Global ex UK Equities

Dorset County Council Pension Fund

Pictet Asset Management

Quarterly report as at 31 December 2013

Contents

EXECUTIVE SUMMARY

Global stocks enjoyed another positive quarter, led by a rally in the US, where the S&P index hit an all-time high, buoyed by comments from Janet Yellen indicating that the central bank would maintain a dovish monetary stance.

Overall, our policy for the fourth quarter of 2013 delivered a performance below the benchmark. The fund total return was 4.79% compared to an index return of 5.56%. The quarterly relative return was adversely impacted by high cash levels. European stock selection provided a positive contribution to relative returns.

With productive resources in many economies devoted to consumption over investment and with total debt levels little changed from the crisis years of 2007 and 2008, the outlook for global growth is very poor. This outcome is far from that envisaged by most investors, pointing to disappointing equity returns ahead. Against this backdrop, we are maintaining a defensive fund structure.

KEY INFORMATION

Benchmark name	MSCI Composite *
Client reference currency	GBP
Mandate performance start date	31.07.1990
Client market value as of 30.09.2013	370,958,767 GBP
Client market value as of 31.12.2013	387,316,642 GBP
Net cash in/out	-1,371,595 GBP
Relationship manager	Akua Brako-Raja

PERFORMANCE (%)

	Portfolio	Benchmark	Excess return
3M	4.79	5.56	-0.77
YTD	23.37	25.70	-2.33
3Y (annualised)	9.30	9.94	-0.64
5Y (annualised)	11.36	12.26	-0.90
10Y (annualised)	8.46	8.64	-0.18
Since inception (annualised)	7.79	7.97	-0.18

Gross of fees and net of income (TWR)

* Benchmark: FTSE World ex UK (TR) to December 2003; MSCI Composite (50% North America, 25% Japan, 18.75% Europe ex UK; 6.25% Pacific ex Japan) to March 2006; MSCI Composite (36% North America, 32% Japan, 24% Europe ex UK, 8% Pacific ex Japan) to August 2006; MSCI World ex UK to April 2007; MSCI Composite (53% North America, 12% Japan, 29% Europe ex UK, 6% Pacific ex Japan) TR to date.

Source: Pictet Asset Management

1. Market review

Global stocks enjoyed another positive quarter, propelled by a strong rally in the US, where the S&P index hit an all-time high amid signs of a pick-up in the pace of economic growth. Stocks were also buoyed by comments from Janet Yellen, the US government nominee to chair the US Federal Reserve, who told lawmakers that the central bank would maintain its dovish stance on interest rates.

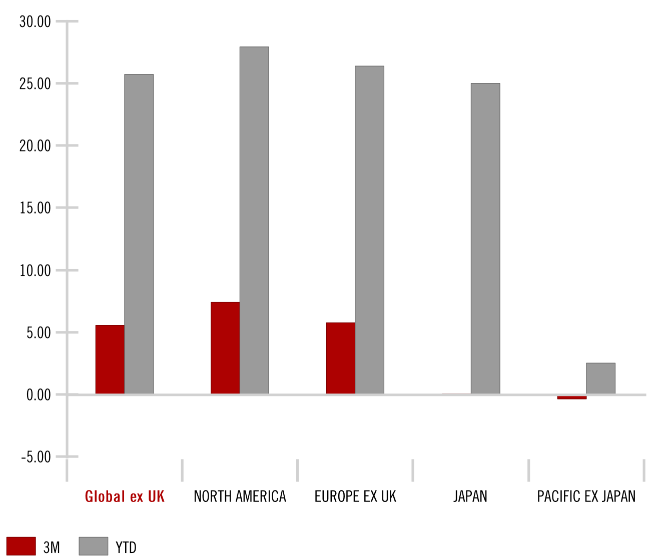
The pattern of returns across industry sectors was not entirely consistent with a risk-on rally – health care stocks – among the most defensive areas of the market – delivered one of the strongest gains during this period. In commodities, gold fell sharply, its defensive attractions losing appeal as investors were swayed by a growing belief that the US economy was firmly on a sustainable recovery trajectory.

The world has enjoyed a thirty year expansion in debt and an accompanying surge in asset prices. Central Banks are desperate to avoid the inevitable hangover, but ultimately the only two possible outcomes from here are a deflationary bust or an equally unpalatable surge in consumer prices. In contrast to this prognosis, a majority of City economists appear to believe that the world can muddle through for years to come.

Rising debt levels can be beneficial for activity if used to support investment in both capital and labour. Since 2000, however, debt has fuelled a series of asset bubbles with no flow through to the real economy. Eventually, of course, it will be impossible for QE fixated investors to ignore the plight of the real economy.

REGIONAL PERFORMANCE (%)

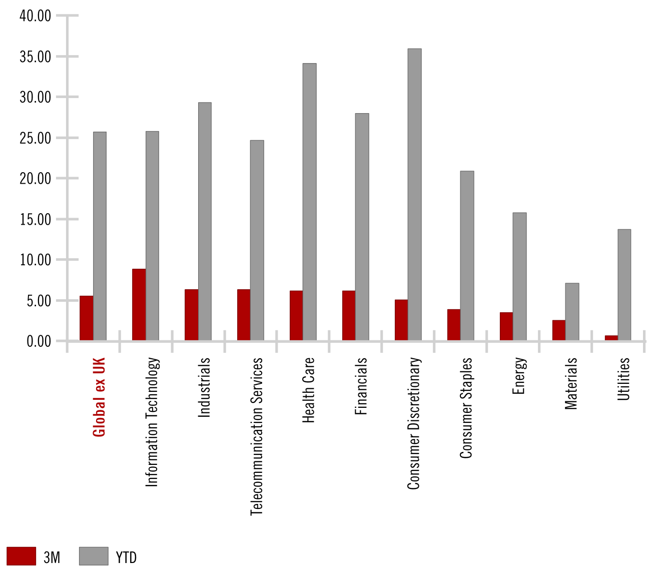
Global ex UK



Source: Pictet Asset Management / FactSet

SECTOR PERFORMANCE (%)

Global ex UK



Source: Pictet Asset Management / FactSet

2. Portfolio performance

2.1 Performance breakdown

MONTHLY PERFORMANCE* (%)

	Portfolio	Benchmark	Excess return
Dec 2013	0.82	0.86	-0.04
Nov 2013	-0.39	-0.09	-0.30
Oct 2013	4.34	4.75	-0.41

Gross of fees and net of income (TWR)

Source: Pictet Asset Management

QUARTERLY PERFORMANCE* (%)

	Portfolio	Benchmark	Excess return
Q4 2013	4.79	5.56	-0.77
Q3 2013	1.05	1.77	-0.72
Q2 2013	1.42	1.55	-0.13
Q1 2013	14.88	15.22	-0.34

Gross of fees and net of income (TWR)

Source: Pictet Asset Management

ANNUALISED PERFORMANCE* (%)

	Portfolio	Benchmark	Excess return
1Y	23.37	25.70	-2.33
3Y	9.30	9.94	-0.64
5Y	11.36	12.26	-0.90
Since inception (annualised)	7.79	7.97	-0.18

Gross of fees and net of income (TWR)

Source: Pictet Asset Management

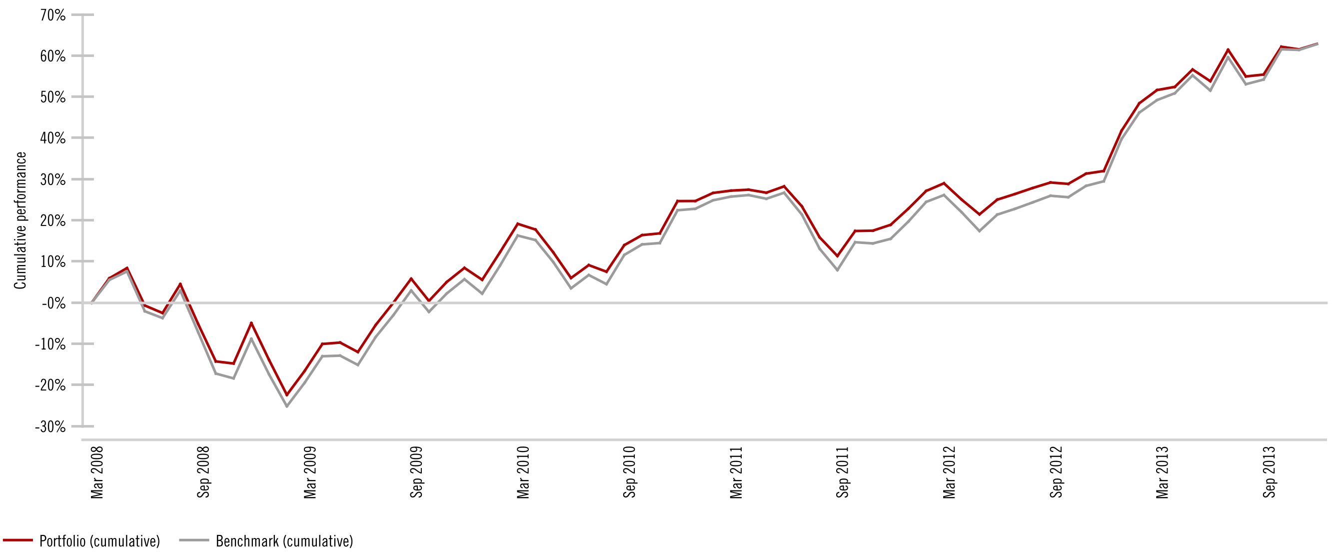
CALENDAR PERFORMANCE* (%)

	Portfolio	Benchmark	Excess return
2013	23.37	25.70	-2.33
2012	10.98	12.08	-1.10
2011	-4.61	-5.66	1.05
2010	14.95	15.83	-0.88

Gross of fees and net of income (TWR)

Source: Pictet Asset Management

PERFORMANCE* (SINCE 31.03.2008)



Gross of fees and net of income (TWR)

* Benchmark: FTSE World ex UK (TR) to December 2003; MSCI Composite (50% North America, 25% Japan, 18.75% Europe ex UK; 6.25% Pacific ex Japan) to March 2006; MSCI Composite (36% North America, 32% Japan, 24% Europe ex UK, 8% Pacific ex Japan) to August 2006; MSCI World ex UK to April 2007; MSCI Composite (53% North America, 12% Japan, 29% Europe ex UK, 6% Pacific ex Japan) TR to date.

Source: Pictet Asset Management

HEDGED OVERALL PERFORMANCE INCLUDING HISTORICAL EMERGING PERFORMANCE** (%)

	Portfolio	Benchmark	Excess return
1M	1.39	0.86	0.53
3M	6.29	5.56	0.73
6M	10.14	7.43	2.71
YTD	26.11	25.70	0.41
1Y	26.11	25.70	0.41
3Y (annualised)	10.08	9.34	0.74
Since inception (annualised)	8.17	9.59	-1.42

Gross of fees and net of income (TWR)

**Benchmark: FTSE World ex UK (TR) to December 2003; MSCI Composite (40% North America, 20% Japan, 15% Europe ex UK; 5% Pacific ex Japan, 20% Emerging Markets) to March 2006; MSCI Composite (27% North America, 24% Japan, 18% Europe ex UK, 6% Pacific ex Japan, 25% Emerging Markets) to August 2006; MSCI Composite (85% World ex UK, 15% Emerging Markets) to April 2007; MSCI Composite (45% North America, 10% Japan, 25% Europe ex UK, 5% Pacific ex Japan, 15% Emerging Markets) to March 2012, MSCI Composite (53% North America, 12% Japan, 29% Europe ex UK, 6% Pacific ex Japan) TR to date.

Source: Pictet Asset Management

2.2 Performance analysis

TOP 5 POSITIVE CONTRIBUTIONS (%)

Q4 2013

	Contribution
Pictet - Euroland Index	0.12
Astaldi S.p.A.	0.05
Adidas AG	0.04
Toyota Motor Corp.	0.04
Amadeus IT Holding SA	0.03

Source: Pictet Asset Management / FactSet

TOP 5 NEGATIVE CONTRIBUTIONS (%)

Q4 2013

	Contribution
[Cash]	-0.98
Pictet - Japan Index	-0.31
Pictet (CH) - Global Equities	-0.14
Pictet - Asian Equities (ex-Japan)	-0.05
TGS-NOPEC Geophysical Company ASA	-0.04

Source: Pictet Asset Management / FactSet

Overall, our policy for the fourth quarter of 2013 delivered a performance below the composite equity benchmark. In these three months the fund delivered a total return of 4.79% compared to an index return of 5.56%. Looking at the quarter in more detail, the fund's quarterly relative return was adversely impacted by above average levels of cash during a period of positive returns. Over the entire turbulent period for markets between end-March 2008 and end-December 2013 the fund has performed in-line with the benchmark, gaining strongly in the equity downswings of 2008 and 2011, but giving relative returns back in the subsequent period of equity strength. Between end-March 2008 and end-December 2013 the total fund delivered an average annual return of 8.84% compared to an average annual index return of 8.83%.

The strongest performing holdings over the quarter were in the more cyclical areas of the market with cyclical stocks such as Toyota performing well, along with high beta index holdings such as the Pictet Euroland Index Fund. In Europe our core holding in Adidas also contributed positively as the market was impressed by an improvement in gross margins and by higher momentum in its key regions.

Cash dominated the list of top negative contributors, unsurprising given that the portfolio held a well above average cash holding during a period of rising share prices. Other detractors from performance were the Pictet Japan Index Fund and the Pictet Swiss Index Fund, low beta index holdings which lagged a sharply rising global market.

GEOGRAPHIC CONTRIBUTION TO PERFORMANCE (%)

Q4 2013

	Asset allocation	Stock selection	Total
NORTH AMERICA	-0.05	0.01	-0.04
EUROPE EX UK	-0.01	0.07	0.06
JAPAN	0.04	0.00	0.03
PACIFIC EX JAPAN	0.13	0.05	0.17
[Cash]	-0.99	0.00	-0.99
Total	**-0.89**	**0.12**	**-0.77**

Performances calculated GROSS of fees in GBP

Source: Pictet Asset Management / FactSet

SECTOR CONTRIBUTION TO PERFORMANCE (%)

Q4 2013

	Asset allocation	Stock selection	Total
Consumer Discretionary	0.02	0.12	0.14
Consumer Staples	0.05	0.01	0.06
Energy	0.02	0.01	0.02
Financials	-0.05	0.07	0.03
Health Care	-0.02	0.12	0.10
Industrials	-0.02	0.15	0.13
Information Technology	-0.05	0.02	-0.04
Materials	0.08	0.04	0.12
Telecommunication Services	-0.01	-0.01	-0.02
Utilities	0.06	-0.01	0.05
[Cash]	-0.98	0.00	-0.98
[Unassigned]	-0.38	0.00	-0.38
Total	**-1.30**	**0.53**	**-0.77**

Performances calculated GROSS of fees in GBP
Unassigned refers predominantly to Pictet Funds

Source: Pictet Asset Management / FactSet

2.3 Portfolio activity

At the regional level the major change was a steady reduction in exposure to Japanese equities. This market has enjoyed a very strong rally in 2013 on the back of the adoption of a loose monetary stance and accompanying sharp fall in the value of the yen. With 2014 likely to be a year of market turbulence and a stronger yen, Japanese equities are likely to fall back. Proceeds from Japan were directed predominantly toward mainland Asia were rising bond yields had pushed equities to attractive valuations in many sectors. After these changes the fund now has a higher relative exposure to mainland Asia than Japan, an unusual situation for this fund.

With regard to cash the steady policy through 2013 has been to gradually reduce US$ exposure and raise Japanese yen exposure. The yen had little value in 2012 but after sharp falls in 2013, courtesy of a rapid expansion in the Japanese monetary base, this currency is now one of the most attractive in the world. We expect to see a rapid appreciation of the yen through 2014 as the global equity bubble at last unwinds.

Activity across individual European stock positions was low, but the quarter did witness several changes in individual Japanese stock holdings. Positions in Nitto Denko and Japan Airlines were sold to zero as price targets were reached and sale proceeds used to purchase Sekisui House, Daiwa House and Lixil, likely beneficiaries of on-going reflationary policies.

3. Portfolio composition

3.1 Active profile

TOP 10 OVERWEIGHT POSITIONS (%)

Company name	Portfolio	Benchmark	Active weight
Roche Holding Sa	1.54	0.96	0.58
Nestle Sa, Cham & Vevey	1.71	1.16	0.56
Adidas Ag	0.62	0.13	0.49
Bnp Paribas Sa	0.79	0.38	0.41
Total Sa	1.03	0.64	0.39
Publicis Groupe Sa	0.45	0.08	0.37
Alfa Laval Ab	0.40	0.04	0.36
Schneider Electric Sa	0.57	0.23	0.34
Deutsche Boerse Ag, Frankfurt	0.39	0.08	0.32
Allianz	0.71	0.40	0.31

Source: Pictet Asset Management

TOP 5 UNDERWEIGHT POSITIONS (%)

Company name	Portfolio	Benchmark	Active weight
Sanofi Sa	0.23	0.62	-0.39
Novo Nordisk A/S	-	0.36	-0.36
Novartis Inc	0.55	0.90	-0.35
Siemens Ag	0.19	0.53	-0.34
BASF	0.17	0.48	-0.30

Source: Pictet Asset Management

PORTFOLIO CHARACTERISTICS

	Portfolio	Benchmark
Number of stocks	857	1,967
Weighted average market cap. (m. ref. ccy)	57,473.79	51,654.91
P/BV	4.04	3.64
P/CF (FY1)	13.49	12.91
P/E (FY1 Est)	18.30	18.29
PEG Ratio	2.08	1.94
Net Debt to Equity (%)	23.00	28.24
Active share* (%)	19.65	-

* A measure of how much of the portfolio is different from the benchmark, expressed as the sum of all absolute active weights divided by two.

Source: Pictet Asset Management / FactSet

ACTIVE SHARE* PROFILE (TOP 10 HIGHLIGHTED)

* Represented graphically by the variation of each portfolio holding from the benchmark in absolute terms.

Source: Pictet Asset Management

3.2 Allocation profile

TOP 10 HOLDINGS (%)

Company name	Portfolio	Benchmark	Active weight
Nestle Sa, Cham & Vevey	1.71	1.16	0.56
Roche Holding Sa	1.54	0.96	0.58
Apple Inc	1.39	1.45	-0.05
Exxon Mobil Corp	1.22	1.26	-0.05
Total Sa	1.03	0.64	0.39
Google Inc	0.84	0.87	-0.03
Microsoft Corp, Redmond, Wa	0.81	0.84	-0.03
Bnp Paribas Sa	0.79	0.38	0.41
General Electric Co	0.78	0.81	-0.03
Toyota Motor Corp	0.75	0.73	0.02

Source: Pictet Asset Management

GEOGRAPHIC PROFILE (%)

	Portfolio	Benchmark	Difference
North America	51.05	52.94	-1.89
Europe Ex UK	26.06	29.02	-2.96
Japan	10.68	12.00	-1.32
Pacific Ex Japan	3.89	6.04	-2.15
Cash & Equivalent	8.31	-	8.31
Total	**100.00**	**100.00**	**0.00**

Source: Pictet Asset Management

SECTOR PROFILE (%)

	Portfolio	Benchmark	Difference
Energy	7.42	8.10	-0.68
Materials	2.99	5.55	-2.57
Industrials	8.96	12.42	-3.46
Consumer Discretionary	9.60	12.96	-3.36
Consumer Staples	6.55	9.45	-2.90
Health Care	8.41	11.38	-2.97
Financials	14.28	20.64	-6.37
Information Technology	11.13	12.71	-1.58
Telecommunication Services	2.03	3.72	-1.68
Utilities	1.80	3.06	-1.26
Cash & Equivalent	8.31	-	8.31
Unassigned Group	18.50	-	18.50
Total	**100.00**	**100.00**	**0.00**

Unassigned Group consists predominantly of Pictet Funds

Source: Pictet Asset Management

4. Market outlook

4.1 Outlook

Policy choices in recent years have been driven by political expediency on the one hand and by a failure to understand the cause of the 2007 and 2008 financial market crisis on the other. Today's accepted wisdoms amongst key policy makers appear to be that Quantitative Easing has worked and that growth across most developed economies has returned to a sustainable upward path. The reality is somewhat different. Debt levels remain very high, savings low and capital expenditure, the lifeblood of long-term economic activity well below average. It is true that growth has recovered, but this rebound has been predominantly consumption driven, a trick achieved through monetary manipulation and financial market distortion. The prognosis for long-term economic growth is very poor and sooner or later financial markets will comprehend that the past upturn in GDP has been at the expense of future demand. Against this backdrop, the outlook for financial markets has rarely been lower.

With a central bank supporting demand, firms have taken a back seat, cutting investment. Such behaviour is of course excellent for near-term profits, but very poor for long-term economic activity and long-term profits. In the early 1970s, US companies invested 15 times as much cash as they distributed to shareholders; in recent years the ratio has dropped back to below two. With executives paid in bonuses linked to their share price there is an obvious incentive to boost short-term share performance over the expense of long-term growth. Corporate executive remuneration packages need to change, but this will not happen while the current policy structure is seen to be succeeding.

All of our work indicates that QE may have boosted the price of financial assets but has done very little for the real economy. The value of financial assets has been boosted by "moral hazard" i.e. the belief that buying equities will be rewarded because Central Banks are targeting asset prices. Sooner or later, however, the reality that long-term growth prospects have rarely been lower will dawn on investors and markets will fall sharply. The elevation in the value of financial assets relative to non-financial assets has produced a huge widening in standards of living between areas with a positive sensitivity to financial assets (London property, Hong Kong property etc.) and other areas with a bias towards the productive sectors of the economy. The ratio between the cost of London property and property in the rest of country has never been wider. This is not a source of strength, but a consequence of on-going monetary manipulation by policymakers. And the divergence within London between the top and bottom quartiles has also widened markedly. Wealth and income distortions are also evident in the US where levels of inequality have reached alarming levels. In 2012 the top 1% accounted for 19.3% of total household income (excluding capital gains), the largest share since 1928. Hardly an encouraging statistic – the S&P Composite fell 86% between its 1929 peak and its 1932 low!

4.2 Strategy

Given our pessimistic long-term outlook for markets the most appropriate asset allocation policy is to structure portfolios defensively, to raise the level of defensive assets in response to market advances and only to buy equities after a substantial and prolonged fall in global share prices. Cash levels were 1½% at the market low point in March 2009, 5½% at the end of 2011 and 8½% at the end of the final quarter of 2013, moving close to the maximum permitted cash exposure of 10% as global equities have risen to levels consistent with very low future returns . As a result of equity sales in 2013, the portfolio is now more defensively positioned than it was before the significant falls in stock markets seen in the second half of 2008.

At the asset level we expect to continue our policy of reducing exposure to high beta, namely Euroland equities, and raising exposure to defensive assets such as low beta Asian stocks and Japanese yen cash. Our individual European share holdings are now low beta on average while our Japanese holdings are also witnessing a steady reduction in cyclical content. Overall then the portfolio remains defensively structured as we move through the early part of 2014.

5. Appendix

5.1 Risk

RISK STATISTICS EX-POST - 3 YEARS

	Portfolio
Volatility (% annualised)	9.97
Tracking error (%)	1.36
Information ratio	-0.43

Source: Pictet Asset Management

5.2 Performance and portfolio details

GEOGRAPHIC CONTRIBUTION TO PERFORMANCE (%)

Q4 2013

	Portfolio average weight	Portfolio total return	Benchmark average weight	Benchmark total return	Attribution allocation effect	Attribution selection + interaction effects	Attribution total effect
Total	**100.00**	**4.79**	**100.00**	**5.56**	**-0.89**	**0.12**	**-0.77**
NORTH AMERICA	**50.56**	**7.41**	**53.25**	**7.40**	**-0.05**	**0.01**	**-0.04**
Canada	3.60	1.72	3.82	1.86	0.01	-0.01	0.00
United States	46.96	7.86	49.44	7.84	-0.06	0.01	-0.05
EUROPE EX UK	**26.08**	**6.07**	**28.90**	**5.77**	**-0.01**	**0.07**	**0.06**
Austria	0.00	0.00	0.19	1.04	0.01	0.00	0.01
Belgium	0.21	12.69	0.76	5.72	0.00	0.01	0.01
Denmark	0.20	13.41	0.74	7.84	-0.01	0.01	0.00
Euroland Funds	7.39	7.17	0.00	0.00	0.12	0.00	0.12
Finland	0.00	0.00	0.59	9.41	-0.02	0.00	-0.02
France	3.84	4.57	6.46	3.80	0.04	0.03	0.07
Germany	3.48	11.37	5.93	10.76	-0.12	0.02	-0.10
Greece	0.00	0.00	0.02	9.08	0.00	0.00	0.00
Ireland	0.00	0.00	0.22	8.86	-0.01	0.00	-0.01
Italy	1.05	13.58	1.46	8.25	-0.01	0.05	0.04
Netherlands	0.54	18.81	1.75	6.24	-0.01	0.06	0.05
Norway	0.28	-11.41	0.54	3.54	0.01	-0.05	-0.05
Portugal	0.00	0.00	0.12	-0.98	0.01	0.00	0.01
Spain	1.08	10.59	2.17	9.06	-0.04	0.01	-0.02
Sweden	1.28	0.64	2.10	2.85	0.02	-0.03	-0.01
Switzerland	6.72	1.85	5.84	1.96	-0.03	-0.01	-0.04
United Kingdom	0.00	-13.67	0.00	0.00	0.00	0.00	0.00
JAPAN	**10.89**	**-0.02**	**11.87**	**0.04**	**0.04**	**0.00**	**0.03**
Japan	5.44	-0.05	11.87	0.04	0.34	0.00	0.34
Japan Funds	5.45	0.00	0.00	0.00	-0.31	0.00	-0.31
PACIFIC EX JAPAN	**3.61**	**0.89**	**5.98**	**-0.33**	**0.13**	**0.05**	**0.17**
Asia Ex Japan Funds	2.25	3.69	0.00	0.00	-0.05	0.00	-0.05
Australia	0.23	-6.81	1.61	-3.03	0.11	-0.01	0.10
China	0.21	-2.37	1.17	1.38	0.04	-0.01	0.03
Hong Kong	0.34	-6.40	0.61	1.24	0.01	-0.03	-0.01
Indonesia	0.00	0.00	0.14	-6.80	0.02	0.00	0.02
Korea	0.34	-0.72	0.97	1.71	0.02	-0.01	0.02

	Portfolio average weight	Portfolio total return	Benchmark average weight	Benchmark total return	Attribution allocation effect	Attribution selection + interaction effects	Attribution total effect
Malaysia	0.00	0.00	0.23	3.08	0.01	0.00	0.01
New Zealand	0.00	0.00	0.02	-6.15	0.00	0.00	0.00
Philippines	0.00	0.00	0.05	-7.07	0.01	0.00	0.01
Singapore	0.25	0.02	0.35	0.50	0.00	0.00	0.00
Taiwan	0.00	0.00	0.69	2.01	0.02	0.00	0.02
Thailand	0.00	0.00	0.15	-12.42	0.03	0.00	0.03
[Cash]	**8.87**	**-5.32**	**0.00**	**0.00**	**-0.99**	**0.00**	**-0.99**
[Cash]	8.87	-5.32	0.00	0.00	-0.98	0.00	-0.98

Performances calculated GROSS of fees in GBP

Source: Pictet Asset Management / FactSet

SECTOR CONTRIBUTION TO PERFORMANCE (%)

Q4 2013

	Portfolio average weight	Portfolio total return	Benchmark average weight	Benchmark total return	Attribution allocation effect	Attribution selection + interaction effects	Attribution total effect
Total	**100.00**	**4.79**	**100.00**	**5.56**	**-1.30**	**0.53**	**-0.77**
Consumer Discretionary	9.53	6.44	12.88	5.06	0.02	0.12	0.14
Consumer Staples	6.63	4.08	9.65	3.89	0.05	0.01	0.06
Energy	7.45	3.63	8.29	3.49	0.02	0.01	0.02
Financials	14.05	6.73	20.57	6.19	-0.05	0.07	0.03
Health Care	8.25	7.70	11.41	6.21	-0.02	0.12	0.10
Industrials	8.86	8.13	12.26	6.31	-0.02	0.15	0.13
Information Technology	10.79	8.97	12.46	8.84	-0.05	0.02	-0.04
Materials	2.96	4.03	5.54	2.55	0.08	0.04	0.12
Telecommunication Services	2.12	6.05	3.75	6.30	-0.01	-0.01	-0.02
Utilities	1.90	0.15	3.19	0.64	0.06	-0.01	0.05
[Cash]	8.87	-5.32	0.00	0.00	-0.98	0.00	-0.98
[Unassigned]	18.60	3.49	0.00	0.00	-0.38	0.00	-0.38

Performances calculated GROSS of fees in GBP
Unassigned refers predominantly to Pictet Funds

Source: Pictet Asset Management / FactSet

6. Contacts & Disclaimer

Contacts

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Disclaimer

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