Quarterly Investment Report

We are investing in our service delivery platforms to enhance the consistency and readability of our reports, as such over the next couple of months you will notice some changes to both content and appearance.

Quarterly Investment Report

Dorset County Council
Emerging Markets and Asia Pacific Equities

December 31, 2017

J.P.Morgan Asset Management

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As of December 31, 2017

All data as of December 31, 2017 unless otherwise noted.

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As of December 31, 2017

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J.P.Morgan Asset Management

Global Market Review

Emerging Markets were the strongest performing asset class in 2017

Global equities produced surprisingly strong returns in 2017, with emerging markets leading the way for the second year in a row. This strong performance reflected healthy and synchronized global growth and a weakening dollar.

...supported by a weak dollar, commodities strength and rising EPS growth

A weak dollar has historically been supportive of the relative performance of emerging market equities and this proved to be the case as a basket of EM currencies gained modestly versus USD, while commodities strength delivered further support. Rising 2018 EPS (earnings per share) growth expectations for the asset class point to an improved fundamental backdrop.

Positive fundamental backdrop at neutral valuations

Valuations remain in attractive territory for the asset class, at close to long term averages, while there continues to be broad momentum in earnings estimates.

Regional Equity Returns (%)

	3 Months		12 Months	
	Local currency returns	Base currency returns (USD)	Local currency returns	Base currency returns (USD)
Asia	6.05	8.36	35.89	42.83
Latin America	1.94	-2.34	22.11	23.74
Europe/Middle East/Africa	7.26	11.72	15.18	24.54

The figures shown above are published MSCI Index data.
Note: The indices used throughout this report for Argentina and Peru only contain stocks that are traded in USD.

J.P.Morgan Asset Management

Executive Summary

As of December 31, 2017

Performance objective

To provide long-term capital growth by investing primarily in a diversified portfolio of emerging markets companies.

Valuation

	Units	Unit Price	Market value (GBP)
September 2017	1,076,737.666	92.730	99,845,884
December 2017	1,076,737.666	98.170	105,703,337

Investment Performance (%)

	Three Months	Six Months	One Year	Three Years (1)	Five Years (1)	Since Inc. April 2012 (1)
JPM Emerging Markets Diversified Equity X (acc) - GBP	**5.87**	**13.31**	**30.46**	**16.77**	**9.40**	**8.18**
MSCI Emerging Markets Index (Total Return Net)	6.55	11.31	25.40	14.39	8.25	7.41
Excess(2)	**-0.65**	**1.80**	**4.03**	**2.08**	**1.06**	**0.72**
Tracking error	-	-	-	3.09	2.93	3.12

(1)annualised

(2)geometric

J.P.Morgan Asset Management

Key Characteristics

As of December 31, 2017

Portfolio Characteristics

	Portfolio	Benchmark
Price earnings	11.93 X	14.97 X
Price/Book value	1.73 X	1.77 X
Dividend yield	2.77 %	2.23 %
Return on equity	14.26 %	11.54 %
Net Debt/Equity ratio	32.43 %	26.73 %
Number of issuers	133	820
Active share	65.07 %	N/A

Source: UBS Portfolio Analysis System as of November 30, 2017, J.P. Morgan Asset Management.

Holdings Concentration (%)

Portfolio	Portfolio Holdings
Top 10	30.20
Top 20	43.70
Top 30	53.88

Source J.P.Morgan Asset Management.

Geographic Exposure (%)

Region	Portfolio	Benchmark	Difference
Emerging Asia	69.79	73.19	-3.40
Emerging EMEA	17.35	15.02	2.33
Emerging Latin America	9.96	11.79	-1.83
Developed Markets	0.67	-	0.67
Emerging Markets Derivatives	0.63	-	0.63
Total equities	**98.40**	**100.00**	**-1.60**
Cash and Equivalents	**1.60**	**-**	**1.60**
Total	**100.00**	**100.00**	**0.00**

Note: The country location of stocks reflects where they are listed. In line with the prospectus, these stocks derive the predominant part of their economic activity from an emerging market.
Source J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Our Investment Approach

As of December 31, 2017

Our proposition

- We believe emerging markets are inefficient and investors are not perfectly rational
- A combination of value and momentum strategies outperform over the long term
- These anomalies are persistent and occur across markets
- Fundamental analysis enhances the process

Generate stable alpha using diversified sources

Value	+	Momentum
Top-down (Country / Sector)	+	Bottom-up (Stock)
Screening	+	Fundamental Analysis

Minimise unintended risks using disciplined risk management

Beta neutral	+	Market cap neutral
Standardized active positions	+	Country / Sector concentration limits

consistent risk-adjusted performance across market environments

J.P.Morgan Asset Management

Our Investment Approach

As of December 31, 2017

Idea Generation/Screening

- Universe of over 1000 names
- Ranks generated from country, sector and stock screens
- Balanced set of fundamental, value & momentum factors

Fundamental Overlay

- Asset Allocation Committee agrees on country & sector ranks
- PM manages stock ranks drawing on fundamental views of analysts

Portfolio Construction

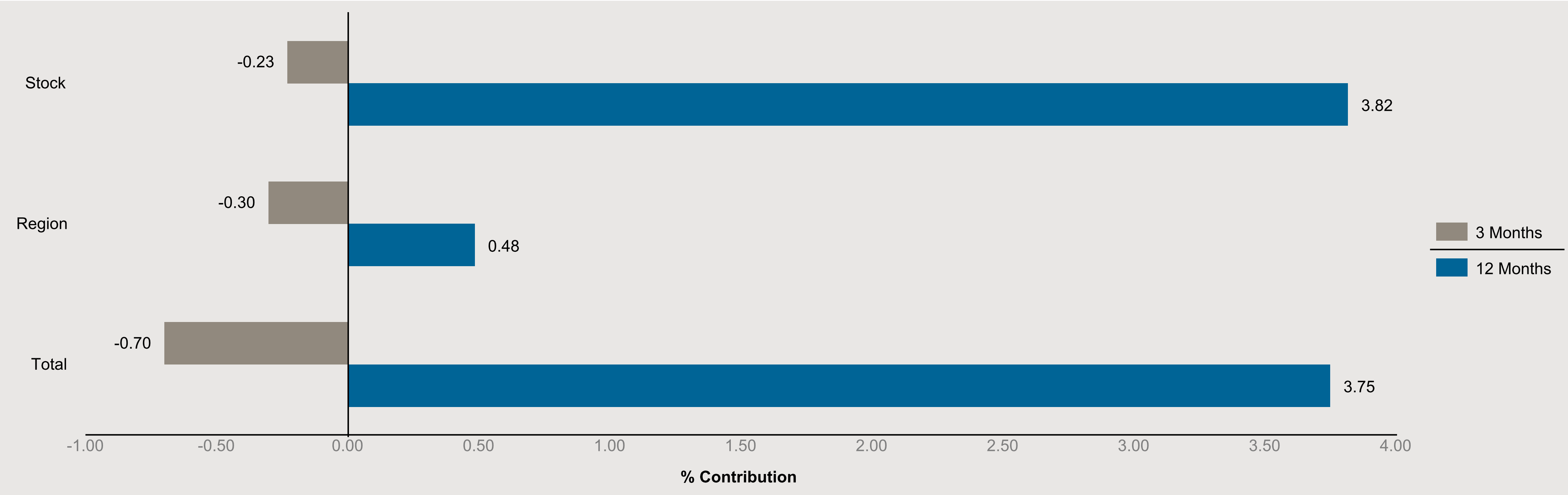
- Ensure optimal style exposure and portfolio diversification
- Optimised to meet client risk/return objectives

transparent 3-step process

Performance Attribution

As of December 31, 2017

Attribution Summary



In certain market environments, cash may impact the overall total, causing the region and stock impacts and the overall effect not to total. The differences between NAV returns and attribution analysis are due to price / timing differences.

J.P.Morgan Asset Management

Performance Attribution

As of December 31, 2017

3 Month Review

Performance has kept pace with a technology-led market	In a year when cheap assets have underperformed the broader universe due to market leadership of highly rated Chinese technology stocks like Tencent and Alibaba, we have managed to preserve the strategy's performance lead. This is because our process leads us to own companies that can be inexpensive and have positive trends in operational performance at the same time. In practice, that means we have benefitted from owning commodity companies that are in the sweet spot of rising global growth and falling Chinese supply, in particular steel producers. In addition, our focus on positive operational trends means that within China we have limited our underweight exposure in companies like Tencent and Alibaba, while also owning a number of cheaper gaming stocks that performed well.
Underweight exposure to expensive Mexico	We own little in Mexico and that contributed to returns. Even after lagging the broader market significantly over the last year, Mexico is still valued at a premium with sluggish economic and earnings growth. This puts Mexico towards the lower end of our country rankings and so our only stock position is Banorte, a leading local bank, where the final rank is supported by a 1 rank for financials in our sector model.
Market reaction to recapitalisation in India detracted	Being underweight India and our preference for efficiently managed private sector banks within the country detracted as the market reacted positively to news in October that the government was recapitalizing public sector banks which are burdened with non-performing loans. We think this is a long-term positive, but think valuations pose a headwind for Indian equities. This is particularly relevant in the context of the disruption following the launch of the Goods and Services Tax in July, as the economy adapts to the most significant change in the economic landscape in several decades.

12 Month Review

Overweight sector exposures have been significant contributors	Our key sector overweights are commodities, financials and IT. Typically we would want to own more consumer discretionary stocks at this point in the cycle, but find little that scores well on our valuation screens except Chinese auto manufacturers. One of these names, Geely, has been the top stock level contributor over the 12 months. Geely, parent of Volvo since 2010, is attractively valued with strong earnings upgrades as sales volumes have grown close to 80% year-on-year.
Added to Russia	The Russian market lagged in 2017, underperforming on political concerns; mainly worsening relations with the U.S. and a still sluggish economic recovery and while oil prices recovered over the course of the year, the recovery mainly occurred in Q4 2017. We have been adding into this weakness, across names including MTS, Sberbank and Norilsk Nickel.

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Performance Attribution

As of December 31, 2017

Geographic Attribution (%)

	Portfolio		Benchmark		3 Months		
Country	Average Weight	Return	Average Weight	Return	Asset Allocation	Stock Selection	Total Impact
China	29.12	11.45	29.99	7.62	-0.11	1.01	0.90
Indonesia	1.40	22.45	2.20	8.23	0.01	0.17	0.18
Thailand	4.14	9.71	2.22	9.46	0.04	0.02	0.06
Vietnam	0.40	20.02	-	-	0.00	0.05	0.05
Pakistan	-	-	0.09	-5.46	0.01	0.00	0.01
Philippines	-	-	1.11	6.45	0.01	0.00	0.01
Malaysia	1.96	6.06	2.23	7.86	-0.01	-0.03	-0.05
Korea	18.77	8.59	15.46	11.38	0.22	-0.51	-0.30
India	3.52	3.11	8.61	11.82	-0.19	-0.30	-0.49
Taiwan	12.00	-2.60	11.54	4.03	-0.01	-0.78	-0.79
Emerging Asia	**71.30**	**7.75**	**73.46**	**8.36**	**-0.03**	**-0.39**	**-0.42**
United Arab Emirates	-	-	0.68	-4.64	0.08	0.00	0.08
Qatar	-	-	0.54	4.65	0.02	0.00	0.02
Egypt	-	-	0.11	-2.11	0.01	0.00	0.01
Czech Republic	-	-	0.18	7.75	0.00	0.00	0.00
Hungary	1.44	6.77	0.33	7.08	0.00	0.00	0.00
Greece	-	-	0.30	13.34	-0.02	0.00	-0.02
Romania	-	-	0.10	26.66	-0.02	0.00	-0.02
Turkey	4.51	4.92	1.04	4.30	-0.07	0.01	-0.06
Poland	1.55	-4.40	1.31	5.78	-0.01	-0.16	-0.17
Russian Federation	7.35	3.20	3.34	4.26	-0.13	-0.07	-0.21

J.P.Morgan Asset Management

Performance Attribution

As of December 31, 2017

	Portfolio		Benchmark		3 Months		
Country	Average Weight	Return	Average Weight	Return	Asset Allocation	Stock Selection	Total Impact
South Africa	2.12	36.81	6.42	21.28	-0.55	0.25	-0.30
Emerging EMEA	**16.98**	**6.95**	**14.35**	**11.72**	**-0.68**	**0.02**	**-0.66**
Mexico	0.31	-9.22	3.10	-8.09	0.48	-0.04	0.45
Brazil	8.45	0.32	7.07	-1.95	-0.10	0.19	0.08
Colombia	-	-	0.41	0.80	0.03	0.00	0.03
Panama	0.95	8.22	-	-	0.00	0.01	0.01
Chile	-	-	1.22	7.21	0.00	0.00	0.00
Peru	-	-	0.39	7.26	0.00	0.00	0.00
Emerging Latin America	**9.71**	**0.48**	**12.19**	**-2.32**	**0.41**	**0.16**	**0.57**
United Kingdom	0.17	11.70	-	-	0.00	0.01	0.01
United States	0.27	-3.69	-	-	0.00	-0.03	-0.03
Emerging Markets Derivatives	**0.16**	**4.99**	**-**	**-**	**0.00**	**0.00**	**0.00**
Developed Markets	**0.44**	**-5.28**	**-**	**-**	**0.00**	**-0.02**	**-0.02**
Equities & Equity Derivatives	**98.58**	**6.86**	**100.00**	**7.44**	**-0.30**	**-0.23**	**-0.54**
Cash and Equivalents	**1.42**	**29.02**	**-**	**-**	**-0.17**	**0.00**	**-0.17**
Total	**100.00**	**6.68**	**100.00**	**7.44**	**-0.47**	**-0.23**	**-0.71**

Source J.P.Morgan Asset Management.

The above analysis is designed to be indicative of sources of contribution. Due to the effects of volatility, market timings and cash flows which are not shown above, figures may not necessarily add up to actual performance.

Performance Attribution

As of December 31, 2017

Sector Attribution (%)

	Portfolio		Benchmark		3 Months		
Sector	**Average Weight**	**Return**	**Average Weight**	**Return**	**Asset Allocation**	**Stock Selection**	**Total Impact**
Financials	28.47	10.21	23.20	8.17	0.04	0.54	0.58
Materials	12.42	10.55	7.19	8.77	0.08	0.20	0.29
Telecommunication Services	1.63	7.49	4.86	3.06	0.14	0.08	0.22
Industrials	3.73	7.41	5.43	5.06	0.06	0.09	0.14
Real Estate	0.51	-4.71	2.79	3.07	0.04	0.00	0.04
Consumer Discretionary	5.67	8.35	10.27	9.01	-0.07	-0.04	-0.11
Consumer Staples	3.14	5.01	6.34	8.07	-0.03	-0.09	-0.12
Utilities	2.67	-3.66	2.46	1.45	-0.01	-0.14	-0.15
Health Care	0.15	-3.22	2.42	16.57	-0.18	-0.04	-0.23
Energy	7.88	4.27	6.80	7.91	0.01	-0.27	-0.26
Information Technology	32.14	4.27	28.25	7.14	-0.05	-0.87	-0.92
Equities & Equity Derivatives	**98.42**	**6.85**	**100.00**	**7.44**	**0.01**	**-0.55**	**-0.54**
Derivatives	**0.16**	**4.99**	**-**	**-**	**0.00**	**0.00**	**0.00**
Cash and Equivalents	**1.42**	**29.02**	**-**	**-**	**-0.17**	**0.00**	**-0.17**
Total	**100.00**	**6.68**	**100.00**	**7.44**	**-0.16**	**-0.55**	**-0.71**

Source J.P.Morgan Asset Management.

The above analysis is designed to be indicative of sources of contribution. Due to the effects of volatility, market timings and cash flows which are not shown above, figures may not necessarily add up to actual performance.

J.P.Morgan Asset Management

Stock Performance

As of December 31, 2017

Top Positive Stocks By Excess Returns (%)

	Portfolio		Benchmark			
Security	**Average Weight**	**Return**	**Average Weight**	**Return**	**Excess Return**	**Status**
Ping An Insurance	2.09	35.40	0.94	35.58	0.25	
NetEase	1.62	30.75	0.47	31.06	0.25	
Steinhoff	-	-	0.19	-91.55	0.24	**Not held**
Standard Bank	1.10	35.37	0.31	35.23	0.19	
Vale	1.67	22.25	0.63	21.61	0.16	
Baidu	-	-	1.28	-5.44	0.16	**Not held**
Kumba Iron Ore	0.28	86.29	0.01	28.44	0.15	
Hon Hai Precision Industry	-	-	1.02	-7.61	0.15	**Not held**
Sberbank	1.91	19.11	0.75	16.90	0.13	
KT&G	1.32	19.67	0.23	19.99	0.12	

Source J.P.Morgan Asset Management.

Stock Performance

As of December 31, 2017

Top Negative Stocks By Excess Returns (%)

	Portfolio		Benchmark			
Security	Average Weight	Return	Average Weight	Return	Excess Return	Status
General Interface Solution	0.81	-31.41	0.03	-32.74	-0.35	
Naspers	0.56	28.87	2.12	28.90	-0.28	
Largan Precision	1.16	-23.18	0.33	-23.14	-0.25	
Banco Do Brasil	1.13	-12.58	0.17	-12.36	-0.20	
Kroton Educacional	1.04	-12.19	0.15	-12.01	-0.19	
Turkiye Halk Bankasi	0.69	-16.70	0.03	-16.58	-0.18	
IGG	0.55	-19.06	-	-	-0.16	**Off benchmark**
Elite Material	0.26	-35.29	-	-	-0.14	**Off benchmark**
Tupras	1.01	-6.05	0.08	-6.29	-0.13	
X5 Retail	0.47	-16.03	-	-	-0.12	**Off benchmark**

Source J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Market Environment by Country

As of December 31, 2017

Market Environment By Country (%)

Asia	3 Months		12 Months	
	Local currency returns	Base currency returns (USD)	Local currency returns	Base currency returns (USD)
China	7.69	7.62	55.04	54.07
India	9.27	11.82	30.49	38.76
Indonesia	9.02	8.23	25.10	24.22
Korea	4.11	11.38	30.56	47.30
Philippines	4.60	6.45	25.15	24.63
Taiwan	2.09	4.03	17.76	27.53
Thailand	6.97	9.46	22.43	34.52

Latin America	3 Months		12 Months	
	Local currency returns	Base currency returns (USD)	Local currency returns	Base currency returns (USD)
Argentina	7.31	7.31	73.46	73.46
Brazil	2.78	-1.99	26.49	24.11
Chile	3.16	7.21	30.59	42.23
Colombia	2.44	0.80	15.61	16.29
Mexico	-0.97	-8.09	10.14	15.97
Peru	7.26	7.26	38.39	38.39

Market Environment by Country

As of December 31, 2017

Europe/ Middle East / Africa	3 Months		12 Months	
	Local currency returns	Base currency returns (USD)	Local currency returns	Base currency returns (USD)
Czech Republic	4.19	7.75	12.41	35.46
Greece	11.58	13.34	12.96	28.60
Hungary	5.26	7.08	23.46	39.95
Poland	0.87	5.78	28.79	54.72
Qatar	4.68	4.65	-11.49	-11.51
Russian Federation	4.28	4.26	0.31	5.20
South Africa	11.28	21.37	23.23	36.12
Turkey	11.21	4.30	49.13	38.35
United Arab Emirates	-4.64	-4.64	2.93	2.93

J.P.Morgan Asset Management

Quarterly review

Positioned for ongoing recovery	While markets have been strong since the inflection point in emerging market corporate earnings in early 2016, we believe volatility has been unusually low. Consequently, while we remain positioned for an ongoing recovery in emerging economies and companies, we would expect volatility to rise from current levels.
Value has struggled in 2017	Despite typically performing well in bull markets, value had its worst year in recent history in 2017. Value works best in environments of wide value spreads (cheapness of value), robust GDP growth (no crowding into scarce growth) and higher inflation (future growth is discounted at a higher rate). We currently have the first two scenarios - however inflation is still on the decline in EM, (although it has ticked back up in the US), once it turns back we should expect to see a value rally.
Continued overweight exposure to commodities	With robust GDP growth and supply-side reforms making for a good environment for commodities as a whole, we are happy with a positive (although still constrained) exposure here. The story for commodities remains compelling.

Portfolio Positioning

As of December 31, 2017

Geographic Exposure (%)

Country	Portfolio	Benchmark	Difference
China	29.85	29.67	0.18
India	3.09	8.78	-5.68
Indonesia	1.63	2.24	-0.61
Korea	18.26	15.39	2.88
Malaysia	1.78	2.36	-0.58
Pakistan	-	0.08	-0.08
Philippines	-	1.13	-1.13
Taiwan	10.92	11.27	-0.35
Thailand	3.80	2.28	1.52
Vietnam	0.45	-	0.45
Emerging Asia	**69.79**	**73.19**	**-3.40**
Czech Republic	-	0.18	-0.18
Egypt	-	0.11	-0.11
Greece	-	0.33	-0.33
Hungary	1.44	0.33	1.11
Poland	1.47	1.33	0.13
Qatar	-	0.56	-0.56
Romania	-	0.12	-0.12
Russian Federation	7.24	3.33	3.91
South Africa	2.29	7.00	-4.71
Turkey	4.91	1.07	3.84
United Arab Emirates	-	0.65	-0.65

Portfolio Positioning

As of December 31, 2017

Country	Portfolio	Benchmark	Difference
Emerging EMEA	**17.35**	**15.02**	**2.33**
Brazil	8.57	6.81	1.77
Chile	-	1.25	-1.25
Colombia	-	0.41	-0.41
Mexico	0.44	2.93	-2.50
Panama	0.94	-	0.94
Peru	-	0.38	-0.38
Emerging Latin America	**9.96**	**11.79**	**-1.83**
United Kingdom	0.21	-	0.21
United States	0.46	-	0.46
Developed Markets	**0.67**	**-**	**0.67**
Emerging Markets Derivatives	**0.63**	**-**	**0.63**
Total equities	**98.40**	**100.00**	**-1.60**
Cash and Equivalents	**1.60**	**-**	**1.60**
Total	**100.00**	**100.00**	**0.00**

Note: The country location of stocks reflects where they are listed. In line with the prospectus, these stocks derive the predominant part of their economic activity from an emerging market.
Source J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Portfolio Positioning

As of December 31, 2017

Sector Weights (%)

Sector	Portfolio	Benchmark	Difference
Consumer Discretionary	5.53	10.20	-4.68
Consumer Staples	2.96	6.58	-3.61
Energy	7.94	6.77	1.18
Financials	28.31	23.45	4.85
Health Care	0.28	2.66	-2.38
Industrials	4.89	5.29	-0.40
Information Technology	30.63	27.63	2.99
Materials	13.04	7.41	5.63
Real Estate	0.43	2.82	-2.39
Telecommunication Services	1.50	4.84	-3.34
Utilities	2.27	2.36	-0.09
Equities & Equity Derivatives	**97.77**	**100.00**	**-2.23**
Cash and Equivalents	**1.60**	**-**	**1.60**
Derivatives	**0.63**	**-**	**0.63**
Total	**100.00**	**100.00**	**0.00**

Source J.P.Morgan Asset Management.

Stock Positioning

As of December 31, 2017

Top Holdings (%)

Security	Country	Sector	Portfolio	Benchmark
Samsung Electronics	Korea	Information Technology	5.94	4.90
Tencent	China	Information Technology	5.19	5.45
Taiwan Semiconductor Manufacturing	Taiwan	Information Technology	4.19	3.50
China Construction Bank	China	Financials	2.43	1.43
Alibaba	China	Information Technology	2.35	3.66
Ping An Insurance	China	Financials	2.22	1.00
Sberbank	Russian Federation	Financials	1.99	0.78
Vale	Brazil	Materials	1.90	0.71
Industrial & Commercial Bank of China	China	Financials	1.90	1.09
Itau Unibanco	Brazil	Financials	1.62	0.76

Source J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Market Outlook

Strong fundamentals should support continued strength in EM	Healthy and synchronized global growth and a weakening dollar supported strong asset class returns in 2017 and we believe these growth and dollar trends will continue through 2018, leading us to expect continued strength in emerging markets, in both absolute and relative terms.
Global growth is stronger and more broad-based than at any time since 2010	The global growth outlook is extremely important to the performance of EM equities, and today, growth is stronger and more broad-based than at any time since 2010. Moreover, as inflation is currently well contained, the risk that G3 central banks act aggressively to cool down the economy seems to be rather low. Considering this, healthy growth and the corresponding comfort with risk assets may last longer than many expect. However, further acceleration of growth, particularly in developed economies, could lead us to reconsider that view.
...further support stems from the US dollar, which appears to have peaked a year ago	On the dollar, we believe 2016 marked the peak for this cycle and that a softer dollar is likely for the next few years. Dollar weakness is quite helpful to emerging market equities and something investors hadn't seen for several years. First, a falling dollar reflects improving risk appetite, as investors feel comfortable leaving the safety of the dollar to gain exposure to international markets. Second, despite the waning importance of commodity earnings in the total EM universe, emerging market equities are still highly correlated to commodity prices, which tend to rise when the dollar falls. Finally, and most directly, dollar weakness boosts the dollar earnings of EM companies, generates earnings upgrades, and often leads to a re-rating of EM equities.
These supportive drivers could also prove to be risks	On the risk side of the ledger, as the dollar and global growth are the two most supportive macro drivers behind EM's strength, it should not be a surprise that they also represent the most important risks in the medium term. Geopolitical concerns and economic slowdowns tend to suppress risk appetite and support the dollar, both of which would likely prove problematic for emerging market equities. In the short term, EM stocks are certainly vulnerable to a turn in market sentiment, and a long-awaited correction in the S&P 500 would certainly be felt across the EM universe.
Look to increase exposure on market corrections	Given the supportive growth and currency backdrop in place today, we are advising clients to take advantage of any market weakness to add exposure.

Disclaimer

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