Pension Fund Committee

Dorset County Council

Date of Meeting	21 June 2017
Officer	Pension Fund Administrator
Subject of Report	**Global Equities Managers Report**
Executive Summary	The purpose of this report is to update the Committee on the performance of the Fund's Global Equities Managers as at the end of the fourth quarter of the 2016/17 Financial Year to 31 March 2017.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: N/A
	Budget: N/A
	Risk Assessment: The Fund assesses the risks of its investments in detail, and considers them as part of the strategic allocation. In addition, risk analysis is provided alongside the quarterly performance monitoring when assessing and reviewing fund manager performance.
	Other Implications: None

Recommendation	That the Committee : i) Review and comment upon the performance of the Fund's Global Equities managers.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place and are being monitored.
Appendices	None
Background Papers	Quarterly manager reports.
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Background

1.1 With effect from mid December 2015, the Fund replaced its then two global equities managers, Pictet Asset Management and Janus Intech, with three new managers, Allianz Global Investors, Investec Asset Management and Wellington Investment Management.

2. Valuation

2.1 The table below summarises the valuations for the three managers as at 1 April 2016 and 31 March 2017.

	Allianz	**Investec**	**Wellington**	**Total**
	£000s	**£000s**	**£000s**	**£000s**
Valuation 01-Apr-16	227,083	166,965	166,341	560,389
Investment	-	-	-	-
Distribution	(20,000)	(20,000)	(15,000)	(55,000)
Increase in Valuation	63,803	47,001	55,527	166,331
Valuation 31-Mar-17	270,886	193,966	206,868	671,720

2.2 No additional investment has been made with the three managers this financial year. At the meeting of the Pension Fund Committee September 2016 it was agreed to redeem £20M from Allianz, £20M from Investec, and £15M from Wellington. These redemptions have now been received in full.

3. Performance

3.1 The table below summarises the performance for each manager in absolute terms and compared to their respective benchmarks for the quarter, the financial year and since inception to 31 March 2017.

	Allianz	**Investec**	**Wellington**
Quarter to Date			
Performance	4.4%	5.3%	6.2%
Benchmark	5.1%	5.1%	5.1%
Relative Return	-0.7%	0.2%	1.1%
Twelve Months to Date			
Performance	29.6%	30.0%	33.2%
Benchmark	31.9%	31.9%	31.9%
Relative Return	-2.3%	-1.9%	1.3%
Since Inception			
Performance	25.8%	24.9%	26.9%
Benchmark	25.4%	25.4%	25.4%
Relative Return	0.4%	-0.5%	1.5%

3.2 All three managers have returned very high absolute returns over the three periods measured but both Allianz and Investec have underperformed their benchmarks for the 12 months to 31 March 2017 whilst Wellington has outperformed over the same period. Since inception, Wellington and Allianz have outperformed their index by 1.5% and 0.4% respectively, whilst Investec have underperformed their benchmark by 0.5%.

4. Market Review

4.1 Global equities climbed over the first three months of 2017, buoyed by signs of strengthening growth and optimism over company earning, although this faded towards the end of the quarter. Information technology stocks performed best, while the energy sector retreated amid weak oil prices.

4.2 US equities rallied over the quarter, posting their strongest quarterly gain in four years. Shares were aided by signs of the improving economic momentum, optimism over company earnings and by hopes that the new administration would introduce tax and regulatory reform. However, the positive gains appeared to fade towards the end of the quarter.

4.3 European equities rose over the quarter, reaching fifteen month highs and signs of strengthening growth. Almost all sectors advanced, with information technology being the best performer as it recorded double digit returns. In contrast, the energy sector retreated due to falling oil prices.

4.4 Equity markets in the Pacific (excluding Japan) produced robust returns over the quarter, outperforming many of their western counterparts as sentiment was boosted by signs of strengthening growth in the global economy. All counties in the region gained with Hong Kong and China leading the advance.

4.5 Japanese equities ended the quarter with marginal losses, lagging other regions as exporters were hurt by the firmer tone to the Japanese yen.

4.6 Emerging market equities delivered robust returns over the period, outperforming their more developed counterparts amid signs of stronger global growth and a weaker US dollar.

Manager Commentaries

5. Allianz

5.1 This quarter has been a mixed quarter for global investment styles with the return of 4.4% underperforming the benchmark by 70bps. Sector allocation added 15bps to relative performance over the quarter largely through being overweight in IT and an underweight position in Energy. Stock selection within sectors was unsuccessful during the quarter with holdings in Consumer Staples, Industrials and Healthcare offsetting gains made from those companies held within the Energy sector.

5.2 Regional allocations detracted slightly -4bps on a relative basis as a result of the unsuccessful underweight in Pacific ex Japan. Within the regions, stock selection was also disappointing, in particular across Europe, as the reflation trade seen in the latter part of 2016 began to unwind during the quarter.

5.3 Performance over the quarter has varied with investment styles Value, High Risk, Small Caps and Growth lagging the market. The two trend following styles (Price Momentum and Earnings Revision) were the best performers, however, their positive contribution overall to relative performance was not sufficient to offset the weakness in the performance of Value. The relative performance of global Value stocks peaked at the beginning of December and has been gradually trending downwards since then.

6. Investec

6.1 The performance of Investec’s Four Factors approach provided a tailwind for portfolio performance in the quarter, rather than a headwind. The Value Factor extended its strong run from the second half of 2016. The Earnings and Strategy Factors bounced back from being negative in the last quarter, while the Technical Factor was weak.

6.2 US chipmaker Broadcom advanced over the quarter on the back of strong earnings growth, increasing demand and analyst attention. A similar dynamic boosted the holdings in US semiconductor manufacturing equipment maker Lam Research. Despite these performances stock selection within information technology detracted from performance over the quarter. Being underweight in Apple weighed heavily on relative returns after it announced better than expected iphone results. Being underweight in Facebook also held back relative performance.

6.3 Holdings in consumer-related stocks advanced strongly over the quarter, led by Tiffany’s which gained following successful ousting of its CEO. US online travel company Priceline gained after earnings showed evidence of market share gains. Medical device maker Zimmer Biomet also contributed to returns after guiding higher on sales.

6.4 Being underweight in the energy sector, with a lack of exposure to global oil companies Exxon Mobil, Chevron and Royal Dutch Shell helped support relative returns. The overweight holding in independent US oil exploration and production company Hess held back returns as it retreated in line with oil prices over the quarter.

6.5 The holding of Fuji Heavy Industries, the maker of Subaru brand cars detracted over the quarter. Despite delivering a good set of results and upgrading forward guidance, the market feared increased competition in the Americas, alongside rising rebates and warranty costs related to an ongoing airbag recall.

7. Wellington

7.1 During the quarter, the Global Research Equity portfolio outperformed the MSCI World Index. Stock selection within consumer staples, information technology, industrials and financials were contributors to relative outperformance while stock selection in health care offset some of these gains.

7.2 Consumer staples, in a reverse from last quarter, were an area of strength for the portfolio this quarter with Unilever and British American Tobacco showing solid performance. Unilever underwent a strategic review, the results of which were encouraging. The company is exiting a period of heavy reinvestment to reinvigorate growth and is on a solid trajectory, moving forward with an even sharper focus on costs.

7.3 Within information technology, Arista Network delivered strong, above consensus earnings, citing strong customer demand and consistent performance. Workday was also a strong performer during the quarter.

7.4 Stock selection was successful across a number of industries within industrials. Within capital goods, the portfolio successfully avoided holding General Electric. The company’s share price declined after it reported revenues that fell short of market expectations. TransUnion was a strong performer within the commercial services industry. The company reported strong results that soundly beat prior guidance and consensus expectations. The company is viewed favourably after declining capital expenditure, an attractive economic profile and strong growth prospects.

7.5 In financials, banks led the sector higher this quarter with a number of holdings outside the US posting solid results. Spain’s CaixaBank was a notable performer this quarter. The macro story in Spain continues to improve as housing prices and real estate activity seem to have reached an inflection point. There is room for CaixaBank’s loan portfolio to grow and the company stands to benefit from rising interest rates, which should lead to an improvement in earnings.

7.6 Healthcare was a modest detractor for the portfolio this quarter driven primarily by difficulties in the pharmaceutical industry. Bristol-Myers Squibb was the top underperforming stock in this category. Early in the quarter the company opted to pursue a traditional filing pathway for its lung cancer drug instead of an accelerated approval approach. The market acted negatively to news of the six month delay. On a more positive note, the company did gain some ground as it reached a settlement with Merck on patent infringement litigation. In addition to receiving a large initial payment from Merck, Bristol-Myers Squibb will benefit from ongoing royalties.

Richard Bates
Pension Fund Administrator
June 2017