Dorset County Pension Fund

WELLINGTON MANAGEMENT®

INVESTMENT REPORT

- Executive Summary
- Investment Review(s)
- Highlights

RELATIONSHIP MANAGEMENT TEAM

Nicola Staunton
Relationship Manager
Phone: 44-20-7126-6070
Email: njstaunton@wellington.com

Mark Woodroffe
Relationship Analyst
Phone: 44-20-7126-6301
Email: mawoodroffe@wellington.com

Alison Smith
Client Service Analyst
Phone: 44-20-7126-6481
Email: asmith@wellington.com

Andrea Jardine
Administrative Assistant
Phone: 44-20-7126-6071
Email: ajardine@wellington.com

14 July 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
Managing Director

Enclosures

Recipients:

Cc: Investments@dorsetcc.gov.uk

ACCOUNT SUMMARY

	Market Value	
Dorset County Pension Fund - GRE	181,281,060	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 June 30, 2016

	3 Mos	6 Mos	Since Incep	Incep Date
Dorset County Pension Fund - GRE	9.0	8.7	12.0	Dec 18, 2015
MSCI World	8.8	11.4	14.6	Dec 18, 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 - GRE

WELLINGTON MANAGEMENT®

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 30 June 2016

	3 Mos	*6 Mos*	*SI (1)*
Dorset CC GRE	**9.0**	**8.7**	**12.0**
MSCI World	8.8	11.4	14.6

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 December 18, 2015

QUARTERLY OVERVIEW

Despite the uncertainty about global growth prospects and the unexpected Brexit, risk assets were resilient. After a lengthy and at times acrimonious campaign, the British electorate voted to leave the European Union (EU). Following a long period of closer European integration, this historic event marks a profound change in how the UK will interact with the rest of Europe. While the uncertainty about the outcome of the vote is now behind us, we are entering a new period of uncertainty regarding the implementation of the outcome, which may heighten near-term volatility. Overshadowed by the Brexit vote was a promising European economic backdrop and the European Central Bank's (ECB's) reaffirmation of its dovish policy stance. In the US, solid economic data helped investors shrug off the US Federal Reserve's (Fed's) ramped-up hawkish rhetoric during May. Market participants were also encouraged by improving signs from China's economic data releases and Beijing's increased emphasis on currency stability.

During the quarter, the portfolio marginally outperformed the index. Stock selection within health care and consumer discretionary were the primary contributors to relative outperformance, while our holdings in financials and materials weighed on results.

Within health care, security selection in the health care services industry was a significant source of relative returns. McKesson Corporation, a medical supply and pharmaceutical distribution company, as well as a large overweight in the portfolio, saw its share price rise over the quarter after announcing an agreement with Walmart to source generic drugs and extend their drug distribution segment. We view this agreement as a positive for both companies and added to our position over the quarter.

In consumer discretionary, ecommerce giant Amazon led the way in terms of relative contributors. Our overweight position aided performance as the stock rallied after reporting better than expected earnings and large market share gains across each of its business segments globally. We believe this company has less valuation risk than the market perceives and remain overweight. We are focused on three main areas that we believe will continue to drive the stock price: Amazon Web Services, their International Retail segment and Amazon Prime.

In terms of detractors, our holdings in financials, predominantly in banks, weighed on relative results. Caixabank, a Spain-based bank, sold off during the quarter. Political and economic uncertainty created by the referendum results raised concerns about consumer confidence and what it might mean for Caixabank' s earnings. Our overweight position detracted from relative returns.. We believe the market underestimates Caixabank' s ability to improve its margins and normalising loan loss provisions as the Spanish housing market recovers. We have maintained our overweight position due our medium- to longer-term positive outlook on the company

In materials, poor stock selection in the metals and mining sector detracted from relative performance. ArcelorMittal, a France-based steel producer, saw its share price fall among other metal producers while investors digested supply and demand data in the context of a continued uncertainty about the strength of the economic recovery in China. We initiated a position in the beginning of the quarter as the outlook for metals and mining appeared to be improving. During the quarter, our Global Industry Analysts conducted various meetings with steel mills, iron ore companies, real estate groups and government officials that led us

Dorset County Pension Fund - GRE

to suspect the improvement was due to restocking and not an increase in end demand. We eliminated the position at the end of the quarter.

POSITIONING AND OUTLOOK

The second quarter ended on a volatile note after the unlikely scenario of the UK voting to leave the EU came to fruition. Continued uncertainty around the outcome of the Brexit vote and its future economic impact makes it hard to determine if the potential outcome is fully reflected across equity markets. Our Global Industry Analysts have remained true to their philosophy and process amidst this heightened volatility and have not made any wholesale changes to the portfolio. They continue to remain focused on fundamental stock selection while assessing how macroeconomic developments, including Brexit, can impact the companies in which they invest. Additionally, we continue to identify themes across industries that will drive our investment decisions going forward.

No industry has been under more scrutiny after the Brexit developments than European banks and financial services. Political and economic uncertainty stemming from the UK referendum and possible contagion effect in the EU has put rate hikes out of the question for the near future. The possibility of further rate cuts has put loan growth and asset management fees under pressure. We are more cautious and are trimming our exposure to the banks in Europe's periphery, most notably with Italian banks, in which improving asset quality was a key part of our investment thesis and seems less likely to occur in the short term. Unione Di Banche Italiane and Intesa Sanpaolo are two Italian banks where we intend to reduce exposure. Elsewhere in Europe, we are seeing the best opportunities with banks in Europe's core. We will be adding to higher quality names such as France-based BNP Paribas and Netherlands-based ING. We have greater conviction that these more stable, profitable, and higher yielding stocks will outperform their peers in a more volatile European economy.

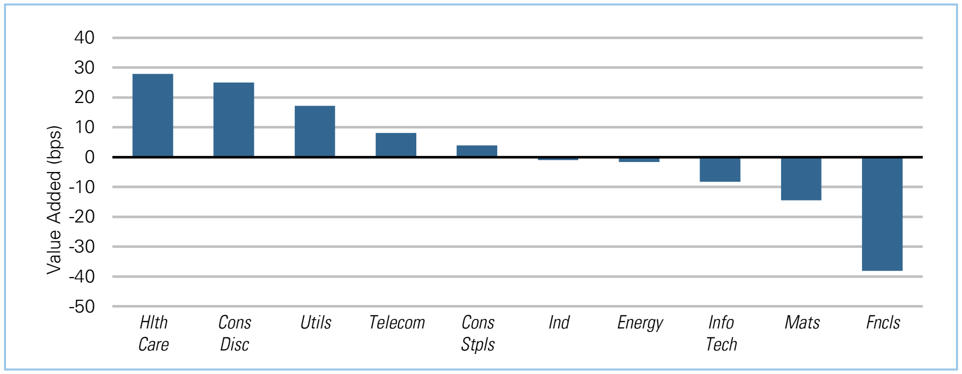
Utilities have acted as a safe haven across global equities as investors exhibited a flight to safety amidst the recent volatility in risk assets. We acknowledge that utilities may seem expensive on an absolute basis, but we believe they offer attractive yields for investors whose local 'risk free' rates have fallen into negative territory. During the quarter we have initiated exposure to European integrated utilities demonstrating promising restructuring efforts, such as Germany-based electric utility provider, E.ON. E.ON has recently spun-off its low quality businesses, which we believe makes for a less risky, more stable investment than the market appreciates. Falling German bund yields and an uncertain economic outlook should help support this company's valuation for at least the near to intermediate term. In a similar vein, we like Germany-based regulated utility provider RWE. RWE is also spinning off lower quality business segments which we believe will provide for a lower risk profile that will exhibit more stability amid rocky economic conditions.

In health care, and pharmaceuticals in particular, we believe the Brexit outcome will have a minimum impact on stocks in this sector, including those domiciled in the UK. Companies such as UK-based biopharmaceutical giant AstraZeneca typically have more costs than revenues in the UK and will modestly benefit from the sterling weakness. We view the recent pullback in valuations as a good opportunity to add to our highest conviction names and believe health care will be a safe haven for investors in the coming months. We continue to believe the market will reward innovation in biopharmaceuticals and look for companies with underappreciated pipeline drugs. For example, we like Japan-based Eisai, whose drug pipeline contains multiple Alzheimer's and oncology assets with the potential to be significant contributors to future revenue.

Team Update

We are pleased to announce that over the next twelve months, Michael Masdea will begin transitioning from his role as a Global Industry Analyst covering semiconductors, to a new role as Associate Director, Global Industry Research. Michael will join the current management team, led by Mark Mandel, Director, Global Industry Research, and will help to oversee and lead the Global Industry Research Team. Importantly, we do not anticipate any changes to Michael's responsibilities in the near-term. We are in the early stages of conducting a search for an experienced analyst to replace Michael, but in the interim he will continue with his current responsibilities – covering the semiconductor industry and managing sleeves across the Global Industry Research platform on behalf of our clients.

SECTOR ATTRIBUTION



Health Care(+)

Bristol Myers Squibb

- US-based pharmaceutical company
- The company released strong first quarter earnings and raised guidance for the remainder of the year. Meaningful higher-than-expected sales of their innovative products, Opdivo and Eliquis, drove top-line growth.
- We favour this stock and it remains one of our top overweights in the portfolio

Consumer Discretionary(+)

DreamWorks Animation

- US-based film and television studio
- Comcast announced it will acquire DreamWorks Animation. Investor's viewed the deal favourably, boosting the stock price.
- We eliminated the position on strength and limited upside potential

Financials(-)

XL Group

- US-based specialty insurance and reinsurance provider
- XL reported first quarter results below consensus, driven by weaker operating results and lower investment income, which dampened the stock price
- We believe the market underestimates the potential synergies with XL's merger with Catlin, and remain overweight

Materials(-)

Smurfit Kappa

- Ireland-based paper and paperboard packaging manufacturer and converter – operating in Europe and in Latin America
- Shares fell sharply amid the political and economic uncertainty created by the pro-Brexit vote
- We believe Smurfit Kappa has sharp operational focus and has managed effectively through temporary headwinds and we continue to hold the position

TOP TEN ACTIVE POSITIONS

Company	Industry	Portfolio*	Index	Active Weight
Amazon.com	Retailing	2.7%	0.9%	1.8%
Bristol-Myers Squibb	Pharm, Biotech & Life Sciences	1.9	0.4	1.5
Pioneer Nat Resource	Energy	1.5	0.1	1.4
Exxon Mobil	Energy	0.0	1.2	- 1.2
Newfield Exploration	Energy	1.2	0.0	1.2
Bank of America	Banks	1.5	0.4	1.1
NextEra Energy	Utilities	1.2	0.2	1.1
Johnson & Johnson	Pharm, Biotech & Life Sciences	0.0	1.0	- 1.0
XL Group	Insurance	1.0	0.0	1.0
McKesson	Health Care Equip & Svcs	1.1	0.1	1.0

*Percent of Equities

PORTFOLIO STATISTICS

	Portfolio	Index
Market Cap - Asset Weighted	$75.6 bil	$99.8 bil
Yield	2.2%	2.6%
Number of Equity Names	276	1626
Number of Countries	21	23
Turnover	—	—
Valuation		
EPS Growth (Next 3-5 Years)	11.9%	9.8%
P/E (Projected)	14.4x	14.3x
P/B	2.1x	2.1x
Risk Characteristics (Projected)		
Tracking Risk	1.6%	—
Beta	1.03	—
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.

Prachi Shah, CFA
Global Industry Analyst
Coverage - Latin American and European Retail

Emerging Market Consumer Stocks: Savvy Shopping

Persistent unemployment, a shift from spending to saving and limited flexibility in the face of mounting debt burdens have dimmed growth expectations for developed market economies. By contrast, the long-term outlook for emerging markets is considerably brighter, propelled by rising income levels, urbanisation and favourable demographics. Investor interest in emerging markets in general – and stocks of companies with direct exposure to consumer spending in these geographies in particular – comes as no surprise. That said, in our experience the duration of megatrends is often underestimated.

We focus our research on identifying companies we see as having the best long-term opportunities. The broad macro background for each market within the developing world is certainly a consideration. For example, in China opportunities are arising as consumers rapidly develop higher-end and more specialised tastes. In many Latin American countries limited income growth suggests improving productivity performance to compete on price may offer the best prospect for growth – at least until the middle class solidifies. Countries, currencies and cultures vary widely; winners will be those who tailor their efforts accordingly to create differentiated and defensible moats. We spend considerable time assessing critical company-specific factors that we believe will influence outcomes, such as a company's business model, competitive advantages, corporate governance, management quality and ability to execute on plans (and adjust should circumstances warrant). We are also mindful of disruptive forces, including digital platforms and fragmentation as individual consumers create their own "ecosystems" and brand identities.

Increased discretionary spending will benefit multinational companies as well. China is a key growth area for everyone from Coke to General Motors; however, there is some evidence to suggest that many local companies maintain a decided advantage over their Western counterparts. China's beer market, the largest in the world, demonstrates this concept; domestic companies have seen market share increase dramatically in recent years, while Western companies have struggled to gain a foothold. The protectionist market in Brazil also presents an opportunity for local brands to have a competitive advantage and stronger customer appeal over larger foreign players.

The long-term, big picture for the emerging markets consumer is bright and we believe selectively investing in relative winners offers attractive return prospects.

* * *

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.

Biography

Prachi Shah, CFA

- Member of Wellington Management's Global Industry Group. Prachi joined the firm as a research associate in Wellington Management's Equity LAUNCH Program and is now a global industry analyst.
- Primary focus on Latin American and European retail
- MBA- from the University of Chicago, Booth School of Business and BS- in biomedical engineering, cum laude, from Boston University

Dorset County Pension Fund - GRE

Holdings Summary by Country-Equity

June 30, 2016

WELLINGTON MANAGEMENT®

Country	Cost	Market Value	Pct Total	Yield
Cash/Cash Eq				
Euro Currency	25	25	*	-0.39
United Kingdom	181	181	*	0.48
United States	963,441	974,857	0.54	-0.01
Total Cash/Cash Eq	**963,648**	**975,063**	**0.54**	**-0.01**
Equity				
Australia	2,418,858	2,637,998	1.46	4.81
Belgium	1,444,682	1,485,264	0.82	2.15
Canada	2,574,636	3,281,831	1.81	3.36
Denmark	531,982	636,936	0.35	0.61
Finland	1,029,289	1,102,446	0.61	3.13
France	6,695,370	6,857,028	3.78	4.28
Germany	4,917,551	5,304,049	2.93	2.68
Hong Kong	792,123	1,035,974	0.57	4.84
Ireland	1,085,449	1,085,720	0.60	2.00
Israel	936,036	986,975	0.54	8.12
Italy	3,543,182	2,937,654	1.62	4.54
Japan	11,581,833	12,956,004	7.15	2.28
Netherlands	3,035,511	3,046,079	1.68	3.26
New Zealand	167,206	186,103	0.10	3.29
Norway	805,000	1,012,016	0.56	1.85
Singapore	782,515	879,458	0.49	3.80

Dorset County Pension Fund - GRE

Holdings Summary by Country-Equity

June 30, 2016

Country	Cost	Market Value	Pct Total	Yield
Spain	920,336	732,184	0.40	4.58
Sweden	789,658	970,748	0.54	1.64
Switzerland	1,615,868	1,703,755	0.94	5.87
United Kingdom	13,834,645	14,939,010	8.24	3.23
United States	101,663,638	116,528,767	64.28	1.55
Total Equity	**161,165,367**	**180,305,997**	**99.46**	**2.17**
Total Assets	**162,129,014**	**181,281,060**	**100.00**	**2.16**

* 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.
This information is confidential and the recipient agrees to use this information solely for the lawful and appropriate purpose(s) intended by the parties.