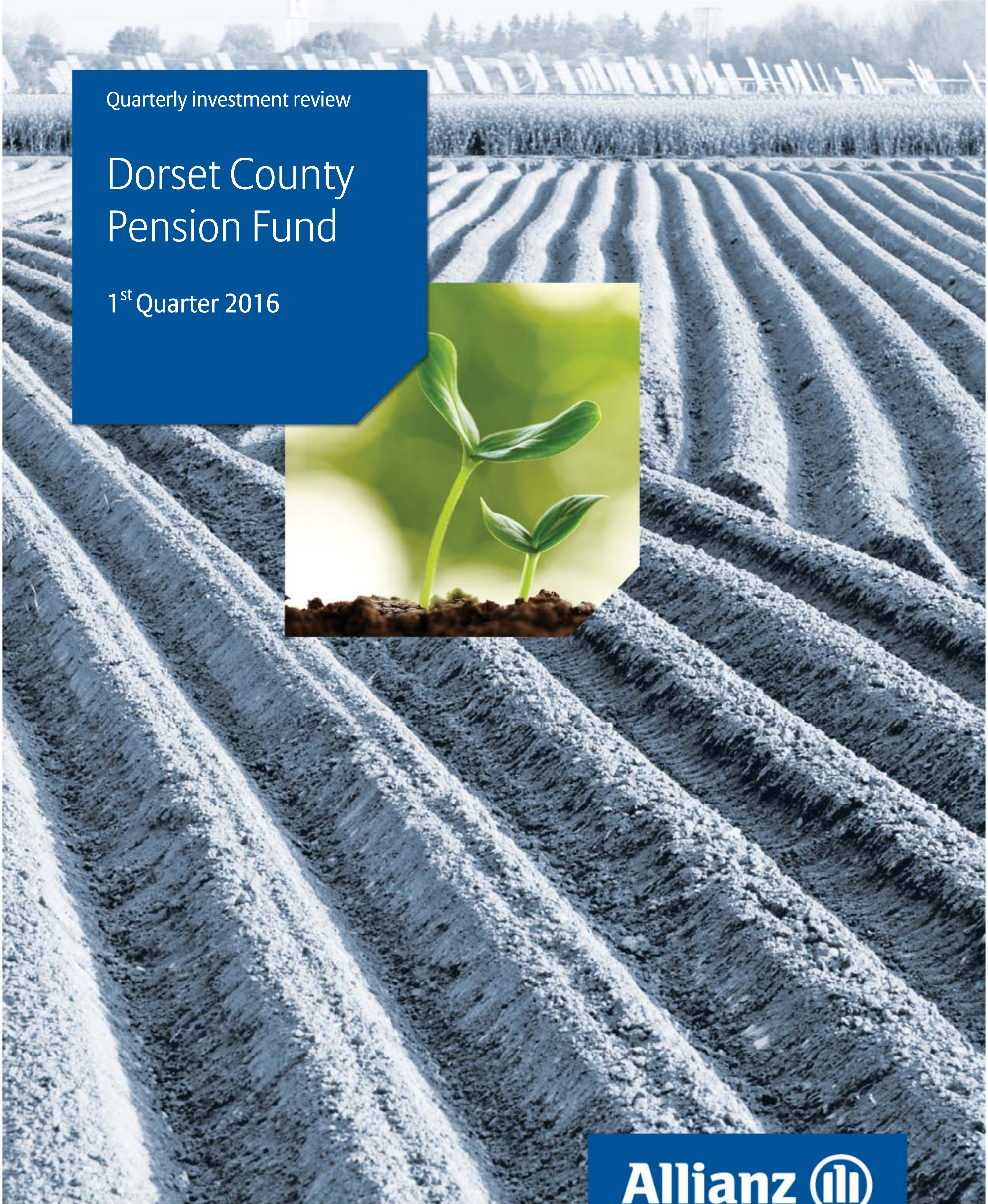
Quarterly investment review

Dorset County Pension Fund

1st Quarter 2016



Allianz
Global Investors

Understand. Act.

Contents

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Section one

Key points

Mandate

- Best Styles Global Strategy managed on a segregated basis.
- The Best Styles team implement a well-diversified blend of the five long-term successful investment styles Value, Momentum, Earnings Revisions, Growth and Quality.

Investment objective

- The investment objective of the Portfolio is to maximize excess returns relative to the Benchmark, targeting an annualized excess return of 1-2% per annum net of fees over a rolling 3 year period with a tracking error in the range of 1-3% p.a.

Inception date

- The inception date for the portfolio is 17 December 2015.

Change in value

- Closing value of GBP 222,349,487 as at 1 January 2016.
- Closing value of GBP 227,083,032 as at 31 March 2016.
- There were no subscriptions/redemptions during the period.

Long performance

- The portfolio returned 3.40% versus the benchmark return of 3.71% since the inception of the fund.

Performance

Recent performance

Returns to 31 March 2016	Portfolio (Gross)	MSCI World TR	Relative
Quarter	2.13%	2.19%	-0.06%
Since inception 17 Dec 2015	3.40%	3.71%	-0.31%

Portfolio return - Gross of fees/total return/GBP

Section two

Market review

- The first quarter of 2016 was a volatile quarter for global equities. Most markets suffered the worst start to a year in decades, with some entering bear-market territory, amid renewed fears about the slowdown in China and further oil price weakness. However, signs that commodity prices may be stabilizing, as well as further central bank stimulus, helped markets to recover in March. Most equity markets ended the quarter with modest losses, although the US and many emerging markets recorded positive returns.

- Global sector returns reflected the quarter's volatility with defensive areas, such as utilities and telecommunications, outperforming alongside materials and energy. Health care and financials lagged, the former due to the rise of drug pricing as a political issue in the US and the later mainly as a result of European bank profitability concerns due to increasingly negative interest rates.

- Global bonds advanced, as the volatility in equity markets boosted demand for assets seen as safe havens. Dovish statements from the Federal Reserve (Fed) and further policy easing from the European Central Bank (ECB) and Bank of Japan also underpinned government bonds. Corporate bonds had a volatile quarter as they mirrored the movement in equity markets, selling off sharply in the first half of the quarter before rallying in March.

- As widely expected, the ECB cut its main interest rate to zero in March and reduced banks' deposit rate further into negative territory. It also extended its quantitative easing programme. The Fed amended its 'dot plot' projections, indicating it now expects to raise rates just twice this year. Janet Yellen, Fed chair, noted that the Fed will need to proceed cautiously given "the economic risk from abroad". The Bank of Japan surprised investors by cutting interest rates to below zero.

- Emerging market currencies rallied as the US dollar weakened, reflecting the Fed's more dovish comments. The Japanese yen also rose, as it benefitted from its "safe haven" status. However, the British pound fell sharply amid concerns over the UK's referendum on EU membership in June.

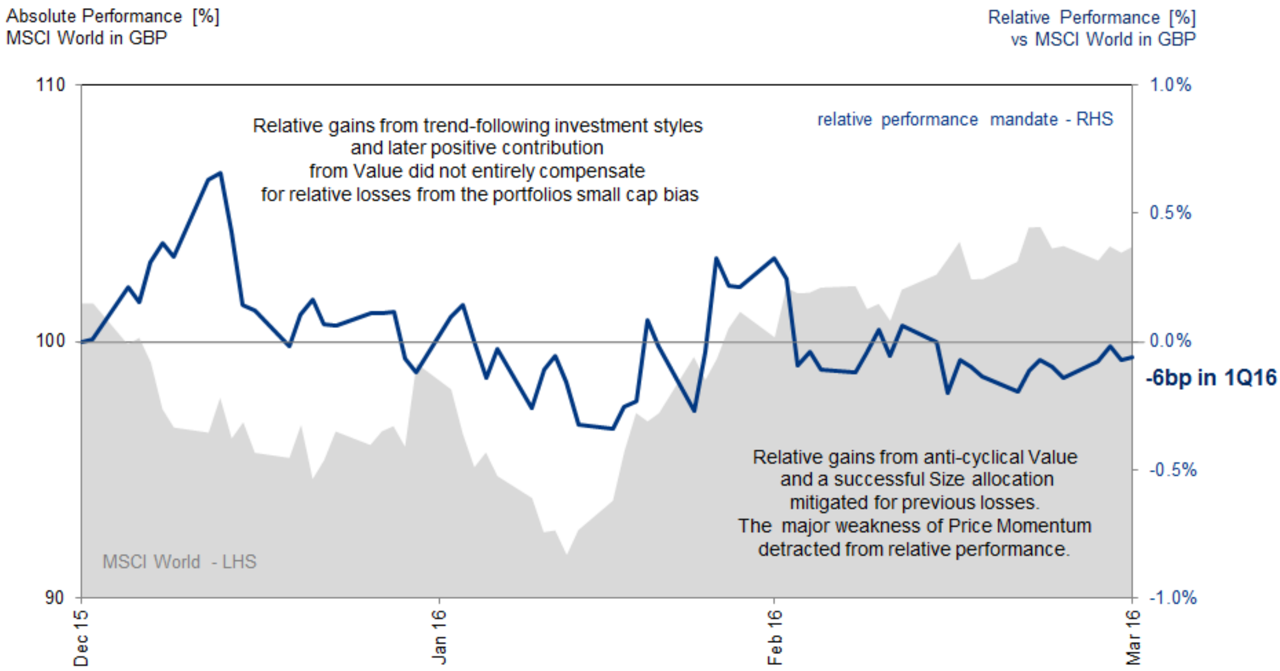
- Commodity prices fell sharply in January, with the prospect of the lifting of sanctions against Iran causing oil to fall below $30 a barrel. However, commodity prices appeared to stabilize in the second half of the quarter, with oil rising back above $40 a barrel, a rally of almost 50% from the lows reached in January.

Portfolio review

- The first quarter of 2016 has been a fairly volatile and unnerving period so far for style investors. Rising concerns over the health of the global economy led to a sell-off in equities at the beginning of the year followed by a flight to safety lasting into February. Against that backdrop, cyclical, higher beta investment styles like Value, Small Caps and High Risk were lagging, and defensive, High Quality stocks were leading alongside trend-following strategies like Price Momentum and Earnings Revisions due to a bias towards non-cyclical, defensive names. From mid-February to the end of March, with the market recovery taking place, the pattern of investment style performance has reversed. The investment styles Value and Small Cap have seen one of the strongest 6-week-periods of the last 5 years and are up for the year, while the Momentum, Revisions, Quality and Growth have seen one of the weakest 6-week-periods of the last 5 years and were down or flat for the year.

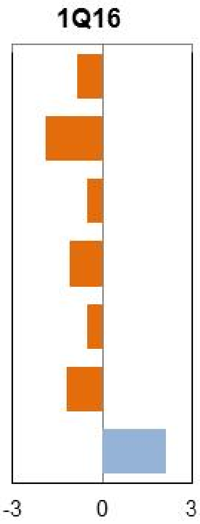
- The portfolio delivered a return of 2.13% which was modestly behind the benchmark return of 2.19% by 0.06% for the quarter ending 31 March 2016. The broad and well diversified implementation of investment styles dampened the impact of the strong reversal in the investment style regime in March supported by positive return contributions from smaller market capitalizations.

Dorset County Pension Fund: Absolute and Relative Performance to 31 March 2016



Performance calculated by IDS, graphical representation by Portfolio Management, Allianz Global Investors

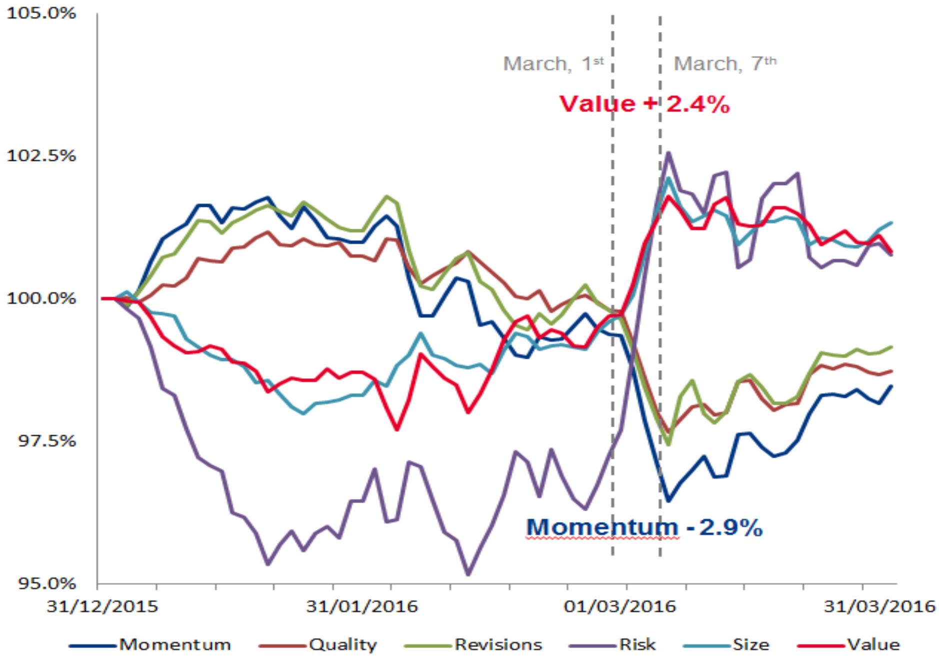
Relative performance of investment style over the last 6 months



	1Q15	2Q15	3Q15	4Q15	Jan 16	Feb 16	Mar 16	1Q16
Value	-0.1	1.5	-4.0	0.2	-1.8	0.3	0.7	-0.8
Growth	0.5	0.4	1.3	2.2	-0.7	-0.9	-0.3	-1.9
Revisions	-1.0	0.5	3.0	0.8	0.8	-0.8	-0.5	-0.5
Momentum	0.1	0.0	1.7	0.9	0.7	-0.6	-1.2	-1.1
Quality	-0.3	0.1	2.1	0.6	1.0	-0.9	-0.6	-0.5
Risk	0.7	0.3	-5.3	-0.8	-4.9	1.0	2.7	-1.2
Small Cap	1.8	0.3	-1.0	-0.3	-0.3	0.9	1.6	2.1

Performance of long-only style mimicking portfolios against MSCI World
Source: AllianzGI, March 31st, 2016

Daily Relative Performance of Investment Styles vs FTSE World

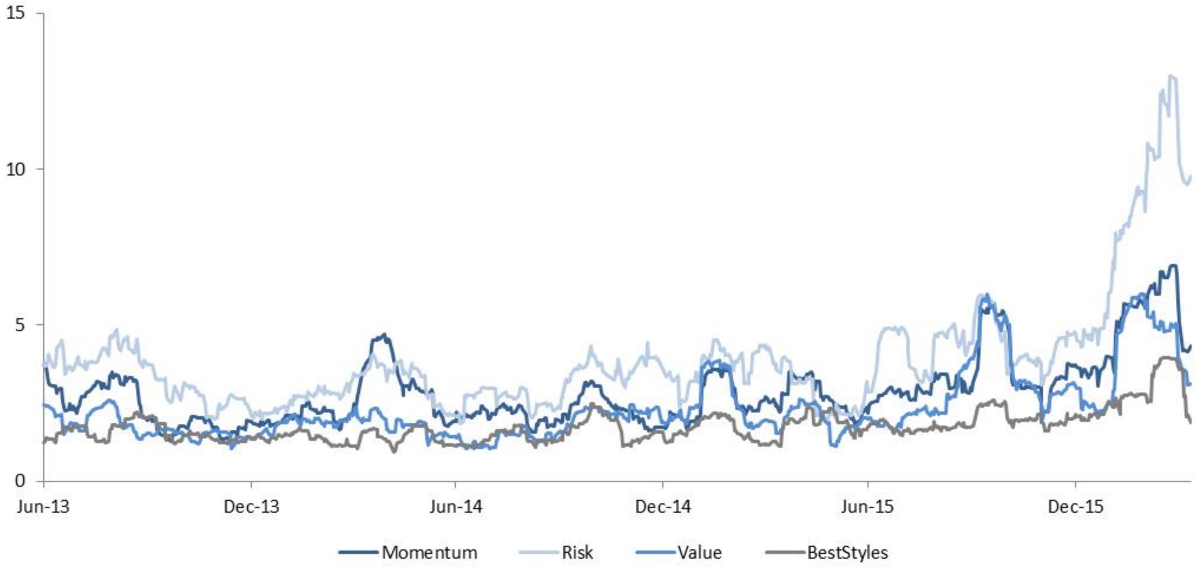


Performance of long-only style mimicking portfolios against FTSE World
Source: AllianzGI, March 31st, 2016

- The pattern of relative returns from our preferred investment styles started to change around mid-February when Value and High Risk began to outperform, as shown above
- The anti-cyclical and higher risk investment styles started to outperform in February but accelerated during the first week of March. The outperformance of Value, High Risk and Small Caps was matched by an equivalent strength in underperformance of Price momentum, Earnings Revisions and Quality.

- From 1st to 7th March, Value outperformed strongly by 2.4% while Momentum suffered from a relative loss of -2.9%.
- The regime change in investment styles began to rewind after March 7th.
- The resurfacing of anti-cyclical investment styles seems to have been a flash-in-the-pan for now. Without further major positive macro news e.g., better-than-expected growth prospects for the Emerging Markets and China in particular, major renewed efforts to defeat deflation in Japan, stronger-than-expected growth or lower than anticipated inflation rates in Europe, a major and sustained swing back to Value and High Risk remains unlikely

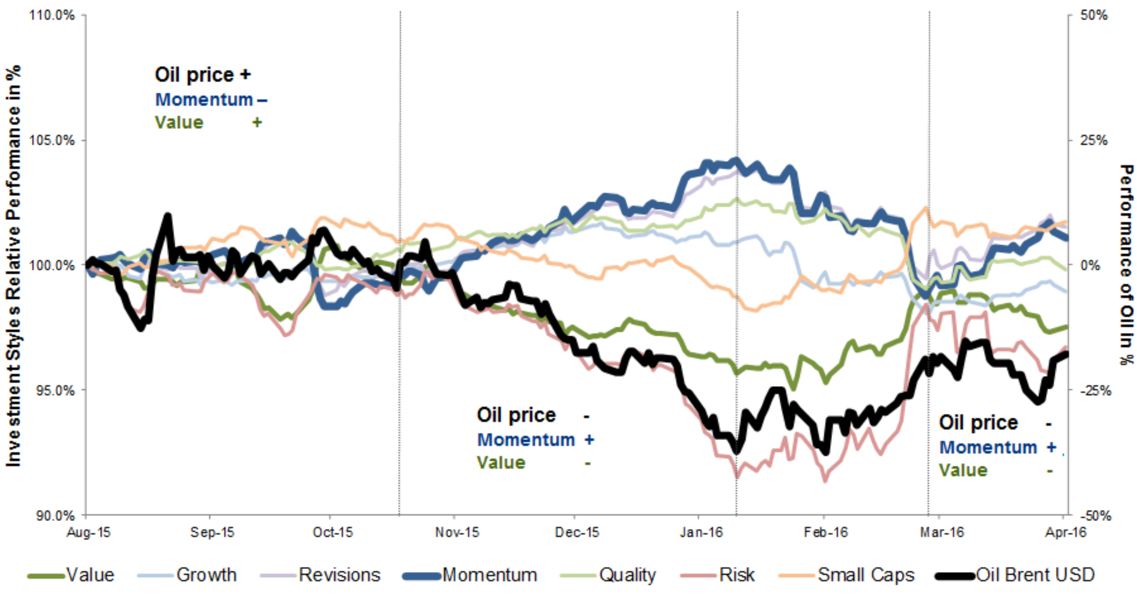
Annualized Volatility in Relative Performance of Investment Styles vs FTSE World



Source: AllianzGI, April 11st, 2016

- Volatility of relative investment style returns reached vastly increased levels.
- The well diversified blend of investment styles within the Best Styles strategy helped to mitigate the increased risk from investment styles in March.

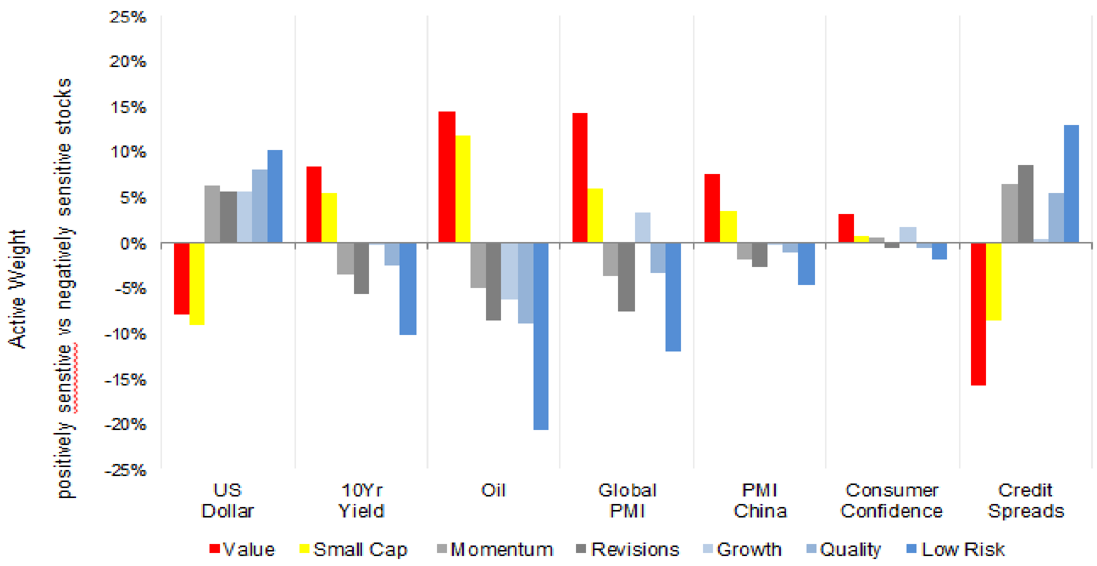
Correlation of performance of the global investment styles with the movement in the oil price



Source: Allianz Global Investors. Calculations are performed by the portfolio management team. Not independently verified.

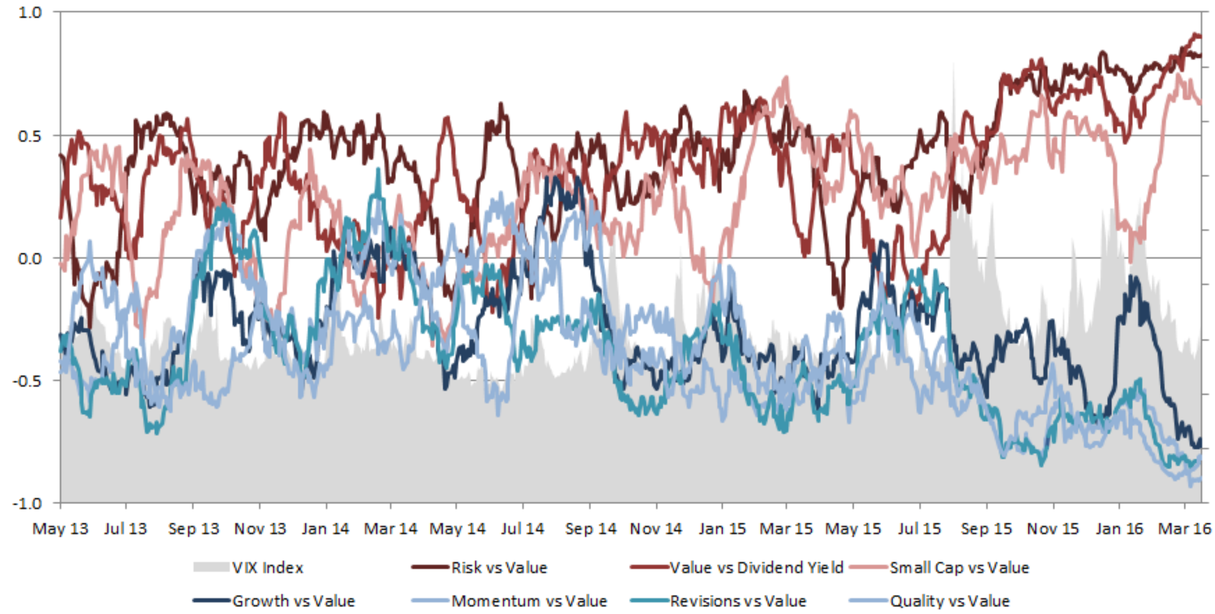
- Performance of global investment styles is correlated in different ways to the movement in the oil price. The trend-following strategies, such as momentum and earnings revisions suffer from rising oil prices. Conversely, contrarian investment styles, such as value and small caps benefit from the recovery of the oil price recovery

Macro-economic exposures of investment styles



Data source: Allianz Global Investors. Calculations are performed by the portfolio management team.
Not independently verified.

Correlation of Value with other Investment Styles.



Data source: Allianz Global Investors. Data as at April 2016. Calculations are performed by portfolio management team. Not independently verified.

- Value is currently the only diversifier to trend following strategies.
- Value' as an investment style is positively correlated with 'Size', but negatively correlated with all other strategies.

Portfolio outlook

- Deleveraging in industrialized countries is likely to last and will lead to lower trend growth compared to before the great financial crisis. Private sector de-leveraging in the US and Europe advanced but is probably not yet over. In the US, the corporate sector is re-leveraging again. Support from monetary policy and negative real interest rates are likely to stay for longer even with the Federal Reserve having entered the rate hiking cycle. Monetary policy will remain supportive for valuation levels of risky assets as the Bank of Japan (BoJ) as well as the European Central Bank (ECB) have further eased monetary policy in the first quarter in order to stimulate inflation in consumer prices. Rising leverage in the emerging markets require easy monetary policy in the EM as well.

- Global high frequency data remain lacklustre and growth momentum is fading. Leading indicators have peaked and are retreating since then and have started to signal a contraction in the US and Japan since summer/autumn last year. The current reading of the OECD leading indicator is below or only slightly above the reading at a trough of a mid-cycle slowdown like 1986, 1995, 1998 or 2012 and much weaker readings than today have only been seen around recessions. However, we do not expect a deflationary environment and global growth at potential in the coming quarters is still possible. We do not expect a recession, but a slowdown in growth momentum. Structurally, growth dynamics are better in the developed relative to emerging markets. On an historical basis, Value stocks are now considered cheap and have only been cheaper in 6% of all monthly data points since December 1987.

- The US recovery is at an advanced stage, but the general upward trend of the US economy remains intact. Consumer spending should remain an important source of support for economic growth in the coming quarters – alongside residential construction. Both are helped by a robust labour market as well as from improved purchasing power resulting from lower gasoline prices. With the value of the US Dollar having risen further against other currencies in recent months, exports will probably increase only moderately.

- The Eurozone economy is continuing on its path to recovery, although sentiment indicators were somewhat subdued at the start of 2016, there are no signs that sentiment is turning. The ECB's ultra-loose monetary policy, increased purchasing power as a result of the oil price and the continuing recovery in the labour market are spurring domestic demand and helping to drive an economic upswing that is becoming increasingly self-supporting.

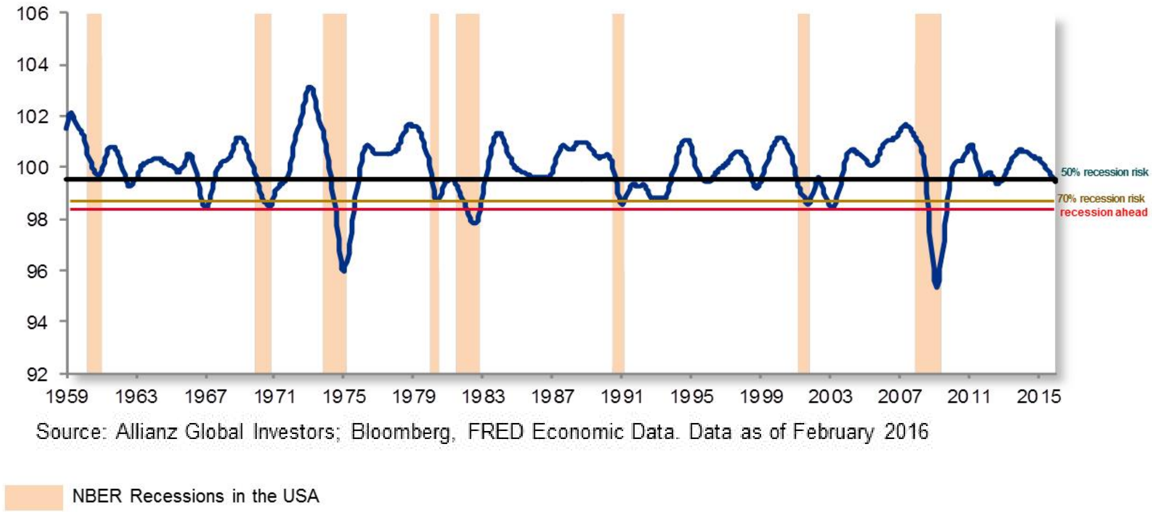
- In China, the real estate sector remains the critical factor and seems to be stabilising further. But economic growth momentum continues to slow and markets have to be prepared for continued weak growth compared to past standards, rising financial distress. The 'two steps forward, one step back' progress on reform path and possible policy mistakes will remain with us while the Chinese economy shifts from having been an investment-led economy to become consumption-led.

- The Japanese economy shrank in the fourth quarter of 2015. Irrespective of the volatility of a host of statistics, the ongoing recovery on the labour market points towards a return to overall economic expansion at the beginning of the year.

- Potential risks are coming from a stronger than expected slowdown in China or a stronger than anticipated rise in interest rates in the US. The value of the US Dollar having risen further against other currencies in recent months, exports will probably increase only moderately. Moreover, adjustments in the oil sector will probably adversely affect business investment for longer than previously expected. At a European level, many reforms have been initiated since 2010 in order to create a more crisis-resistant foundation for the Eurozone. Increasingly centrifugal political forces and the refugee debate are shaking the very foundations of the EU and the single currency area. Political impasse in a number of reform countries highlights the potential political risks associated with investing in the Eurozone, as does the forthcoming referendum in the UK.

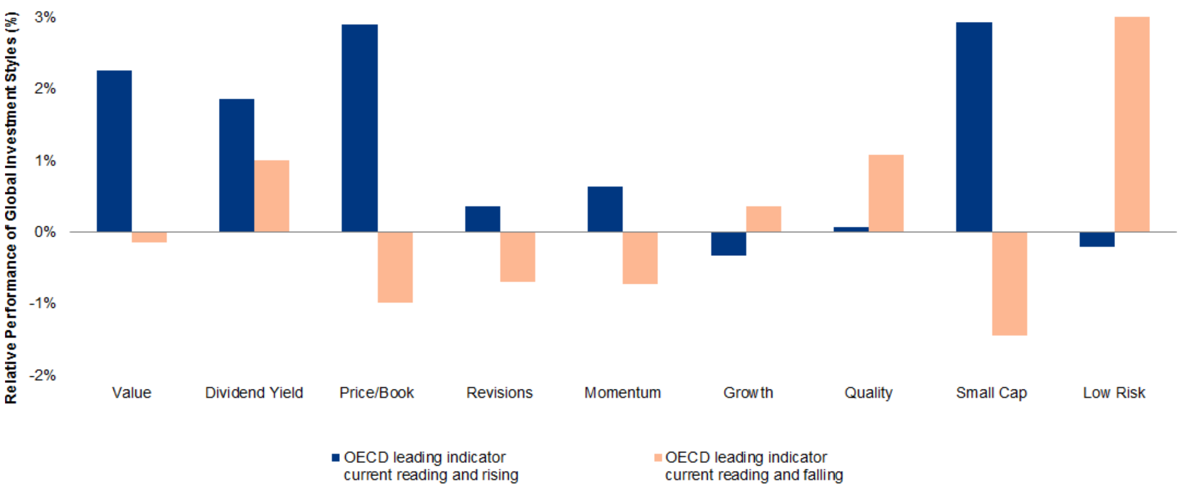
- Volatilities are to be expected to rise again at any time. A rather weak earnings environment, persisting worries about the growth prospects in some emerging markets, especially China, uncertainties as to the trajectory of the Fed's rate hikes, geopolitical event and liquidity risks as well as valuations in some asset classes could all herald temporary headwinds for risky assets. In our base scenario, we nevertheless expect equities to grind higher on the backdrop of an ongoing accommodative monetary policy stabilizing economic growth and still reasonable valuations.

OECD G7 Leading indicator



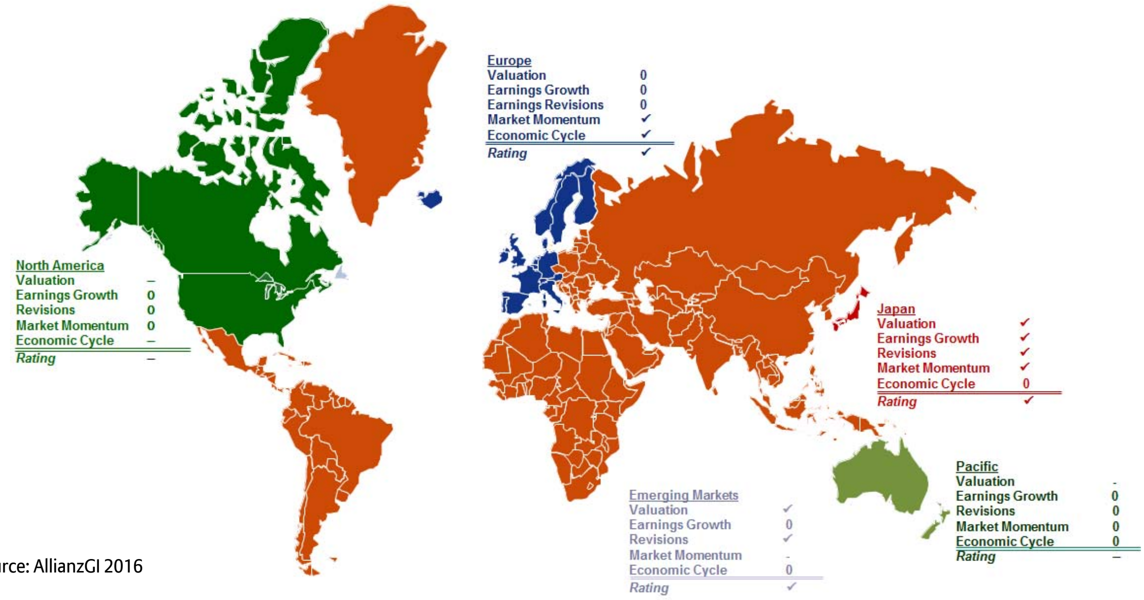
- OECD leading indicators are approaching the bottom of a typical mid-cycle slowdown. The current level of the negative momentum OECD composite leading indicators has meant historically that over the period most of our investment styles were not delivering, except the investment style quality. If the leading indicators were to accelerate again, Value and Small Caps would be leading investment styles.

Relative performance of investment styles at current levels of the leading indicators.



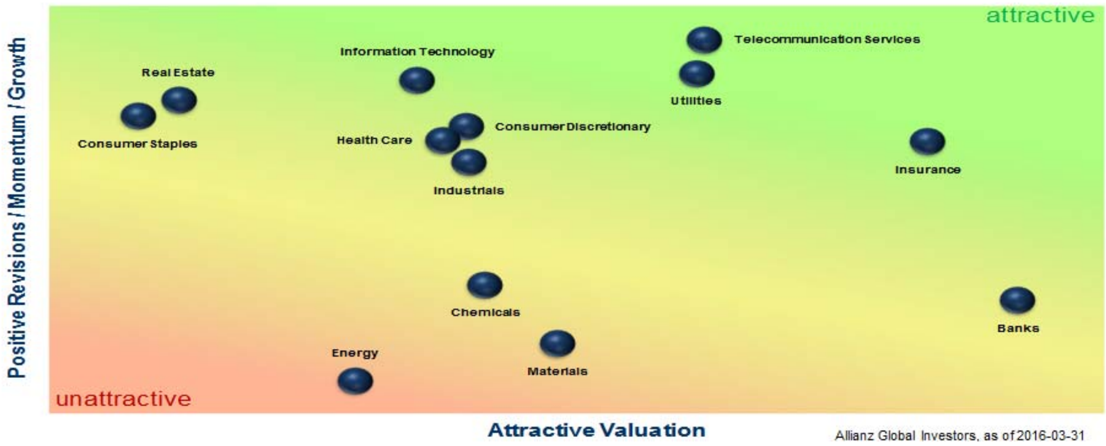
Source: Allianz Global Investors. Calculations are performed by the portfolio management team. Not independently verified.

Investment style attractiveness of global regions 2016



Source: AllianzGI 2016

Investment style attractiveness of global sectors with respect to Investment Styles



- Insurance companies are still most attractive as they offer both attractive Valuation levels combined with positive Earnings Revisions and strong Price Momentum. Real Estate remains the most unattractive industry group within Financials.

- Utilities and Telecommunication Services are the most favored *defensive* sectors. Health Care still stands out with strong momentum, but Valuation has advanced significantly and, therefore, the sector has become less favorable. Consumer Staples are least favored due to high valuations and uninspiring earnings revisions and growth.

- Information Technology, Consumer Discretionary and Industrials are currently the most attractive *cyclical* sectors, but still only score slightly above neutral. Energy and Materials are less favorable as current valuation levels barely compensate for their poor Momentum and Growth.

- We seek a balanced exposure to cyclical and defensive sectors targeting a performance profile that is largely independent of the economic cycle.

Market outlook

- In Q2 2016, Best Styles will be overweight in stocks with attractive valuation and stocks with positive momentum and positive revisions, in line with the longer term strategic investment style mix of Best Styles Global. The analysis of the performance of such an investment style mix showed stable outperformance since 1987, largely independent from the general economic environment and market conditions. The investment style mix has also historically done well in the macro economic environment expected going forward - rising interest rates and subdued economic growth.

- Risks have risen, but we do not believe the global economy is heading toward recession. In the US—while odds of an April rate hike are low—we still think that the outlook for growth and inflation will prompt the Fed to raise rates twice in 2016.

- Against this backdrop, we continue to favor risky assets, in part, because valuations have become attractive, but also because we expect monetary policy, globally, to remain very accommodative.

- In our base scenario, we expect equities to grind higher on the back of an re-accelerating economy, ongoing accommodative monetary policy and still reasonable valuations.

- Global equities currently trade on trailing Price/Earnings-Ratio in line with the long-run median. Historically, there is little evidence that current valuation levels may hinder risky assets from appreciating any further. On the contrary, history clearly shows that as long as monetary policy is highly accommodative and rates remain below "neutral" levels, i.e. a level at which the economy is running at around trend growth, risky assets tend to do well and outperform bonds.

- The recovery in commodities has helped stabilize some of the stress points in the world economy—which should support inflation, growth and portfolio performance. Still, the ebb and flow of economic and political uncertainties will likely result in persistent volatility.

- In terms of investment styles, the shift in the investment style regime away from trend-following Momentum and Quality to Value, Small Caps and High Risk in particular has faded. Without further major positive macro news going forward like e.g. major renewed efforts to defeat deflation in Japan, stronger-than-expected growth or lower than anticipated inflation rates in Europe, a major and sustained swing back to Value and High Risk remains unlikely.

- However, as just seen in March, profit taking in Momentum and flows into neglected tranches of the equity market (Value in general, Materials, Emerging Markets and Asia Pacific in particular) are to be expected at any time under the current globally divergent macro-economic conditions.

- The balanced and well diversified blend of investment styles of the Best Styles investment approach has shown to succeed under macro-economic conditions comparable to today's several times before and will, therefore, not be set aside in favor of any tempting shorter term investment style timing efforts. Within the investment styles, individual factors like e.g. dividend yield within Value will likely attract more attention under the current macro-economic conditions as compared to times of a strong and sustained market upswing.

- We will continue to be overweight in stocks with attractive valuation and stocks with positive momentum and positive revisions, in line with the longer term strategic investment style mix of Best Styles Global.

Appendix

Investment guidelines

Investment Restrictions and Limitations

- The Manager shall comply with and adhere to the investment restrictions and limitations provided below.

Permitted Investments and Prohibited Investments

- Investments shall be restricted to constituents of the "MSCI World Investable Market Index (IMI)" and Bloomberg ticker MXWOIM Index ("Investment Universe").

- Investments in securities outside the Investment Universe which, e.g., may arise from stocks leaving Investment Universe or from corporate actions, shall be sold as soon as reasonably possible.

General Restrictions

- The Portfolio shall not borrow cash, securities and/or other assets for leveraging the Portfolio. For the avoidance of doubt, short-term overdrafts which may result from operation difficulties such as "trade fails," "limit orders" or discrepancies in security settlement dates, shall not be deemed a borrowing or acts which leverage the Portfolio.

- The Securities held in the Portfolio may not be lent or be subject to a repurchase transaction.

- The Portfolio may not sell short.

- The investments of the Portfolio shall maintain reasonable liquidity at all times.

Investment Limitation

- The maximum amount to be invested in the Securities of any one issuer is the higher of (a) 10% of the Value of the Portfolio or (b) 150% of the Benchmark weight.

- Number of different stock issuers should be 20 or more.

- No investment shall be more than 10% of the outstanding Securities of any one (1) issuer in the Portfolio.

- Investment in non-Benchmark countries shall not exceed 20% of the Value of the Portfolio.

Cash/bank Deposits

- A deposit shall be placed with:

  i) A bank with deposit taking license which has short term credit rating of at least 'A-1' as measured by Standard & Poor's or 'P-1' by Moody's.

  ii) The custodian or its sub-custodian(s) for transaction purposes.

- Deposits with any institution authorised by the Client should not exceed 5% of that institution's issued capital and published reserves and deposits with any single institution should not exceed 5% of the assets of the Portfolio. This limit does not apply to the custodian or its sub-custodian(s).

- Deposits will be in freely convertible currencies.

- Currency transactions, both spot and forward currency contracts, shall be entered into with the Custodian or counterparties which have a credit rating of A3/A- or higher recognized by rating agencies which mean Standard & Poor's, Moody's and Fitch . In the case of a split rating, the middle of the three ratings will be applied. In case that two of the 3 ratings are same, the same rating will be applied and in the event of the issuer being rated by only two agencies, the lower rating is applicable. If there exists only one rating, that rating will be applied.

Investment management teams

Portfolio mangement team

Source: Allianz Global Investors, as at 29/02/2016

Global research headcount

	Consumer	Financial Services	Health Care	Industrials & Resources	Technology/ Telecom/Media	ESG Research	Grassroots℠ Research	Credit	Total
Asia Pacific	2	3	1	2	3	0	1	3	15
Europe	4	4	3	12	5	9	2	9	48
US	3	1	3	5	6	0	3	0	21
Total	9	8	7	19	14	9	6	12	84

- An average of 15 years of industry experience
- Innovative and proprietary investment tools
- Analysts manage sector and thematic mandates
- Each analyst conducts circa 100 meetings per year with corporate management
- Research identifies the key drivers of each stock, which frames and focuses the analytical process
- Dedicated sustainability research analysts
- Complemented by Grassroots℠ Research

The cornerstone of our investment process – generating information advantage

Source: AllianzGI, as at 31 December 2015.

Disclaimer

Valuation of investments

- Investments within the portfolio are valued as at the close of business on the valuation date using mid-market, bid or last traded prices, depending on the convention of the exchange on which the investment is listed.

- Investments in UK authorised open ended investment companies for which Allianz Global Investors GmbH is the authorised corporate Director are valued at the noon daily dealing price.

- Unlisted or suspended investments are valued on the basis of the best information available to the manager.

- Running yields attributable to equity pooled vehicles and gross redemption yields attributable to fixed interest pooled vehicles are each stated before deduction of management fees.

Risk warning

- Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount originally invested. You should not make any assumptions about the future on the basis of this information.

- Except for products investing exclusively in the UK, currency exposure exists in all funds. These funds will suffer a negative impact if sterling rises in value relative to the currencies in which the investments are made.

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