Investec 4Factor™ Global Equity Strategy

Dorset County Council

Investment report for the quarter ended
31 December 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

These four factors can individually drive share prices and in combination can drive long-term 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 a total of 12 and above are potential buy candidates.

4Factor™ Framework

> 3,000 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	Ongoing 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 are subject to change and not necessarily with prior notification.
* 'Good Ideas' represent the number of 4Factor™ high scoring stocks from the stage 1 screen. 'Best Ideas' represents our highest conviction ideas following fundamental analysis. For further information on investment process, please see the Important Information section.

Executive summary

Quarter ended 31 December 2016

Investment strategy

The portfolio follows the Investec 4Factor™ Global Equity Strategy, aiming to achieve long-term capital growth in a diversified portfolio of the more liquid equity securities around the world.

Performance objective

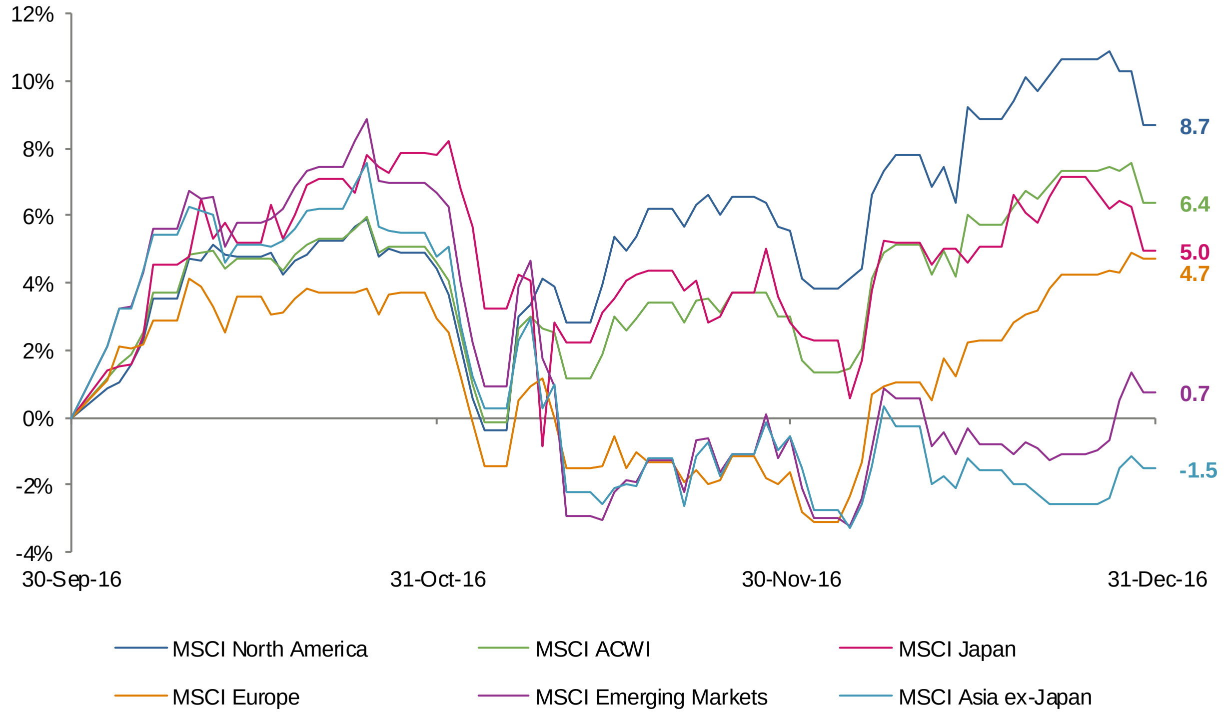
To outperform the MSCI World Index NDR by 2 - 3% over a three year rolling average, gross of fees.

Market background

As the US election dominated the news agenda, markets were positioning towards a Hillary Clinton victory at the beginning of the quarter, only for many investors to be wrong footed when Donald Trump won the contest. The US dollar index was up 7% over the quarter and was up a substantial 15% versus the yen. On a macro level, global growth projections were upgraded due to a more favourable outlook for the US and emerging markets. Global equities climbed over the quarter in dollar terms, with developed markets significantly outperforming emerging markets. Investors continued their rotation into certain sectors, with financials, healthcare and technology among those notably impacted. Sector leadership was all about financials and, to a lesser extent, resources. Consumers, telecommunications, utilities and real estate were all weak.

In financials, Trump policies of lower taxation and lighter regulation lifted hopes along with expectations of higher interest rates in the coming months. The energy sector also rallied, driven by gains from oil refinery and exploration companies. At Opec's meeting in November, members agreed to cut oil production in an attempt to reduce stockpiles to "normal" levels. This decision, combined with a similar decision from Russia and other producers outside of the cartel, led to a significant rise in many companies in the sector. While the quarter was good for US financials, it wasn't quite so good for their Asian counterparts. Chinese financials suffered, in particular, as a result of tighter capital restrictions being implemented by Beijing. Elsewhere, the consumer discretionary sector saw some companies reporting good earnings for third quarter trading with US-focused companies also benefiting from the anticipation of deregulation and the prospect for increased consumer spending under Trump's economic plan.

World equity indices



Source: Morningstar, total return, in GBP. The stated performance objective is determined by the estimated relative performance which we believe, based on empirical back testing of the 4Factor™ model within the portfolio's investable universe, may be achieved through active application of the 4Factor™ process, and in accordance with the construction parameters of the portfolio. This performance objective is subject to change and may not be achieved in the event that stocks selected fail to perform in line with expectations, losses may be made. For further information on indices, please see the Important Information section.

Executive summary

Quarter ended 31 December 2016

Performance review

The performance of our Four Factors provided a tailwind for our portfolio performance in the fourth quarter, rather than a headwind. The Value Factor outperformed to such an extent that it became the best performing Factor across the year as a whole. The Earnings, Strategy and Technical Factors were negative in the fourth quarter, but overall Factor performance was positive due to the contribution from Value alone. While our portfolio is positively skewed towards Value stocks, our process favours companies that score well on a number of different measures. This means the portfolio is more balanced, but we missed out on some exposure to those 'deep value' companies that rallied so strongly in the second half of 2016. Additionally, our stock selection had a negative overall impact on returns.

With the rotation into financials – especially US banks – driving market returns over the quarter, much of the performance of the portfolio came down to which of these companies we did or did not own. Our positions in Citigroup and Morgan Stanley were among the best performers over the quarter, bolstered by the US election result, a rise in bond yields and the prospect of a potential rolling back of existing and slated regulation by president-elect Donald Trump. In contrast, our lack of exposure to Bank of America, JP Morgan Chase and Wells Fargo meant we missed out on some of the gains witnessed across the US banking sector after the election result.

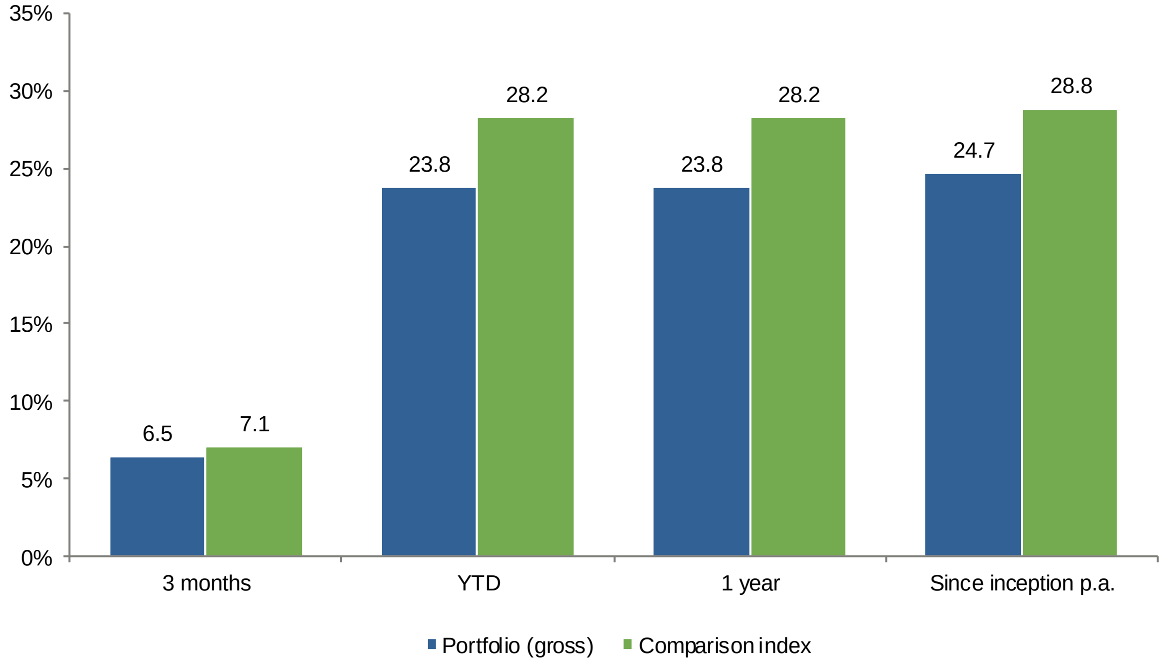
Stocks within the materials sector made a significant contribution to the performance of the portfolio over the period, thanks to good stock selection in the mining, chemicals and paper manufacturing industries. Within this sector, our holdings in Lundin Mining Corporation, Rio Tinto and UPM Kymmene Oyj all added to returns. Canadian mining group Lundin saw gains from an increase in metals production – ahead of levels previously announced – and the sale of an African copper mine for US$1.14 billion. Anglo-Australian miner Rio Tinto, meanwhile, performed well as it continued to streamline operations by divesting or closing low returning assets. Finnish paper manufacturer UPM rallied on earnings upgrades and a confirmation that it had exceeded operating profit forecasts.

Our stock selection in healthcare equipment & services stocks boosted performance during the quarter, with our holding in UnitedHealth performing notably well as a result of its programme to manage costs and actively return capital to shareholders via buybacks and dividend growth. The potential repeal of Obamacare would also be supportive for health insurers.

Our holding in Japanese telecoms group KDDI hurt returns, as the company saw sales revenue growth nudge downwards and it was chastised by the Japanese Communications Ministry – along with two of its rivals – for disguising higher service fees by discounting handsets. More broadly, telecoms and utilities firms have been negatively affected by developments in the bond market and by concerns of higher inflation.

Our overweight in the software & services sector also hurt returns, with computer games group Activision Blizzard among the worst performers. Activision Blizzard fell after uninspired reviews for its latest products and evidence of declining volumes.

Performance



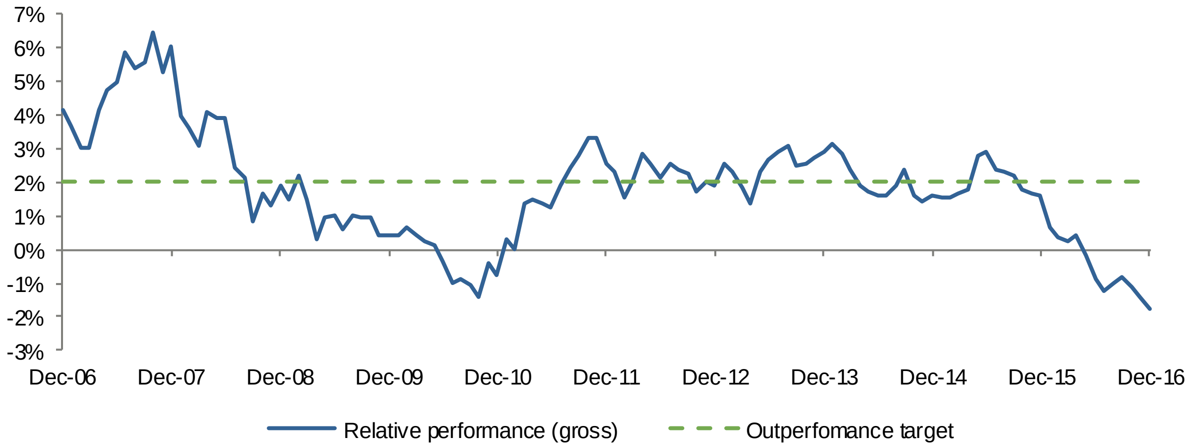
Market value: GBP 184,158,962

Source: Investec Asset Management.
Returns are stated gross of fees, in GBP. Past performance should not be taken as a guide to the future, losses may be made. For further information on indices, please see the Important Information section.
Comparison index: MSCI World NDR.
Client inception date: 17 December 2015.

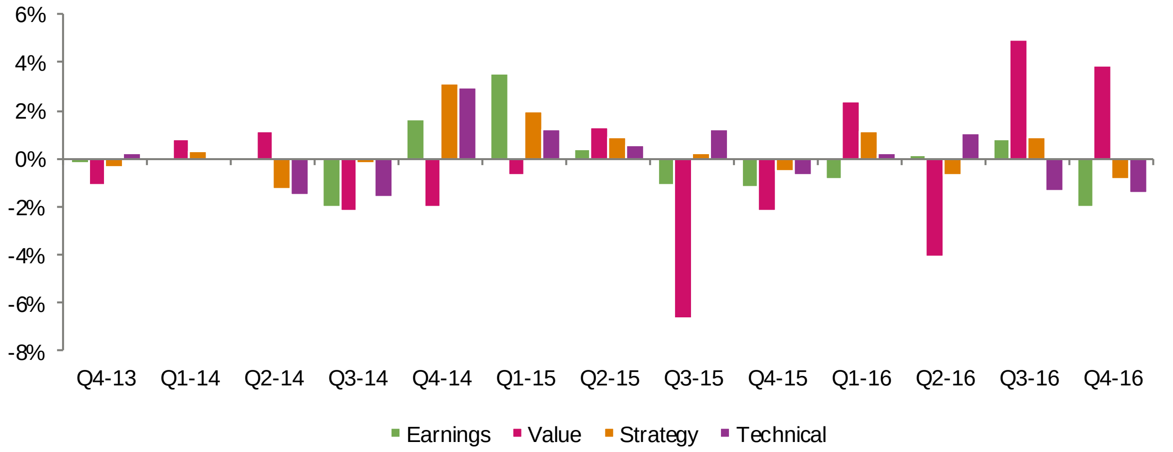
Executive summary

Quarter ended 31 December 2016

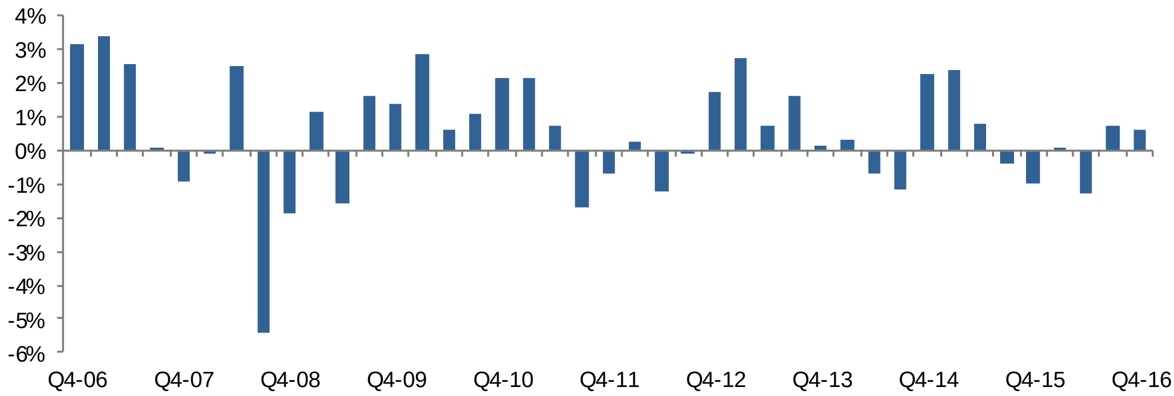
3 year rolling performance (10 years)



Individual factors vs. comparison index (3 years)



Factors combined vs. comparison index (10 years)



3 year rolling outperformance - Source: Investec Asset Management. Returns gross of fees, in GBP. Data reflects the composite performance for the strategy. Past performance should not be taken as a guide to the future, losses may be made. Returns will be reduced by deduction of management fees and other expenses incurred relative to its advisory account. For further information on indices and other data provided, please see the Important Information and Glossary sections.
Factors - Source: Investec Asset Management. The Factors combined show the relative performance of a portfolio of stocks comprising of the top quartile of ranked stocks from our four factors against the index over time. This strategy is rebalanced quarterly and has no risk constraints or transaction costs.
Comparison index: MSCI AC World NDR (MSCI World NDR pre 01/01/2011).
Investec 4Factor™ Global Equity Core Strategy inception date: 01 August 2000.

Executive summary

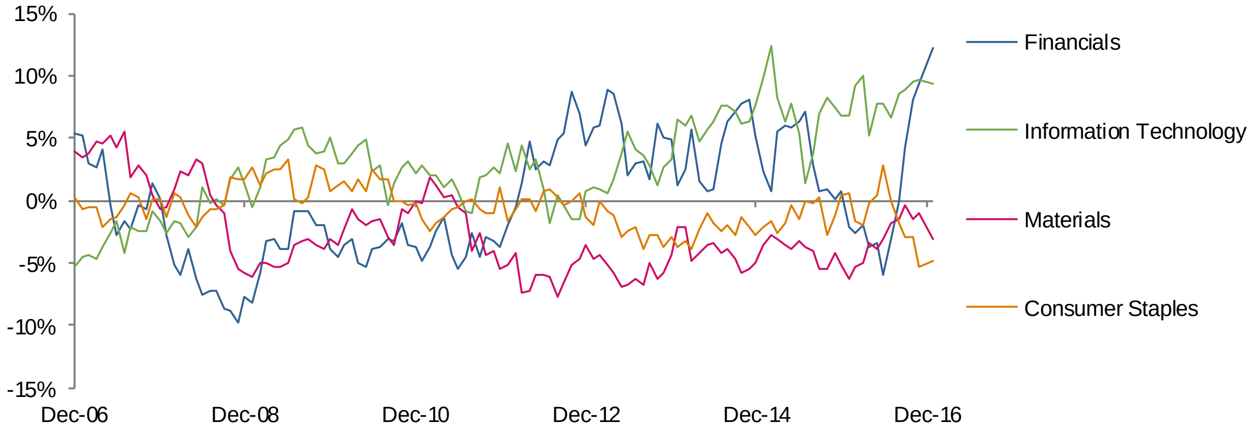
Quarter ended 31 December 2016

Market outlook

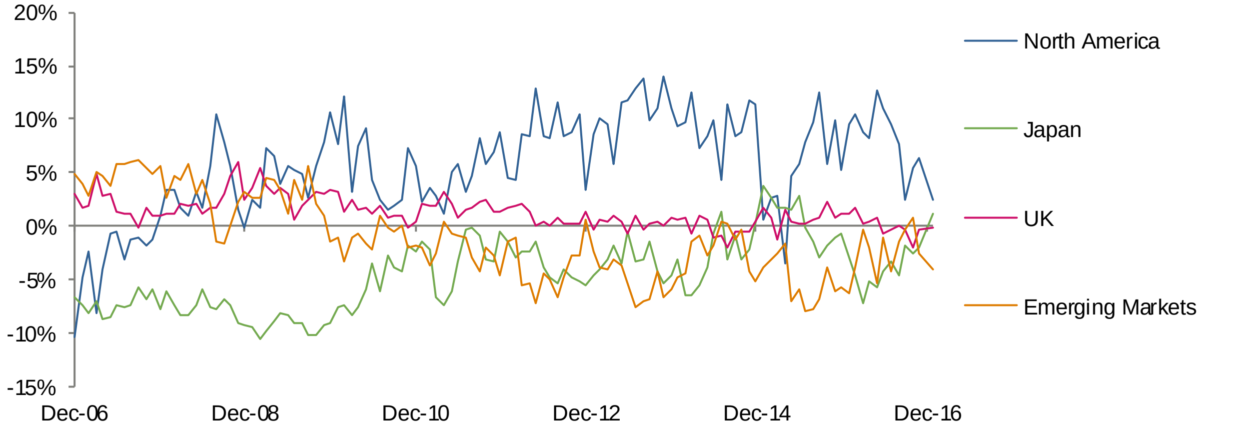
The broad expectation that a Trump victory would result in the Federal Reserve delaying plans to raise interest rates has been largely discredited. Expectations are moving towards a faster cycle of interest rate hikes in the face of the new administration's planned economic stimulus. Furthermore, recent economic data from China, Japan and Europe has proved generally stronger than market expectations. Although the case for a strong short term link between macro-economic growth and stock market performance is tenuous, we do note that corporate earnings growth (where there is a stronger correlation) is accelerating. Expectations are for US profits to grow by 3% in in the fourth quarter, extending the upward trend which began in the third quarter.

Forecasters have raised expectations for the inflation outlook. The recent shake out in the bond market shows investors are beginning to believe a turn in inflation is on the way, as longer term yields have pushed sharply higher. Central bank policy has pumped cash into the global economy through QE since the global financial crisis. This hasn't impacted inflation significantly until now because people were holding on to their money. However, if people think inflation is going to rise, they may be less inclined to put off purchases, and money will start changing hands more quickly. This itself will lead to an actual increase in inflation. The vast majority of market observers' expectations for global equity markets predict only a small increase in equity prices for the next 12 months. Also, many investment strategies out there still seem very focused on avoiding too much risk, preferring a more defensive approach. While it's certainly important to consider the risks, at this juncture our bottom up analysis suggests that there is in fact good value to be found in segments of the equity market. This is particularly apparent in those sectors which historically have proven to lead the market when risk appetite increases. These include resources, technology and financials and are areas where our momentum measures have been improving of late. Any persistence in the market's expectations for rising growth and inflation could see more money being diverted to these segments, though markets, as always remain vulnerable to geo-political upheaval.

GICS sector relative 4Factor™ steers (top and bottom 2)



Regional relative 4Factor™ steers (top and bottom 2)

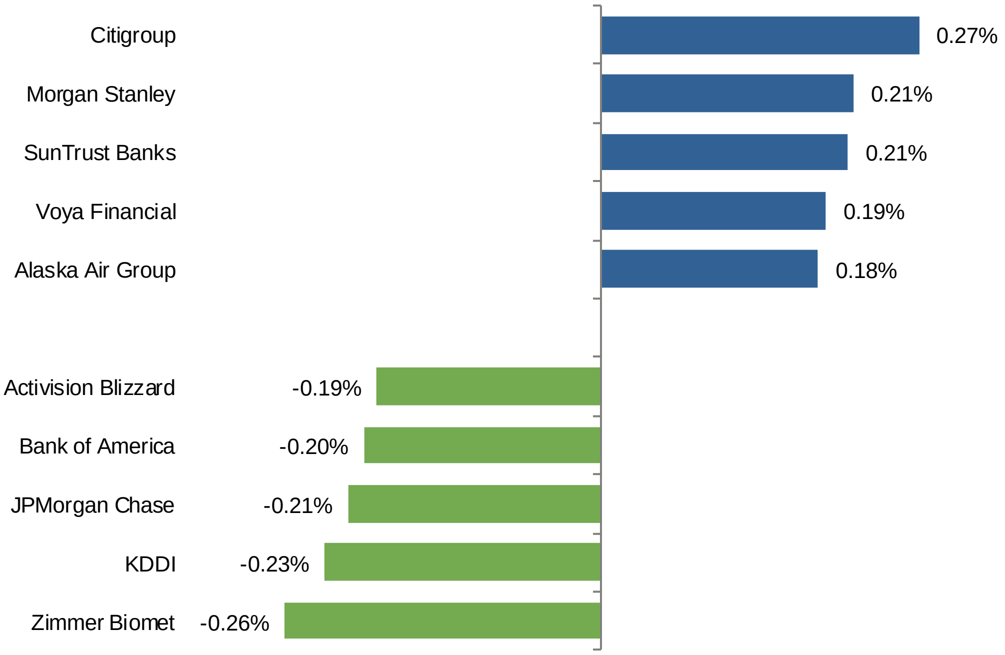


Source: Investec Asset Management.
The weights show the top quartile of 4Factor™ scores relative to the 4Factor™ universe.
An indication of where our proprietary 4Factor™ screen is identifying 'good ideas' – relative to the average or expected output for each steer.
For further information on investment process, please see the Important Information section.

Performance analysis

Quarter ended 31 December 2016

Relative holding contribution (top and bottom 5)



Top 10 holdings

	Portfolio %
Citigroup	1.8
UnitedHealth Group	1.7
PepsiCo	1.7
Comcast	1.6
Pfizer	1.6
Siemens	1.4
Cisco Systems	1.3
Nestlé	1.3
Alphabet	1.3
AT&T	1.2

Source: FactSet.
The portfolio may change significantly over a short period of time. Past performance should not be taken as a guide to the future, losses may be made.
Holding contribution reflects the top-contributing and top-detracting securities within the portfolio and should not be considered to be buy or sell recommendations.
There is no assurance that Investec Asset Management will be able to identify or secure investment in securities like those discussed.
For further information on performance analysis, investment process, specific portfolio names and indices, please see the Important Information and Glossary sections.
Holding contribution is relative to the MSCI World NDR Index.

Significant transactions

Quarter ended 31 December 2016

Purchases

Danske Bank: Danish bank with other Nordic operations. The bank had a turbulent period following the global financial crisis, however current management have done a good job of steadying the ship and rebuilding strong capital levels. Tailwinds from the economy (loan growth, provision recoveries) and self-help (cost cuts, lower funding costs) are driving up returns on equity and this looks sustainable. Changing competitive dynamics in the under-earning Danish mortgage market could meaningfully add to this and there is evidence that net interest margins will now improve from here. Danske offers the best capital return story in European banks (c100% payout ratio) and the stock trades at a discount to Swedish peers despite superior profit growth potential.

DBS: Singaporean bank. DBS has made good progress in recent years on both profitability and strengthening the balance sheet. Its capital position is now comparable to peers, it has a market leading domestic retail deposit platform and currency-matched lending leaves it well placed to take advantage of growth in the region. There is a clear strategy to expand the wealth management division, which is gaining pace and, along with its insurance distribution agreement with Manulife, enables it to offer a full spectrum of products to its clients. With the last set of results slightly above expectations and rising interest rate expectations boosting earnings forecasts, estimates are also moving into an improving trend.

Hologic: US medical technology group. While pricey acquisitions have weighed on historic returns, Hologic is on the right side of the healthcare debate with early detection of breast cancer seen as a cost saving to the US healthcare system. The company has a recently-installed management team focussed on organic growth and running a more efficient business, resulting in improving operating margins. The company also holds market leading shares in a host of diagnostic tests focussed on women's health. We believe that the valuation of the stock is reasonable for what is a good quality healthcare name.

Sales

Cap Gemini: French IT services company. The company missed third quarter sales expectations, citing business environment headwinds and a larger FX impact for the year, which has led to analyst downgrades. Although some of the issues cited are cyclical and could potentially be a deferral rather than a permanent impediment to earnings and growth, some of the challenges appear to be core execution issues in the US region due to distraction from the 2015 merger with US company IGATE.

Japan Airlines: Airline. First quarter revenue and operating profit fell short of initial guidance, driven by lower-than-expected international and domestic passenger numbers as well as poor cost control. Yields fell as the Kumamoto earthquake hit domestic traffic. Elsewhere, poor business demand on North American and Chinese routes hit international revenue. On the cost side, maintenance was much higher than expected which is tied to an engine issue discovered in Feb 2016 that has required wider fleet maintenance. The company has consistently failed to make the best of a strong balance sheet and a supportive environment to return cash to shareholders. Without this, the valuation may be attractive but the returns to shareholders are uncertain.

Source: Investec Asset Management.
These holdings do not represent all of the securities purchased and sold. This is not a recommendation to buy, sell or hold a particular security.
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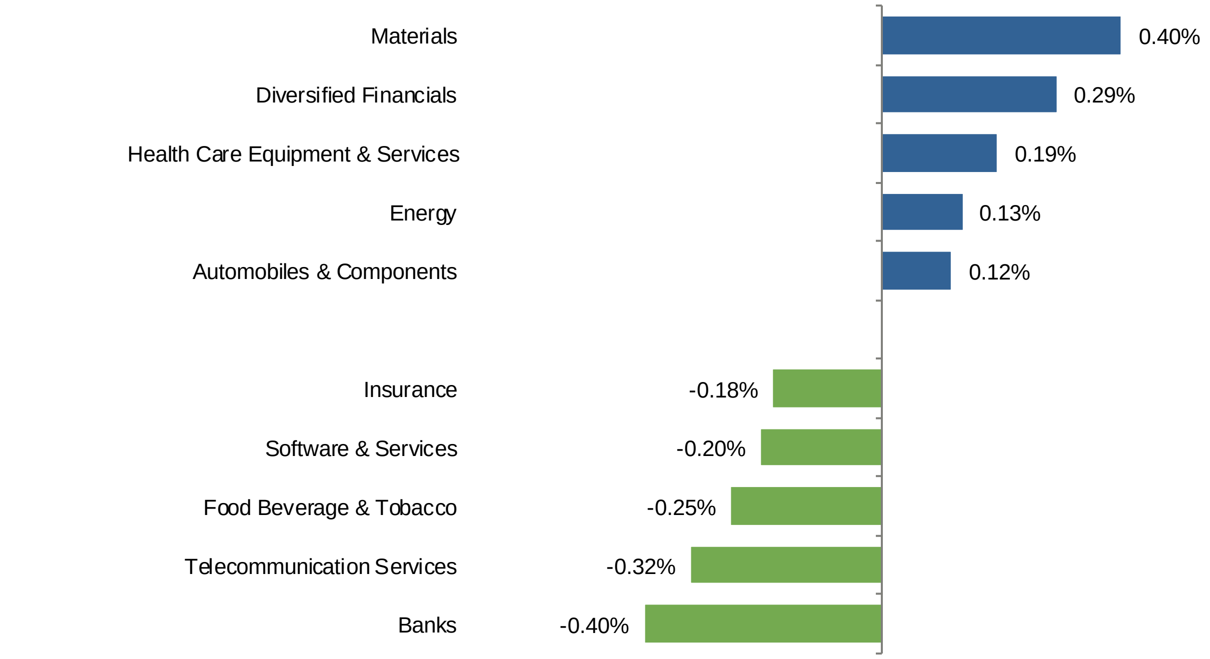
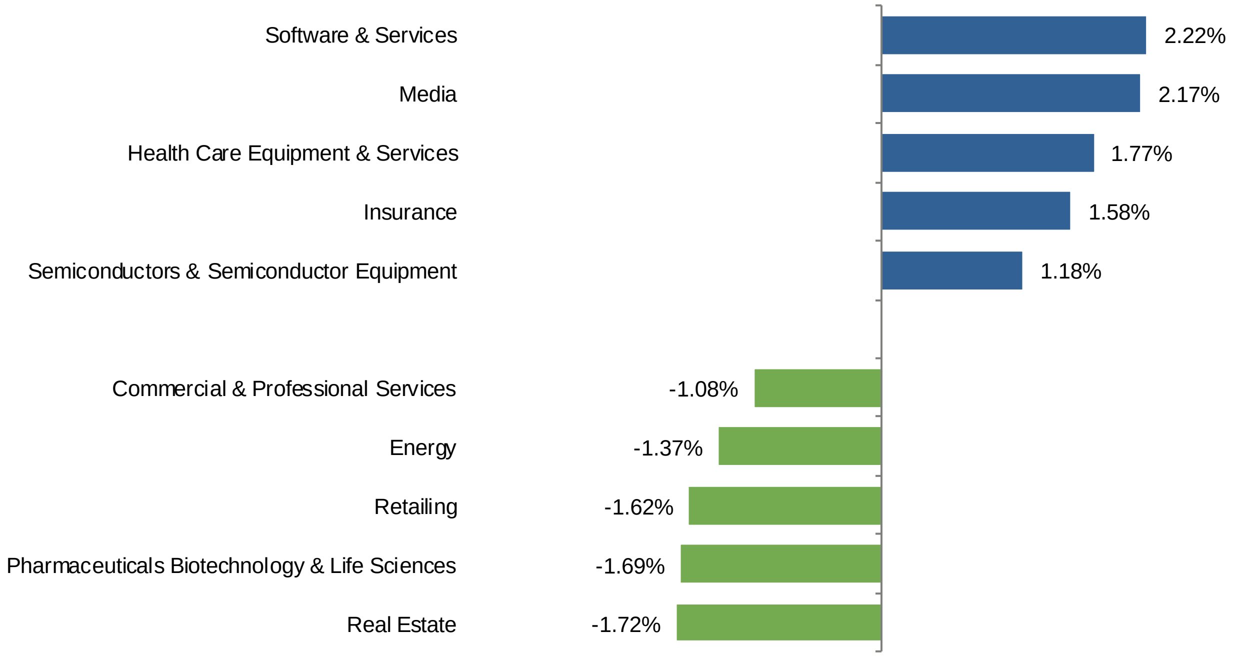
Performance analysis

Quarter ended 31 December 2016

Relative industry contribution (top and bottom 5)



Relative industry positions (top and bottom 5)



Source: FactSet.
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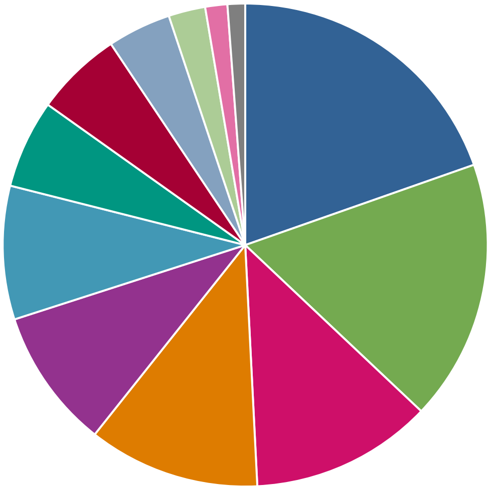
Industry performance contribution reflects the top-contributing and top-detracting industries within the portfolio and should not be considered to be buy or sell recommendations. For further information on performance analysis, investment process and indices, please see the Important Information and Glossary sections.
Industry attribution is relative to the MSCI World NDR Index.

Positioning analysis

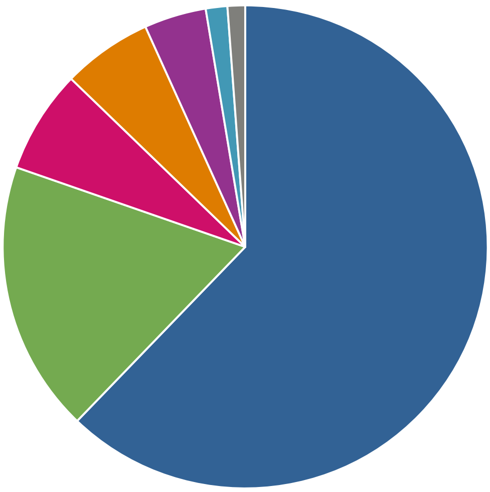
Quarter ended 31 December 2016

Sector positions



- Financials (18.0%) 19.6%
- Information Technology (14.6%) 17.5%
- Health Care (12.0%) 12.1%
- Consumer Discretionary (12.3%) 11.5%
- Industrials (11.2%) 9.4%
- Consumer Staples (9.7%) 8.9%
- Energy (7.3%) 5.9%
- Materials (5.0%) 5.8%
- Telecommunication Services (3.4%) 4.2%
- Utilities (3.2%) 2.5%
- Real Estate (3.2%) 1.5%
- Cash 1.2%

Regional allocation



- North America (63.7%) 62.2%
- Europe ex UK (16.2%) 18.2%
- UK (6.6%) 6.9%
- Japan (8.7%) 6.0%
- Pacific ex Japan (4.4%) 4.1%
- Middle East (0.2%) 1.4%
- Cash 1.2%

Source: FactSet.
The portfolio may change significantly over a short period of time.
Figures represent the percentage portfolio allocation.
For further information on positioning analysis, investment process and indices, please see the Important Information and Glossary sections.
Figures in brackets represent the MSCI World NDR Index weighting.

Attribution analysis

Quarter ended 31 December 2016

Sector performance attribution (gross %)

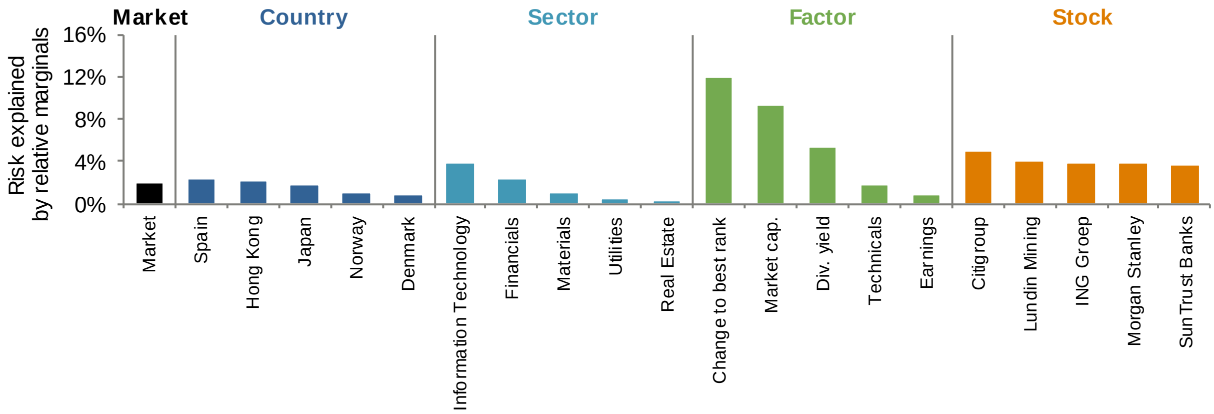
	Portfolio ending weight	Benchmark ending weight	Over / under weight	Portfolio average weight	Benchmark average weight	Portfolio total return	Benchmark total return	Allocation	Selection + interaction	Total effect
Consumer Discretionary	**11.5**	**12.3**	**-0.9**	**10.9**	**12.4**	**7.6**	**7.2**	**0.0**	**0.1**	**0.1**
Automobiles & Components	19	2.5	-0.6	19	2.5	18.5	10.2	0.0	0.1	0.1
Consumer Durables & Apparel	2.0	19	0.1	18	19	-17	4.4	0.0	-0.1	-0.1
Consumer Services	0.7	17	-10	0.7	17	14.6	8.4	0.0	0.0	0.0
Media	4.6	2.5	2.2	4.5	2.4	9.3	10.9	0.1	-0.1	0.0
Retailing	2.1	3.8	-16	2.0	3.9	13	3.9	0.0	0.0	0.0
Consumer Staples	**8.9**	**9.7**	**-0.8**	**9.6**	**10.0**	**-3.7**	**-0.8**	**0.0**	**-0.3**	**-0.3**
Food & Staples Retailing	15	2.0	-0.5	16	2.0	-19	2.5	0.0	-0.1	-0.1
Food Beverage & Tobacco	5.9	5.7	0.2	6.4	5.9	-3.5	-0.6	-0.1	-0.2	-0.3
Household & Personal Products	16	2.1	-0.5	17	2.1	-6.0	-4.2	0.1	0.0	0.0
Energy	**5.9**	**7.3**	**-1.4**	**5.6**	**7.0**	**17.2**	**12.8**	**-0.1**	**0.2**	**0.1**
Energy	5.9	7.3	-14	5.6	7.0	17.2	12.8	-0.1	0.2	0.1
Financials	**19.6**	**18.0**	**1.6**	**18.1**	**17.3**	**18.4**	**20.5**	**0.1**	**-0.4**	**-0.3**
Banks	9.0	9.6	-0.6	7.7	9.1	22.5	24.7	-0.2	-0.2	-0.4
Diversified Financials	4.9	4.3	0.6	4.7	4.2	24.2	18.0	0.0	0.2	0.3
Insurance	5.7	4.1	16	5.7	4.0	8.8	14.0	0.1	-0.3	-0.2
Health Care	**12.1**	**12.0**	**0.1**	**12.4**	**12.3**	**0.6**	**-0.5**	**0.0**	**0.1**	**0.1**
Health Care Equipment & Services	5.5	3.7	18	5.2	3.8	6.1	0.7	-0.1	0.3	0.2
Pharmaceuticals Biotechnology & Life Sciences	6.7	8.3	-17	7.2	8.6	-3.0	-10	0.1	-0.1	-0.1
Industrials	**9.4**	**11.2**	**-1.9**	**9.5**	**11.3**	**7.7**	**7.3**	**0.0**	**0.0**	**0.0**
Capital Goods	8.2	8.0	0.2	8.2	8.0	6.2	7.9	0.0	-0.1	-0.1
Commercial & Professional Services	0.0	11	-11	0.0	11	0.0	19	0.1	0.0	0.1
Transportation	12	2.2	-10	12	2.2	17.4	7.9	0.0	0.1	0.1
Information Technology	**17.5**	**14.6**	**2.9**	**18.1**	**14.8**	**3.9**	**5.3**	**-0.1**	**-0.3**	**-0.3**
Semiconductors & Semiconductor Equipment	3.5	2.3	12	3.6	2.3	5.8	9.9	0.0	-0.1	-0.1
Software & Services	10.5	8.3	2.2	11.1	8.5	2.8	3.6	-0.1	-0.1	-0.2
Technology Hardware & Equipment	3.5	4.0	-0.5	3.5	4.0	5.6	6.4	0.0	0.0	0.0
Materials	**5.8**	**5.0**	**0.8**	**5.4**	**5.0**	**16.6**	**8.2**	**0.0**	**0.4**	**0.4**
Materials	5.8	5.0	0.8	5.4	5.0	16.6	8.2	0.0	0.4	0.4
Telecommunication Services	**4.2**	**3.4**	**0.9**	**4.3**	**3.3**	**-2.5**	**3.5**	**-0.1**	**-0.3**	**-0.3**
Telecommunication Services	4.2	3.4	0.9	4.3	3.3	-2.5	3.5	-0.1	-0.3	-0.3
Utilities	**2.5**	**3.2**	**-0.7**	**2.5**	**3.2**	**-3.3**	**1.9**	**0.0**	**-0.1**	**-0.1**
Utilities	2.5	3.2	-0.7	2.5	3.2	-3.3	19	0.0	-0.1	-0.1
Real Estate	**1.5**	**3.2**	**-1.7**	**1.9**	**3.2**	**-6.6**	**-1.1**	**0.1**	**-0.1**	**0.0**
Real Estate	15	3.2	-17	19	3.2	-6.6	-11	0.1	-0.1	0.0

Source: FactSet.
The portfolio may change significantly over a short period of time. Past performance should not be taken as a guide to the future, losses may be made.
Performance differentials between the portfolio and the attribution analysis can be due to expenses, timing differences, calculation methodology and rounding.
For further information on attribution analysis, investment process and indices, please see the Important Information and Glossary sections.
Attribution for the portfolio versus the MSCI World NDR Index.

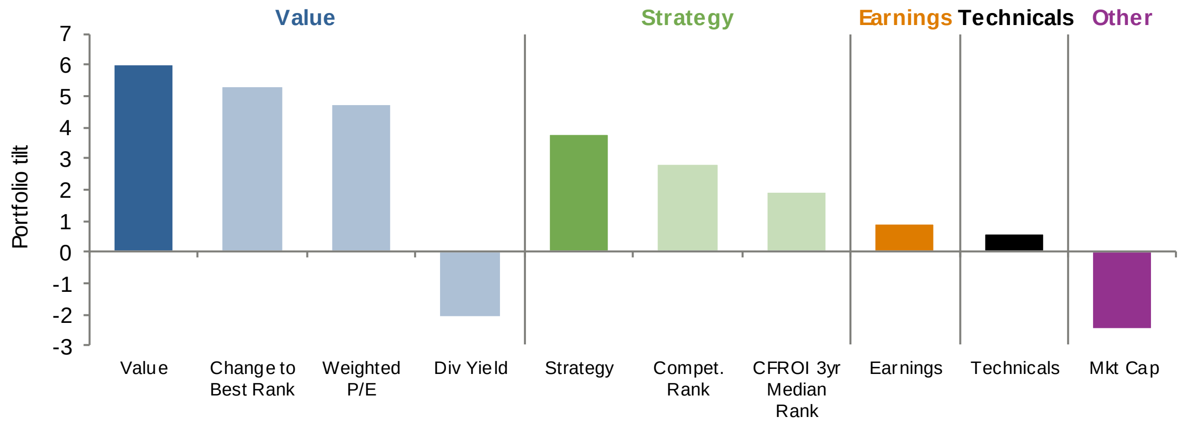
Factor exposure and risk management

Quarter ended 31 December 2016

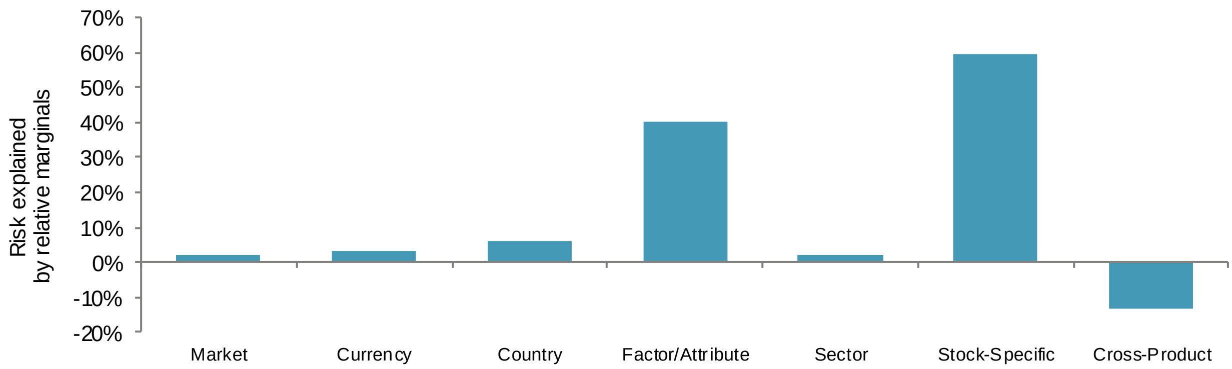
Contribution to tracking error (top 5)



Factor exposure



Tracking error decomposition



Active share: 82.5%
Tracking error: 2.0%
Portfolio beta: 1.02

Source: Investec Asset Management. The portfolio may change significantly over a short period of time. Information is provided for reference only and not intended as a representation or warranty by us as to the actual composition or performance of any future investment. Diversification does not protect against a loss or ensure a profit. Equity securities are subject to price volatility. EMA risk report snapshot: Units show how significant the portfolio's exposure is to the given attribute. Risk report run on a custom EMA template – we believe the template to be reliable, however we make no undertaking in this regard. For further information on portfolio data, investment process, specific portfolio names and other data provided, please see Important Information and Glossary sections.

4Factor™ update

Quarter ended 31 December 2016

4Factor™ Equities team update

In December, Wanyi Yao decided to leave the firm after three years of helping us build our China capability as co-manager of our All China Fund with Greg Kuhnert. Wanyi is going to take some time out and attend to some family business matters and we wish her the best in this endeavour. Our efforts to build our capability in China continue unabated. Greg will continue as the primary portfolio manager responsible for the fund. Wenchang Ma relocated to Hong Kong in November, and from December has stepped up to serve as the assistant strategy leader for the All China Fund. We are looking to hire more expertise to support the team, which has built up an outstanding performance history for the All China Fund and we will celebrate our three year track record for China this year.

From the start of 2017, Charlie Linton has stepped up to become the co-manager of the team's Asia Pacific products, alongside Greg Kuhnert.

In December we completed the switch from using the former Investec 'Super-Sectors' to the widely accepted Global Industry Classification Standards (GICS) sector structure. This has minimal implications on the management of our team or strategies, and rather reflects client and industry expectations to monitor and report on portfolio exposures on a GICS basis.

For further information on investment team, please see the Important Information section.

Environmental, Social and Governance review

Quarter ended 31 December 2016

Every quarter we provide an update on relevant business and industry developments, developments in our investment teams, and highlights of our engagement and proxy voting activities.

ESG integration and creating sustainable value

A new year is a good opportunity to reflect on the work to date as well as consider strategies and plans for the year ahead. For the past six years, the ESG team has used this time to set increasingly challenging targets and plans. It is exciting to think that at this point we are focusing less on building systems and tools and more on ways to make ESG integration more meaningful together with the investment teams. No longer are ESG considerations just for equities but developments across other asset classes, including fixed income and multi-asset, have been encouraging. An exciting development during 2016 was the increased focus on private markets, and especially a new fund at Investec Asset Management, Emerging Africa Infrastructure Fund (EAIF), which invests in infrastructure across Africa, often from a greenfield basis. In many ways, this is a pure form of impact investing seeking real developmental contributions.

Our clients across the world are increasingly focusing on ESG as part of their manager selection and evaluation processes. A similar shift can be seen across consultants and investment platforms such as Morningstar, which is now providing fund ratings derived from Sustainalytics research. The combination of increasing insight into our clients' priorities together with deeper involvement by the investment teams has allowed us to further develop our integration strategies to consider both climate change and sustainable development goals. Following IAM's investment offsite in late 2016, we agreed to develop tailored integration programmes for the coming year, exploring six key areas of evaluation and improvements: communication; innovation; monitoring; active ownership; use of research, tools and data; and participating in the debate.

All teams will commit to a set of deliverables that will be overseen by the investment team head and discussed later on in 2017. We believe this next step will help us achieve more accountability and ownership within the investment teams and support further discussion and analysis of ESG within the traditional investment process.

Integrating ESG in Investments

Last quarter we profiled some of the work being done by our 4Factor team. This quarter we would like to highlight an example from the Quality team.

In November our analysts visited Unilever's main manufacturing and R&D facility in the UK based at Port Sunlight, the Wirral, as part of the company's annual Investor Day. Unilever is best known for its dominance in the food & beverage and home & personal care industries, with most consumers all too familiar with big global brands such as Dove, Lipton, Surf and Hellman's, each of which generates in excess of €1 billion in annual sales for the company. However, what often goes largely unnoticed are the company's great strides in improving its environmental footprint in the manufacturing and distribution of its consumer goods products. This has been the focal point of the Unilever Sustainable Living Plan (USLP), first formally implemented in 2010, and which built upon the company's prior efforts to, among other factors, reduce its carbon footprint, water usage and waste production. Port Sunlight itself is just one of Unilever's hundreds of manufacturing facilities across the globe but is at the forefront of the company's sustainability activities, such as its goal of being 'carbon positive' by 2030 (i.e. 100% of Unilever's energy will come from renewable sources with the intention to generate more renewable energy than is consumed, with the surplus available to the markets and communities in which the company operates).

In fact, such steps have been made in reducing the company's own environmental footprint that now the focus is increasingly shifting to the way in which Unilever can reduce the footprint of its consumers. The invention of 'compressed' deodorants is just one example of the way Unilever has reduced product packaging, but other examples include 'MuCell technology' for extrusion blow moulding which reduces the amount of raw materials required for plastic bottles.

This is one example of how long-term sustainability may be considered in formulating a view on a company. For our Quality capability, for example, the sustainability attributes of Unilever's business only enhances the quality characteristics in terms of ongoing cash generation and returns on capital. Unilever has been a core holding for the Global Franchise Fund since its inception in April 2007.

Active ownership

For the coming year, engagements will play a key role. Strategically, we will focus on a few key areas such as climate change, governance reform in emerging markets and diversity. We will also continue to respond to consultations from companies, and we expect these to increase in number.

Proxy voting is run through a stable process and we will expand our polices to better respond to the increasing number of shareholder resolutions relating to environmental issues, such as climate change reporting, and shareholder rights, such as executive compensation and proxy access.

There are many consultations underway across markets and we intend to provide feedback to many of these. The UK government is for example seeking feedback on a consultation about corporate governance in the UK. Asian stock exchanges are consulting shareholders for feedback on their governance guidelines and new stewardship codes. We also expect other organisations to play an increasingly important role with investors, such as the OECD, UN Sustainable Development Goal programme and non-governmental organisations to name a few.

Finally, we are planning to provide more training and development for the investment teams through arranging a range of internal seminars on ESG issues. We believe that this will be an important contribution to existing data and research and encourage more debate and discussions.

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

Glossary

Factors: A stock classification system which define the 4Factor™ investment process. Investec Asset Management use four factors (traditional and behavioural) to rank the universe.

Sector: The stock classification system used by Investec Asset Management's 4Factor™ team is the Global Industry Classification Standard (GICS®). This is a four-tiered, hierarchical industry classification system.

Relative performance: Relative performance is the difference between the absolute return achieved by the stock and the return achieved by the performance comparison index.

Relative positions: Relative positions is the difference between the portfolio weight and the performance comparison index weight for any stock, sector or country.

Attribution analysis: Attribution analysis is a process used to analyse the absolute return and the excess return between a portfolio and its performance comparison 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.

Active share: A measure of difference between the portfolio holdings and the benchmark. Calculated as the sum of absolute active weights divided by 2.

Tracking error: A measure of how much a fund's returns deviate from those of its performance comparison index. The lower the number the closer the fund's historic performance has followed that of its performance comparison index.

Portfolio beta: A measure of the volatility of a fund relative to its performance comparison index, i.e. how sensitive the fund is to movements in the market. A figure greater than 1 indicates that the fund will tend to outperform in a rising market and under perform in a falling one, i.e. is more volatile than the market. The reverse applies to a Beta of less than 1.

EMA: Expectation Maximisation Applications. This third-party risk system allows for a wide range of instruments to be modelled and provides risk measurement and reporting for equity, fixed income and mixed asset portfolios. EMA creates specific stress tests for a portfolio, based on average factor exposures, on an absolute and benchmark-relative basis.

HOLT: This third-party platform is a equity valuation tool which facilitates the aggregation of markets, indices, sectors and industries.

Indices

MSCI World: The MSCI World Index is a market capitalisation weighted index which captures large and mid-cap representation across a number of developed markets. Maintained by Morgan Stanley Capital International.

MSCI AC World: The MSCI All Country World Index is a market capitalisation weighted index designed to provide a broad measure of equity-market performance throughout the world. Comprised of stocks from developed and emerging markets. Maintained by Morgan Stanley Capital International.

MSCI AC World ex US: The MSCI All Country World ex-US Index is a market capitalisation weighted index designed to provide a broad measure of equity-market performance throughout the world with the exception of the United States. Comprised of stocks from developed and emerging markets.

MSCI AC Asia ex Japan: The MSCI AC Asia ex Japan Index is a market capitalisation weighted index which captures large and mid-cap representation across both developed and emerging countries in Asia (excluding Japan). Maintained by Morgan Stanley Capital International.

MSCI AC Asia Pacific ex Japan: The MSCI AC Asia Pacific ex Japan Index captures large and mid-cap representation across developed market countries (excluding Japan) and emerging markets countries in the Asia Pacific region. Maintained by Morgan Stanley Capital International.

MSCI Europe: The MSCI Europe Index is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of the developed markets in Europe. Maintained by Morgan Stanley Capital International.

MSCI Emerging Markets: The MSCI Emerging Markets Index is a free float-adjusted market capitalisation index that is designed to measure equity market performance of emerging markets. Maintained by Morgan Stanley Capital International.

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Performance Target

The target is based on Manager's good faith estimate of the likelihood of the performance of the asset class under current market conditions. There can be no assurances that any Strategy or Fund will generate such returns, that any client or investor will achieve comparable results or that the manager will be able to implement its investment strategy. Actual performance of Fund investments and the Fund overall may be adversely affected by a variety of factors, beyond the manager's control, such as, political and socio-economic events, adverse changes in the interest rate environment, changes to investment expenses, and a lack of suitable investment opportunities. Accordingly, target returns may be expected to change over time and may differ from previous reports.

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Other

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