WELLINGTON MANAGEMENT®

Dorset County Pension Fund

INVESTMENT REPORT

- Executive Summary
- Investment Review(s)
- Highlights

RELATIONSHIP MANAGEMENT TEAM

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14 April 2016

David Wilkes
Finance Manager (Treasury and Investments)
Dorset County Council
County Hall
Dorchester
DT1 1XJ

Dear David,

Please find enclosed the most recent quarterly investment report for your portfolio under our management.

If you have any questions regarding the enclosed materials, or if we can be of assistance in any other way, please do not hesitate to contact me.

Sincerely,

Nicola Staunton

Nicola Staunton
Managing Director

Enclosures

Cc: investments@dorsetcc.gov.uk

ACCOUNT SUMMARY

	Market Value	
Dorset County Council - GRE	166,340,794	GBP

Base currency is calculated using 4:00 pm EST London spot exchange rates.

PERFORMANCE SUMMARY

Annualised total returns (%)
Returns reported in GBP
As of 31 March, 2016

	1 Mo	3 Mos	Since Incep	Incep Date
Dorset County Council - GRE	3.4	-0.3	2.8	18 Dec, 2015
MSCI World	3.6	2.3	5.3	18 Dec, 2015

Returns for periods less than one year are not annualised.
Base currency is calculated using 4:00 pm EST London spot exchange rates.
Past performance is no guarantee of future results

Dorset County Pension Fund - Global Research Equity

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PORTFOLIO MANAGEMENT

Managed by Wellington Management's Global Industry Analysts

OBJECTIVE

Long-term return in excess of the MSCI World Index

PERFORMANCE REVIEW

	Total Returns (%) (GBP) Periods Ended 31 March 2016	
	3 Mos	*SI (1)*
Dorset CC GRE	- 0.3	2.8
MSCI World	2.3	5.3

Base currency is calculated using 4:00 PM EST London spot.
MSCI benchmark(s) is calculated using 3:00 PM EST Geneva spot exchange rates.
1 Performance reported since 18 December, 2015

QUARTERLY OVERVIEW

2016 got off to a volatile start as Chinese stocks plunged in early January, sparking a global risk-off trade. Along with ongoing worries about a hard landing in China, the world's second largest economy, fears that Yuan weakness could unleash a wave of global deflationary pressure resurfaced. Once again, extended monetary policy accommodation by major central banks helped support risk assets. First, the Bank of Japan (BoJ) followed the lead of central banks in Europe by cutting its benchmark rate to negative territory in January. Next, the People's Bank of China (PBoC) lowered the reserve-requirement ratio, the amount of cash banks must keep on reserve, by 50 basis points (bps) in February in an effort to boost growth. Finally, while European Central Bank (ECB) President Mario Draghi previously hinted more stimulus was coming, he over-delivered at the March meeting. In addition to cutting the deposit rate, the ECB increased its monthly asset purchase programme and unexpectedly cut the main refinancing and marginal lending rates. Draghi signalled an important shift in ECB policy by de-emphasising euro weakness as a means to stimulate higher inflation. Instead, this wave of ECB policy is focused on increasing bank lending and easing domestic credit conditions.

During the quarter, the portfolio underperformed the MSCI World Index. Stock selection in consumer staples, financials and health care were the primary detractors from relative performance.

In consumer staples, security selection in food products dampened performance. Our overweight position to Mondelez weighed on relative results. The snack food and beverage company announced fourth quarter earnings below consensus expectations and revised 2016 revenue growth estimates downward, negatively affecting the stock price. Mondelez attributed this to foreign exchange headwinds and declining sales due to weak macroeconomic conditions in the latter half of 2015. We believe the company continues to be undervalued and has notable margin upside and long term organic growth prospects that make the stock attractive.

Our holdings in financials also detracted from relative performance. A top detractor in this sector was Unione Di Banche Italiane (UBI), an Italy-based bank. UBI's shares fell alongside other major Italian Banks amidst the negative interest rate environment and a more aggressive ECB stance on non-performing loans and asset quality. We see the market's concerns as overblown and believe that the ECB's focus on asset quality could facilitate an improvement of the balance sheets of UBI and other Italian banks.

Within health care, security selection in biotechnology was the most notable detractor from relative results. Alkermes, a US-based biopharmaceutical company and the portfolio's largest detractor, saw its shares decline sharply after reporting that its new depression drug performed poorly in certain test trials. We have maintained our position and believe that the company's drug pipeline remains strong despite the recent setback. We believe the market has overreacted to this as the fundamentals remain strong.

Stock selection in utilities was the smallest detractor from relative performance. Holdings in the electric utilities industry led the way. NextEra Energy, a US-based electric power provider, is our largest overweight in this sector. The company reported stronger-than-expected fourth quarter earnings, which drove the stock price. This was in part due to strong revenue growth in NextEra's subsidiary, Florida Power and Light, which resulted from a large increase in its customer base.

Dorset County Pension Fund - Global Research Equity

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POSITIONING & OUTLOOK

The first quarter of 2016 proved to be a challenging one for the portfolio. In particular, January and the first half of February were difficult periods for relative performance. While the underperformance is disappointing, it is not out of line with what we would expect given the risk profile of the approach in recent history. Our Global Industry Analysts remain focused on stock selection in their specific coverage industries and continue to identify themes and opportunities that will shape their investment decisions going forward.

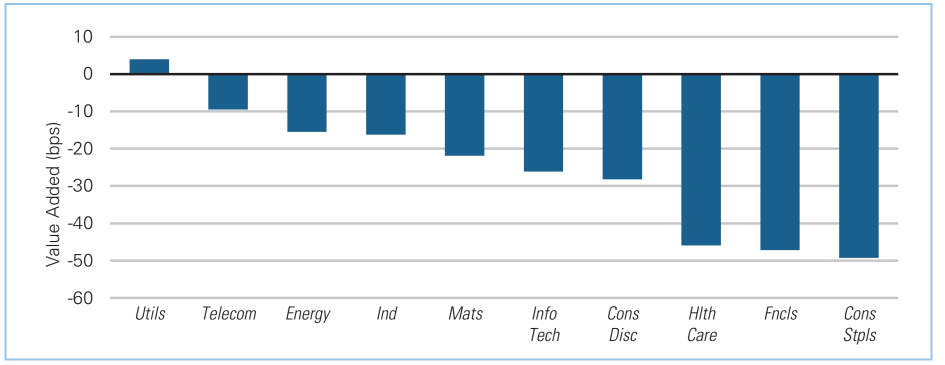
Within industrials, we view the economic outlook for 2016 as uncertain given heavy capex spending remains weak. Light industrial is showing signs of stabilisation and consumer related end markets have helped offset some of the pure industrial markets in this sector over the first quarter. We acknowledge that industrials are a very cyclical sector and we remain overweight companies that have proved to be resilient regardless of the market cycle. Two of our largest overweight positions in this sector that meet this criteria are Danaher and Illinois Tool Works, which are both US-based manufacturers of industrial products and equipment. We have also been adding to companies that have shown progress in managing this downturn more aggressively.

In consumer discretionary, lower fuel prices and improving jobs and wages have persisted, allowing for a more favourable consumer spending environment. Valuations for stocks across the sector have not been as attractive, with most of these tailwinds already being well identified and priced into the market. We continue to avoid traditional “brick-and-mortar” retail companies and look for opportunities where internet encroachment is minimal or a tailwind. An example of this is Signet, a mall and off-mall US-based jeweler that has benefitted from improving consumer demand. The bridal jewellery retail market has been difficult to replicate online and is an example where e-commerce has not had a major impact on fundamentals.

Given recent oil prices and the overall weakness in the energy markets, we have been focused on companies in this sector that have the ability to weather the storm and capitalise on the inevitable price recovery. Over the quarter we established a position in Total SA, a France-based energy provider. Total has been ahead of competitors in regards to cutting costs and capital expenditures, helping to insulate the company from further energy price declines.

A theme we are still bullish on in the information technology sector is the Internet of Things. We believe the connectivity of consumer and industrial devices will provide opportunities, especially for well positioned semiconductor companies. Although the semiconductor industry exhibited weak fundamentals and share price volatility during the first quarter, we believe the longer term outlook remains compelling as current valuations are relatively inexpensive. We added to our position in GlobalWafers, a Taiwan-based company that manufactures silicon wafers for semiconductor chips. We believe semiconductor companies that have exposure to content growth in the automotive industry, such as Belgium-based NXP Semiconductor, will have strong performance going forward.

SECTOR ATTRIBUTION



Financials(-)

Santander Consumer

- US-based consumer lender
- During the quarter, the market became more sensitive to the company's sub-prime auto loan portfolio given the deterioration in macro-economic sentiment. The stock sold off as a result.
- We have maintained our position as we believe the market is overreacting to the potential for credit erosion within the company's balance sheet

Consumer Staples(-)

Nomad Foods

- UK-based frozen foods company
- The grocery retailer's stock has come under pressure as the weaker macro environment in Europe fuelled more price-conscious consumer behaviour. The company's levered capital structure has recently been viewed as unattractive amidst the current "risk off" market mentality.
- We believe Nomad's management are good capital allocators and will likely continue to pursue acquisitions of synergistic assets in the frozen and packaged food space.

Health Care(-)

Regeneron Pharm

- US-based biopharmaceutical company
- In February, the company announced poor fourth quarter earnings and conservative guidance for the upcoming year which dampened the stock price. Additionally, a verdict was reached during the quarter that Regeneron violated Amgen's patent on an injectable cholesterol drug. This headline news also weighed on the stock price.
- We continue to favour this stock and believe the likely impact of the verdict will be less than 1 percent of earnings. Also, we have confidence that their scientific team and research enterprise will create substantial value over time.

Utilities(+)

Edison Intl

- US-based public utility company servicing Southern California
- Edison reported strong fourth quarter results and offered above consensus guidance for 2016, sending the share price higher
- We maintained our overweight position

TOP TEN ACTIVE POSITIONS

Company	*Industry*	*Portfolio**	*Index*	*Active Weight*
Amazon.com	Retailing	2.3%	0.7%	1.5%
Bristol-Myers Squibb	Pharm, Biotech & Life Sciences	1.6	0.3	1.3
Exxon Mobil	Energy	0.0	1.1	- 1.1
NTT DOCOMO	Telecommunication Svcs	1.2	0.1	1.1
Newfield Exploration	Energy	1.0	0.0	1.0
Bank of America	Banks	1.5	0.4	1.0
NextEra Energy	Utilities	1.2	0.2	1.0
XL Group	Insurance	1.0	0.0	1.0
Johnson & Johnson	Pharm, Biotech & Life Sciences	0.0	0.9	- 0.9
Sky	Media	0.9	0.0	0.9

*Percent of Equities

PORTFOLIO STATISTICS

	Portfolio	*Index*
Market Cap - Asset Weighted	$77.4 bil	$99.9 bil
Yield	2.0%	2.6%
Number of Equity Names	286	1629
Number of Countries	20	23
Valuation		
EPS Growth (Next 3-5 Years)	12.3%	9.5%
P/E (Projected)	14.2x	14.0x
P/B	2.1x	2.1x
Risk Characteristics (Projected)		
Tracking Risk	1.6%	—
Beta	1.02	—
R-Squared	0.99	—

Portfolio statistics were calculated using WMC's internal systems, which use the BARRA factor model for certain data. For projected risk statistics, certain assumptions were made within the BARRA factor model with respect to model type, benchmark, security classification and risk assignment, and timing to calculate results. Differing assumptions can cause projected risk statistics to vary and may cause the figures to deviate significantly from those obtained with another risk model.

Note: Totals may not add due to rounding.

Andre J. Desautels, CFA
Senior Managing Director, Partner

Catherine Gunn, CFA
Vice President

Global industry coverage: Telecom

Global Telecommunications: Looking for Sustainable Returns

Amid a tumultuous start to 2016, performance in the telecommunications sector has varied both across and within specific markets. In the US, yield seeking investors have bolstered share prices of communications service providers, whereas in Europe this group has moved in concert with broader equity markets as expectations for consolidation – related synergies and macro related top line benefits - have failed to materialise at the pace embedded in earnings expectations.

Intra-sector returns have continued to vary widely, illustrating the potential opportunities – and risks – this sector presents for investors. In the first quarter of 2016 the difference in total return between the best to worst performance for telecommunications stocks in the MSCI World index was roughly 40 percentage points. This wide short term spread is not overly anomalous with longer time periods.

The investment philosophy we have developed as dedicated career analysts in this space is predicated on our belief that stocks of companies with sustainably high returns and free cash flow generation are better positioned, over the long term, to outperform their industry peers.

Specifically, we think the key to high profitability and sustainable free cash generation is domestic scale within a healthy or improving market structure – namely a rational competitive ecosystem and a reasonably benign regulatory regime. This tenant applies equally to developed and emerging communications markets.

In-country scale matters because of the high fixed costs and capital intensity of these businesses. Large customer and revenue bases are required to profitably monetise the significant investments that are driven by exponential volume/data growth. These heavy investment cycles span multiple years, which can make it challenging to consistently earn returns in excess of capital costs, particularly for subscale operators that cannot spread high fixed costs over a wide enough revenue base.

The competitive backdrop within each country is likewise a critical consideration, as smaller operators may at times use aggressive pricing in an attempt to gain better scale and soak up excess capacity on their networks.

When in-market scale and healthy competitive balance align to drive solid cash flow generation for well positioned companies, we carefully assess the extent to which companies exhibit strong capital discipline with the excess returns they generate—be it through re-investing in their business (including smart acquisitions) or returning capital to shareholders in the form of dividends and/or share repurchases. In addition, strong balance sheets are an important consideration in helping companies ride out heavy investment cycles or short term competitive pressures.

Given the legacy of state ownership and influence in the communications sector, good governance and shareholder-aligned incentives are particularly important and government objectives also impact the regulatory environment in which service providers operate. For example, governments seeking revenue sources to help balance their budgets may raise the cost of spectrum, the lifeblood of the wireless communications industry, or impose additional taxes on these essential services.

We also exercise a valuation discipline that focuses on enterprise value based free cash flow, normalising for where each company is in its investment cycle, adjusting for recurring “non-recurring” items, pension deficits and the like. We believe this gives us a differentiated view of the long term sustainability of free cash flow and by extension, intrinsic value and potential shareholder returns.

Given the tremendous impact technology developments have on the costs, popularity and form of communications going forward, the telecom sector also presents numerous thematic opportunities and risks. We focus on how well our companies are positioned relative to these, but also recognise the inherent uncertainty around the impacts of technology over the very long term. It is our belief that scale players in disciplined markets, that have the capacity and discipline to re-invest appropriately in their businesses, also have the best chance of monetising future opportunities, as well as minimising the downside risks these changes may present.

* * *

Note: In an effort to share the diversity of talent and insights from our broader GIR team, we feature a different GIR analyst each quarter. Please note that not all analysts manage directly in your portfolio. However, each analyst's research is shared broadly across the research team to leverage relevant insights for your portfolio.

Biographies

Andre Desautels, CFA

- Member of Wellington Management's Global Industry Research Group
- 20 years of professional experience; 10 years at Wellington, with a primary focus on global telecommunications companies
- BA – Finance and International Business – McGill University
- Prior to joining Wellington Management, Andre worked at Trilogy Advisors LLC, Bolton Tremblay, and HSBC

Catherine Gunn, CFA

- Member of Wellington Management's Global Industry Research Group
- 10 years of professional experience; 6 years at Wellington; 3 years covering the telecoms services sector with a primary focus on telecommunications companies based in Asia
- BA – Economics – University of Cambridge
- Prior to joining Wellington Management, Catherine worked at Sanford C. Bernstein and Morgan Stanley

Account ID : 65D8
Reporting Currency Code: GBP
Portfolio Manager: Martin

Dorset County Council - GRE

Holdings Summary by Country-Equity

March 31, 2016

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Country	Cost	Market Value	Pct Total	Yield
Cash/Cash Eq				
Euro Currency	*	*	*	-0.37
United Kingdom	*	*	*	0.48
United States	1,005,619	1,007,967	0.61	-0.05
Total Cash/Cash Eq	**1,005,620**	**1,007,967**	**0.61**	**-0.05**
Equity				
Australia	1,712,884	1,870,685	1.12	5.05
Austria	141,806	101,580	0.06	1.49
Belgium	1,410,119	1,370,090	0.82	2.13
Canada	3,283,547	3,776,396	2.27	2.99
Denmark	413,577	470,553	0.28	0.62
France	6,445,101	6,778,377	4.07	3.95
Germany	3,123,206	3,493,717	2.10	1.82
Hong Kong	792,123	920,604	0.55	5.06
Ireland	949,580	1,004,652	0.60	2.59
Israel	1,190,828	1,327,898	0.80	7.62
Italy	3,900,216	3,278,690	1.97	2.79
Japan	11,864,524	12,163,119	7.31	1.92
Netherlands	2,269,026	2,388,894	1.44	1.37
Norway	697,636	725,848	0.44	3.22
Singapore	727,840	815,795	0.49	3.68
Spain	920,336	828,437	0.50	3.85

Dorset County Council - GRE

Holdings Summary by Country-Equity

March 31, 2016

Country	Cost	Market Value	Pct Total	Yield
Sweden	464,608	566,361	0.34	2.01
Switzerland	1,529,458	1,515,586	0.91	5.98
United Kingdom	12,340,329	12,716,539	7.64	2.92
United States	104,749,443	109,219,006	65.66	1.54
Total Equity	**158,926,186**	**165,332,828**	**99.39**	**2.02**
Total Assets	**159,931,806**	**166,340,794**	**100.00**	**2.00**

* Indicates a non-zero value that rounds to zero.
Market Value for Fixed Income and Cash Equivalents includes estimated Accrued Interest
Yield is a market value weighted average. Yield number represents Dividend Yield for Equity Securities and Yield to Maturity for Fixed Income Securities.
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