Dorset County Council

4Factor Global Equity Strategy

Investment report for the quarter ended
31 March 2016

Investec
Asset Management

4Factor™ investment philosophy and process

Traditional factors

High quality

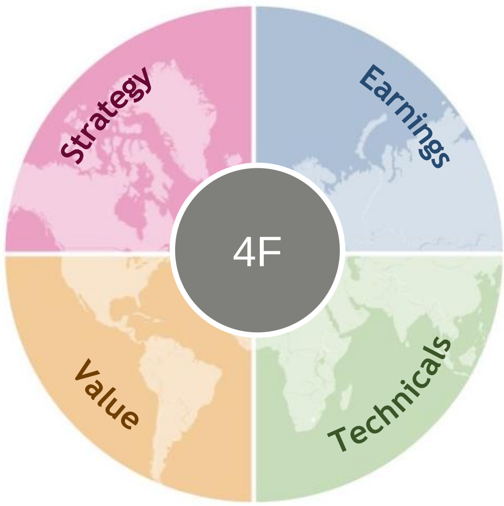
Companies that have created value for their shareholders in the past

- High level of CFROI versus cost of capital
- Returning cash to shareholders and prudently expanding
- Strong management teams who are improving margins and driving cashflow

Attractive valuation

Companies that look cheap relative to the market

- CFROI based valuation
- Weighted P/E
- Sector relative metrics



Behavioural factors

Improving operating performance

Companies whose profit forecasts are being revised upwards

- Positive revisions for FY1 and FY2 relative to the market
- Analysts moving estimates in the same direction

Increasing investor attention

Companies whose relative share prices are trending upward

- Share price above rising 50 and 200 day moving averages

Our four factors can individually drive share prices and in combination can drive consistent outperformance

NEGATIVE — POSITIVE

4	5	6	7	8	9	10	11	12	13	14	15	16

Stocks score between 1 and 4 on each factor. Stocks scoring 12 and above are reviewed weekly for possible purchase.

4Factor™ Framework

>3000 global stock universe

Stage 1	4Factor™ screen Ranks universe to identify high scoring **'Good Ideas'**	Disciplined idea generation
Stage 2	In-depth, fundamental company research Identifies our **'Best Ideas'**	Qualitative evaluation
Stage 3	Construction of high conviction, risk-aware portfolios	Rigorous decision discipline
Stage 4	Continuous focus on portfolio integrity	Active risk/reward management

No assurance can be given that the strategy will be successful or that the investors will not lose some or all of their capital. Internal parameters and process which are subject to change, not necessarily with shareholder notification.

Executive summary

Quarter ended 31 March 2016

Investment strategy

This strategy aims to achieve long-term capital growth in a diversified portfolio of the more liquid equity securities around the world.

Performance objective

The objective is to outperform the MSCI World Index NDR by 2-3% over a three year rolling average, gross of fees.

Performance commentary

The portfolio generated positive returns over the quarter but was behind the performance comparison index. On a sector level, financials, materials and energy were the biggest detractors from returns, whereas information technology and consumer staples positively contributed to performance.

Within financials, our holdings in Citigroup, Jones Lang LaSalle (JLL), Alliance Data Systems, Sumitomo Mitsui Financial Group and Morgan Stanley negatively impacted returns. Shares in JLL, the US real estate broker, pulled back on concerns that macroeconomic volatility may reduce appetite for large real estate transactions, whereas sentiment towards global banks, like Citigroup, deteriorated during the quarter on worries about asset quality and loan exposure to the energy sector.

The portfolio's healthcare stocks, including Valeant Pharmaceuticals International, Shire, AmerisourceBergen and Teva Pharmaceuticals Industries, came under pressure. On the back of a tough fourth quarter amid criticism over its pricing model, Valeant was hit by yet more bad news.

Stock selection in the materials and energy sectors hampered returns over the quarter. Detractors included US oil refiner Marathon Petroleum and Japanese chemicals stocks Nitto Denko and Sumitomo Chemical. Marathon faced ongoing concerns surrounding its Master Limited Partnership deal, whereas Nitto lowered its earnings guidance on slowing smartphone growth, and reports that Sumitomo was stepping up its capital spending weighed on the shares.

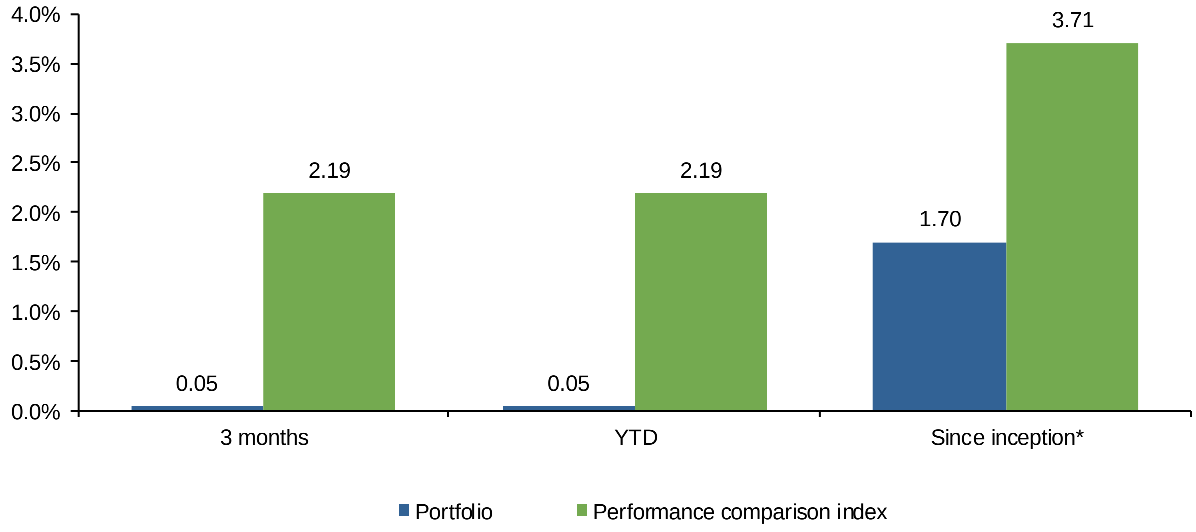
The portfolio's defensive holdings, like Tyson Foods, Public Service Enterprise Group, Japan Tobacco, Philip Morris International and AT&T, performed well. Tyson Foods, the US meat processor and marketer, gained on strong earnings, while management delivered an optimistic outlook and increased its share buybacks. Meanwhile, tobacco stocks were underpinned by good industry pricing and slowing volume declines.

Information technology names Mellanox Technologies, Vantiv and Amdocs added to returns. Elsewhere, power generator manufacturer Generac rallied on strong numbers, and US broadcaster CBS's revenue boosting plans were well-received.

Factor performance was unsupportive over the quarter – the underperformance of Earnings offset the outperformance of Strategy and Technicals had a neutral impact as markets saw a strong rotation later in the quarter. This coincided with a clear rebound in Value linked to the outperformance of energy, materials and emerging markets.

Performance

Periods ended 31 March 2016



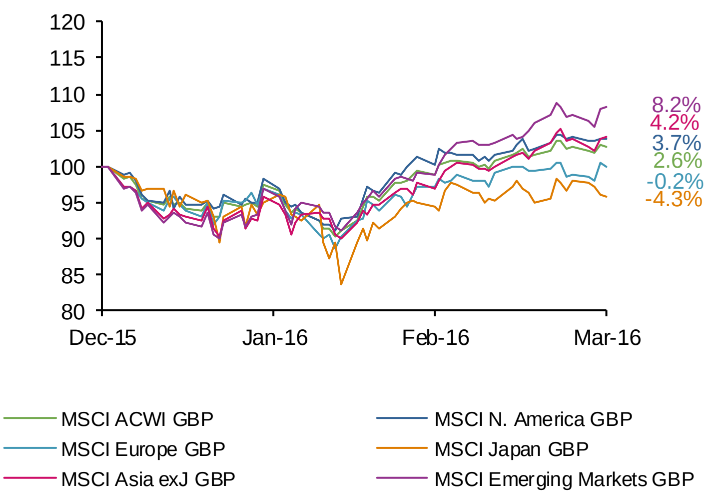
Market value : GBP 166,965,953

Past performance should not be taken as a guide to the future, losses may be made. Data is not audited.
The investment strategy and performance objective will not necessarily be achieved.
Source: Investec Asset Management. Returns are stated gross of fees.
Performance comparison index: MSCI World NDR, in GBP.
*Inception date: 17 December 2015.

Global equity market background

Quarter ended 31 March 2016

World equity indices



Source: Bloomberg, total return.

It was one of the worst starts to the year for global equities on record, but a rebound in global oil prices and hopes of further central bank action encouraged investors to put their money to work in riskier assets and markets bounced back in the latter part of the quarter

Emerging market equities staged an impressive rally, whereas Japanese and European stocks suffered the biggest drawdowns over the quarter

March saw a rotation out of high quality, growth stocks and into out-of-favour value stocks. Low Volatility continued to do well alongside High Dividend Yield although Momentum struggled

Healthcare and financials stocks underperformed as pharmaceutical companies faced ongoing pressure to cut drug prices, while banks were hit by worries about rising bad loans and margin pressures from negative rates

Market background

The first quarter of 2016 was a tale of two halves. Much of the market narrative was centred on concerns over Chinese currency devaluation, widening credit spreads in energy amid falling prices, emerging market currency weakness and slowing global growth – particularly in China where fears about a 'hard landing' triggered significant capital outflows out of onshore and offshore markets. All of which led to one of the worst starts to the year for global equities on record. At the same time, volatility and correlations rose, highlighting broad-based concern. Investors duly cut their risk positions in favour of perceived safe-haven assets, such as gold, the Japanese yen and highly-rated government bonds.

However, global stock markets saw a strong rotation in the second half of the quarter as investors sold out of their winners and previously out-of-favour stocks rebounded from oversold levels. The recovery in global oil prices – Brent crude oil hit a 12-year low of $27.10 on 20 January and closed out the quarter shy of $40 a barrel – together with hopes that central banks would take further action to prop up economic growth encouraged investors to put their money to work in riskier assets.

Having plumbed multi-year lows in January, emerging market equities staged an impressive rally, with Brazil leading the charge as investors welcomed fresh moves to impeach President Dilma Rousseff on hopes of much-needed reform. By contrast, Japanese stocks lagged behind in relative terms as a stronger Japanese yen contradicted the Bank of Japan's negative interest rate policy introduced on 29 January. It was also a particularly tough quarter for European stocks, driven by weak sentiment surrounding financials.

Elsewhere, UK financial markets were starting to show signs of uncertainty surrounding the upcoming referendum on EU membership on 23 June, with sterling depreciating against the US dollar. While the US economy appears to be tracking along well despite recession talk, dovish remarks from the Federal Reserve prompted investors to question whether the rally in the US dollar has run its course.

Factor performance was unstable over the quarter. With the rotation in markets, it is perhaps no surprise that Momentum pulled back after a strong start to the quarter and Value rebounded strongly. Low Volatility, which has been performing well for a while, continued to do well alongside High Dividend Yield. While Small Cap strategies found favour in March after significant underperformance at the start of the quarter.

With global growth concerns brought back to the fore, the more defensive sectors of utilities and telecommunication services found favour with investors. These dividend-paying sectors have indirectly benefited from the pullback in long-dated government bond yields during the quarter. Central banks continue to push the short end of the yield curve down relative to the longer end through low rate and quantitative easing policies and investors have had to move further out the curve in the search for yield. Tobacco was one of the best performing subsectors, supported by good quarterly earnings and favourable industry pricing trends.

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The shift in market leadership in March saw previously heavily-punished energy and metals & mining stocks rebounding strongly. Restructuring efforts and slowing supply has boosted confidence around energy and materials companies and this has supported the rotation out of financially-stronger companies and into leveraged names.

More surprising, perhaps, was the sell-off in biotechnology and life sciences stocks as pricing pressures intensified, while global growth worries triggered a broad sell-off in automobiles stocks over the quarter.

Financials was one of the worst performing sectors in the index over the quarter (representing over a fifth of the index) amid fears about a turn in the asset quality cycle globally and worries about rising bad loans from the energy sector and emerging markets. Banks found themselves firmly under the spotlight as investors fretted about the impact of negative borrowing rates on net interest margins, while weak capital markets and consumer lending trends weighed on diversified financials.

Global equity market outlook

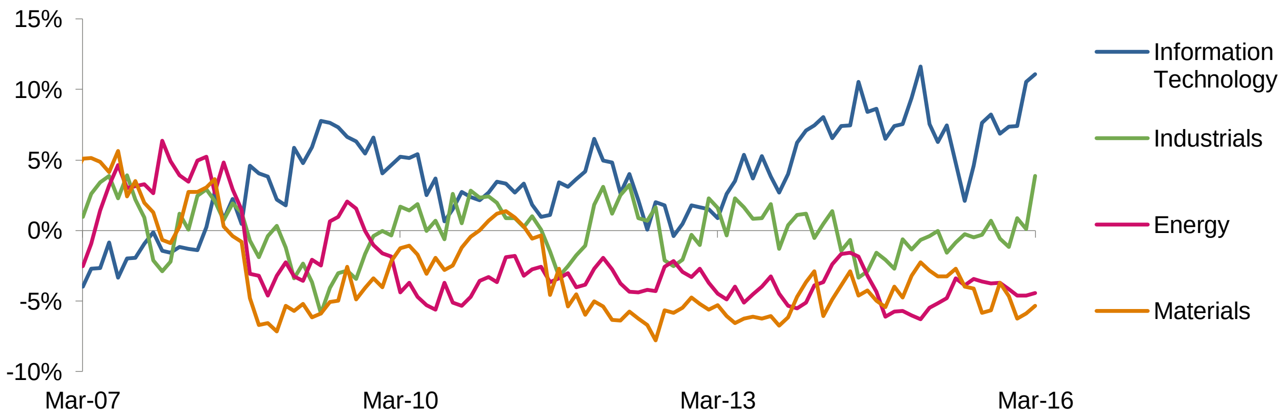
Quarter ended 31 March 2016

Market outlook

There can be no denying that it has been a fairly poor fourth-quarter 2015 earnings season, with company outlooks generally disappointing – resulting in another leg down for corporate profit expectations for the year. It seems that the perennial issue of slow top-line growth has persisted, but what was interesting to see this time around was that cost trends provided much of the disappointment. This is perhaps surprising in an environment of weak input prices. However, we believe this also potentially reflects some tightening in labour markets, which could prove supportive for consumption. With the first-quarter earnings season fast-approaching, markets are not overly optimistic about growth, suggesting that a good deal of negativity has already been discounted.

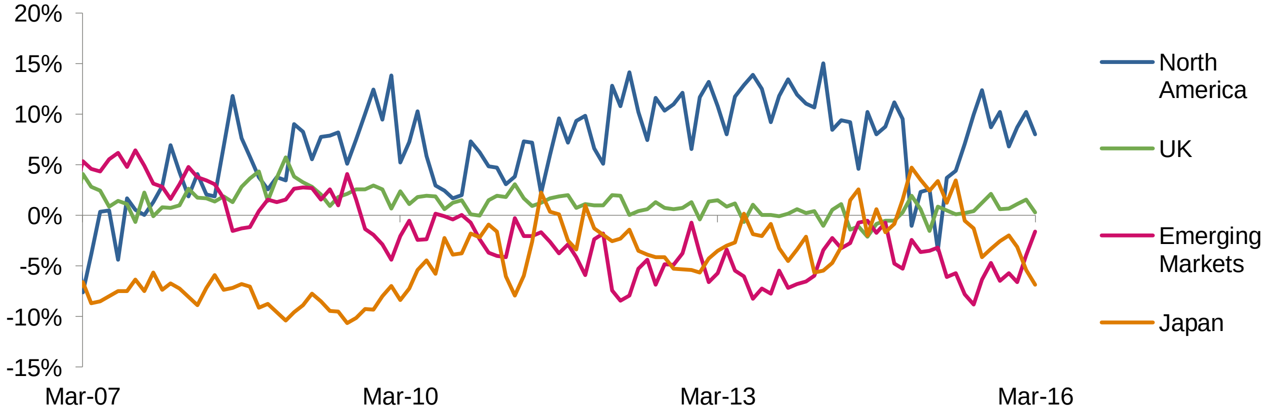
However, the sharp rally in some of the more distressed 'value' stocks is rather puzzling. As yet, we see no evidence of an improved fundamental backdrop for energy and materials stocks – which have rebounded strongly – and the market needs to decide whether this is the start of a long-awaited rally in value stocks or a 'dead cat bounce' (a temporary recovery after a prolonged period of decline). In this regard, first-quarter results could prove pivotal in potentially demonstrating that analysts have become too pessimistic about value stocks. With value looking particularly cheap and with technical momentum improving, the addition of positive earnings revisions could prove the catalyst for a more sustained change in market leadership.

GICS Sector, Top and Bottom Universe Underweight & Overweight 4Factor™ Steers



Source: Investec Asset Management. Sector weights of the top quartile of 4Factor™ scores relative to the 4Factor™ universe.

Region, Top and Bottom Universe Underweight & Overweight 4Factor™ Steers

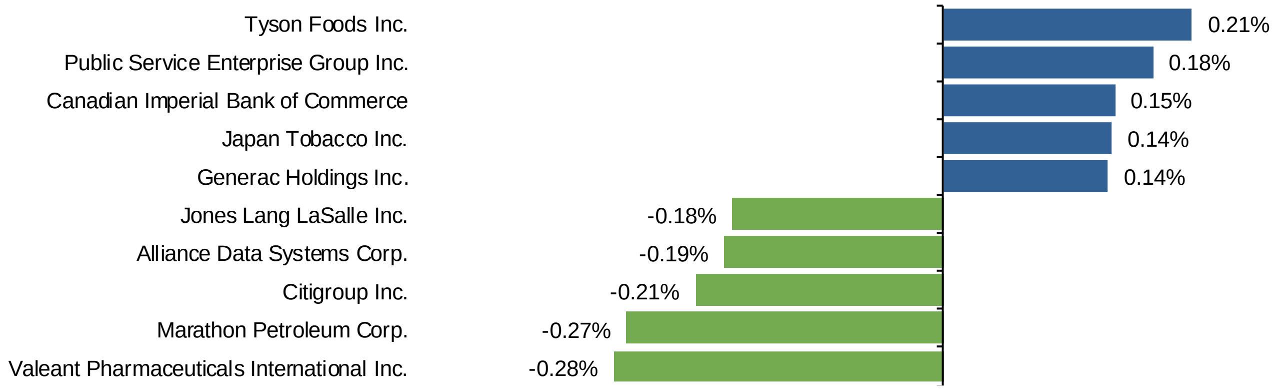


Source: Investec Asset Management. Sector and region weights of the top quartile of 4Factor™ scores relative to the 4Factor™ universe.

Performance analysis

Quarter ended 31 March 2016

Top and bottom 5 stock contributions



Source: Investec Asset Management, Factset, security attribution versus the MSCI World NDR.
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Positive contribution

Tyson Foods Inc.: US meat processor and marketer. Tyson rallied on the back of very strong results, which showed margins significantly ahead of expectations, improved sales momentum at its packaged food units and strong cash generation underpinning an enhanced share buyback. This saw the company substantially increasing its earnings guidance for 2016.

Public Service Enterprise Group Inc.: US public utility company. The company's stable earnings and dividend proved defensive amid the difficult conditions experienced by markets at the start of the quarter. Furthermore, the stock held up well when markets subsequently rallied.

Canadian Imperial Bank of Commerce: Canadian financial services provider. Canadian banks benefited from improved sentiment during the quarter. The company's operating results remained resilient despite broader turmoil in the sector globally, and management raised quarterly dividends.

Japan Tobacco Inc.: Third largest international cigarette company. The stock rallied along with other tobacco names given evidence of good industry pricing momentum and slowing volume declines. Japan Tobacco also reported robust results, while large exposures to both Japan and Russia -- which saw strong currency appreciation during the quarter -- also proved beneficial.

Generac Holdings Inc.: US manufacturer of power generators. The company reported strong fourth-quarter 2015 results, with residential generator shipments growing on an organic basis and better-than-expected shipments to telecom national account customers. This helped offset declines in mobile products sold into oil & gas and general rental markets.

Negative contribution

Valeant Pharmaceuticals International Inc.: Pharmaceutical company based in Canada. Valeant's shares fell further on a string of bad news. The company restated its Philidor earnings and withdrew guidance, was downgraded by credit rating agencies, announced an undisclosed SEC investigation, and risks breaching its debt covenants due to a late 10k filing.

Marathon Petroleum Corp: US petroleum refining, marketing and transportation company. Marathon Petroleum was negatively impacted by the market's concerns about the level of support it would have to provide its Master Limited Partnership (MLP) following the acquisition of MarkWest Energy Partners by its pipeline unit MPLX LP.

Citigroup Inc.: US multinational banking and financial services company. Sentiment towards global banks, like Citigroup, was weaker during the quarter due to falling sovereign bond yields, weaker equity markets and concern around lending exposures to energy companies.

Alliance Data Systems Corp: Provider of data-driven and transaction-based marketing and customer loyalty solutions. The company underperformed alongside other US credit card companies due to growing fears of a downturn in the US consumer credit cycle.

Jones Lang LaSalle Inc.: US real estate and brokerage company. The stock underperformed during the quarter due to concerns that macroeconomic volatility may reduce appetite for large real estate transactions.

Source: Investec Asset Management.
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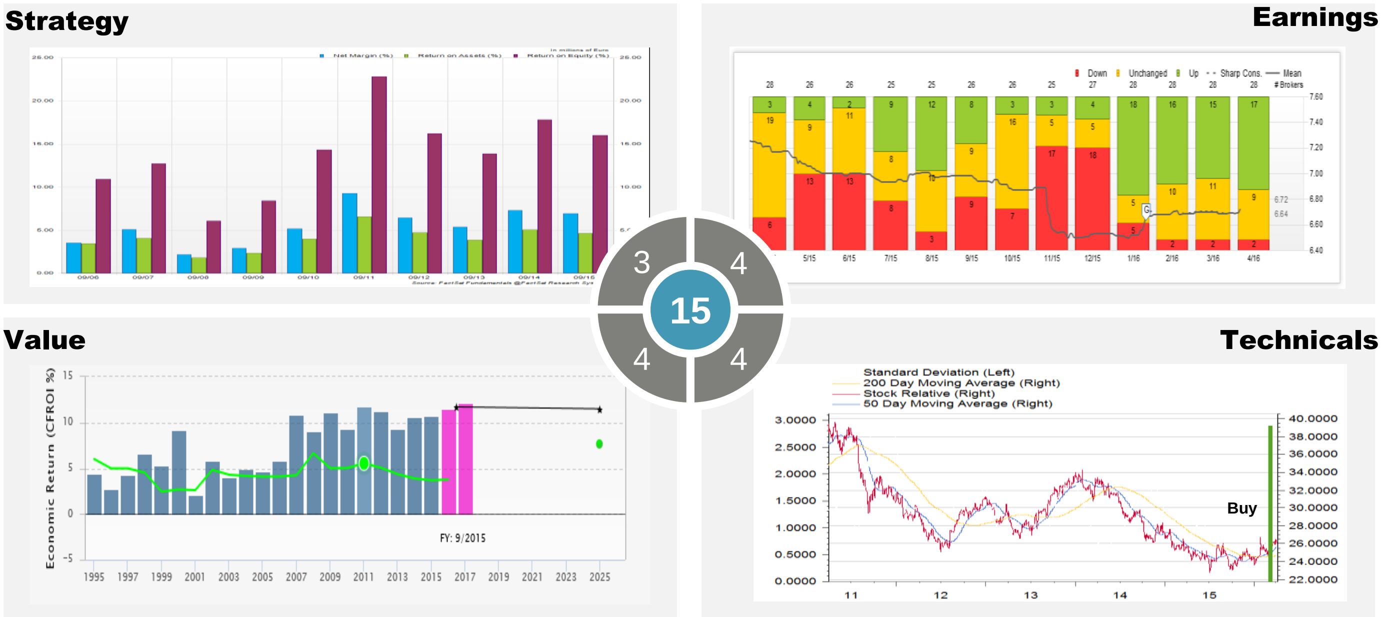
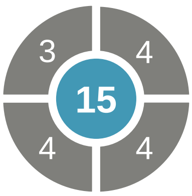
Significant transactions

Quarter ended 31 March 2016

Purchase: **Siemens AG**



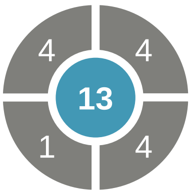
Featured purchase



Siemens AG: German electronic engineering and electronics company. Siemens has undergone a lengthy period of restructuring, in terms of both its portfolio and businesses and its operational cost base. The company is currently at an interesting juncture – while there are risks to its short-cycle businesses if macroeconomic conditions worsen, its long-cycle businesses have strong order backlogs and positive outlooks. On the cost side, margins are expected to continue improving as restructuring savings take effect, and as improved risk management on large projects shows through. At the same time, the company has been exiting underperforming assets (e.g. lighting) and has earmarked a further €14 billion of revenue (circa 20% of sales) for essentially an 'up or out' approach. Going forward, cash outflows for restructuring are expected to fall which should improve earnings quality and create the potential for increased share buybacks.

Other significant purchases

Gilead Sciences Inc.: US research-based biopharmaceutical company. Gilead has transitioned from a dominant company in the treatment of HIV to a leader in the field of hepatitis C therapies, and has an excellent track record of bringing best-in-class treatments to the market. In hepatitis C, competition has not materially impacted Gilead's market share and pricing has stabilised. We believe further upside could come from better sales outside of the US, primarily Europe and Japan – both in terms of volume and pricing. The company has continued to innovate in the HIV space, having recently received FDA approval for its second TAF-based treatment, Odefsey. Moreover, the stock offers good risk-reward.



CME Group Inc.: One of the largest options and futures exchanges globally. As the dominant exchange for US interest rate futures, CME is benefiting from favourable tailwinds on volumes, contract pricing and expense control. Furthermore, low levels of leverage relative to peers and a lack of M&A opportunities since the global financial crisis has allowed CME to maintain its current dividend policy and return more than 100% of earnings back to shareholders each year.

Source: Investec Asset Management.
4Factor™ scores as at time of purchase. Sample of new securities purchased or significant increases in existing positions during the quarter.
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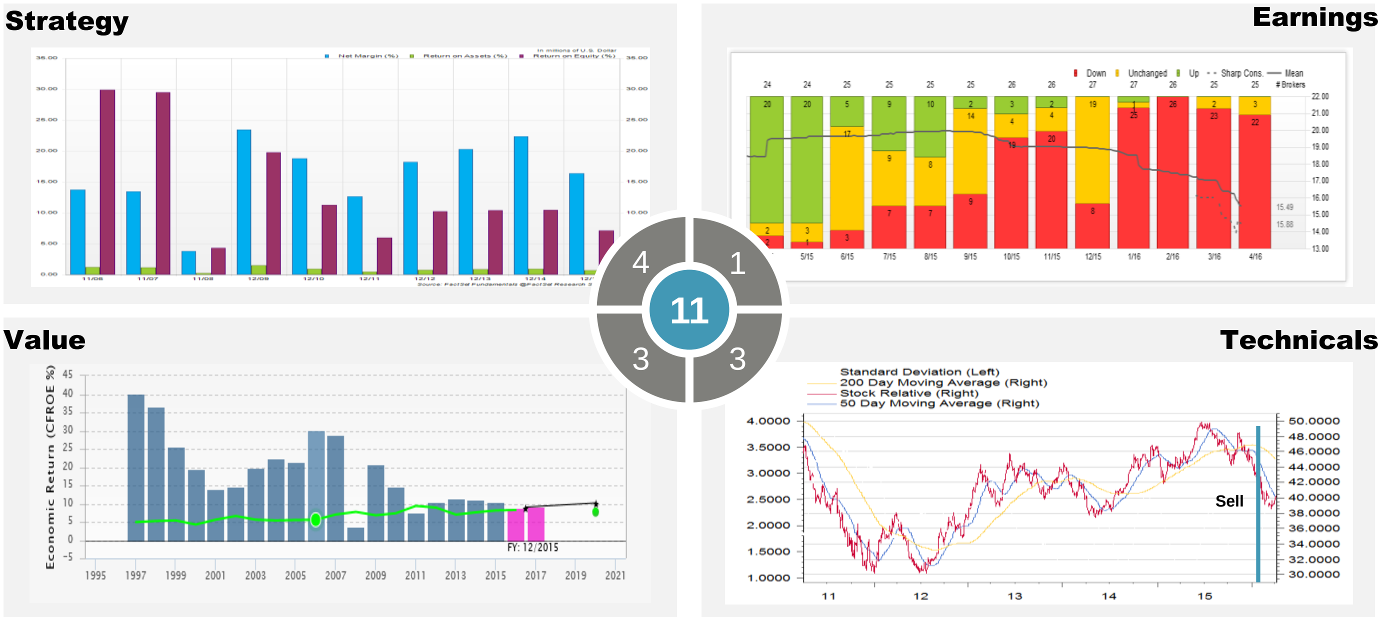
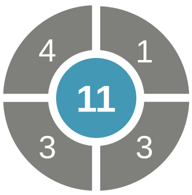
Significant transactions

Quarter ended 31 March 2016

Sale: Goldman Sachs Group Inc.

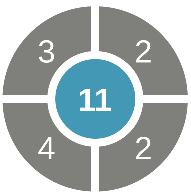


Featured sale

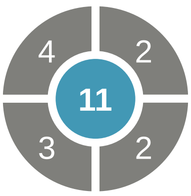


Goldman Sachs Group Inc.: Global investment banking, securities and investment management company. Despite making great strides on cost-cutting and improving capital returns in recent years, Goldman Sachs has struggled to generate returns on equity materially above the cost of equity capital. With nearly half of the business still focused on low-return Fixed Income, Currency and Commodities (FICC) and Principal Investments activities, it is difficult to see how management can increase returns without an improvement in the market environment. Furthermore, regulatory scrutiny of brokers remains high, with payouts at greater risk than for simple commercial banks.

Other significant sales



Bridgestone Corp.: Japanese multinational automobile and truck parts manufacturer. Our investment case on Bridgestone has not played out for several reasons: i) there has been little evidence of a volume benefit from cheaper oil increasing miles driven; ii) mining has been a source of downgrades; iii) it has not benefited from US anti-dumping tariffs; iv) capital expenditure has been increasing and is guided to increase further; and lastly, capital returns have not helped to support its returns on equity target, having announced that it will engage in M&A rather than share buybacks. While there is still value in the name, our earnings-based investment case has been undermined along with the anticipated improvement in quality following financial targets and a change in stance towards M&A.



Novartis AG: Multinational pharmaceutical company based in Switzerland. Novartis is a high quality diversified pharmaceutical company, with earnings supported by ongoing productivity initiatives and R&D success – to some extent. However, the company has encountered several headwinds. For one, Alcon, its eye care business, is struggling, with the surgical equipment and ophthalmic pharmaceutical businesses facing competition from lower-priced products and generic competition, respectively. Second, the company continues to be impacted by currency-related headwinds, which has resulted in downgrades. In our view, there is not enough upside on offer given the risk to earnings from further downgrades to Alcon margins and high expectations built into new product launches.

Source: Investec Asset Management.
4Factor™ scores as at time of sale. Sample of new securities sold or significant increases in existing positions during the quarter.
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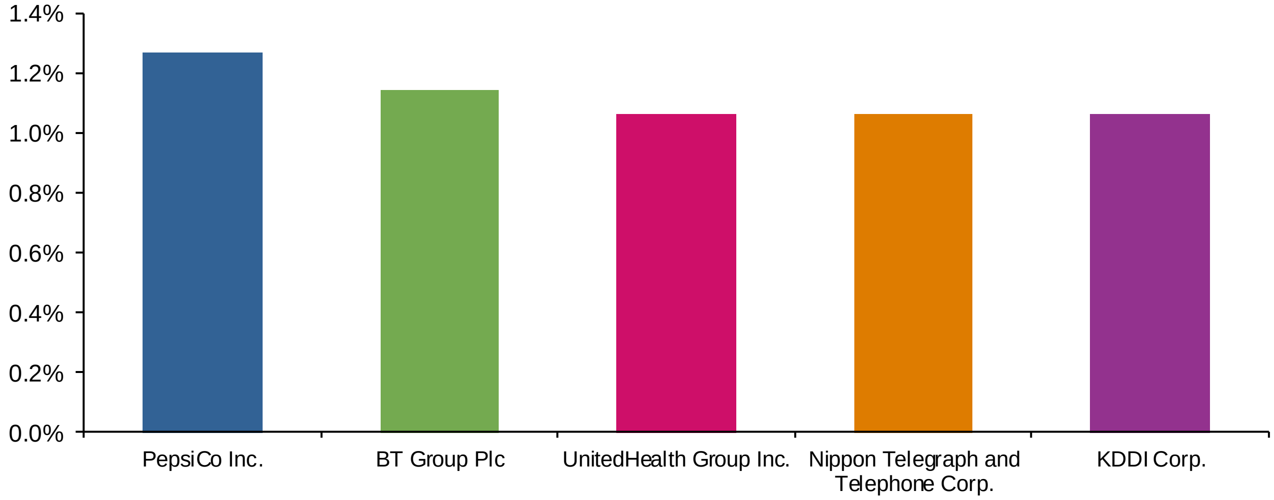
Top active security positions

Quarter ended 31 March 2016

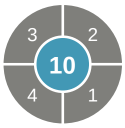
Top 5 active security positions



Source: Investec Asset Management, FactSet, top 5 active security positions relative to the MSCI World NDR.
The portfolio may change significantly over a short period of time.

Investment case

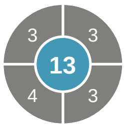
PepsiCo Inc.: US multinational food and beverage company. PepsiCo trades in line with global peers but has a more secure earnings profile, with all business divisions showing improvement either in the top line (gross sales) or margins, given favourable commodity trends as well as support from several years of increased advertising and promotional spending. The business generates strong cashflow returns to shareholders and is starting to see returns rise after the company's significant acquisitions in 2010, and as margin enhancements come through. Moreover, an activist investor has been vocal about its intentions to keep pressure on PepsiCo's board to continue to pursue shareholder-friendly policies.



BT Group Plc: UK telecommunication services company. BT benefits from the growth potential from underlying fibre broadband growth, while the convergence with TV services is being enhanced by adding on mobile services with the recent acquisition of mobile operator EE. In our view, current valuations do not reflect the success of this strategy.

UnitedHealth Group Inc.: US managed healthcare services company. UnitedHealth has a unique position within the US healthcare delivery system; not only is it a dominant player of scale in the commercial, Medicare and Medicaid markets, but it is also a large and growing presence in other markets, thanks to its Optum healthcare services business. The company is both operating and executing well in spite of consistent healthcare reform headwinds. In addition, UnitedHealth is managing cost trends well and continues to actively return capital to shareholders via share buybacks and a growing dividend.

Nippon Telegraph and Telephone Corp.: Large Japanese fixed-line and mobile telephone operator. Historically, Nippon Telegraph and Telephone's (NTT) returns have been at the low end of global telecommunications carriers given very high investment levels. However, management's multi-year plan sets out explicit earnings-per-share growth targets supported by cost-cutting, lower capital spending and share buybacks.



KDDI Corp.: Japanese fixed-line and mobile communication services operator. The competitive structure of the Japanese telecommunication services market remains benign and cost-cutting is providing further support for earnings. In addition, excess cash is being used to grow the dividend and buy back shares.

Source: Investec Asset Management.
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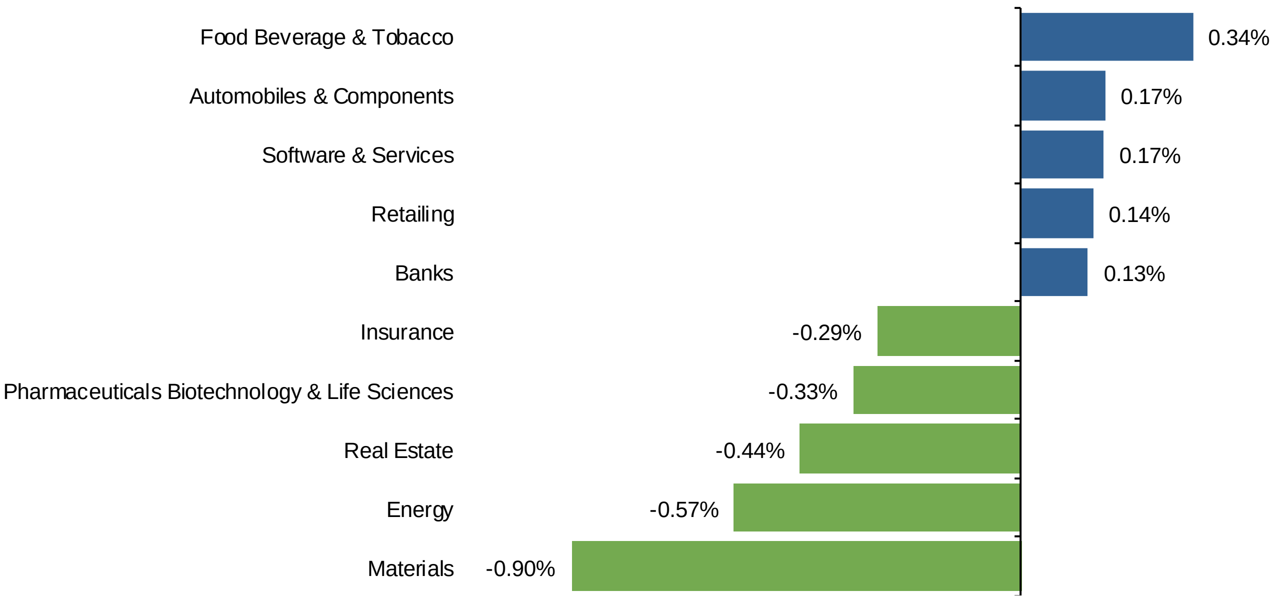
Industry analysis

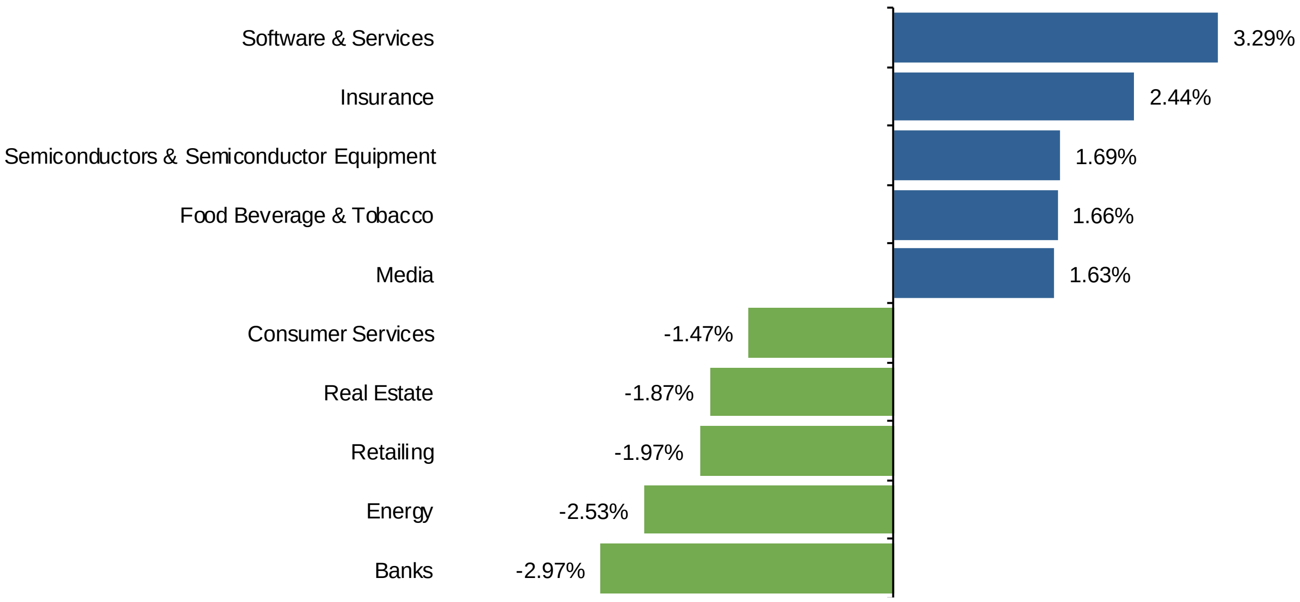
Quarter ended 31 March 2016

Top and bottom 5 performance contributions by industry



Source: Investec Asset Management, Factset, sector attribution versus the MSCI World NDR.

Top and bottom 5 active industry positions



Source: Investec Asset Management, Factset, top and bottom sector positions relative to the MSCI World NDR.
The security classification system used by Investec Asset Management's 4Factor™ team is the Global Industry Classification Standard (GICS).
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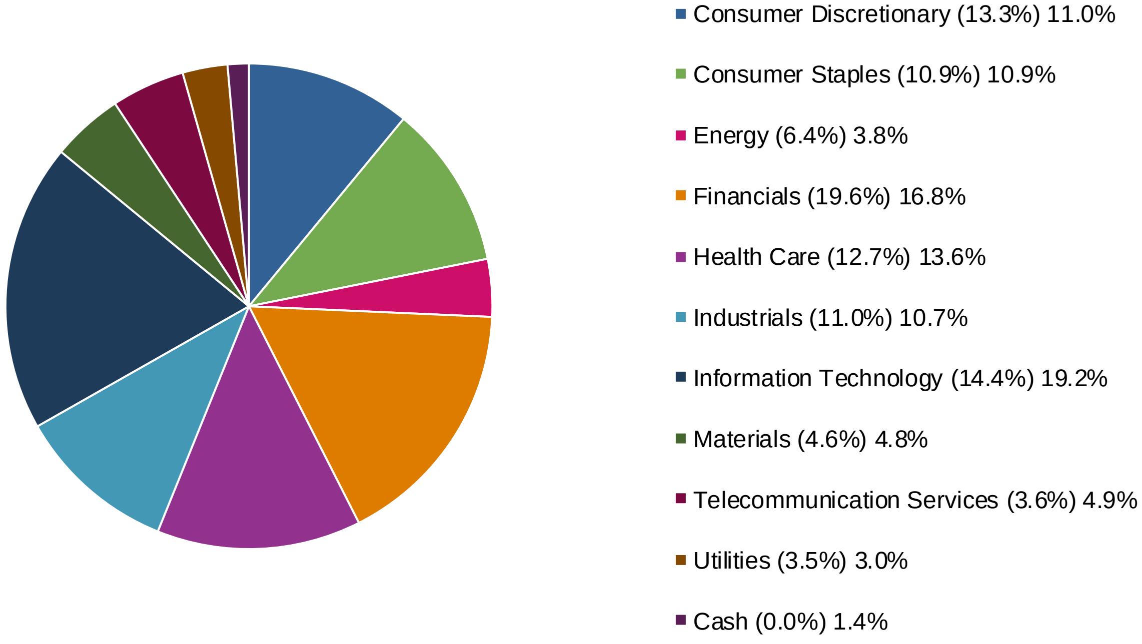
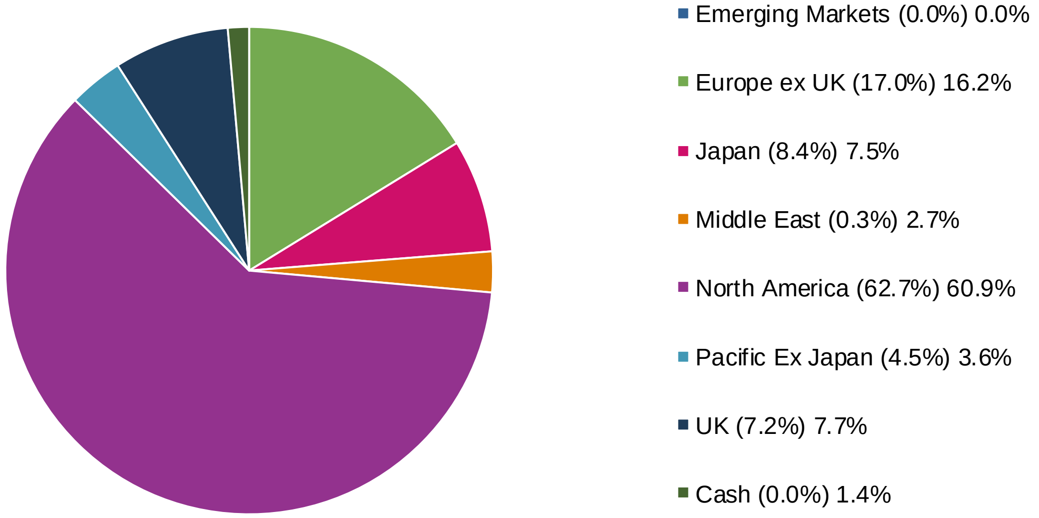
Absolute sector and regional weights

Quarter ended 31 March 2016

Sector position



Regional allocation

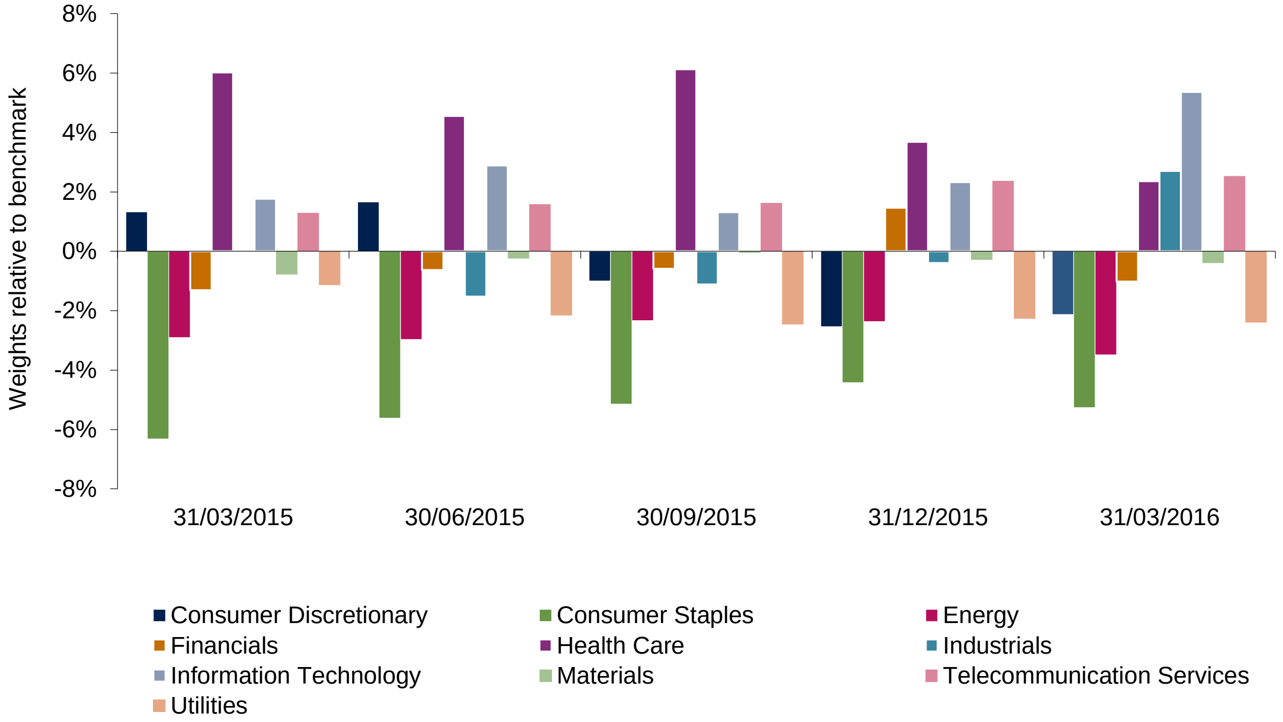


Source: Investec Asset Management, Factset, absolute portfolio weights. MSCI World NDR weights shown in brackets.
Please note that the weightings may not sum to 100.0% due to rounding.
The portfolio may change significantly over a short period of time.

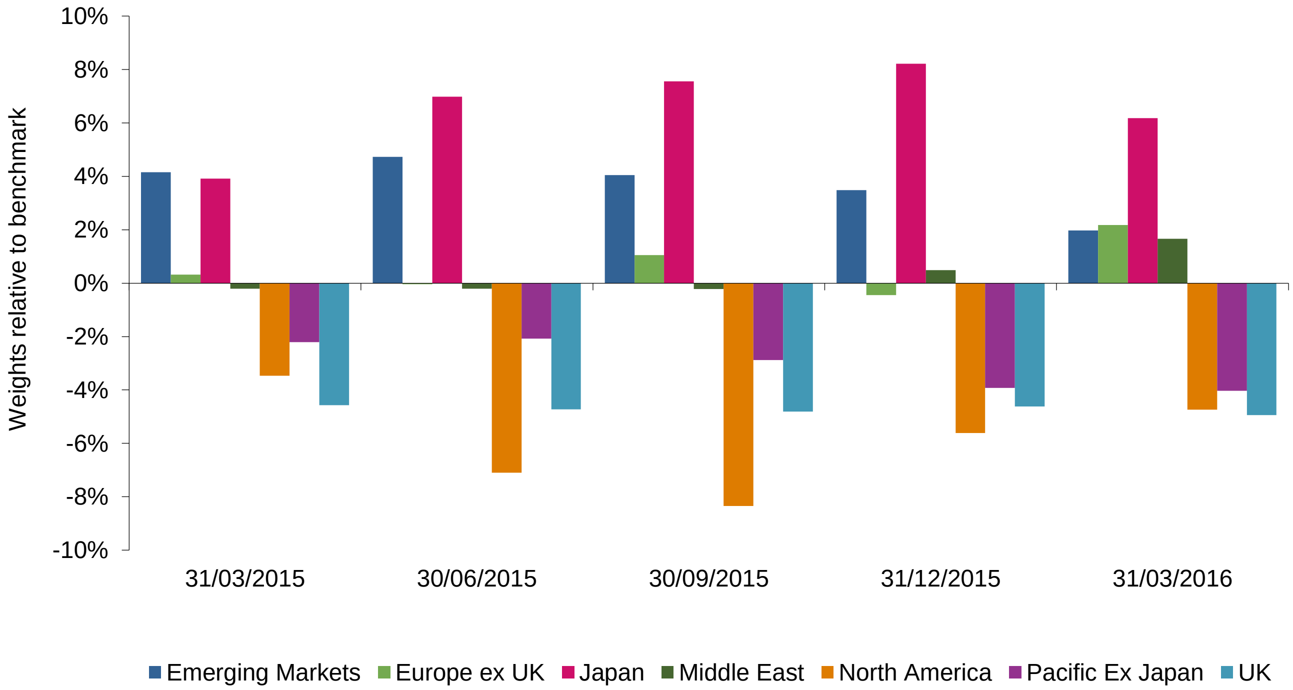
Active sector and regional trends

Quarter ended 31 March 2016

Historic sector positions



Historic regional allocation



Source: Investec Asset Management, Factset, portfolio weights relative to the MSCI ACWI NDR.
The dates above may represent the last business day of a quarter or the last calendar day of a quarter. The above charts represent the Investec Fund Series iii: Global Equity Fund.
The portfolio may change significantly over a short period of time.

Attribution analysis

Quarter ended 31 March 2016

Performance attribution by sector

Investec Sectors	Portfolio Ending Weight	Benchmark Ending Weight	Overweight / Underweight	Portfolio Average Weight	Benchmark Average Weight	Portfolio Total Return	Benchmark Total Return	Allocation	Selection + Interaction	Total Effect
Consumer Discretionary	**10.96**	**13.27**	**-2.31**	**11.20**	**13.20**	**2.03**	**1.79**	**0.00**	**0.03**	**0.03**
Automobiles & Components	2.58	2.63	-0.05	2.51	2.67	-0.68	-6.23	0.02	0.15	0.17
Consumer Durables & Apparel	1.62	2.07	-0.45	1.80	2.03	-5.76	5.79	-0.01	-0.22	-0.23
Consumer Services	0.37	1.84	-1.47	0.39	1.80	-1.53	6.14	-0.05	-0.03	-0.08
Media	4.49	2.86	1.63	4.72	2.85	5.20	5.43	0.06	-0.01	0.04
Retailing	1.90	3.87	-1.97	1.77	3.85	5.98	1.15	0.03	0.11	0.14
Consumer Staples	**10.91**	**10.94**	**-0.03**	**10.54**	**10.95**	**9.85**	**7.22**	**-0.05**	**0.29**	**0.23**
Food & Staples Retailing	1.92	2.21	-0.29	1.46	2.22	9.33	7.06	-0.07	0.03	-0.04
Food Beverage & Tobacco	8.10	6.44	1.66	8.21	6.44	10.21	7.25	0.09	0.25	0.34
Household & Personal Products	0.89	2.29	-1.40	0.87	2.30	7.15	7.30	-0.07	0.00	-0.07
Energy	**3.83**	**6.36**	**-2.53**	**4.53**	**6.24**	**-1.99**	**7.77**	**-0.12**	**-0.45**	**-0.57**
Energy	3.83	6.36	-2.53	4.53	6.24	-1.99	7.77	-0.12	-0.45	-0.57
Financials	**16.84**	**19.56**	**-2.72**	**18.19**	**19.87**	**-8.42**	**-3.99**	**0.08**	**-0.95**	**-0.87**
Banks	5.26	8.22	-2.97	7.13	8.57	-8.37	-8.63	0.18	-0.04	0.13
Diversified Financials	3.41	3.74	-0.33	3.14	3.79	-13.60	-5.15	0.04	-0.31	-0.27
Insurance	6.49	4.05	2.44	6.20	4.08	-4.73	-1.83	-0.09	-0.19	-0.29
Real Estate	1.69	3.55	-1.87	1.72	3.43	-11.24	7.46	-0.08	-0.36	-0.44
Health Care	**13.57**	**12.74**	**0.82**	**15.06**	**13.28**	**-6.48**	**-4.45**	**-0.10**	**-0.33**	**-0.43**
Health Care Equipment & Services	4.61	3.57	1.03	5.60	3.57	0.07	1.48	-0.02	-0.08	-0.10
Pharmaceuticals Biotechnology & Life Sciences	8.96	9.17	-0.21	9.46	9.70	-10.38	-6.56	0.06	-0.39	-0.33
Industrials	**10.66**	**11.02**	**-0.36**	**9.10**	**10.79**	**6.35**	**5.96**	**-0.07**	**0.05**	**-0.02**
Capital Goods	7.39	7.75	-0.36	5.86	7.58	8.43	5.98	-0.07	0.15	0.07
Commercial & Professional Services	0.56	1.04	-0.48	1.06	0.99	-1.13	6.51	0.01	-0.12	-0.11
Transportation	2.71	2.23	0.48	2.18	2.21	6.31	5.66	-0.01	0.03	0.02
Information Technology	**19.21**	**14.37**	**4.84**	**17.55**	**14.12**	**5.16**	**3.61**	**0.06**	**0.33**	**0.39**
Semiconductors & Semiconductor Equipment	3.63	1.94	1.69	3.20	1.91	7.30	3.85	0.01	0.11	0.12
Software & Services	11.51	8.22	3.29	10.22	8.09	5.05	3.60	0.03	0.13	0.17
Technology Hardware & Equipment	4.06	4.20	-0.14	4.14	4.11	6.21	3.57	-0.01	0.12	0.10
Materials	**4.76**	**4.60**	**0.15**	**4.14**	**4.42**	**-11.79**	**7.11**	**-0.03**	**-0.86**	**-0.89**
Materials	4.76	4.60	0.15	4.14	4.42	-11.79	7.11	-0.03	-0.86	-0.90
Telecommunication Services	**4.88**	**3.65**	**1.23**	**5.45**	**3.62**	**7.11**	**9.58**	**0.12**	**-0.14**	**-0.02**
Telecommunication Services	4.88	3.65	1.23	5.45	3.62	7.11	9.58	0.12	-0.15	-0.03
Utilities	**2.99**	**3.48**	**-0.49**	**2.89**	**3.39**	**12.13**	**11.35**	**-0.05**	**0.02**	**-0.03**
Utilities	2.99	3.48	-0.49	2.89	3.39	12.13	11.35	-0.05	0.02	-0.03

Glossary:

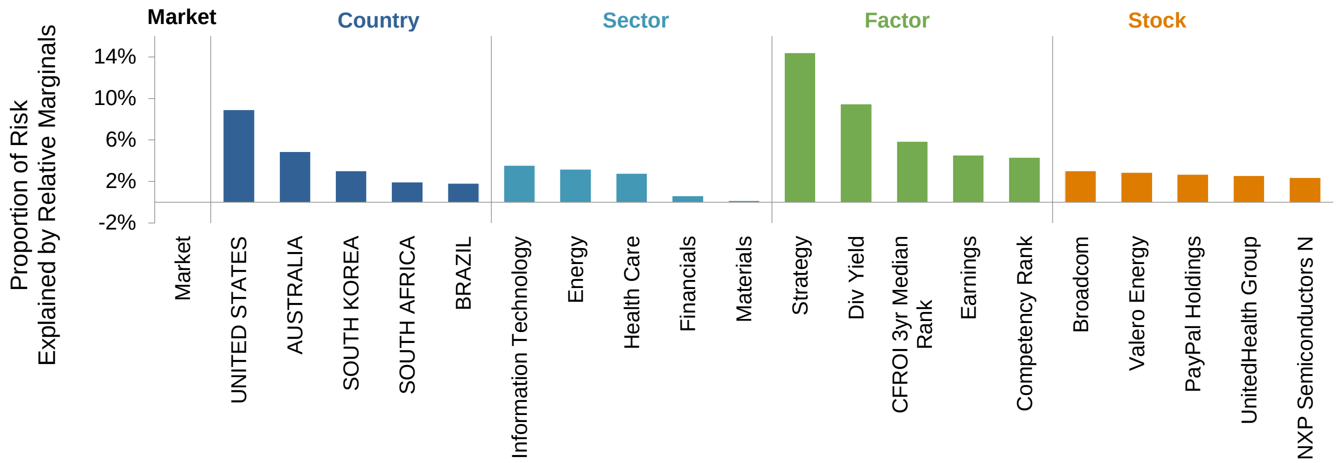
Attribution Analysis – The attribution of the portfolio performance relative to its index
Allocation Effect – The performance impact of being overweight or underweight a sector
Interaction & Selection Effect – The effect of selecting a stock relative to the index

Source: Investec Asset Management, Factset.
Attribution for the portfolio, versus the MSCI World NDR.
Performance differentials between the portfolio and the attribution analysis can be due to expenses, timing differences, calculation methodology and rounding. Past performance should not be taken as a guide to the future, data is not audited.
There is no guarantee that this investment will make profits, losses may be made.
The portfolio may change significantly over a short period of time.

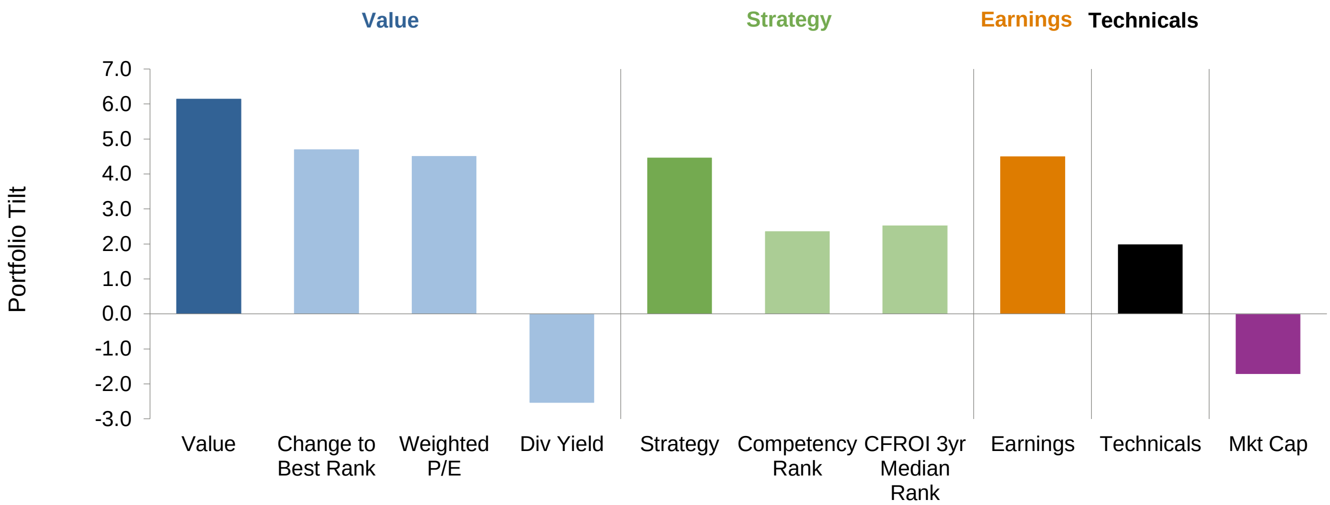
Factor exposure and risk management

Factor sensitivity and decomposition of the tracking error as at 31 March 2016

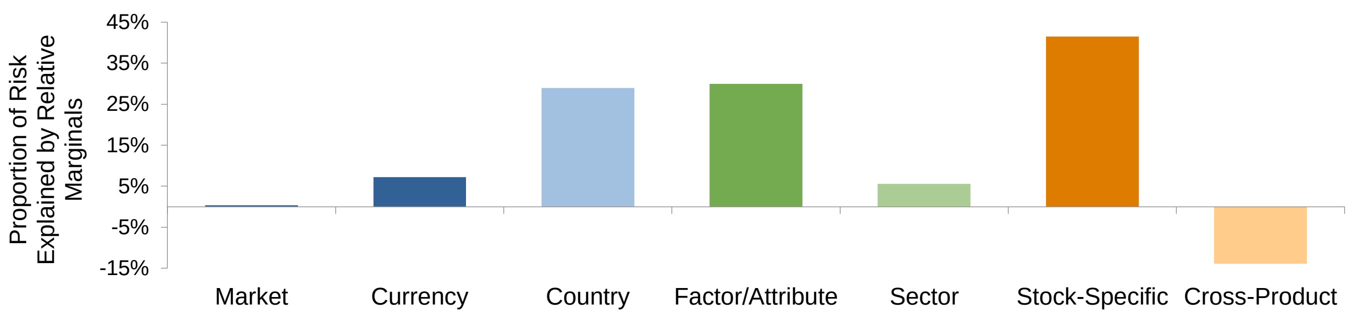
Top 5 country, sector, factor and security contributions to tracking error



Current factor exposure



Total decomposition of tracking error



Tracking Error: 2.53%
Portfolio Beta: 1.01

Source: EMA/Investec Asset Management, EMA risk report snapshot.
Units show how significant the portfolio's exposure is to the given attribute.
The portfolio may change significantly over a short period of time.
Past performance should not be taken as a guide to the future, data is not audited.
There is no guarantee that this investment will make profits, losses may be made.

Stewardship Review: Responsible investment 10 years on

Quarter ended 31 March 2016

Investec Asset Management takes an active and transparent approach to voting and engagement with the companies in our portfolios. We aim to encourage and reward better corporate governance and business integrity. The goal of this is to benefit clients and also improve the broader environmental, social realms in which we invest.

In April 2006 the Principles for Responsible Investment (PRI) were launched at the New York Stock Exchange. The PRI has a number of events planned for 2016 to mark their 10 year anniversary. The organisation is now trying to differentiate between the signatories that are implementing the Principles and those that have made inadequate progress.

A number of countries have used the PRI Principles as a foundation for their Stewardship or Responsible Investment Codes. The Principles and Codes have encouraged global awareness of the importance of active ownership and integrating material environmental, social and governance (ESG) or sustainability factors into the investment and decision making process. The UK Stewardship Code was the first code to be launched in 2010. The Financial Reporting Council (FRC) is introducing public tiering of signatories to the Stewardship Code, to improve reporting against the Principles of the Code, and to assist investors.

Some may argue that a decade is too long to wait before differentiating PRI signatories. Investors concerned about long-term sustainability issues destroying their savings have had little more than investment manager claims to guide their important decisions. Investment research firm Morningstar now provides sustainability ratings for about 2000 retail-focused funds. The fund rating is based on the ESG rating of the shares held by the fund. The rating attempts to measure how well the fund's underlying companies are managing their ESG risks and opportunities. Unfortunately Morningstar does not rate the fund managers' active ownership skills. It will not take into account instances where managers deliberately invest in companies that have a low ESG rating, then utilise their skills and track record to engage with the company to unlock value from better ESG practices and disclosure.

The PRI and UK regulator's differentiation of signatories and Morningstar's sustainability ratings will help improve transparency in responsible investment. Bringing responsible investment into the mainstream is taking time and continues to be dependent on asset owners, consultants and regulators taking action. This anticipated action, together with growing investor awareness, improved technology and regulator attention to the misalignment between fund liabilities and mandates allocated to investment managers, should eventually translate into mandates that more fully integrate responsible investment.

When we stand back and consider responsible investment progress against the growing complexity of global risks, it is clear that more needs to be done. The World Economic Forum Global Risk Report 2016 sets out the high likelihood and impact of 29 global risks. These include environmental and social risks like climate change, water scarcity, large-scale migration, biodiversity loss, profound social instability and the spread of infectious diseases. These global risks can only be mitigated by leadership that focuses the work of government, business, investors and society.

The Paris Climate Change Agreement in December 2015 provides hope that leadership will collaborate and manage these global risks. Recent data from the International Energy Agency showed that carbon emissions stayed flat for the second year in a row even though the global economy grew. The material growth of renewable energy was the main reason – over 90 per cent of new electricity generated in 2015 came from renewable sources.

Investec Asset Management, through CEO Hendrik du Toit, is participating in the Global Commission for Business and Sustainable Development. The Commission is working to encourage business, government and society to work together for the delivery of the United Nations Sustainable Development Goals (SDGs). Achieving the SDGs will help to mitigate the serious global social, environment and economic risks. World leadership has to stop looking back and instead develop the capacity to collaborate for inclusive global growth in the future.

Perhaps the Principles for Responsible Investment need to be renamed the Principles for Inclusive Investment. Will this help encourage the awareness and action that is required for sustainable growth and investment over the next decade? Only time will tell – however, as the World Business Council for Sustainable Development stated: "Business cannot ultimately succeed in a society that fails."

For further details of our ESG efforts, please visit: http://www.investecassetmanagement.com/en/investment-expertise/stewardship/, where you can access the latest quarterly stewardship report.

Special Focus: The impact of negative interest rate policy (NIRP) on Japanese and European bank business models

Negative steer into the financials sector at levels last seen in early 2012

The 4Factor™ steer into financials has deteriorated since the start of the year. Financial stocks have suffered a sharp de-rating as the sell-off in global markets stepped up a gear in January and February, leading to a moderation in Technical scores. The downward shift in the overall steer has, however, been largely driven by earnings. To put things into perspective, the Earnings steer is more negative now than it was back in mid-2011 – when fears of contagion from the European sovereign debt crisis triggered a notable fall in stock prices.

While the falls in equity markets puts pressure on fee-driven income, banks are facing a number of headwinds that threaten profitability, such as i) market volatility, which has reduced capital markets activity and resulted in lower trading income ii) rising loan impairments, particularly from the energy sector, due to lower commodities prices and concerns about a turn in the asset quality cycle iii) impact of regulation iv) flattening yield curves due to strong investor demand for longer duration bonds.

On the latter, with central banks pushing the short end of the yield curve down relative to the longer end through low rate (including ZIRP and NIRP) and quantitative easing policies, investors have had to move further out the curve in the search for yield.

Negative interest rate policy (NIRP) and the impact on bank business models

Many believed that the 0.25% rate hike from the US Federal Reserve (Fed) in December 2015 marked the first shift away from an extraordinary period of near-zero interest rate policy (ZIRP). Although the US monetary authorities have begun the slow normalisation of policy, they are unlikely to be in a hurry – Fed chair Janet Yellen recently said that the actual pace of rising interest rates would be more gradual, implying rates will stay lower for longer.

On 29 January, the Bank of Japan (BoJ) surprised the markets by unexpectedly cutting the benchmark interest rate below zero, to -0.1%. While this has arguably been on the cards for some time as Japanese officials have struggled to stimulate sluggish economic growth and tackle deflation despite its vast quantitative easing (QE) programme, few predicted the BoJ's move. In response, the 10-year Japanese government bond (JGB) yield fell below zero – the first time ever for a G7 country – and Japanese banking shares clocked up double-digit losses as the broader stock market fell (after the Japanese yen rose sharply on safe haven demand).

The European Central Bank (ECB) and a few other central banks are already charging commercial banks to look after their cash held in deposits. Sweden, Denmark and Switzerland have, like the euro zone and Japan, introduced some form of negative interest policy, albeit for different reasons. So, what is the impact of NIRP on bank business models? Negative rates not only serve as a tax on bank reserve holdings, but also compress net interest margins (NIMs) due to lower-than-expected returns on bank lending. The challenge for banks is that given their reluctance to take deposit rates below zero, any further fall in lending rates pressures NIMs.

NIRP in the euro zone

The ECB started charging 30 basis points (bps) on central bank deposits above required levels in November 2014, and this was revised up to 40bps in March 2016 to stop banks from parking funds as reserves at the central bank. Initially, the impact on profitability was modest due to low levels of excess system deposits. However, with the advent of QE, continued weak net loan demand has led to the creation of substantial and growing excess liquidity subjected to negative interest rates.

According to ECB data, net interest income accounts for 51% of banks' profits, so the pressure on profitability has the potential to be significant. Given the desire to stimulate lending growth, banks have limited room to protect margins. The ECB has acknowledged the accelerating cost of negative deposit rates. Daniele Nouy, the ECB's top supervisor, recently remarked (source: Reuters): "Over the long term, low profitability threatens the ability of banks to generate capital and access financial markets", adding "ultimately, a lack of profitability affects the stability of banks."

In pursuing its price stability mandate, the ECB announced measures to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy. The new targeted long-term refinancing operation (TLTRO) effectively pays banks to lend money (lending at -40bps over four years), and is expected to provide some offset from higher volumes, if successful.

NIRP in Japan

As hopes for accelerating domestic loan growth have not come to pass, Japanese policymakers have had little option but to expand their policy toolkit, leading the BoJ down the path of negative interest rates. It is worth noting that Japanese banks are particularly vulnerable to NIRP given already wafer-thin NIMs (now sub-1%), near-zero deposit rates and a relatively high reliance on retail deposits (which represent two-thirds of total deposit funding).

The BoJ has already sought to mitigate the impact of NIRP on Japanese banks, grandfathering (offering exemptions for) 2015 average deposit balances and allowing a ¥20 trillion per quarter increase in the permissible balance in step with asset purchases.

How can banks adjust for NIRP?

Banks can, of course, increase loan rates i.e. hold absolute levels where they currently are. This could help to preserve margins but would be considered as a counter-productive response to what central banks are trying to achieve by cutting rates.

Banks could also start charging for deposits. With little room left to cut interest paid on deposits (Japanese banks have cut retail deposits from 4 to 0.25bps on 2-4 year term deposits), the next step would be to charge account holders for what have previously been free services. In Switzerland, banks have been living with negative rates for more than one year (the key policy interest rate is currently -0.75%) and have managed to pass on 90% of the interest rate decline from the Swiss National Bank (SNB) to their clients. Swiss banks have been selective here, applying negative rates to large corporate and institutional deposits. As the SNB's main motivation for introducing NIRP was to

Special Focus: The impact of negative interest rate policy (NIRP) on Japanese and European bank business models (continued)

weaken the Swiss franc (to reduce capital flows that were resulting in undesired currency strength), the central bank has been happy to allow banks to pass on the cost to their clients. It has also helped to cool an over-heated housing market as mortgage lending has slowed, although Switzerland has deployed a number of macro-prudential tools to help mitigate the risks to financial stability.

While charging for deposits is indeed possible for large corporate clients, it is worth bearing in mind that retail deposits are highly prized due to their inclusion in the Net Stable Funding Ratio (which measures the quality of funding) – making charging less plausible. Retail banks, in particular, have been reluctant to impose negative interest rates on to ordinary depositors for fear of running the risk of depositor outflows.

Any relief on excess reserve holdings would be beneficial for banks. Like the SNB, central banks could make negative rate policies less punitive by exempting larger portions of excess reserve holdings. This is one way to help banks protect their margins.

A proactive approach

If the Swiss experience tells us anything, it is that combined with support measures from central banks, the fallout from NIRP can be contained. Some banks will have the capital and profits to withstand a squeeze on margins, others will not. While the BoJ has indicated that it will gauge the market's mood before lowering rates further, we decided to sell out of our positions in Japanese banks **Sumitomo Mitsui Financial Group (SMFG)** and **Resona** following a review of the investment cases of the names we hold. As bottom-up stock pickers, we will always look at the fundamentals on a case-by-case basis, but we believe the investment cases for both of these banks are now impaired. Historically, SMFG has been the most commercial and profitable of the Japanese megabanks, but earnings momentum has stalled. Despite much improved capital ratios and our best efforts to engage with the company, payout ratios have remained low and prospects for dividend growth from here look to be limited. In the case of regional bank Resona, we had already noted that NIM pressure was the main risk to the investment case, and decided to sell out of our position following the BoJ's announcement.

Finding stocks with a good balance of all four factors can be challenging, but we continue to believe that the best opportunities are captured by a disciplined bottom-up investment process of using return on capital, valuation, improving operating performance and positively trending share prices.

4Factor™ equities update

Quarter ended 31 March 2016

Team update

There has been one new addition to the 4Factor Equities team during the quarter. In March, Varun Laijawalla joined as an analyst for emerging markets. Varun's expertise in emerging markets equity research will be applicable across the range of 4Factor Global, Asian and Emerging Markets strategies.

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