rates	GAD 2016 scheme val: no salary scale, 50% multiplier to ill-health rates, 105% multiplier to pre-retirement mortality rates
50:50 assumption		Member data	Member data
Commutation		50% of max	50% of max

Assumptions		2022 valuation	2019 valuation
Family statistics			
	% with qualifying dependant	75% (M) / 70% (F)	75% (M) / 70% (F)
	Age difference	Males 3 years older	Males 3 years older

Demographic assumptions – sample rates

The following tables set out some sample rates of the demographic assumptions used in the calculations. These sample rates are based on those set by the Government Actuary's Department (GAD) based on analysis of the Local Government Pension Scheme (LGPS) in England and Wales.

Allowance for ill-health early retirements

A small proportion of members are assumed to retire early due to ill health. In the table below we set out an extract of some sample rates from the GAD tables used:

Age	Males	Females
25	0.01%	0.00%
30	0.01%	0.01%
35	0.02%	0.01%
40	0.04%	0.03%
45	0.09%	0.06%
50	0.18%	0.13%
55	0.36%	0.28%
60	0.74%	0.62%
65	1.51%	1.34%

Please note the above rates are the raw decrements as set by GAD. Our assumption is that there will be 50% of the number of ill-health retirements assumed by GAD.

The proportion of ill-health early retirements falling into each tier category has been assumed to be as follows for both males and females:

Tier 1	Tier 2	Tier 3
75%	15%	10%

Death before retirement

A small number of members are assumed to die before reaching retirement age. In the table below we set out an extract of some sample rates from the GAD tables used:

Age	Males	Females
25	0.02%	0.01%
30	0.03%	0.01%
35	0.05%	0.02%
40	0.06%	0.03%
45	0.09%	0.05%
50	0.13%	0.08%
55	0.21%	0.12%
60	0.32%	0.19%
65	0.50%	0.29%

Please note the above rates are the raw decrements as set by GAD. We have applied a 115% multiplier to the rates assumed by GAD.

Allowance for withdrawals

This assumption is regarding active members who leave service to move to deferred member status. Active members are assumed to leave service at the following sample rates:

Age	Males	Females
25	9.21%	10.17%
30	7.25%	8.07%
35	5.70%	6.40%
40	4.48%	5.07%
45	3.53%	4.03%
50	2.78%	3.19%
55	2.18%	2.53%
60	1.72%	2.01%
65	1.35%	1.59%

Appendix 3 Regulatory uncertainties

There are currently a few important regulatory uncertainties surrounding the 2022 valuation as follows:

- Effect of the McCloud and Sargeant cases;
- Cost management reviews which could affect future and historic LGPS benefits;
- Change in timing of future actuarial valuations from a triennial cycle; and
- Climate change risks and opportunities.

Although it is unclear what impact these uncertainties will have on the future benefits of individual members, we have considered these issues in the assumptions used to set the contribution rates for employers.

McCloud

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on in 2023 with the earliest effective date expected to be October 2023.

For the 2022 valuation, as instructed by the Department of Levelling Up, Housing and Communities (DLUHC), we have assumed that the legislation will bring forward the changes as currently proposed, and we have valued the benefits in line with this. The data extracts received for valuation purposes did not include the full pay or service history we require to value the cost of the anticipated benefit changes. We therefore made estimates (for active members only) based on the information that is held in data extract provided. Our estimates involve projecting members CARE benefits against the equivalent final salary benefit to determine, for each active member, whether the underpin may bite and the liability value if it does. There still remains uncertainty over the long-term effects of the McCloud judgment but where data has been available, we have been able to estimate the impact of McCloud on individual employers and funding positions and contributions have been set accordingly.

Change in timing of future actuarial valuations from a triennial cycle

In 2019, the Ministry of Housing, Communities & Local Government (as it was then known, now known as DLUHC) issued a consultation which included moving from a triennial to quadrennial valuation cycle from 2024. The issue remains outstanding and we have produced this report on the basis of a triennial valuation cycle.

Cost management reviews

There remain uncertainties around the 2016 and 2020 cost management exercises. Although we understand that the Scheme Advisory Board (SAB) will not be recommending any Scheme changes, this is still to be announced. However, we anticipate the impact of any changes to be small and therefore we have not made an explicit allowance for these.

Further cost management reviews will be carried out and may lead to future benefit changes. However, as the aim of this monitoring is to keep the cost of benefits within an affordable range, we can be relatively comfortable that future reviews will not have a significant impact on the value we currently place on the liabilities, therefore we have not made an explicit allowance for these.

Climate change risks and opportunities

Climate risk is an important consideration for the 2022 valuation. As part of the 2022 valuation process we have used scenario analysis to identify the impact of shorter term climate risk (transition risk) and longer term climate risk (physical risk) on the Fund's potential funding outcomes. This analysis was developed for LGPS funds based on the Department for Work and Pensions regulations, as we await final regulations which apply directly to the LGPS. The analysis was discussed with GAD, who agreed a set of four key principles for how LGPS funds would undertake climate change scenario analysis as part of the 2022 valuation.

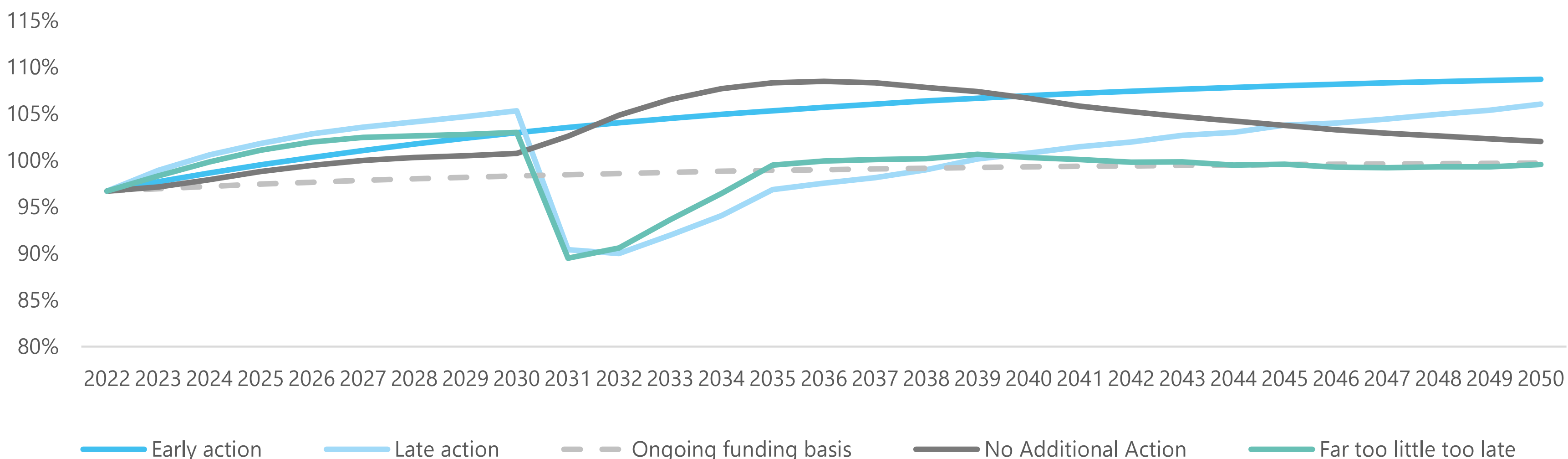
Our analysis considered the potential impact on the future investment return outlook (and therefore discount rate) and inflation (and therefore inflation-linked assumptions), for the purpose of projecting asset and liability values and primary rates. We have also considered additional elements such as the potential impact on life expectancy changes and employer covenant. The analysis supports the level of prudence in the funding strategy.

Under the Key principles, it was agreed that each fund should select two scenarios to consider as a minimum including: "Paris-aligned" and higher temperature outcome, and compare these to the funding basis.

- "Paris-aligned" is an optimistic basis which assumes that good progress is made towards the ambitions made in the 2015 Paris Agreement.

- A higher temperature outcome assumes that no new climate policies are introduced beyond those already agreed, resulting in a growing concentration of greenhouse gas emissions and a larger increase in global temperatures.

Our analysis considers four scenarios which are detailed in our climate scenario analysis report. The impact of the on the funding position of each scenario is considered in Projected funding level graph below.



Our "early action" scenario aims to represent a "Paris-aligned" scenario, and our "no additional action" scenario represents a higher temperature outcome.

One of the other key principles agreed with GAD was for results to be considered over a period of at least 20 years. The funding level is projected over a period of 30 years as can be seen in the graph above. Detail on the Fund's approach will also be included in the FSS.

COVID-19 crisis

The 2019 valuation report and Rates and Adjustments Certificate were finalised during the early stages of the COVID-19 crisis. Due to the timing of events, no adjustment was made to the 2019 results. There still remains uncertainty over the long-term effects of COVID-19 but where data has been available, we have been able to consider the impact of COVID-19 on individual funds through the longevity analysis and in setting the mortality assumptions for the Fund. On balance, we would expect the pandemic to lead to a modest reduction in future improvements in life expectancy.

Therefore, we are comfortable that contributions have been set appropriately to allow for COVID-19, based on the data available. More data will be available at the next formal valuation in 2025 where we will update our analysis. We will also continue to monitor the situation during the intervaluation period.

Appendix 4 Dashboard

GAD Dashboard

2022 funding position - local funding basis		
Funding level (assets/liabilities)	%	96.3%
Funding level (change since previous valuation)	%	4.0%
Asset value used at the valuation	£m	3,637
Value of liabilities (including McCloud liability)	£m	3,778
Surplus (deficit)	£m	-141
Discount rate – past service	% pa	4.9%
Discount rate – future service	% pa	4.9%
Assumed pension increases (CPI)	% pa	3.0%
Method of derivation of discount rate, plus any changes since previous valuation		In line with the Funding Strategy Statement
Assumed life expectancies at age 65		
Life expectancy for current pensioners – men age 65	years	22.09
Life expectancy for current pensioners – women age 65	years	24.15
Life expectancy for future pensioners – men age 45	years	23.37
Life expectancy for future pensioners – women age 45	years	25.58
Past service funding position - SAB basis (for comparison purposes only)		
Market value of assets	£m	3,704
Value of liabilities	£m	3,783
Funding level on SAB basis (assets/liabilities)	%	97.9%
Funding level on SAB basis (change since last valuation)	%	1.7%

GAD Dashboard

Contribution rates payable		**2019 Valuation**	**2022 Valuation**
Primary contribution rate	% of pay	17.7%	19.1%
Secondary contribution rate (cash amounts in each year in line with CIPFA guidance)	£m		
Secondary contribution rate - 1st year of rates and adjustment certificate	£m	17.85	14.58
Secondary contribution rate - 2nd year of rates and adjustment certificate	£m	18.94	15.80
Secondary contribution rate - 3rd year of rates and adjustment certificate	£m	20.98	17.08
Giving total expected contributions			
Total expected contributions - 1st year of rates and adjustment certificate (£ figure based on assumed payroll)	£m	96.25	103.74
Total expected contributions - 2nd year of rates and adjustment certificate (£ figure based on assumed payroll)	£m	100.19	108.49
Total expected contributions - 3rd year of rates and adjustment certificate (£ figure based on assumed payroll)	£m	105.20	113.46
Assumed payroll (cash amounts in each year)			
Total assumed payroll - 1st year of rates and adjustment certificate (£m)	£m	442.93	465.61
Total assumed payroll - 2nd year of rates and adjustment certificate (£m)	£m	459.08	484.14
Total assumed payroll - 3rd year of rates and adjustment certificate (£m)	£m	475.82	503.40
3-year average total employer contribution rate	% of pay	21.9%	22.4%
Average employee contribution rate (% of pay)	% of pay	6.4%	6.4%
Employee contribution rate (£ figure based on assumed payroll of £m)	£m pa	28.35	29.80

Deficit recovery and surplus spreading plan		**2019 Valuation**	**2022 Valuation**
Latest deficit recovery period end date, where this methodology is used by the fund's actuarial advisor	Year	2039	2039
Earliest surplus spreading period end date, where this methodology is used by the fund's actuarial advisor	Year	2023	2026
The time horizon end date, where this methodology is used by the fund's actuarial advisor	Year	n/a	n/a
The funding plan's likelihood of success, where this methodology is used by the fund's actuarial advisor	Year	n/a	n/a
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	%	0%	0%

Additional information		
Percentage of total liabilities that are in respect of Tier 3 employers	%	11.4%
Included climate change analysis/comments in the 2022 valuation report	Yes/No	Yes
Value of McCloud liability in the 2022 valuation report (on the local funding basis)	£m	21

Appendix 5 Rates and Adjustments Certificate

Regulatory background

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2023 to 31 March 2026.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments Certificate are detailed in the Funding Strategy Statement and our report on the actuarial valuation dated 03 April 2023.

The primary rate of contribution as defined by Regulation 62(5) for each employer for the period 1 April 2023 to 31 March 2026 is set out in the table overleaf. The primary rate is the employer's contribution towards the cost of benefits accruing in each of the three years beginning 1 April 2023. In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Primary and secondary rate summary

The primary rate for the Fund is the weighted average (by payroll) of the individual employers' primary rates and is 19.1% p.a. of payroll.

The secondary rates across the entire Fund (as a percentage of projected Pensionable Pay and as a monetary amount) in each of the three years in the period 1 April 2023 to 31 March 2026 is set out in the table below.

Secondary contributions	2023/24	2024/25	2025/26
Total as a % of payroll	3.1%	3.3%	3.4%
Equivalent to total monetary amounts of	£14,584,490	£15,797,114	£17,077,749

These amounts reflect the individual employers' deficit recovery plans.

Dorset County Pension Fund
Funding Strategy Statement

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Introduction

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

This statement 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 Department for Levelling Up, Housing and Communities (DLUHC).

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 2022. The results of the 2022 valuation are set out in the table below:

2022 valuation results	
Surplus (Deficit)	(£141m)
Funding level	96%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 19.1% 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 2022 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. A deduction of 0.3% p.a. is applied to the yield at the 20 year point to reflect the shape of the yield curve. A further deduction of 0.3% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

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. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030.

Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is 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 2022 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 2022 valuation is set out in the table below:

Financial assumptions as at 31 March 2022	
CPI inflation	3.0% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.9% 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 2022 valuation report.

McCloud/Sargeant judgments

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on over the course of 2023 with revised Regulations effective from October 2023.

For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating the value of members' liabilities it was assumed that:

- The current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner);
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and
- The underpin will consider when members take their benefit.

Further details of the McCloud/Sergeant judgment can be found below in the Regulatory risks section.

Guaranteed Minimum Pension (GMP) indexation and equalisation

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

The 2022 valuation approach 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, 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 16 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 2022 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 2022 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

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 will 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 will be sought from the Fund Actuary.

Funding pools will 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. In general, 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 2022 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

Contribution payments

Employers pay contributions on a monthly basis. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. Monetary amounts are payable in 12 equal monthly instalments throughout the relevant year.

No discount will be offered in exchange for early payment of either primary or secondary contributions.

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 2022 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.

For example, if the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

Alternatively, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities may be assessed on a basis more prudent than the ongoing funding basis. The assumptions adopted will be consistent with the current ongoing funding position, but with additional prudence included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The appropriate level of prudence on this basis was last reviewed as part of the Fund's 2022 valuation, when a stochastic analysis was used to assess the "success probabilities" of certain levels of prudence. The Fund's approach is to target a 90% success probability that an exiting employer's assets plus the calculated exit payment/exit credit will be sufficient to meet the residual liabilities. This corresponds to a 3.8% prudence adjustment in the discount rate assumption. This adjustment will be reviewed on a regular basis, and as a minimum as part of each actuarial valuation of the Fund.

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.

Town and Parish Councils

A Town or Parish Council in the Fund will participate in the Fund as part of the Small Scheduled Bodies funding pool.

When a Town or Parish Council becomes an exiting employer, the exit valuation will generally be carried out by the Fund Actuary on an ongoing funding basis and the residual assets and liabilities in respect of the Town or Parish Council will remain in the Small Scheduled Bodies funding pool. Circumstances may arise where this approach is not appropriate and these will be revised on a case by case basis.

A Town or Parish Council may defer their exit if the last member leaves the Fund but the Town or Parish Council is intending to offer the scheme to a new employee within the next three years. This will be in agreement with the Fund, and any suspension period will be time-limited and at the discretion of the Fund.

Exit credits

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

Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.
- As detailed above, the Fund Actuary may adopt differing approaches depending on the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the

administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.

- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

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 three 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.

Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement.

As part of the 2022 valuation, the Fund Actuary provided the Fund with a climate risk analysis which assessed the potential exposure of the Fund's funding position to climate risk under different climate scenarios. The principles behind the analysis were agreed with the Government Actuary's Department (GAD).

The results of this analysis demonstrated that the funding strategy agreed as part of the 2022 valuation was sufficiently robust in the context of climate scenario analysis and any potential contribution impacts.

The Fund will continue to assess this risk on a regular basis.

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 judgments and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgments

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgment but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

Cost control mechanism

As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

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 proposals for flexibility on exit payments and for further policy changes to exit credits have been finalised, however, are still to be finalised for the remaining three proposals. 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 then 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. The 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.

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 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

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 2025.

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

CBRE Investment Management

83 Clerkenwell Road, London EC1

Q1 Report

Dorset County Pension Fund

2023

Executive summary

Dorset County Pension Fund ("DCPF") 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 8% of DCPF's total assets[1], which currently 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.

OVERVIEW

£264.9m	32
Capital value (Combined DCPF portfolio)	Assets

	Conventional	**SLI**
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly Universe over five years	LPI +2% per annum
Capital Value (Q1 2023)	£219.5m (83%)	£45.4m (17%)
Number of assets	22	10
Target portfolio size	£180m[2]	£120m
Value of purchases during quarter	-	-
Value of sales during quarter	£2.0m	-
Net initial yield (p.a.)	4.1%	4.5%
Average unexpired lease term (to break)	10.9 years (9.1 years)	59.8 years (17.7 years)

Combined Valuation	
Direct Property (Q1 2023 values)	£245.9m
Indirect Assets (Q1 2023 values)	£19.0m
TOTAL PORTFOLIO VALUATION	**£264.9m**

Performance[3]	Conventional	SLI	Combined	MSCI Quarterly Universe
Q1 2023	2.9%	0.9%	2.5%	0.1%
12 months	-12.2%	-8.2%	-11.6%	-12.6%
3 yrs p.a.	2.3%	1.6%	2.3%	1.9%
5 yrs p.a.	2.2%	2.7%	2.3%	1.9%
7 yrs p.a.	3.7%	4.7%	3.8%	3.4%
10 yrs p.a.	7.0%	-	7.0%	6.5%

[1] Based on Dorset County Pension Fund's total asset value as at the end of March 2022 (£3.7bn).
[2] The Conventional portfolio includes SLI assets (c.12%), therefore the total SLI allocation will be 50%.
[3] Conventional, Combined, and SLI are nominal returns. The SLI portfolio's real returns are: Q1 2023: -1.0%; 12 months to March 2023: -13.2%; 3 years: -2.2% p.a.; 5 years: -0.6% p.a.; 7 years: 1.4% p.a. RPI, the underlying index of LPI, was 1.9% as at Q1 2023. LPI was 5.0%, 3.8%, 3.3% and 3.3% over 12-months, 3-years, 5-years, and 7-years, respectively.

Economic and property update

- The UK economy has remained stable over the past six months., with GDP growth of 0.1% in Q4 2022 and mildly positive growth forecast for Q1 2023. Inflation is beginning to decline, recording 10.1% in March down from 10.4% in February. Monetary policy was tightened further in May 2023, with interest rates now at 4.5% and expected to remain at this level until 2024.

- Capital value growth turned positive after eight consecutive months of decline as outward yield expansion slowed significantly, with growth of 0.8% and 0.7% recorded in the retail and industrial sectors, respectively. There is growing evidence that since the start of 2023, yields in some parts of the market have either stabilised or started to move in, reflecting the possibility of an overshoot in negative investor sentiment.

- To date, there has been limited impact on the occupier side, with rental growth remaining resilient, particularly in sectors underpinned by structural and demographic trends such as logistics and residential.

- In the short term, rapid repricing and a drying up of cheap credit will produce opportunities, as will the potential for yields to overshoot at the market or asset level. Industrial and residential are forecast to outperform the wider market, with total returns averaging 7.1% and 7.0% p.a., respectively, over the five-year forecast period.

- Total returns are forecast to average 6.1% per annum over the five-year period (up from 5.3% in our previous forecast), accelerating from 2024 onwards to an average of 6.9% per annum in the last four years of our forecast period.

Conventional portfolio

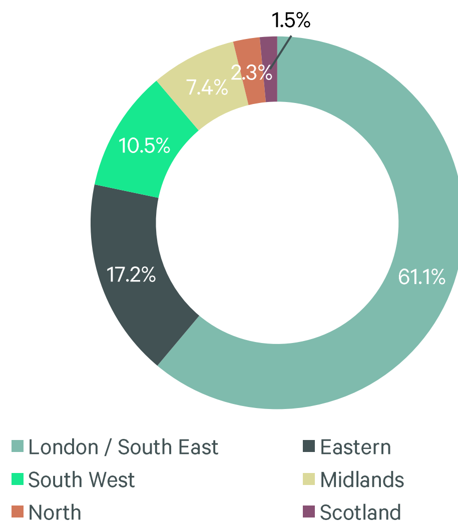
Portfolio information

KEY STATISTICS

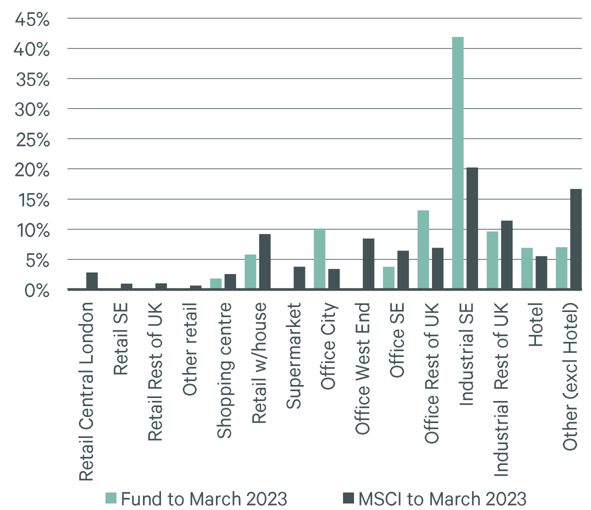
£200.5m Direct market value	**£19.0m** Indirect market value	**£219.5m** Total Conventional portfolio market value
22 (£10.6m) No. of assets (direct avg. value)	**72 (£2.8m)** No. of lettable units (direct avg. value)	**14.6% (8.1%)** Vacancy rate (MSCI Quarterly Universe)
10.9 yrs (9.1 yrs) Avg. unexpired direct lease term (to break)	**4.1%** Direct net initial yield (p.a.)	**9.1%** % of income direct RPI / index linked
16.4% Rent with +10 years remaining (% of direct rent)	**11.7%** Rent with +15 years remaining (% of direct rent)	

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

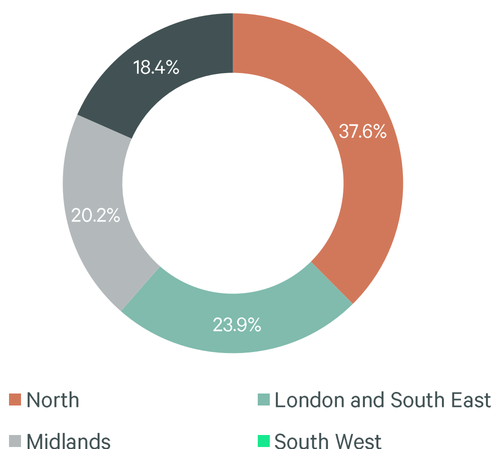
Portfolio information

KEY STATISTICS

£45.4m Direct market value	**£0.0m** Indirect market value	**£45.4m** Total SLI portfolio market value
10 (£4.5m) No. of assets (avg. value)	**14 (£3.2m)** No. of lettable units (avg. value)[4]	**0%** Vacancy rate (% ERV)
59.8 yrs (17.7 yrs) Avg. unexpired lease term (to break)	**4.5%** Net initial yield (p.a.)	**79.4%** % of income index linked
62.2% Rent with >15 years remaining (% of contracted rent)		

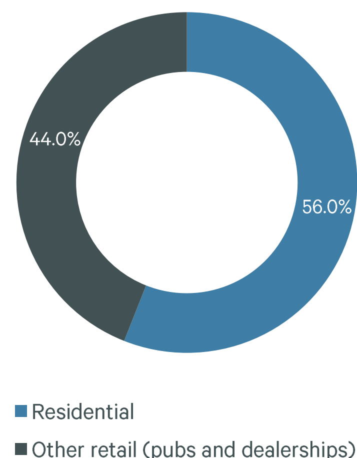
GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown (% of total value)



North
London and South East
Midlands
South West

Sector breakdown (% of total value)



Residential
Other retail (pubs and dealerships)

[4] Assumes each residential portfolio is treated as a single lettable unit.

Environmental, social, governance

DCPF’s ESG performance

Sustainability is fundamental to CBRE Investment Management’s (the “Firm”) value proposition where we seek to deliver sustainable investment solutions across real asset investing so that our clients, people and communities thrive.

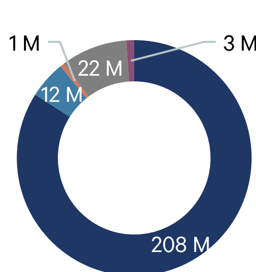
Key actions completed in Q1 2023

Action	Outcome	Compliance	Transparency	Carbon
BREEAM In Use 2023 Assessments	The portfolio has proposed three BREEAM In Use assessment(s) to be undertaken in 2023.	x	x	
Tenant Satisfaction Survey	The portfolio successfully completed a GRESB aligned tenant satisfaction survey.		x	
CRM Data Collection	The 2022 annual data collection process has begun, with data requests being sent out to CRM contacts to provide 2022 data.		x	x
Proptech Data Collection	The enhanced proptech enabled data collection process targeting increased energy, water and waste data coverage in 2023 has begun, with tenant contact details being requested from PMs required for LOAs.		x	x
EPC	The portfolio ordered two MEES Asset Builder assessments.	x		

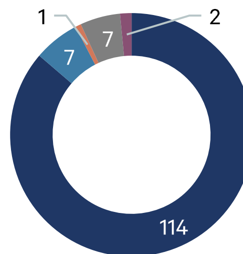
COMPLIANCE

A key part of the ESG strategy is the Energy Performance Risk Mitigation Program, where we seek to improve the sustainability performance of assets through improving the Energy Performance Certificate ratings. We have updated our approach to EPC risk to remove the distinction between “Short-Term” and “Long-Term” High Risk as the 1st April 2023 compliance date for “F” and “G” ratings on existing leases has passed. Units are included in the “High Risk” category if the “F” or “G” rating is draft, expired or lodged. The status of the EPC is explained in the EPC appendix at the end of this ESG update. We expect to further update the definitions to respond to the expected EPC B by 2030 MEES requirements in England & Wales in the coming quarters.

EPC risk by value (m)



EPC risk by unit



MEES Risk Rating	Key	Criteria
High	■	F or G rated valid EPC
Medium	■	E rated valid EPC
Low	■	A+ to D rated valid EP
Exempt	■	MEES regulation exem
Unknown	■	Inaccurate or missing

Action	Medium risk	High risk
High quality or modelled EPC	3	0
Action at lease end	3	0
Refurbishment	1	1
Planned redevelopment or considering sale	0	0
Review tenant fitout	0	0

Green leases

Green leases support us in protecting the portfolio from future environmental risks, reflecting market practice and improving the sustainability credentials of the portfolios. We group our green lease clauses into three categories:

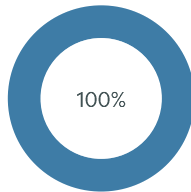
EPC compliance: clauses which support our compliance pillar, particularly with regard to EPCs

Data sharing: clauses which support the sharing of ESG data for reporting and facilitate performance improvement

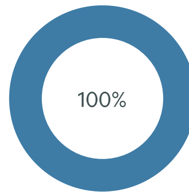
Collaboration: clauses in which we agree with the tenant to collaborate to improve a building's ESG performance.

% of leases completed since January 2019 incorporating green lease clauses

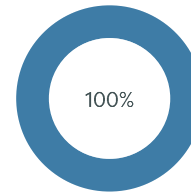
EPC Compliance



Data sharing

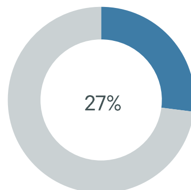


Collaboration

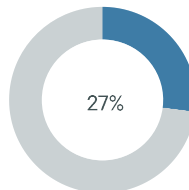


% of all portfolio leases which incorporate green lease clauses

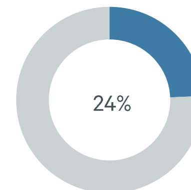
EPC Compliance



Data sharing



Collaboration



■ Green leases clause present in lease

Green lease tracking	
% of portfolio with a green lease tracker (excluding vacant units)	96%
Trackers received since Q1 2019	16
New trackers received in Q1 2023	0

TRANSPARENCY

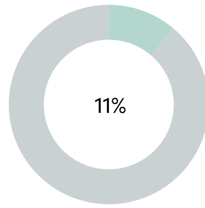
Building certification strategy

CBRE Investment Management aim to acquire or forward fund buildings with certifications. Green Building Certifications are important for the Fund's GRESB Performance in the short term and achievement of its ESG Vision in the long term. Specifically, Green Building Certifications account for 10.5% of the GRESB Standing Investment score and by instructing new or renewing certifications, the portfolio aims to outperform the peer group in this category.

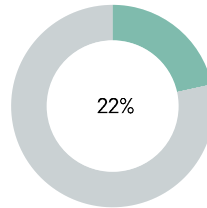
Property	Certification type	Rating	Status
Woolborough Lane Industrial Estate, Crawley - (Unit A)	BREEAM Refurbishment	Very Good	Submitted

% Portfolio with a Building Certification (By Value)

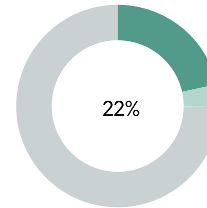
2021 performance



2022 performance



2023 performance



The percentage given in the 2023 chart includes completed certifications only. The "in progress certifications" will increase coverage by a further four percentage points.

STAR STANDARDS

The Star Standards is a bespoke rating system that has been developed by CBRE ESG Consultancy to drive and track sustainable improvements delivered during refurbishment works. All refurbishments undertaking the Star Standard will seek to improve their operational performance, portfolio level targets and GRESB reporting potential. Refurbishments will be assessed against the Star Standards and awarded a rating once all the sustainability improvements have been evidenced. Embedding the Star Standards into refurbishment projects will improve their operational performance, portfolio level targets and GRESB reporting potential. The Star Standards methodology and guidance is currently being updated within the house team to ensure relevance with current best practice and potential incoming regulations changes.

Refurbs completed to Star Standards

		2021	2022	2023
★★★	Beyond best practice	0	2	0
★★	Best practice	0	0	0
★	Good practice	0	0	0
	Star Standards Lite – Small Projects	0	0	0

Asset	Unit	Targeted Star Standard	Estimated completion date	Project Notes
Units 10, Euroway Industrial Estate	Unit 10	1*	Jan 2023	Awaiting final EPC
Unit C1-C4, Woolborough, Crawley	Unit C1-C4	3*	Est. Q4 2023	Works yet to start on site

CARBON

Carbon emission figures are being prepared to be reported in a standalone annual report in line with Streamlined Energy and Carbon Reporting requirements within the 2022 Annual ESG Report. The portfolio's 2022 Annual ESG Report will be issued using data assured to AA1000AS, as it is taken from the portfolio's GRESB 2022 submission, which required a stringent third-party assurance process.

Furthermore, 2022 data is currently being collected via CRM data requests and enhanced proptech enabled data collection methods. Landlord energy data is also being reviewed and analysed on the funds data management system (Measurabl), in order to flag and address any discrepancies. This data is due to be assured and submitted as part of the annual GRESB Report in July 2023 as per normal practice. Once this process has been completed, full information on the fund's 2022 GHG emissions will then become available once the results have been received in October 2023.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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Agenda Item 15

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