Quarterly investment review

Dorset County Pension Fund

2nd 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 227,083,032 as at 1 April 2016.
- Closing value of GBP 240,602,011 as at 30 June 2016.
- There were no subscriptions/redemptions during the period.

Recent performance

- The portfolio returned 5.95% versus the benchmark return of 8.60% for the quarter ending 30th June 16.

Performance

Recent performance

Returns to 30 June 2016	Portfolio (Gross)	MSCI World TR	Relative
Quarter	5.95%	8.60%	-2.65%

Long term performance

Returns to 30 June 2016	Portfolio (Gross)	MSCI World TR	Relative
Year to date	8.21%	10.98%	-2.77%
Since inception 17 Dec 2015	9.56%	12.63%	-3.07%

Portfolio Return - Gross of fees/total return/GBP

[1] Annualised

Section two

Market review

- Global equities ended the quarter slightly higher, but experienced considerable volatility following the UK's surprise vote in favour of leaving the EU. US equities rallied, recovering the losses they had experienced following the UK vote. Concerns over the global economy weighed on investor sentiment, but first-quarter company profits tended to beat, albeit lowered, expectations. European equities fell over the second quarter of 2016 with peripheral markets, such as Greece, Italy and Spain, experiencing some of the largest falls as political tensions grew and investors reacted to the UK referendum. Emerging market equities ended the quarter with slight gains.

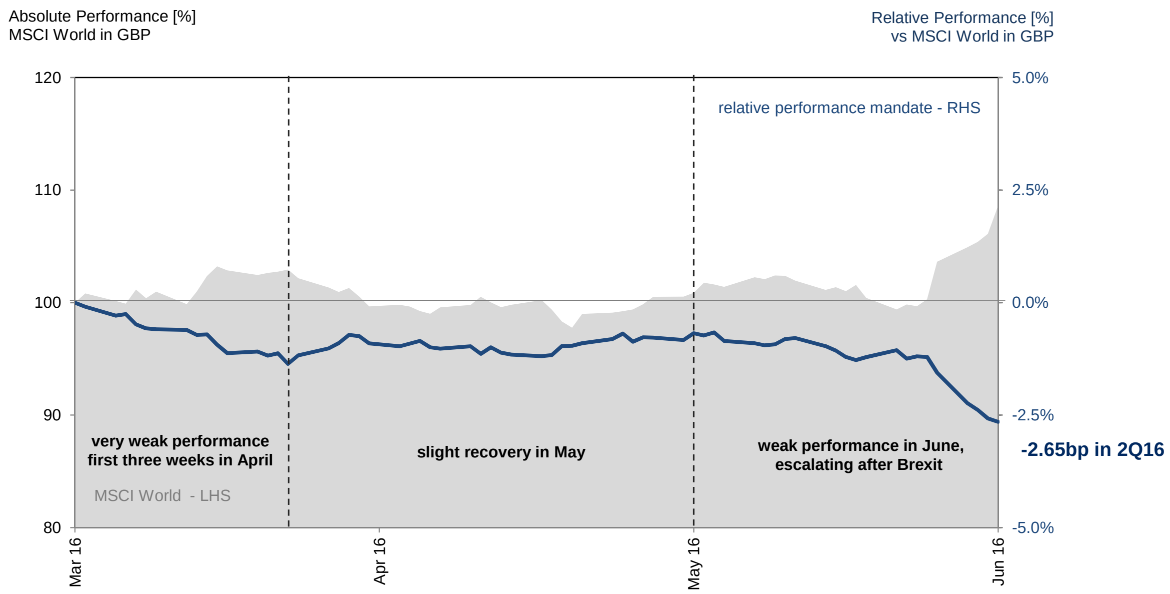
- While rising concerns about the global economy and the UK's decision to leave the EU weighed on returns, emerging markets proved relatively resilient compared to many of their developed peers. Japanese equities sold off sharply during the quarter with exporters, in particular, affected by a sharp rise in the value of the Japanese yen, which was seen as a safe haven. Chinese equities were generally weak, but rallied during June end to close the quarter with slight gains. MSCI's surprise decision not to include locally-traded A shares in their benchmark indices weighed on the market. In contrast equity markets in the Pacific ex Japan tended to rally over the second quarter. Although widespread concerns over global growth weighed on investor sentiment, monetary policy easing boosted certain markets.

Portfolio review

- Q2 was a difficult environment for our investment styles strategy with the portfolio delivering a positive absolute return of 5.95% which was -2.65% behind the benchmark return of 8.60%. In an overall challenging investment style regime, relative performance was particularly harmed by very weak returns from our preferred investment styles in April and June which escalated after the vote in the UK to leave the European Union. The investment style value strongly underperformed the MSCI index by -3.9% and was a key detractor from relative performance.

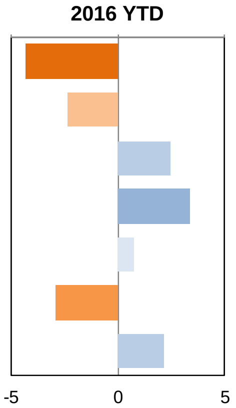
- The investment styles momentum and revisions ended the period with strongly, outperforming the index significantly (+3.8% and +2.5% respectively) however this was insufficient to offset the impact of the modest weakness in return investment style growth and the heavy losses from investment styles value against the benchmark.

Dorset County Pension Fund: Absolute and Relative Performance to 30 June 2016



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

Relative performance of investment style vs MSCI World over the last 6 months



	Jan-16	Feb-16	Mar-16	Q1 16	Apr-16	May-16	Jun-16	Q2 16	YTD 2016
Value	-1.8	0.3	1.1	-0.4	-0.4	-0.6	-2.9	-3.9	-4.8
Growth	-0.7	-0.9	0.1	-1.5	-0.9	0.4	-0.4	-0.8	-3.8
Revisions	0.8	-0.8	0.0	0.0	-0.3	0.7	2.1	2.5	2.5
Momentum	0.7	-0.6	-0.6	-0.5	-1.0	1.5	3.3	3.8	2.8
Quality	1.0	-0.9	0.1	0.1	-1.2	1.2	0.6	0.6	0.9
Risk	-4.9	1.0	1.3	-2.6	2.4	-0.7	-2.0	-0.3	-5.5
Small Cap	-0.3	0.9	1.4	2.0	1.3	-0.5	-0.7	0.2	4.1

Performance of long-only style mimicking portfolios against MSCI World.
Source: AllianzGI, June 30th, 2016.
Not independently verified.

Relative performance of global investment styles vs MSCI World Q2 2016

	Apr-16	May-16	Jun-16 pre Brexit	Jun-16 post Brexit
Value	-0.4	-0.6	-0.8	-2.1
Growth	-0.9	0.4	-0.4	0.0
Revisions	-0.3	0.7	0.7	1.4
Momentum	-1.0	1.5	0.7	2.6
Quality	-1.2	1.2	0.0	0.6
Risk	2.4	-0.7	0.1	-2.1
Small Cap	1.3	-0.5	-0.5	-0.2

Performance of long-only style mimicking portfolios against MSCI World
Source: AllianzGI, June 30th, 2016.
Not independently verified

- The quarter can be split into two parts from a performance perspective – April and post Brexit when performance of investment styles was rather weak relative to the MSCI index

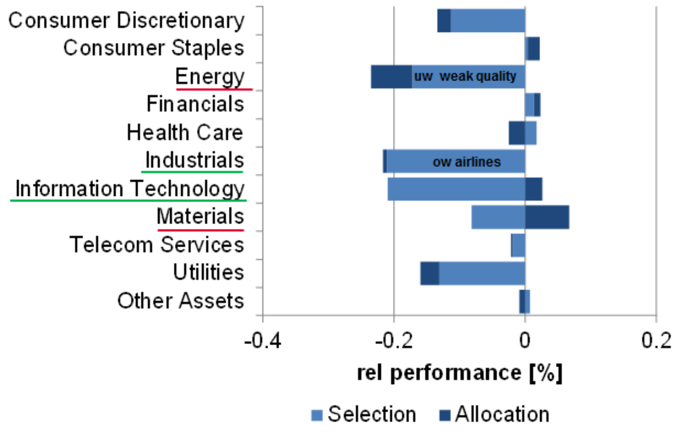
- April was a very poor month as all our investment styles were lagging - a rare event. Periods like the month of April, when all major investment styles underperform, have been observed a few times before. These were mostly isolated events, without any major impact on the relative performance of Best Styles. Only in very rare cases have these incidents occurred more frequently, and mostly in times of higher market stress such as the Saddam Crash 90/91, in the Asian Crisis 97 or in the TMT-Bubble 99/00.

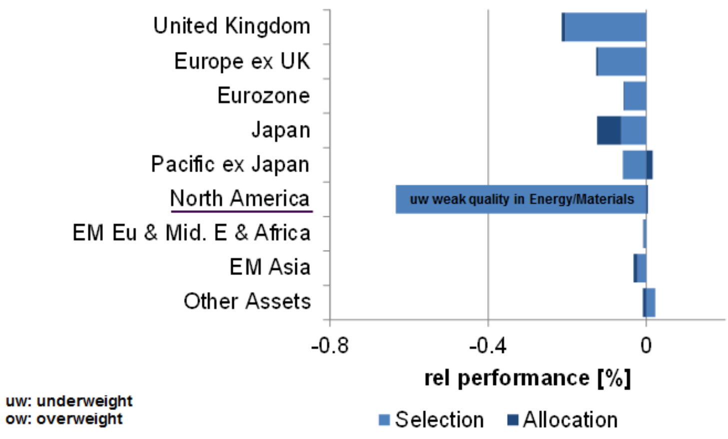
- The backdrop for investment styles was broadly neutral to positive in May and June (pre-Brexit) driven by a solid performance of trend-following investment styles momentum, revisions and growth, and handicapped by a weak performance of the investment style value.

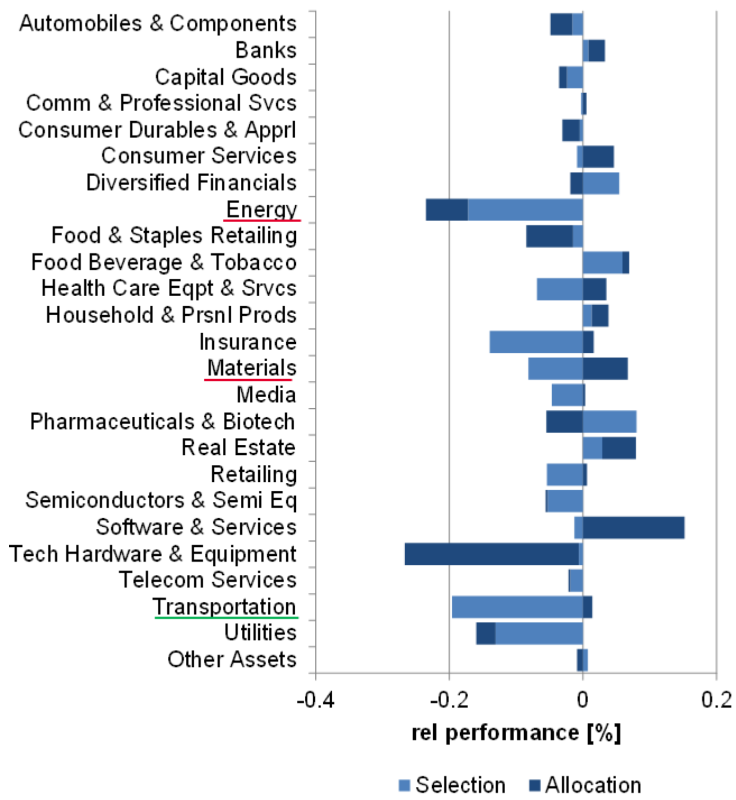
- The environment for our investment styles was weak 'post-brexit' due to weak performance of the investment styles value. The investment style momentum ended the period strongly, but this positive impact for the portfolio was diluted by the other two trend following investment style revisions and growth.

What happened in April?

Weak selection in North America and cyclical sectors

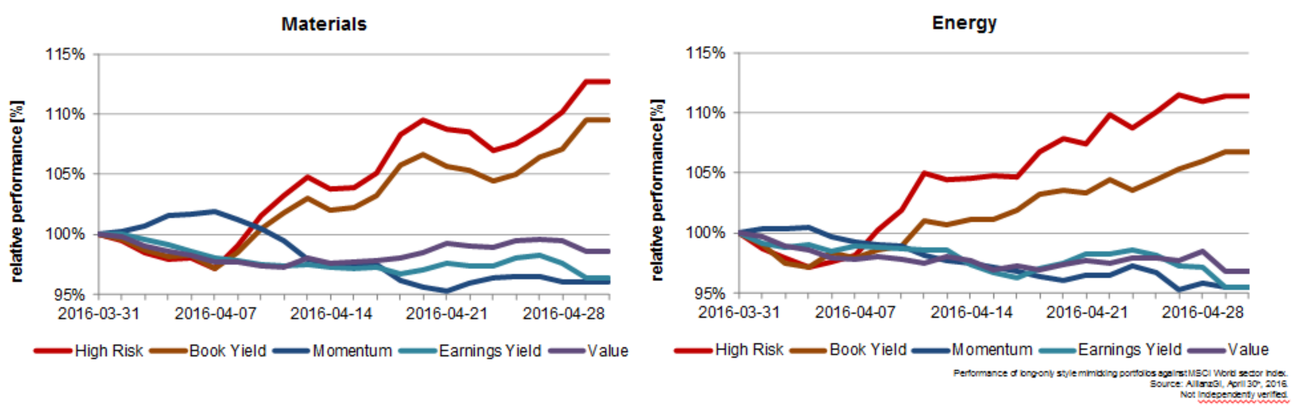






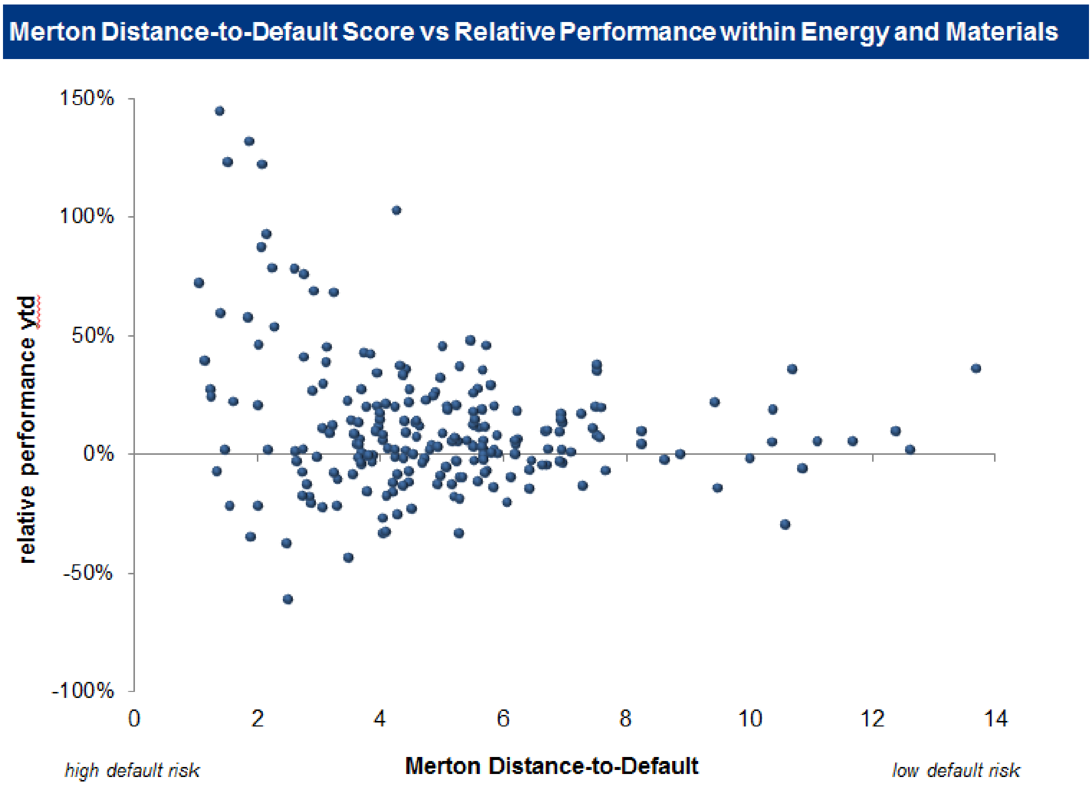
Exposure to investment style value with a bias toward high earnings yield did not capture the thriving energy and material stocks

Daily Relative Performance of Value Factors within Materials / Energy vs MSCI World sector index



- Stock selection within Materials and Energy was negative. It was not a surprise that trend following investment styles like price momentum lagged as the trend in the oil price and commodities changed.
- Our value factor didn't balance out the losses from the trend following strategies our broad value factor comprises different valuation measures with a bias towards high earnings yields.
- However high earnings yield-stocks didn't outperform in these sectors in April, which were led by high book yield-stocks and the investment style high risk.
- The outperformance of the investment factors high risk and book yield was highly correlated with poor balance sheet quality, continuous earnings downgrades and dividend cuts during the previous 6-9 months.

Weak balance sheet stocks in Energy and Materials were thriving this year



Performance of long-only style mimicking portfolios against MSCI World Materials.
Source: AllianzGI, Period: Dec 31st to May 31st, 2016
Not independently verified.

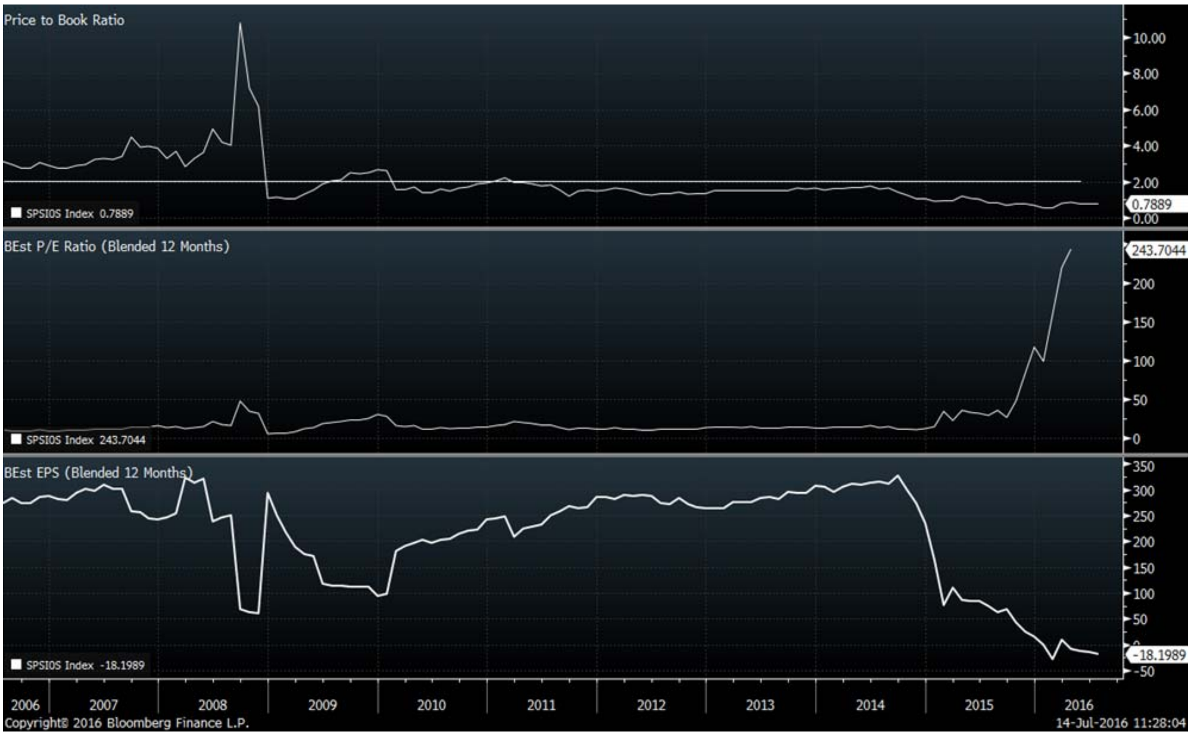
- Stocks with weak balance sheet quality (as expressed by a low distance-to-default) led within Energy, and Materials. We had an underweight to those stocks, which detracted from returns.
- Within Energy, we prefer US refineries, where a lack of capacity and declining oil prices drove share price performance such that they maintained positive price momentum and earnings revisions despite weak oil prices.
- We were underweight to contract drillers who were the first victims of a collapsing oil price as big oil producers cancelled drilling contracts. We also avoided oil producers with high production costs such as those exploiting oil sands.
- Over the quarter these stocks benefitted from recovering oil prices far more than our preferred refineries/integrated oil producers. We continue to dislike those companies with weak balance sheets and a still valuation in P/E terms.

Has our view changed?

- We continue to dislike contract drillers, and more generally those stocks in the oil equipment and service industry, as well as oil sand stocks. The chart below shows S&P Oil & Gas Equipment & Service index, revealing that those companies are currently loss making.

- The long term and rather stable Price/Earnings-ratio for those stocks was around 14x, so to revert to the mean valuation, earnings need to recover to a level of about c260, which means getting back to earnings levels last seen when oil prices were around $100, which is a demanding assumption in view.

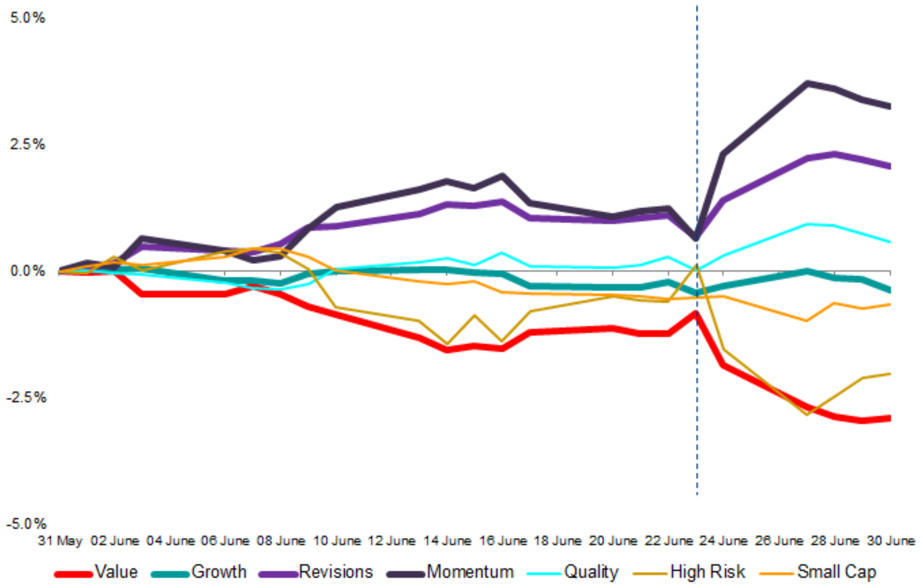
- Even then, stocks would only trade on their long term valuation average, and would therefore not be cheap.



What happened in June ?

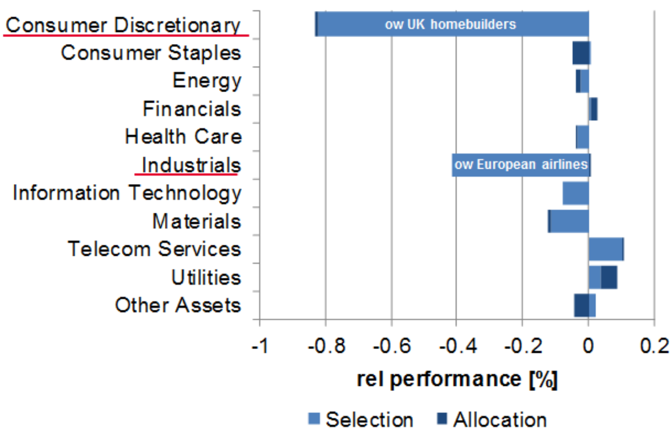
- A weak backdrop for the investment style value. The investment style momentum ended up strongly positive, but this positive impact was diluted by the other trend-following styles revisions and growth

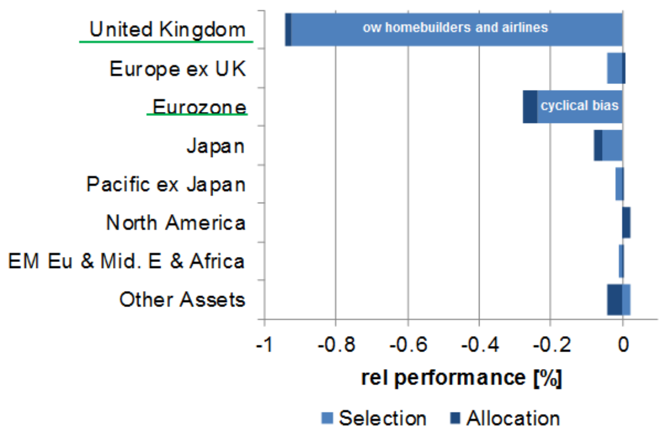
Relative Performance of Investment Styles vs MSCI World

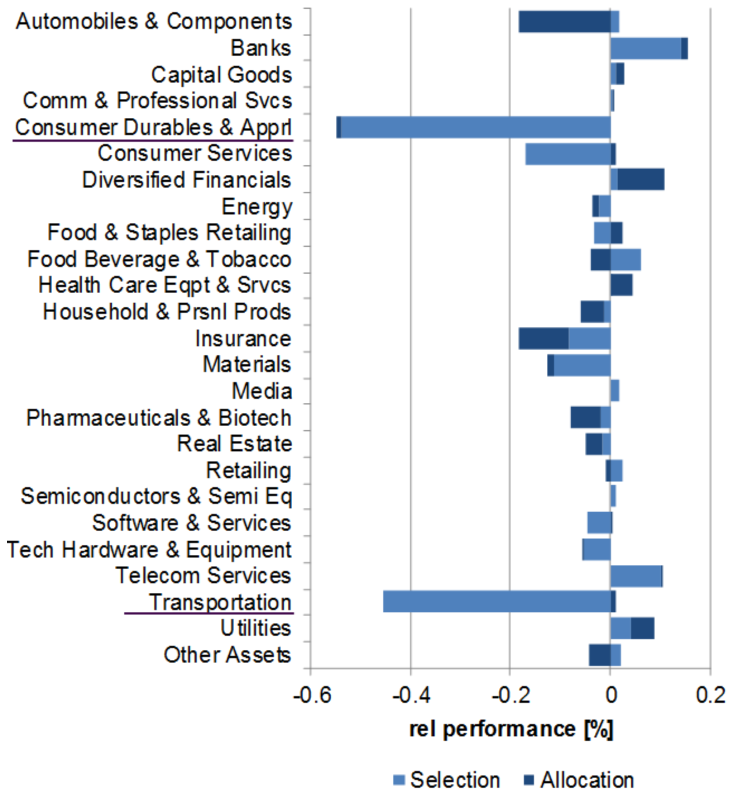


Relative Performance of Investment Styles	Jun-16 pre Brexit	Jun-16 post Brexit
Value	-0.8	-2.1
Growth	-0.4	0.0
Revisions	0.7	1.4
Momentum	0.7	2.6
Quality	0.0	0.6
Risk	0.1	-2.1
Small Cap	-0.5	-0.2

Weak selection in the UK and Europe due overweighting UK homebuilders and airlines







What was the performance impact of the Brexit vote?

- Pre Brexit we had an underweight to the UK of c. 9bps and were defensively positioned in the UK with an average beta <1. Post Brexit, this defensive positioning was overwhelmed by residual stock performance, i.e. from UK homebuilders and airlines, which detracted from performance overall.

- In the run up to Brexit, poor returns relative to performance were largely uncorrelated to Brexit probabilities (as measured by Oddschecker where there was an average probability of BREXIT implied from betting odds). The R2 in a regression of the relative returns of the mandate vs the Oddschecker leave probability was just 0.01.

- We held an overweight to stocks with a more domestic focus and were underweight the more international ones. These stocks strongly underperformed immediately after Brexit.

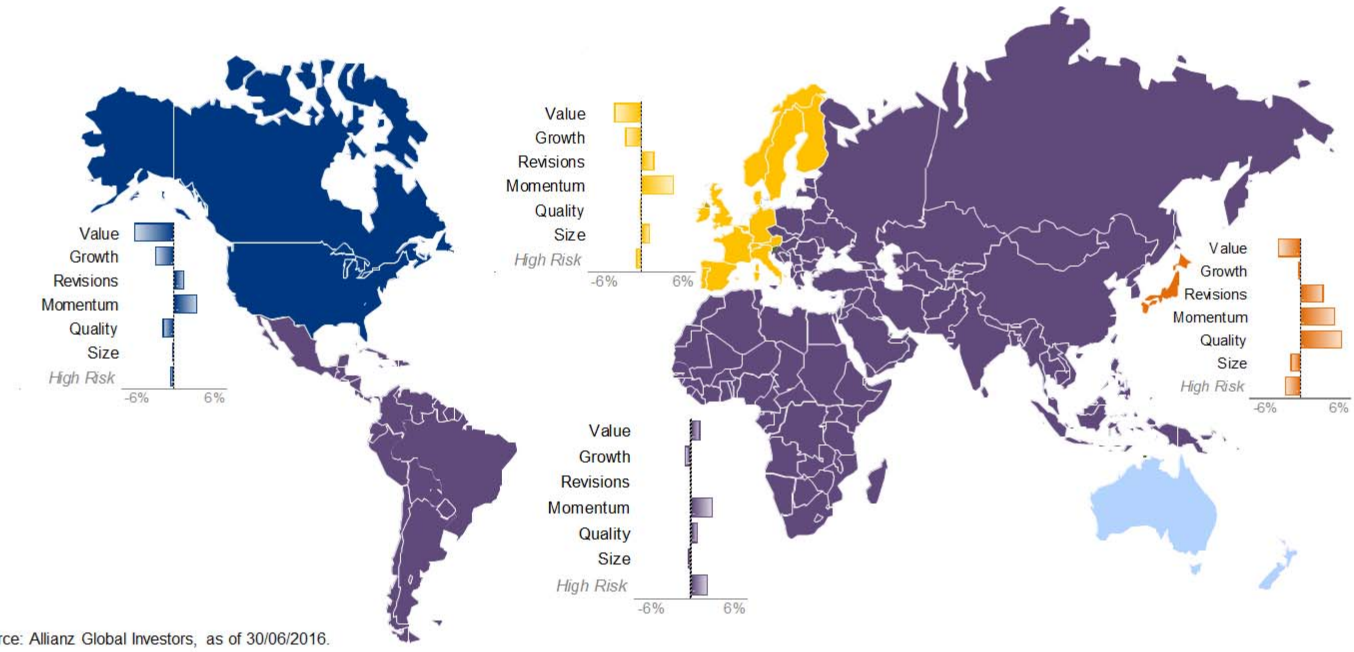
- This produced an immediate performance impact followed by the general risk-off move of equities in the days after the Brexit which also detracted from performance. The risk-off environment handicapped the investment styles value and small caps in particular, and also hit stock selection particular in Europe due to a (moderately) cyclical bias.

- The portfolio overall seeks to be insensitive with respect to the cycle, but is not necessarily insensitive to the cycle in each region. Infact, as non-cyclical stocks appear to be more attractive in terms of our investment styles in the US while being overly expensive in Europe and Japan, we have a modest preference for cyclical names in Europe and Japan, and non-cyclical names in the US.

Stock selection within regions driven by regional investment style backdrop

- The backdrop from investment styles was most challenging in the US, which is reflected in the weakness from stock selection within the region.

- The backdrop from investment styles was mostly neutral in Europe and in Japan - which is not fully reflected by the stock selection results which lag pexpectated returns given the investment style backdrop. In Japan, we did not fully capture the performance of the investment styles momentum and revisions as our lower turnover implementation of those factors had a bias towards weak Yen beneficiaries that a monthly, high turnover implementation would not have any longer.

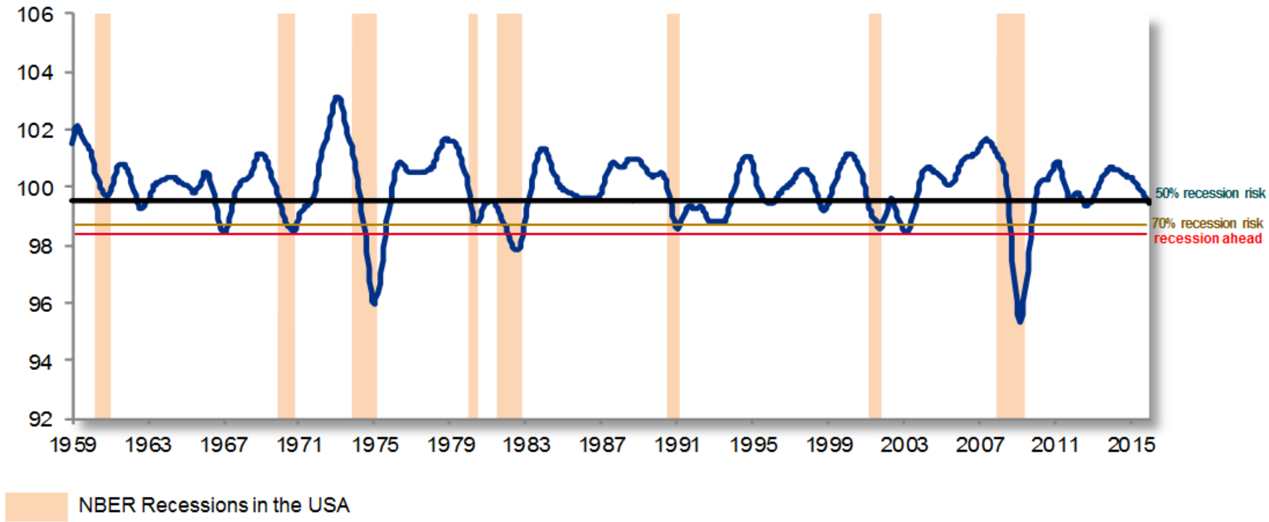


Source: Allianz Global Investors, as of 30/06/2016.

Portfolio outlook

OECD leading indicators have slightly increased recently, after weakening for 18 months and coming uncomfortably close to recessionary levels

OECD G7 Leading indicator



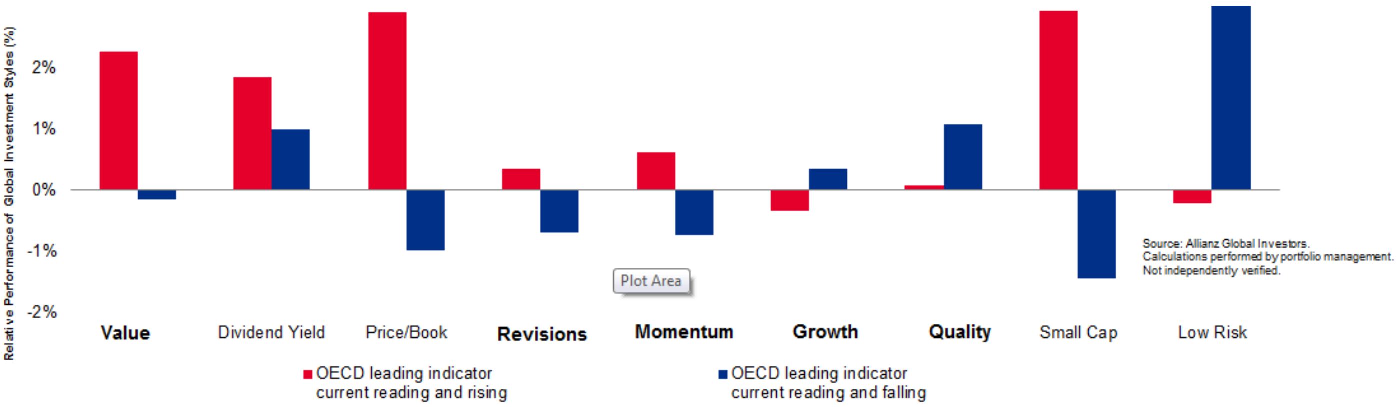
OECD leading indicators stabilising at current levels has historically meant a solid environment for our investment styles

- Recently, the OECD Leading indicators have risen slightly. . The combination of the current low level of OECD composite leading indicators together with positive momentum of these indicators historically proved to be a constructive environment for our main investment styles , in particular the investment style value.

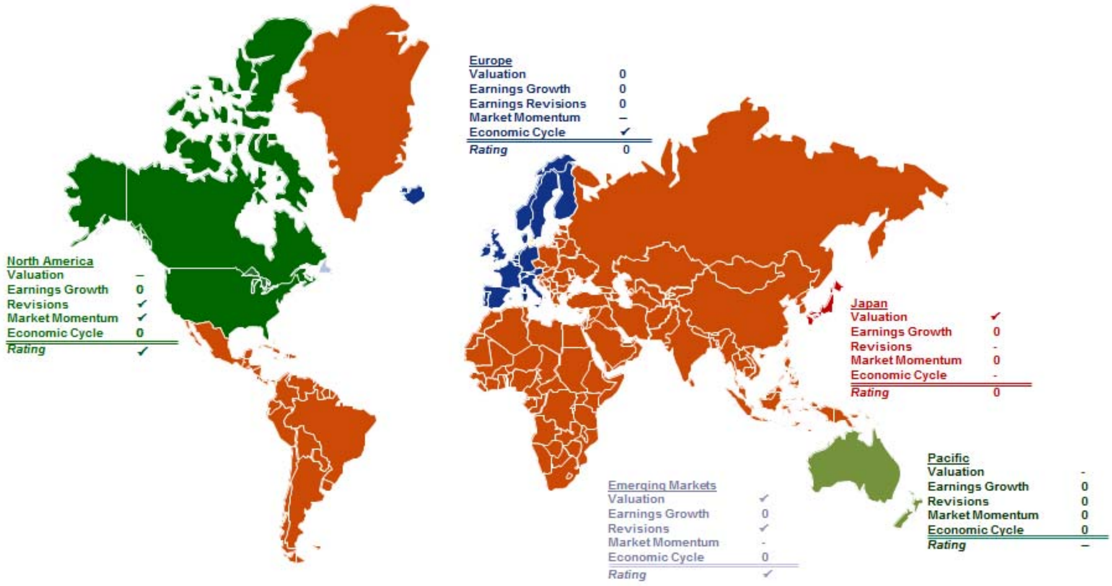
- The recent environment however with weakening leading indicators and the close proximity to to recessionary levels, has historically provided a challenging environment for our investment styles, in line with the experience over the past months. In that environment, the investment style value suffers due to its cyclical profile, while the trend following investment styles momentum and revisions are less effective around those readings of leading indicators - the weakish reading of leading indicators implies higher market volatility, and higher market volatility typically invalidates the persistence of past trend. Outright low beta investment styles like high quality and low risk do well in those markets, but both investment styles are expensive in absolute terms by historical comparison, which might mean that these two investment styles are less effective in today's environment than in the past. The investment style high dividend is not expensive relative to the past , and is doing well at current levels of leading indicators, irrespective of the momentum of that leading indicator. Therefore, within value, it makes sense to place greater emphasis on the dividend factor.

- On average, our investment styles are doing well at current levels of leading indicators, but the payoff profile is unbalanced with subdued expected returns if the momentum of leading indicators is negative, but solidly positive returns if the momentum of leading indicators is positive.

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



Investment style attractiveness of regions Q3 2016



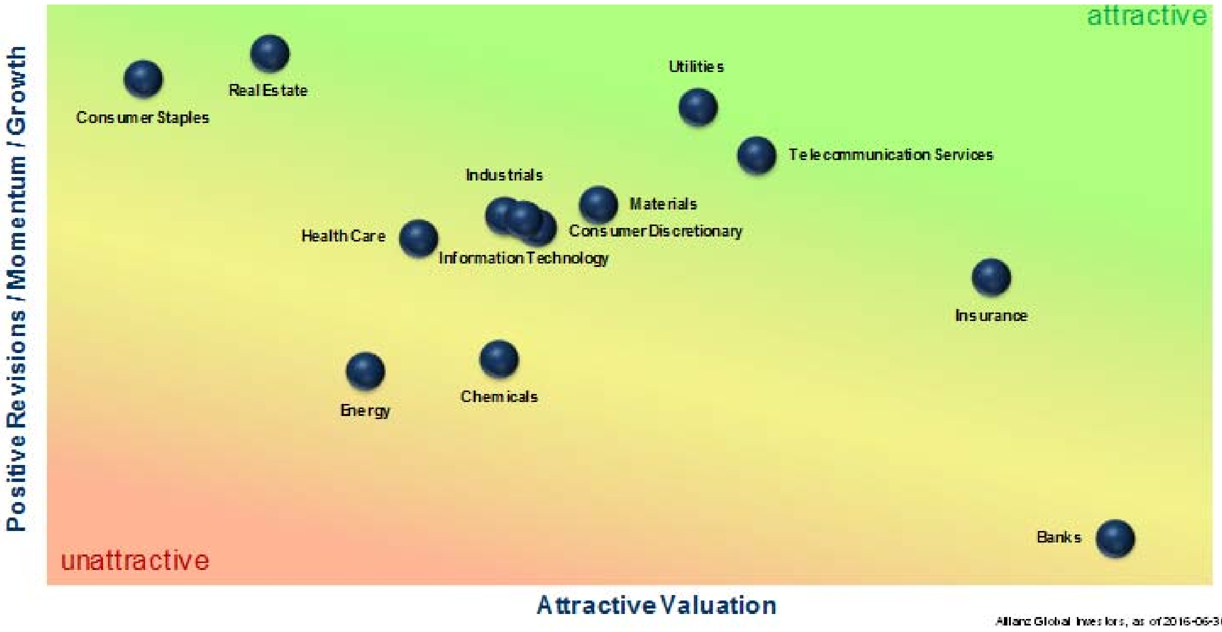
- Utilities and Telecommunication Services are the most favoured defensive sectors as they combine an attractive Valuation with strong Price Momentum.

- Currently, all cyclical sectors are equally attractive as they all trade at medium Valuation levels and slightly above medium Momentum. Energy still appears least attractive even though the sector did pick up momentum during the last months alongside Materials.

- Within Financials, Insurance remains most attractive as banks have been losing momentum significantly for some months now.

- In our portfolio, we seek a balanced exposure to cyclical and defensive sectors targeting a performance profile that is largely independent of the economic cycle.

Investment style attractiveness of global sectors in Q2 2016



Allianz Global Investors, as of 2016-06-30

- In terms of outlook for Best Styles, the long term investment style allocation with broadly half of the portfolio being invested in the investment style value, and the other half of the portfolio being invested in the investment styles momentum, revisions, growth and quality, remains unchanged.

- However, within the investment style value, we are putting more emphasis on high dividend names to better capture the value premium in the post-Brexit market and economic environment. The investment style high dividend, however, is not expensive in historical comparison; hence we consider it reasonable to put more emphasis on high dividend names within our investment style value in the current environment. The weak-ish environment reinforced by the Brexit means that interest rates will be lower for longer, which in turn also increases the relative attractiveness of high dividend strategies as bond proxies.

- In Q3 2016, Best Styles will remain 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.

Market outlook

- Looking forward, a lot rests on the outcome of negotiations of the Brexit which remain uncertain at this stage. However, one thing is clear: for now, both UK and European stocks will remain volatile. While markets appear to have recovered from the initial shock, relief could be down to many market participants still expecting the UK to remain in the EU, despite the vote to leave.

- In view of looming uncertainties in Europe, emerging markets may become more attractive again. Economic data has begun to stabilise more recently, and China's FX reserves have again increased. The USD exchange rate and commodity prices have also offered some 'respite'. However, emerging market capital accounts have deteriorated, so some caution is warranted. The US cycle is quite advanced, so investors should select their exposure carefully, not least in view of the high valuations. Overall, global growth looks set to recover. China's import figures for May were the highest since 2014 – a fact which points to a pick-up in global trade, as China is "the world's factory". With a share of 40% in global GDP, global trade is the most important growth engine for the world.

- The decision of the UK voters to leave the EU meets a world economy that is anyway in a rather fragile state. For some months, OECD global leading indicators have remained close to levels that imply an uncomfortable high probability of a recession. The recession scenario, however, remains uncertain and it is not our central scenario. In fact, OECD leading indicators have improved recently, but still these indicators remain uncomfortably fragile. The Brexit vote certainly means that the OECD leading indicators will remain in such a dire state for longer than otherwise, as the uncertainty over the future ties between the UK and the EU will most likely dampen both economic sentiment and activity.

- Looking at what the Brexit means for our investment styles, most value strategies like a low price/book-strategy and a low price/earnings-strategy are expected to struggle in the aftermath of the Brexit as the risk-off move of markets coupled with an at least marginally weaker cyclical growth outlook will hinder the performance of these higher beta and cyclical investment styles for months to come. The investment styles high quality and stable growth, on the other hand, are expected to lead in the post-Brexit market and economic environment due to their lower beta, non-cyclical profile.

- Lastly, trend-following strategies like price momentum and earnings revision strategies are generally doing well as long as the prevailing market or economic environment remains stable or only changes gradually.

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 management – Systematic Equity team

Allianz Global Investors Systematic Equity

Dr. Klaus Teloeken
PhD in Mathematics
Co-CIO Systematic Equity since 2001
Industry experience since 1996

Dr. Benedikt Henne, CFA
PhD in Mathematics
Co-CIO Systematic Equity since 2001
Industry experience since 1998

Dr. Rainer Tafelmayer
PhD in Physics
Portfolio manager Best Styles since 2006
Industry experience since 1995

Dr. Magnus Weis
PhD in Physics
Portfolio manager Best Styles since 2008
Industry experience since 2001

Dr. Michael Heldmann, CFA
PhD in Physics
Portfolio manager Best Styles since 2007
Industry experience since 2007

Karsten Niemann, CFA
Master in Economics
Portfolio manager Best Styles/ High Dividend since 2003
Industry experience since 1998

Rohit Ramesh
Master in Economics & Management
Portfolio manager Best Styles since 2009
Industry experience since 2007

Dr. Kai Hirschen, CFA
PhD in Mathematics
Portfolio manager High Dividend since 2010
Industry experience since 2005

Dr. Andreas Domke, CFA
PhD in Physics
Portfolio manager Best Styles since 2007
Industry experience since 2000

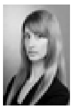
Erik Mulder, CFA
Master in Business Administration
Portfolio manager Best Styles since 2008
Industry experience since 1999

Yogesh Padmanabhan
Master in Finance & Strategy
Portfolio manager Best Styles since 2014
Industry experience since 2011

Dr. Paul Reska
PhD in Physics
Portfolio manager Best Styles since 2015
Industry experience since 2011

Dr. Joerg Hofmann
PhD in Mathematics
Portfolio manager Best Styles since 2016
Industry experience since 2014

Dr. Kuang-Ting Chen
PhD in Theoretical Physics
Portfolio manager Best Styles since 2016
Industry experience since 2015



Tanya Vasileva, CFA, CAIA
Bachelor in Business Management
Product specialist associate Systematic Equity since 2015
Industry experience since 2011

Dr. Stefanie Baller
PhD in Finance
Product specialist associate Systematic Equity since 2016
Industry experience since 2015

As at 31/03/2016

Global research headcount

	Consumer	Financial	Health Care	Industrial & Resources	Technology & Telecom & Media	ESG & Engagement	Grassroots^{SM}	Credit	**Total**
Asia	3	4	0	3	3	0	1	3	17
Europe	4	4	3	12	5	10	2	10	50
Americas	3	1	3	4	6	0	2	0	19
Total	10	9	6	19	14	10	5	13	86

- 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^{SM} Research

The cornerstone of our investment process – generating information advantage

Source: AllianzGI, as at 31 March 2016.

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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