Pension Fund Committee

8 September 2026

Pension Fund Investments

For Decision

Local Councillor(s): All

Senior Leadership Team:
S Cremer, Corporate Director, Section 151 Officer

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Statutory Authority: Dorset Council

Report status: Public (the exemption paragraph is N/A)

Executive summary (maximum of 500 words)

The estimated value of the pension fund's assets at 30 June 2026 was £4,872m compared to £4,537m at the start of the financial year, an increase of £335m.

The total return from the pension fund's investments over the quarter to 30 June 2026 was 7.6%, compared to the combined benchmark return of 9.2% and the average Local Government Pension Scheme (LGPS) return of 6.9%. The total return for the 12 months to 30 June 2026 was 16.4% compared to the benchmark return of 21.1% and average LGPS return of 13.8%.

Over the longer term, annualised returns for the three years to 30 June were 11.5% compared to the benchmark return of 14.4% and average LGPS return of 9.6%, and for five years were 6.9% compared to the benchmark of 9.4% and average LGPS return of 6.9%.

Equity markets recovered sharply from the volatility of the previous quarter, driven largely by the large technology and semi-conductor companies but concerns remain that an Artificial Intelligence (AI) 'bubble' is developing. The quarter also benefited from a de-escalation of tensions in the Middle East. Talks have subsequently broken down and the conflict continues to disrupt global energy supplies with adverse implications for inflation and interest rate expectations.

Recommendation(s):

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

Reason for the recommendation(s):

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.

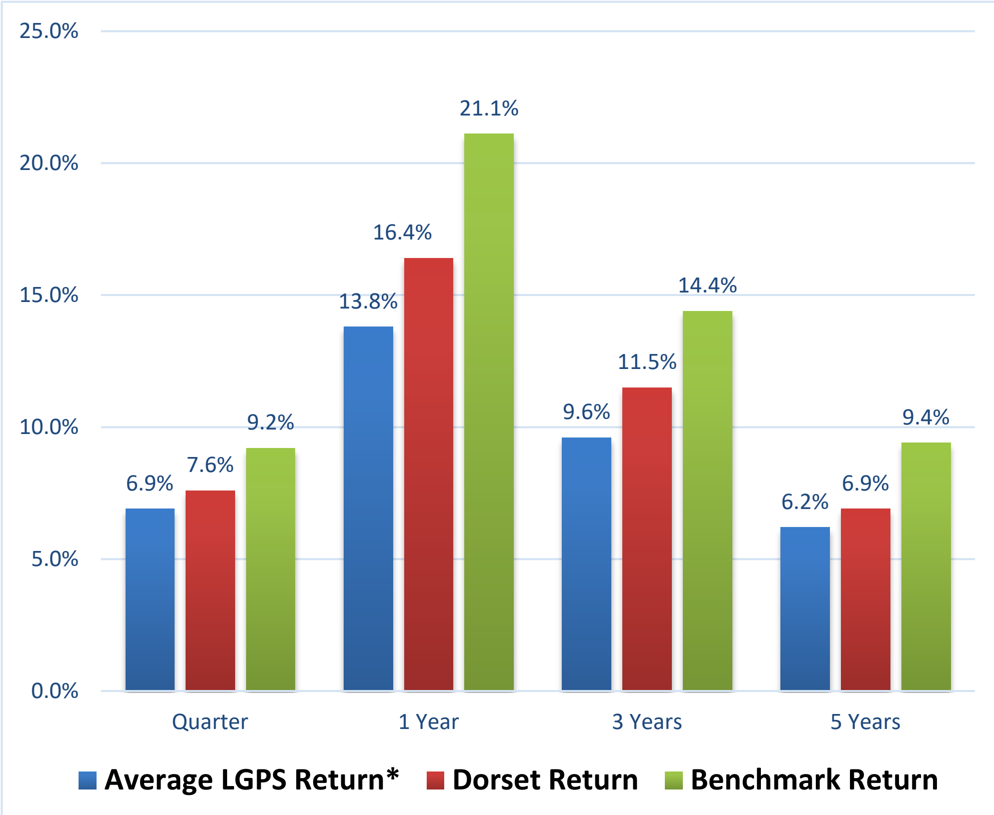
1. Asset Valuation Summary

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 30 June 2026, compared with the target asset allocation agreed by the Committee March 2026. (Target asset allocations will be reviewed be as part of the overall review of the pension fund's investment strategy due to conclude March 2027.)

	31-Mar-26		30-Jun-26		Target		Tolerance
Asset Class	**£M**	**%**	**£M**	**%**	**£M**	**%**	**%**
Listed Equity	2,777.4	61.2%	2,865.7	58.8%	2,679.8	55.0%	45-65%
Listed Credit	591.7	13.0%	598.6	12.3%	633.4	13.0%	9-17%
Private Equity	153.1	3.4%	154.3	3.2%	243.6	5.0%	2-8%
Private Credit	-	-	-	-	-	-	-
Property / Real Estate	289.2	6.4%	289.8	5.9%	438.5	9.0%	4-14%
Infrastructure	340.6	7.5%	331.1	6.8%	389.8	8.0%	4-12%
UK Government Bonds	-	0.0%	451.8	9.3%	438.5	9.0%	0-12%
Other Alternatives (DRF)	293.8	6.5%	-	0.0%	-	0.0%	0-10%
Cash	91.0	2.0%	181.1	3.7%	48.7	1.0%	0-5%
Total	**4,536.8**	**100.0%**	**4,872.4**	**100.0%**	**4,872.4**	**100.0%**	

2. Investment Performance Summary

2.1 The overall performance of the pension fund's investments to 30 June 2026 is summarised below (returns for three and five years are annualised figures).



*The average LGPS return is estimated by Pensions & Investment Research Consultants (PIRC) based on 63 participating LGPS funds with a combined asset value of approximately £300bn.

2.2 Appendix 1 summarises by investment manager and investment vehicle the value of Assets Under Management (AUM) as at 30 June 2026 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

3. Economic and Market Background

3.1 In the quarter to the end of June 20226, equity markets recovered sharply from the volatility of the previous quarter, driven largely by the large technology and semi-conductor companies. Concerns remain that an Artificial Intelligence (AI) 'bubble' is developing in US technology stocks and that sufficient returns to justify valuations may not materialise from the billions being invested.

3.2 The quarter also benefited from a significant de-escalation of tensions in the Middle East. Talks between the US and Iran have subsequently broken down, and the conflict continues to disrupt global energy supplies which is likely to feed through into higher inflation, although the duration and magnitude of the impact remain uncertain. The consequences are therefore also being felt in monetary policy expectations as central banks hold off from continuing to reduce interest rates until inflationary pressures become clearer.

3.3 Further information relating to the economic and market background relevant to the pension fund's investments can be found in the independent investment adviser's quarterly report (Appendix 2) and in LPPI's quarterly report (Appendix 3).

4. Investment Pooling

4.1 In accordance with the requirements of the Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026, Dorset participates with eight other LGPS funds to pool investment assets through Local Pensions Partnership Investments (LPPI). LPPI is wholly owned in equal shares by the nine administering authorities that participate in the pool and is authorised by the Financial Conduct Authority (FCA).

4.2 LPPI's performance report for the quarter ending 30 June 2026 is included as Appendix 3 to this report. This report includes market summaries from LPPI's investment officers and an overall performance summary for the pension fund, together with more detailed information in relation to Dorset's assets under LPPI's management.

5. Pension Fund Budget 2026/27

5.1 Forecast outturn against the Pension Fund Budget 2026/27 approved by the Committee is summarised below:

FUND ACCOUNT	2024/25 Actual £000s	2025/26 Actual £000s	2026/27 Budget £000s	2026/27 Forecast £000s
Dealings with members, employers and others directly involved in the Fund				
Employer contributions	138,248	136,925	139,000	139,000
Member contributions	36,372	38,106	40,000	40,000
Total contributions	**174,620**	**175,031**	**179,000**	**179,000**
Transfers in from other pension funds	22,951	18,485	20,000	20,000
Total additions from dealing with members etc	**197,571**	**193,516**	**199,000**	**199,000**
Pensions	-147,340	-155,195	-161,000	-161,000
Commutation and lump sum retirement benefits	-31,218	-29,550	-30,000	-30,000
Lump sum death benefits	-3,272	-4,774	-5,000	-5,000
Total benefits	**-181,830**	**-189,519**	**-196,000**	**-196,000**
Refunds of contributions	-508	-620	-1,000	-1,000
Transfers to other pension funds	-27,123	-18,693	-20,000	-20,000
Total payments to and on account of leavers	**-27,631**	**-19,313**	**-21,000**	**-21,000**
Net additions/(withdrawals) from dealings with members and others	**-11,890**	**-15,316**	**-18,000**	**-18,000**
Management expenses*	-22,204	-26,785	-28,000	-29,000
Investment income	21,937	23,153	24,000	24,000
Net additions/(withdrawals) from the Fund	**-12,157**	**-18,948**	**-22,000**	**-23,000**

5.2 *Management expenses are expected to increase broadly in line with asset values and the forecast outturn is based on returns to date, which have exceeded budget assumptions. The outturn for all other income and expenditure is currently expected to be broadly in line with budget.

6. Legal considerations

6.1 None identified.

7. Financial implications

7.1 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.

7.2 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.

7.3 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.

7.4 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.

7.5 In September 2024 the LGPS Scheme Advisory Board (SAB) published a statement making clear that that “when decision makers exercise their LGPS investment responsibilities, the primary purpose must be to achieve the required returns in an appropriately risk-managed way to pay pensions when they become due, minimising the need for additional funding in the future.”

7.6 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 2025 were that the pension fund had a funding level of 98% i.e. assets were estimated to be 98% 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 96% at the last valuation as at 31 March 2022.

8. Natural environment, climate & ecology implications

8.1 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.

8.2 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.

8.3 Significant decarbonisation has been and will continue to be achieved through the transition of assets to the management of Brunel (and now

LPPI). Approximately 10% of the pension fund's assets are invested in a global sustainable equities fund, with all other actively managed former Brunel funds committed to a policy of a 7% year on year reduction in their carbon footprint.

8.3 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 30 June 2025, 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 £79M (1.8% of total investment assets).

9. Well-being and health implications

9.1 None identified.

10. Other implications

10.1 None identified.

11. Risk implications

11.1 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

12.1 There are no equalities implications arising from this report.

13. Appendices

Appendix 1: Performance summary by investment manager
Appendix 2: Independent Investment Adviser's quarterly report
Appendix 3: LPPI's quarterly report

14. Background papers

Funding Strategy Statement | Dorset Pension Fund
Investment Strategy Statement | Dorset Pension Fund
Dorset County Pension Fund Holdings Report 30 June 2025 | Dorset Pension Fund

[Dorset County Pension Fund to join new investment pool | Dorset Pension Fund]
[LGPS Scheme Advisory Board - Home]

Appendix 1

Performance by Investment Manager

The following tables summarise by investment manager and investment vehicle the value of Assets Under Management (AUM) as at 30 June 2026 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.

Local Pensions Partnership Investments

Investment	AUM	Qtr	1 Yr	3 Yr	5 Yr	SII
	£m	%	%	%	%	%
Global Equities:						
LPPI Global Equities Fund II	**463.6**	11.3	-	-	-	11.3
MSCI AC World GBP Index		13.5	-	-	-	13.5
Excess		-2.2	-	-	-	-2.2
LPPI Global High Alpha Equity	**323.9**	10.4	-	-	-	10.4
MSCI World TR Index		12.7	-	-	-	12.7
Excess		-2.3	-	-	-	-2.3
LPPI Smaller Companies Equities	**339.9**	13.7	-	-	-	13.7
MSCI World Small Cap		13.7	-	-	-	13.7
Excess		0.0	-	-	-	0.0
LGIM Passive Developed Equities	**150.0**	14.5	28.1	18.5	12.9	13.5
FTSE World Developed		14.5	28.2	18.7	13.1	13.6
Excess		0.0	-0.1	-0.2	-0.2	-0.1
LGIM Passive Dev. Equities (Hedged)	**163.0**	15.5	26.1	20.6	12.7	14.2
FTSE World Developed Hedged		15.5	26.5	20.9	12.9	14.4
Excess		0.0	-0.4	-0.3	-0.2	-0.2
LPPI Low Volatility Global Equity	**378.1**	7.5	-	-	-	7.5
MSCI AC World Index		13.5	-	-	-	13.5
Excess		-6.0	-	-	-	-6.0

Investment	AUM	Qtr	1 Yr	3 Yr	5 Yr	SII
	£m	%	%	%	%	%
LGIM Passive Smart Beta	**222.6**	7.3	22.4	13.9	10.4	10.1
SciBeta Multifactor Composite		7.1	21.8	13.4	9.8	9.6
Excess		0.2	0.6	0.5	0.6	0.5
LGIM Passive Smart Beta (Hedged)	**235.3**	8.3	20.4	15.9	10.1	10.2
SciBeta Multifactor Hedged Composite		8.1	19.8	15.3	9.6	9.8
Excess		0.2	0.6	0.6	0.5	0.4
UK Equities:						
LGIM Passive UK Equities	**333.9**	4.7	21.9	15.3	11.0	7.5
FTSE All Share		4.7	21.9	15.3	10.9	7.4
Excess		0.0	0.0	0.0	0.1	0.1
Fixed Income:						
Brunel Multi Asset Credit	**317.0**	2.4	5.6	8.8	4.5	4.5
SONIA + 4%		1.9	8.1	8.8	7.6	7.6
Excess		0.5	-2.5	0.0	-3.1	-3.1
Brunel Sterling Corporate Bonds	**290.6**	2.9	5.9	8.2	-	6.3
iBoxx Sterling Non Gilts Overall Return		2.6	4.3	6.4	-	4.7
Excess		0.3	1.6	1.8	-	1.6
Other:						
Private Markets:						
Brunel Private Equity Cycle 1	**62.8**	2.8	16.7	9.1	16.0	17.4
MSCI AC World Index		14.3	28.2	18.5	12.4	13.9
Excess		-11.5	-11.5	-9.4	3.6	3.5
Brunel Private Equity Cycle 3	**29.2**	4.5	9.2	9.5	-	9.3
MSCI AC World Index		14.3	28.2	18.5	-	18.7
Excess		-9.8	-19.0	-9.0	-	-9.4
Brunel Private Equity Cycle 4	**9.3**	4.4	12.4	-	-	14.9
MSCI AC World Index		14.3	28.2	-	-	18.4
Excess		-9.9	-15.8	-	-	-3.5
Greencoat GRI - All Cycles	**24.4**	0.0	-2.0	-1.3	3.8	3.7
CPI		1.1	2.6	2.7	5.1	4.1
Excess		-1.1	-4.6	-4.0	-1.3	-0.4
Brunel Infrastructure Cycle 3	**50.6**	7.3	11.1	8.6	-	6.5
CPI		1.1	2.6	2.7	-	3.9
Excess		6.2	8.5	5.9	-	2.6
M & G Secured - All Cycles	**31.9**	2.5	8.6	5.7	0.4	1.0
CPI		1.1	2.6	2.7	5.1	5.0
Excess		1.4	6.0	3.0	-4.7	-4.0
Aberdeen Life Long Lease - All Cycles	**29.8**	-0.2	5.0	0.8	-1.8	0.5
CPI		1.1	2.6	2.7	5.1	3.9
Excess		-1.3	2.4	-1.9	-6.9	-3.4

Other Managers

Manager / Investment	AUM	Qtr	1 Yr	3 Yr	5 Yr	SII
	£m	%	%	%	%	%
CBRE / Property	**228.1**	1.3	6.3	4.3	3.2	6.5
MSCI UK All Properties (Quarterly)		1.3	5.4	3.5	2.9	6.2
Excess		0.0	0.9	0.8	0.3	0.3
HarbourVest / Private Equity	**50.3**	-0.6	14.6	4.4	6.8	12.1
FTSE All Share		4.7	21.9	15.3	10.9	6.8
Excess		-5.3	-7.3	-10.9	-4.1	5.3
Patria / Private Equity	**2.8**	-0.7	2.0	-6.0	4.0	3.7
FTSE All Share		4.7	21.9	15.3	10.9	7.1
Excess		-5.4	-19.9	-21.3	-6.9	-3.4
Federated Hermes / Infrastructure	**66.3**	-3.2	2.1	-2.0	1.9	4.5
10% Absolute Return		2.3	10.0	10.0	10.0	10.0
Excess		-5.5	-7.9	-12.0	-8.1	-5.5
IFM / Infrastructure	**189.8**	-0.6	10.8	6.9	10.5	11.7
10% Absolute Return		2.3	10.0	10.0	10.0	10.0
Excess		-2.9	0.8	-3.1	0.5	1.7