

Global Equities**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 2017 and 30 September 2017.

	Allianz	Investec	Wellington	Total
	£000s	£000s	£000s	£000s
Valuation 01-Apr-17	270,886	193,966	206,868	671,720
Investment	-	-	-	-
Distribution	-	-	-	-
Increase in Valuation	8,127	4,117	3,842	15,608
Valuation 30-Sep-17	279,013	198,083	210,710	687,328

- 2.2 No additional investment has been made with the three managers this financial year.

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 30 September 2017.

	Allianz	Investec	Wellington
Quarter to Date			
Performance	3.3%	1.6%	1.1%
Benchmark	1.5%	1.5%	1.5%
Relative Return	1.8%	0.1%	-0.4%
Six Months to Date			
Performance	3.1%	2.1%	1.3%
Benchmark	1.7%	1.7%	1.7%
Relative Return	1.4%	0.4%	-0.4%
Twelve Months to Date			
Performance	16.1%	14.5%	14.4%
Benchmark	14.4%	14.4%	14.4%
Relative Return	1.7%	0.1%	0.0%
Since Inception			
Performance	20.1%	18.9%	19.8%
Benchmark	19.0%	19.0%	19.0%
Relative Return	1.1%	-0.1%	0.8%

- 3.2 Allianz and Investec both outperformed their benchmarks for the six months to 30 September 2017 by 1.4% and 0.4% respectively, whilst Wellington underperformed by 0.4% over the same period. Since inception, Allianz and Wellington have outperformed their benchmarks by 1.1% and 0.8% respectively, whilst Investec underperformed their benchmarks by 0.1%.

4. Market Review

- 4.1 Global equities rallied over the quarter, as optimism over the outlook for the global economy helped investors overcome heightened geopolitical tensions. Energy stocks rebounded as oil prices hit a two year high, and the information technology and materials sectors also posted strong gains. However, stocks in more defensive, high yielding sectors, such as consumer staples, fared less well.
- 4.2 US equities increased over the quarter, with major indices touching a series of fresh highs. Stocks were supported by better-than-expected second quarter earnings results. They also reacted positively to the administration's announcement of more detailed plans for corporate tax reform, helping the market overcome concerns about heightened tensions between the US and North Korea, as well as the worries about the social and economic cost of two major hurricanes to hit the US in a month. In general, smaller companies outpaced larger ones.
- 4.3 Eurozone equities rose over the quarter, boosted by positive economic news which helped stocks overcome geopolitical tensions. Returns at a country level varied significantly. Italy and Portugal led the advance, with almost double-digit returns but Spain was the region's poor performer as Catalonia's attempted independence referendum weighed on sentiment. Equity markets in the Pacific ex Japan region rose modestly over the quarter. Optimism over the outlook for the global economy helped markets to overcome heightened geopolitical tensions.
- 4.4 Japanese equities rallied over the quarter, outperforming most other developed equity markets. For much of the quarter, a stronger yen weighed on sentiment as it lowered the prospects for the nation's exporters. However, the yen weakened sharply in September following more hawkish comments from the US Federal Reserve. This helped Japanese equities. Emerging market equities rallied strongly over the quarter, outpacing the most developed markets, with the MSCI Emerging Markets Index touching its highest level in three years in mid-September.

Manager Commentaries

5. Allianz

- 5.1 The portfolio outperformed the benchmark by 1.4% over the six month period to 30 September 2017. The strength in the trend-following styles and Quality overcompensated for the weakness in Value for an overall outperformance of the mandate in this quarter. Sector allocation did not add to relative performance in the quarter, with a small loss of 1bp which can be attributed to the mandate's sector allocation.
- 5.2 The relative performance pattern of investment styles seen in the previous quarter continued in this quarter, with outperformance from the trend-following investment styles plus Quality alongside weakness in Value. More risk-off, non-cyclical investment styles like High Quality and Stable Growth led the broad market over the period. The trend-following investment styles, Earnings Revisions and Momentum, continued their path of outperformance. The investment style Value lagged the broad market again in this quarter. Value stocks along with Small Caps came under

pressure this quarter due to the sluggish implementation of President Trump's agenda in 2017.

- 5.3 Single stock selection within sectors was successful in the quarter, with good contributions from Information technology, industrials and Consumer Discretionary. Stock picks within Healthcare detracted from performance. Overweight's in stocks such as US semiconductor Micron Technology, which showed average earnings above expectations and Lam Research, which offers high quality characteristics, helped the performance of the mandate over the quarter. The underweight in Energy detracted from relative performance slightly which was broadly offset by a successful stock selection within the sector, e.g. by overweight's in companies like Repsol and Total. Single stock selection within regions was successful in this quarter across all regions, in particular North America. Small caps continued to underperform this quarter such as the smaller cap US packaged food company Pinnacle Foods, which severely underperformed this quarter.

6. Investec

- 6.1 The performance of the Four Factors provided a tailwind for our process in the third quarter. Earnings led factor performance followed by value. The Strategy factor, which led in the first half of the year, was broadly neutral. Performance was supported by holdings in the information technology sector, particularly internet and semiconductor stocks, starting with US semiconductor manufacturer Lam Research, which rallied over the quarter, driven by better-than-expected earnings and trading updates. US online payment firm PayPal added to relative returns as shares performed strongly following company's earnings release and on news of several partnership announcements, including one with Apple Cloud computing software specialists VMware and Facebook advanced on positive earnings and trading updates.
- 6.2 The materials sector rallied strongly over the quarter and the portfolio's performance benefited from an overweight exposure to the sector as a whole, as well as favourable selection of materials stocks. Norwegian metals company Norsk Hydro also performed well as aluminium prices continued to strengthen. Canadian diversified miner Lundin Mining also benefitted from price rises. Likewise in the energy sector, the rebound in energy prices saw many of the favoured oil related holdings add to performance, including Subsea 7 and Valero Energy. US insurance major Cigna Corp advanced strongly after better than expected quarter results and raised its forward earnings guidance.
- 6.3 Within the healthcare sector, the overweight holding in clinical lab services company Quest Diagnostics was a leading detractor, as it announced that regulatory changes would have a greater impact on growth and margins than previously thought. In consumer, American broadcaster CBS fell on the back of falling cable subscriptions generally in the US, alongside a steep decline in sports ratings. Hologic retreated following poor acquisition, Cynosure and a quicker-than-expected slowdown in its breast health division resulting in the company lowering 2017 guidance. UK biopharmaceutical company Shire delivered a reasonable set of results, but suffered analyst downgrades as management reduced its forward sales guidance range. It continues to be weak on concerns over potential competition to its haemophilia franchise.
- 6.4 Detractors from relative returns also included tobacco stocks British American Tobacco and Imperial Brands. The sector sold off on news that the Food and Drug Administration plans to increase its regulation of the US tobacco industry, with a view to reducing nicotine levels in cigarettes and potentially banning menthol flavoured products. There should be little impact on the tobacco holdings in the short term, but

that long-term risk could potentially increase. US airlines Delta Airlines and Alaska Air Group suffered amid shifting sentiment towards the sector during the earnings season with investors concerned about industry pricing and capacity growth trends. Earnings and guidance were good, however, Spanish airport Aena retreated on a similar dynamic, compounded by the resignation of its respected CEO, alongside concerns over the Catalan independence referendum.

7. Wellington

- 7.1 During the quarter, the Global Research Equity Portfolio underperformed the Index with 7 of the 11 sectors negatively impacting value. While positive stock selection within information technology, industrials and real estate primary contributed to relative performance, stock selection in health care and consumer discretionary offset these gains.
- 7.2 Within information technology, Arista Networks and NVIDIA were among the top contributors this quarter. Arista Networks, a supplier of cloud-computing switches and other services, continued its strong momentum from the first two quarters and delivered strong earnings results. NVIDIA, a supplier of graphic processors that are used in gaming and general computer applications, delivered healthy results. NVIDIA is a long-term winner in the fastest growing end markets for semiconductors. This, coupled, with a commanding lead in artificial intelligence and autonomous driving, make this a unique stock and the likelihood to see room for positive revisions.
- 7.3 In industrials, the overweight exposure to DSV, a Danish provider of global freight transportation and logistics services, proved beneficial to portfolio results this quarter. The company continues to benefit from improving growth in Europe and increased shipping due to impressive ecommerce volumes. Boeing was another winner within the industrials this quarter. The acceleration in global traffic has been very strong year-to-date and Boeing has benefitted from this as well from improved prospects for higher defence spending. Real estate boosted relative performance this quarter. Daito Trust, a Japanese rental housing and construction company reported a strong finish to their fiscal year and provided encouraging guidance for the financial year 2018. The company appears to be in a solid position as order momentum inflects and the improved sales strategy shows results.
- 7.5 Health care was a weak area for the portfolio this quarter. Allergan, a US based pharmaceutical company, has an attractive pipeline of drugs and reported a solid quarter of results. However, the share price fell on broader pricing concerns in the pharmaceutical industry after TEVA reduced its guidance and cut its dividend. Medtronic was another poor performer within healthcare this quarter. The company pre-announced weaker results due to an IT issue in June and capacity constraints in the diabetes division. The belief is that Medtronic will be driven by innovative product cycles, and it currently has a pipeline rich enough to deliver against its long-term growth plans.
- 7.6 Consumer discretionary stocks were another challenging area of performance for the portfolio this quarter. Advance Auto Parts, a US auto aftermarket retailer, was the primary underperformer within the sector. The industry has experienced a slowdown with same store sales coming in weaker and incremental costs due to rising inventories. The relatively new management team has taken longer than anticipated to turnaround the business and drive returns for shareholders.