Dorset County Pension Fund Committee 27 February 2019

Listed Market Equities

1. Equity Markets Performance

1.1 The quarter to 31 December 2018 was not good for equity markets. Investors have had to contend with rising US central bank interest rates, a sharp slowdown in Eurozone business confidence, weaker Chinese growth and rising geopolitical concerns (including Brexit, Italian budget issues and the ongoing trade conflict between the US and China).

1.2 Over the quarter to 31 December 2018, US equities declined, with especially large falls in December due to fears over economic momentum and slower earnings growth. The US-China trade dispute also continued to hamper investor optimism.

1.3 In the Eurozone it was a poor quarter for equities with the MSCI EMU index falling 12.7%. Worries over rising US interest rates, trade tariffs, slower Chinese growth and Brexit continue to combine to form a difficult environment for higher risk assets like shares.

1.4 In the UK, many UK domestic-focused sectors also performed poorly as worries of a “no deal” exit from the EU intensified after the UK published its draft EU Withdrawal Agreement, which triggered another period of intense political uncertainty.

1.5 The FTSE100 suffered its worst year in a decade as economic worries, Brexit uncertainty and the trade war between the US and China worried investors. The FTSE100 fell 12.5% during 2018, its biggest annual decline since 2008 and hit a two year low.

1.6 In the US, the major stock indexes posted their worst yearly performances since the financial crisis of 2008.The S&P 500 and the Dow Jones fell for the first time in three years, whilst the Nasdaq fell, ending a six-year winning streak. 2018 was a year fraught with volatility, characterised by record highs and sharp reversals. 2018 also marked the first time ever that the S&P 500 posted a decline after rising in the first three quarters.

1.7 The tables below show the performance of UK and World indices over three and twelve months to 31 December 2018.

Three months to 31 December 2018

Country	Index	30/09/2018	31/12/2018	% Change
UK	FTSE100	7,510.2	6,728.1	-10.4
UK	FTSE250	20,307.0	17,502.1	-13.8
UK	FTSE350	4,180.7	3,722.2	-11.0
UK	Small Cap	5,822.0	5,177.2	-11.1
UK	Small Cap ex Investment Trusts	7,709.4	6,779.0	-12.1
UK	All Share	4,127.9	3,675.1	-11.0
Japan	Nikkei225	24,120.0	20,014.8	-17.0
US	Dow Jones	26,458.3	23,327.5	-11.8
Hong Kong	Hang Seng	27,788.5	25,845.7	-7.0
France	Cac 40	5,493.5	4,730.7	-13.9
Germany	Dax	12,246.7	10,559.0	-13.8
China	Shanghai Composite	2,821.4	2,493.9	-11.6

Twelve months to 31 December 2018

Country	Index	31/12/2017	31/12/2018	% Change
UK	FTSE100	7,687.8	6,728.1	-12.5
UK	FTSE250	20,726.3	17,502.1	-15.6
UK	FTSE350	4,277.0	3,722.2	-13.0
UK	Small Cap	5,911.9	5,177.2	-12.4
UK	Small Cap ex Investment Trusts	7,864.1	6,779.0	-13.8
UK	All Share	4,221.8	3,675.1	-12.9
Japan	Nikkei225	22,764.9	20,014.8	-12.1
US	Dow Jones	24,719.2	23,327.5	-5.6
Hong Kong	Hang Seng	29,919.2	25,845.7	-13.6
France	Cac 40	5,312.6	4,730.7	-11.0
Germany	Dax	12,917.6	10,559.0	-18.3
China	Shanghai Composite	3,707.2	2,493.9	-32.7

1.8 There was negative performance from the UK markets in the three months to 31 December 2018. The FTSE100 was the best performer falling 10.4% (782 points). The FTSE250 was the worst performing UK index falling 13.8% (2,805 points) over the same period. In comparison, performance from major world indices were equally poor with the Hang Seng the best performing index despite falling 7.0% (1,943 points), whilst the Nikkei225 fell 17.0% (4,105 points) over the same period. The Dow Jones fell 11.8% (3,131 points) in the three-month period to 31 December 2018.

1.9 Over the twelve-month period to 31 December 2018, there was negative performance from the major UK indices. The Small Cap was the best performer falling 12.4% (735 points), whilst the FTSE250 was the worst performing UK index falling 15.6% (3,224 points). The FTSE100 fell 12.5% (960 points) over the same period. In comparison, there were negative returns from major world indices. The Dow Jones was the best performing index despite falling 5.6% (1,392 points), whilst the Shanghai Composite was the worst performing index falling 32.7% (1,213 points) over the same period.

2. Market Review

2.1 Global equities tumbled, posting their worst quarterly return since September 2008 and ending 2018 in negative territory. Concerns about slowing global growth weighed heavily on the markets. China's economy grew at the slowest pace in a decade, and economic growth in the Eurozone slowed sharply.

2.2 The US and China trade tariffs were suspended in December 2018 as the two countries aimed to reach a trade agreement within ninety days.

2.3 Every sector retreated over the quarter, with the exception of utilities, which benefitted from their defensive credentials. Energy shares came off worse of all due to falling oil and gas prices.

2.4 The oil market ended a 2 1/2-year recovery for oil prices with geopolitical issues having weighed on the market throughout 2018. US crude closed at $45 a barrel, its first annual loss and biggest yearly drop since 2015.

2.5 On the monetary front, the US Federal Reserve, raised interest rates by 25 basis points, to the highest level in a decade stating future increases could come at a slower pace amid concerns about global growth. The European Central Bank concluded its asset purchase program but announced that it will continue its reinvestment policy for an extended period after the first interest rate rise, slated for the first half of 2019.

UK Equity performance for the period ending 31 December 2018

3. Background

3.1 On 11 July 2018, the internally managed passive UK equity portfolio transferred to the Brunel UK Passive Equities portfolio managed by Legal & General Investment Management (LGIM). On 21 November 2018, one of the two UK Equity managers, AXA Framlington was transferred in full (sale proceeds £177M) to the UK Equities Active Brunel portfolio. The Fund still has one UK equity active manager in Schroders. This combination of managers and styles is designed to give the opportunity of outperformance against the FTSE All Share index and has a two thirds passive and one third active mix. Details of the combined portfolio (£564.3M at 31 December 2018) are shown in the table at paragraph 4.1.

3.2 Investment in the smallest companies which make up 3.5% of the index is achieved by a holding in the Schroders Institutional UK Smaller Companies Fund which is managed on an active basis.

4. Valuation

4.1 The table below summarises the valuations for the five managers as at 1 April 2018 and 31 December 2018.

	In-House	AXA	Schroders	LGIM	Brunel	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Valuation 01-Apr-18	401,402	190,746	55,096	0	0	647,244
Investment	0	0	0	434,849	177,044	611,893
Disinvestment	-434,849	-187,044	0	-46,999	0	-668,892
Change in Valuation	33,807	-3,702	-3,987	-46,041	-5,984	-25,907
Valuation 31-Dec-18	360	0	51,109	341,809	171,060	564,338

5. Performance

5.1 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 December 2018.

	Schroders	LGIM
Quarter to Date		
Performance	-12.9%	-10.2%
Benchmark	-12.1%	-10.2%
Relative Return	-0.8%	0.0%
Financial Year to Date		
Performance	-7.2%	-
Benchmark	-7.8%	-
Relative Return	0.6%	-
Twelve Months to Date		
Performance	-10.6%	-
Benchmark	-13.8%	-
Relative Return	3.2%	-
Three Years p.a.		
Performance	10.1%	-
Benchmark	3.9%	-
Relative Return	6.2%	-
Five Years p.a.		
Performance	9.8%	-
Benchmark	4.3%	-
Relative Return	5.5%	-
Since Inception		
Performance	10.0%	-11.6%
Benchmark	5.9%	-11.6%
Relative Return	4.1%	0.0%

Global Equities performance for the period ending 30 December 2018

6. Background

6.1 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 Management. On 18 July 2018 Dorset’s global equities under the management of Allianz were successfully transitioned to the Brunel Smart Beta portfolio, managed by Legal & General Investment Management (LGIM). In addition, JP Morgan has been the Fund’s emerging markets equities manager since April 2012.

7. Valuation

7.1 The table below summarises the movement in valuations for all managers for the financial year to 31 December 2018.

	Allianz £000s	Investec £000s	Wellington £000s	LGIM £000s	JPM £000s	Total £000s
Valuation 01-Apr-18	281,878	195,927	213,503	0	103,281	794,589
Investment	0	0	0	275,115	0	275,115
Distribution	-310,115	0	0		0	-310,115
Increase in Valuation	28,679	988	1,375	-20,210	-11,941	-1,109
Valuation 31-Dec-18	442	196,915	214,878	254,905	91,340	758,480

8. Performance

8.1 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 December 2018.

	Investec	Wellington	LGIM Smart Beta	LGIM Smart Beta (Hedged)	JPM
Quarter to Date					
Performance	-12.4%	-13.0%	-8.9%	-11.2%	-6.2%
Benchmark	-11.3%	-11.3%	-8.8%	-11.3%	-5.3%
Relative Return	-1.1%	-1.7%	-0.1%	0.1%	-0.9%
Financial Year to Date					
Performance	0.5%	0.7%	-	-	-11.6%
Benchmark	1.9%	1.9%	-	-	-7.2%
Relative Return	-1.4%	-1.2%	-	-	-4.4%
Twelve Months to Date					
Performance	-5.9%	-2.6%	-	-	-13.6%
Benchmark	-3.0%	-3.0%	-	-	-9.3%
Relative Return	-2.9%	0.4%	-	-	-4.3%
Three Years to Date					
Performance	9.6%	11.1%	-	-	14.8%
Benchmark	11.6%	11.6%	-	-	14.7%
Relative Return	-2.0%	-0.5%	-	-	0.1%
Five Years to Date					
Performance	-	-	-	-	6.9%
Benchmark	-	-	-	-	7.1%
Relative Return	-	-	-	-	-0.2%
Since Inception					
Performance	10.6%	12.0%	-6.2%	-8.7%	4.6%
Benchmark	11.4%	11.4%	-6.0%	-9.0%	4.8%
Relative Return	-0.8%	0.6%	-0.2%	0.3%	-0.2%

8.2 Investec underperformed its benchmark over three months by 1.1% and by 1.4% over the nine months to the 31 December 2018. Wellington underperformed their benchmark by 1.7% over three months and by 1.2% over nine months. Over the twelve-month period to 31 December 2018 Wellington outperformed its benchmark by 0.4% while Investec underperformed by 2.9%. Since inception, Wellington has outperformed their benchmark by 0.6%, whilst Investec has underperformed by 0.8%.

8.3 JP Morgan have underperformed their benchmarks for the quarter, financial year to date and over twelve months. The performance matched the benchmark over three years and underperformed by 0.2% over 5 years and since inception.

9. Manager Commentaries (Active Mandates)

9.1 Schroders

The fund underperformed its FTSE Small Cap (ex-investment companies) benchmark over the period of three and twelve months but outperformed over three and five years. Mobile advertising platform provider Taptica International was the single largest detractor. It performed poorly after the CEO stepped down having been found liable for statements made in relation to the sale of a previous business venture. However, the company published a broadly in-line year-end trading update, which revealed it is on course to meet full-year market expectations for EBITDA growth.

Cosmetics supplier Warpaint London and multi-channel women's fashion retailer QUIZ performed poorly after both companies warned on profits, related to poor trading in the UK. They were among a number of the UK consumer focused names which performed poorly over the period. This was partly a result of the extreme negative sentiment towards domestically focused areas of the market, and there have been encouraging signs by some reassuring Christmas trading updates since the start of 2019.

On the positive side, world-leading manufacturer of industrial foam products Zotefoams delivered double-digit share price gains following news of very strong third quarter sales growth. Growth was driven by a near doubling in sales of the group's more profitable high-performance product range. Meanwhile, globally diversified retailer of proprietary audio recording devices Focusrite was another top contributor after its full-year results confirmed another year of strong revenue and profits growth.

The underweight position in oil and gas producers (and zero weighting in highly financially leveraged UK-focused oil producer Enquest) was a positive for performance against the backdrop of very weak crude oil prices. It was also beneficial not owning oil, equipment and services business Gulf Marine Services, which warned it was likely to breach its banking covenants.

A new position was initiated in casual dining group Restaurant Group. The company announced the acquisition of UK and international operator of Asian themed restaurants Wagamama in the period. As a result of a poor reception to the deal a deeply discounted rights issue was participated in to help fund the purchase. A new holding in specialist pet supplies retailer Pets at Home was initiated after it dropped out of the FTSE250. Also purchased was a new stake in AIM-quoted producer and supplier of graphene-based products Directs Plus. Holdings were sold in marine service specialist James Fisher & Sons and Alpha Financial Markets Consulting, a specialist provider of consultancy services to the asset and wealth management industries.

Due to the uncertainty around Brexit, international investors remain nervous about investing in UK Quoted companies. In recent months pessimism towards UK equities has once again surpassed levels seen in the wake of the global financial crisis, according to Bank Of America Merrill Lynch's (BoAML) survey of global assets allocators' weighting in the country. Between November and December the number of respondents who reported being underweight in UK equities rose 12%, from 27% to 39% to hit the second since highest level since BoAML began its survey. Sentiment towards domestically focused areas of the market has been particularly

poor. However, UK nominal wages have continued to rise (up 3.3% in the three months to October 2018, the fastest rate since November 2008) while a moderation in inflation has seen the return of real wage growth – historically there has been a positive correlation between real wage growth and real retail sales.

Since the period end, a number of consumer-facing companies have published reassuring Christmas trading updates – specialist retailers have delivered mid to high single-digit like-for-like sales growth, while trading of some of the worst afflicted retailers does not appear to have deteriorated more than feared. Rents and rates (significant cost components of bricks and mortar retailers) are falling, a trend market participants have overlooked as they've focused on the online threat, which in many cases has now been addressed.

9.2 Investec

The portfolio lagged its performance comparison index over the quarter. Fundamentals have largely been overshadowed by significant shifts in sentiment in the quarter, mostly linked to the US-China trade war and the fear that the US Federal Reserve will raise rates too aggressively. Amid the uncertainty, the screening part of the 4Factor process presented the portfolio with a significant headwind as each of the four factors underperformed. The technical and earnings components of the screen were especially challenged.

Financials detracted over the quarter after several holdings across the sector were caught up in the sell-off triggered by the latest Federal Reserve rate rise. Across the portfolio, this most directly impacted US large cap banks Citigroup and Goldman Sachs. The position in Goldman Sachs was also impacted by a potential link to an on-going corruption scandal in Malaysia, after the firm and two former employees were indicted in connection with irregularities at the country's 1MBD sovereign wealth fund.

Returns were also challenged by holdings in the consumer discretionary sector, especially US jeweller Tiffany and car parts supplier Delphi. Tiffany faced a Chinese customs crackdown on luxury overseas purchases by Chinese travellers, which negatively impacted spending by this high-growth market segment. Delphi was also affected by upheaval in China, where a sharp deterioration in demand from Chinese carmakers caused the firm to issue a profits warning and materially trim its forward guidance.

The oil price sell-off led to several holdings across the energy sector giving back some of the outperformance of previous quarters, especially Australian exploration firm Santos and US refiner Valero. An underweight exposure to utilities, which were relatively resilient amid the market volatility, also weighed on relative returns.

On the other hand, holdings across the healthcare sector boosted returns after US giants Merck and Eli Lilly both reported very positive organic growth figures. The latter's shares were additionally lifted by the company's reiterated commitment to divest its underperforming animal health division.

In information technology, the portfolio benefitted from a rally in chipmaker Broadcom, which reported better-than-expected results amid ongoing demand for chips to power cloud-based data centres. Recent comments from Broadcom's management team also helped placate some of the lingering scepticism over the firm's recent acquisition of business IT firm Computer Associates. The portfolio's lack of holding of chipmaker NVIDIA also contributed to outperformance in technology: shares in the firm retreated after it reduced its forecasts in the period.

Alongside Broadcom, Spanish utility Iberdrola was the portfolio's most significant stock-level performance contributor as the firm received a string of analyst upgrades in the early days of December, which helped its shares capitalise on the improving market sentiment towards the sector amid market turmoil.

Purchases for the Quarter ended 31 December 2018 include:
Anthem: US health insurance company. Anthem has a unique dominant position in thirteen states where it operates. Coming out of the failed Cigna acquisition, Anthem has flexibility to deploy capital for share purchases and Merger & Acquisitions, while a growing government business is offsetting pressures in its commercial book. Recent acquisitions expanded the company's presence in the fast-growing Medicare Advantage market. Anthem's new CEO is starting to deliver, while a lack of exposure to the pharmacy benefits management business makes it less exposed than its peers to potential changes to drug pricing. From a valuation point of view, Anthem offers similar growth to peer United Health, but at a significant discount.
Ingersoll-Rand: Irish-American manufacturing firm. Ingersoll Rand is a good quality company, with leadership positions in heating, ventilation and air conditioning (HVAC) in markets that are benefitting from sustained structural and cyclical demand growth. Revenues are better protected from the cycle than peers and relative to history given high aftermarket exposure and strong replacement demand. Despite this, Ingersoll trades at a discount to both pure HVAC and diversified industrial peers.
Medtronic: US medical device manufacturer. Medtronic has exposure to all the major sector growth markets. The company lost momentum due to acquisition integration issues. Now the completed integration revenue is set to accelerate, supported by a robust pipeline. Significant operating margin improvement is achievable for the years to come, which should offer the potential for significant upside to earnings consensus.

Sales for the Quarter ended 31 December 2018 include:
Alibaba Group: Chinese e-commerce giant. The group has suffered downgrades driven by investment into lower return areas and losses at Ant Financial. The company is accelerating its strategy into "new retail" by investing in bricks and mortar stores both organically and through acquisitions, which is creating uncertainty on estimates and returns, while also driving earnings downgrades.
DXC Technology: US IT services firm. While DXC is delivering on its earnings expectations and has crystallised value through the spin of Perspecta, to perform from here in line with our investment case it would need to demonstrate a return to top line growth and a fall-off in restructuring charges. Recent results showing decelerating bookings growth, alongside evidence of continuing staff turnover, call both these points into question.
Parker-Hannifin: US motion and control technologies manufacturer. The company earnings beat expectation and management raised forward guidance in a quarter where peers have struggled. However, with the purchasing manager index continuing to weaken, the stock is struggling to break out of the broader maturing cycle, leading us to question the conviction of future advances or in the value of holding the stock through the next downturn. This is still a solid company, but following the price bounce on the results and a valuation that is looking reasonable, exiting the holding appeared prudent.

9.3 Wellington

The Global Research Equity portfolio underperformed the index during the quarter, as a result of challenging performance specifically in October and November. In general, the more defensive stocks performed well as investors flocked to safety-oriented equities. The trend was evidenced in the portfolio as modest underweights to large cap higher dividend yielding stocks weighed on relative performance. These slight style exposures compounded the challenged stock selection during this period.

This effect was particularly noticed in the healthcare and consumer staples, where the impact of the underweight positions was significant. Underweight positions continue to be maintained to companies in these sectors including Johnson and Johnson, Merck, Pfizer, Proctor & Gamble, Coca Cola and Pepsi as there are more compelling investment opportunities elsewhere. Positive stock selection in communications services and real estate was a partial offset to negative selection in health care, consumer staples and information technology.

Within health care, aside from not holding Merck and Roche, which negatively impacted relative results, the stock selection was most challenged by Allergan, which declined materially this quarter. The company reported solid earnings this quarter; however, the market continues to show some uncertainty in the company's outlook. The stock is liked and the core growth drivers for the next 5-10 years remain in place. The valuation is undemanding and the pipeline is underappreciated.

Within consumer staples, in addition to avoiding Proctor & Gamble, which proved unfavourable to returns this quarter, the positions in British American Tobacco, Altria and Coty weighed on relative results. British American Tobacco was negatively impacted by the Food and Drug Administration's recent regulatory pivots increased markets concerns that US tobacco companies are seeing a more challenging environment than previously experienced. From a valuation perspective, the stock is cheap and are closely monitoring business and industry fundamentals and evaluating the risk/reward profile of the stock. For Altria, in addition to potentially greater regulatory headwinds, the company is working through Merger & Acquisitions activity, also weighing on the stock price. In the case of Coty, a beauty company that develops, manufacturers and markets beauty products, the stock has been volatile this year and detracted from relative results this quarter. The market has yet to reward the turnaround of Proctor & Gamble's assets acquired in late 2016, and the integration challenges and mixed quarterly results have hampered the company since then. Synergies from Proctor & Gamble's beauty acquisition look to be coming through and several important brands are on their way back to growth in the US.

Stock selection within information technology also challenged relative results this quarter, in particular Flex and Advanced Micro Devices. Advanced Micro Devices is a semiconductor company operating in two segments: computing and graphics, and enterprise, embedded and semi-custom. The stock price retreated in October along with the broader semiconductor industry as volatility spiked and resulted in a sell-off due to rising interest rates, geopolitical tensions and some likely crowding concerns in tech stocks. Though the stock struggled this quarter, primarily in October, Advanced Micro Device's share price has risen significantly this year and remains among the top relative contributors in the portfolio in 2018. The position has been maintained as the belief that Advanced Micro Devices will continue to make progress towards expanding margins and gaining market share across PCs, graphics and servers. Flex Designs, manufactures and services consumer electronics for original equipment manufacturers. Leadership changes and incentive re-alignment are underway and there is a renewed focus on free cash flow growth. Given current valuations, the stock has an ability to recover with strong execution of its core business.

Within communication services, strong stock selection in diversified telecom services companies Verizon Communications and BT Group, as well as selection in wireless telecommunications services company, Millicom, supported relative returns. In the case of Verizon, the company reported a strong set of results and the stock is seen as an attractive investment given lower competitive intensity, service revenue growth, lower capital expenditure and a relatively inexpensive valuation. Millicom was also a strong contributor to relative results this quarter with revenue trends remaining strong

and capital expenditure stable. There is high conviction in the stock given good fundamentals and a compelling valuation.

Tower stocks remain compelling within the real estate sector and American Tower was a standout performer this quarter. The company has an attractive combination of a disciplined management team that is focused on generating above market risk adjusted returns and a culture that encourages innovation to drive future growth. Despite reporting strong results, there is an additional upside for the stock given US growth reacceleration, its international business reverting to double-digit growth and its innovation platform boosting returns.

9.4 **JP Morgan**

Global Market Review: The final quarter of 2018 saw markets further challenged after a tough year where the asset class ultimately delivered double-digit declines (-14.6% USD). The three months to the end of December saw a 7.5% decline, with October the worst month for global markets since May 2012. Performance across the asset class was very conflicting, with China falling double digits given ongoing uncertainty around US tariffs added to regulatory tightening concerns. Turkey bounced into positive territory, reflecting the gains on the Lira as political tensions fade. In Latin America, the victory of Jair Bolsonaro in the Brazilian Presidential elections caused the market to perform strongly in anticipation of pro-market reforms while Mexico was one of the weakest markets globally as current losses accentuated concerns about rising economic policy uncertainty from the incoming AMLO administration.

3 Month review: During the summer of 2018, emerging markets equities pre-empted the growth scare that impacted global markets in the most recent quarter. China/US trade frictions exacerbated that volatility as markets discounted both a trade war and a slowdown as the Chinese authorities were initially focused on deleveraging the economy with the brake on growth that implies. This proved to be a significant infection point for emerging markets; cheaper, cyclical stocks struggled in the face of lower growth, and market leadership switched from higher quality, growth businesses to defensive and under-owned stocks. This was a challenging period for the GEM Diversified strategy which invests in cheaper assets with positive trends, and was reflected in weak stock selection even as country positioned aided performance.

Technology stocks were the biggest stock level detractors. Primarily driven by Taiwan with its heavy exposure to Apple and smartphone components. This quarter results were largely as expected and a few of the largest detractors, including Samsung and Globalwafers, hit record revenue and profits. However, Samsung mentioned the “psychological overhang” of trade tensions as a factor pushing out demand. Many companies expressed a more positive outlook for 2019, once destocking runs its course.

The overweight position in Brazil was the largest contributor. The three leading banks rose between 20% and 50% during October as markets responded positively first to the convincing lead in the first-round voting and subsequent election of Jair Bolsanaro. Markets will ultimately judge right-wing Bolsanaro on his ability to pass legislation limiting the fiscal cost of pensions.

12 Month Review: The strategy underperformed driven by stock selection, notably in Asia. The strategy enjoyed strong performance in 2017 and the first quarter of 2018, benefiting from the ongoing cyclical recovery in emerging markets. Since then, however, the resumption of dollar strength and a shift in investor focus to the risks to

the global economy have led to significant pressure on the markets and stocks most favoured by the process.

The process looks for attractive combinations of value and momentum, for both markets and stocks. This leads to take overweight positions in cheap markets with positive trends. Occasionally, the value signal reaches extreme levels that drive the final result, leading to build exposures in markets such as Russia and Turkey when the news-flow can be quite negative. This year has been one of those times.

Underweights continue to be those selected reform markets, such as India, Mexico and Philippines, which still stand out as expensive.

Market Outlook: US growth was expected to come off the boil and move back to trend, but not fall into recession and there is optimism that, while it was painful for emerging market equities, it clears the way for improved performance in 2019. Valuations remain attractive and domestic earnings continue to grow. Nonetheless, as the global cycle matures portfolio activity has been focused on looking for relative value, reducing banks in Brazil after the post-election rally, adding Mexico where the collective view of analysts is more positive today than any point in the last five years, and adding to onshore Chinese A-share after their dramatic falls in 2018.

The portfolios are continuing to tilt in favour of attractively-valued markets and stocks. Efforts are focussed on avoiding the potential for value traps, rotating the portfolio towards stocks with positive earnings trends. We are adding at the margin to more defensive sectors and keeping cash available to exploit opportunities that may emerge in this period of heightened volatility.

It is never easy to experience periods of meaningful underperformance. However, when the strategy experienced sharp drawdowns in prior periods (2008 and 2018), performance recovered over subsequent quarters by staying true to the philosophy and process, while managing risks tightly.

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