

**Dorset Council: Pension Fund Committee 12 September 2019****Listed Market Equities – Performance Summary****1. Equity Markets Performance**

- 1.1 Shares in developed markets gained in the quarter ending 30 June 2019, despite a steep fall in May due to concerns over the US-China trade war. Stock markets were supported by increasingly accommodative central banks and hopes of progress in trade tensions by the end of June 2019.
- 1.2 US shares gained in the quarter ending 30 June 2019 and the S&P 500 set a new record high of 2,954.2 on 20 June 2019. The Federal Reserve did not cut interest rates at its June meeting, but indicated that there may be rate cuts ahead.
- 1.3 Eurozone equities advanced in the quarter ending 30 June 2019 with a sharp drop in May between gains in April and June. Top performing sectors included information technology, consumer discretionary and industrials.
- 1.4 UK shares also performed well. Areas of the market perceived to offer superior and defensible earnings growth extended the run of outperformance they have experienced since the beginning of 2019. For example, the technology sector enjoyed another quarter of strong relative performance, as did a number of large consumer goods companies, which are perceived to have dependable growth prospects. Conversely, many of the market's domestically-focused sectors underperformed amid renewed Brexit and political uncertainty.
- 1.5 The FTSE100 rose 2.0% between 1 April 2019 to 30 June 2019 despite Brexit uncertainty and the trade war between the US and China worried investors but they were in line with global equities.
- 1.6 In the US, the S&P 500 rose 3.8% over the three-month period to 30 June 2019.
- 1.7 The tables below show the performance of UK and World indices over three and twelve months to 30 June 2019.

**Three months to 30 June 2019**

| Country   | Index                          | 31/03/2019 | 30/06/2019 | % Change |
|-----------|--------------------------------|------------|------------|----------|
| UK        | FTSE100                        | 7,279.2    | 7,425.6    | 2.0      |
| UK        | FTSE250                        | 19,117.5   | 19,462.1   | 1.8      |
| UK        | FTSE350                        | 4,033.1    | 4,112.9    | 2.0      |
| UK        | Small Cap                      | 5,466.4    | 5,570.1    | 1.9      |
| UK        | Small Cap ex Investment Trusts | 7,127.7    | 7,194.2    | 0.9      |
| UK        | All Share                      | 3,978.3    | 4,056.9    | 2.0      |
| Japan     | Nikkei225                      | 21,205.8   | 21,275.9   | 0.3      |
| US        | S & P 500                      | 2,834.4    | 2,941.8    | 3.8      |
| Hong Kong | Hang Seng                      | 29,051.4   | 28,542.6   | -1.8     |
| France    | Cac 40                         | 5,350.5    | 5,539.0    | 3.5      |
| Germany   | Dax                            | 11,526.0   | 12,398.8   | 7.6      |
| China     | Shanghai Composite             | 3,090.8    | 2,978.9    | -3.6     |

**Twelve months to 30 June 2019**

| Country   | Index                          | 30/06/2018 | 30/06/2019 | % Change |
|-----------|--------------------------------|------------|------------|----------|
| UK        | FTSE100                        | 7,636.9    | 7,425.6    | -2.8     |
| UK        | FTSE250                        | 20,831.0   | 19,462.1   | -6.6     |
| UK        | FTSE350                        | 4,257.4    | 4,112.9    | -3.4     |
| UK        | Small Cap                      | 5,876.8    | 5,570.1    | -5.2     |
| UK        | Small Cap ex Investment Trusts | 7,873.2    | 7,194.2    | -8.6     |
| UK        | All Share                      | 4,202.3    | 4,056.9    | -3.5     |
| Japan     | Nikkei225                      | 22,304.5   | 21,275.9   | -4.6     |
| US        | S & P 500                      | 2,718.4    | 2,941.8    | 8.2      |
| Hong Kong | Hang Seng                      | 28,955.1   | 28,542.6   | -1.4     |
| France    | Cac 40                         | 5,323.5    | 5,539.0    | 4.0      |
| Germany   | Dax                            | 12,306.0   | 12,398.8   | 0.8      |
| China     | Shanghai Composite             | 2,847.4    | 2,978.9    | 4.6      |

- 1.8 There was positive performance from all the UK markets in the three months to 30 June 2019. The FTSE100 was the best performer rising 2.0% (146 points). The Small Cap excluding Investment Trusts was the worst performing UK index despite rising 0.9% (67 points). In comparison, performance from world indices were mainly positive. The Dax was the best performer rising 7.6% (873 points). The Shanghai Composite was the worst performer falling 3.6% (112 points). The S&P 500 rose 3.8% (107 points) over the same period.
- 1.9 Over the twelve-month period to 30 June 2019, all major UK indices fell. The FTSE100 was the best performer despite falling 2.8% (211 points). The Small Cap excluding Investment Trusts was the worst performing UK index falling 8.6% (679 points). In comparison, performance from world indices were mixed. The S&P 500 was the best performing index rising 8.2% (223 points). The Nikkei225 was the worst performer falling 4.6% (1,029 points) over the same period.

**2. Market Review**

- 2.1 Global equities rose for the second straight quarter. Sluggish global growth and geopolitical events dominated headlines. Trade tensions between China and the US escalated in May but eased at the end of the quarter after the two countries agreed at the G20 summit to resume trade negotiations. US President Donald Trump announced that existing tariffs would remain in place but suspended tariffs on an additional US\$300 billion of Chinese goods. Mexico avoided a 5% tariff on all exports to the US after it agreed to increase enforcement to stem the flow of illegal immigrants into the US.
- 2.2 In Europe, Brexit was a major concern, with the UK avoiding an abrupt no-deal departure from the European Union (EU) on April 12 after EU leaders granted the UK a flexible extension until October 31. UK Prime Minister Theresa May announced that she would resign as leader of Britain's Conservative Party on June 7 after failing to secure a Brexit deal. On the monetary front, dovish central bank rhetoric and policy bolstered global markets
- 2.3 The US Federal Reserve signalled it was open to rate cuts amid concerns about the downside risks associated with slowing global growth and trade disputes. The European Central Bank hinted that it may lower rates if the outlook for growth and inflation fails to improve.

- 2.4 The MSCI World returned 6.7% over the period. Within the index, all of the sectors rose for the period. Financials and information technology were the top performing sectors, while energy and real estate were the bottom performing sectors for the quarter.

### UK Equity performance for the period ending 30 June 2019

#### 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, Schroders.
- 3.2 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 (£608.9M) at 30 June 2019) are shown in the table at paragraph 4.1.
- 3.3 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 three managers as at 1 April 2019 and 30 June 2019.

|                     | <b>Schroders</b> | <b>LGIM</b>  | <b>Brunel</b> | <b>Total</b> |
|---------------------|------------------|--------------|---------------|--------------|
|                     | <b>£000s</b>     | <b>£000s</b> | <b>£000s</b>  | <b>£000s</b> |
| Valuation 01-Apr-19 | 52,033           | 374,014      | 187,596       | 613,643      |
| Investment          | 0                | 0            | 0             | 0            |
| Disinvestment       | 0                | 0            | 0             | 0            |
| Change in Valuation | 2,434            | 12,136       | -19,313       | -4,743       |
| Valuation 30-Jun-19 | 54,467           | 386,150      | 168,283       | 608,900      |

#### 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 30 June 2019.

|                              | <b>Schroders</b> | <b>LGIM<br/>Passive</b> | <b>Brunel UK<br/>Active</b> |
|------------------------------|------------------|-------------------------|-----------------------------|
| <b>Inception</b>             | Apr-06           | Jul-18                  | Nov-18                      |
| <b>Quarter to Date</b>       |                  |                         |                             |
| Performance                  | 4.7%             | 3.2%                    | 3.1%                        |
| Benchmark                    | 0.9%             | 3.3%                    | 3.3%                        |
| Relative Return              | 3.8%             | -0.1%                   | -0.2%                       |
| <b>Twelve Months to Date</b> |                  |                         |                             |
| Performance                  | -6.2%            | -0.1%                   | -                           |
| Benchmark                    | -8.6%            | -0.1%                   | -                           |
| Relative Return              | 2.4%             | 0.0%                    | -                           |
| <b>Three Years p.a.</b>      |                  |                         |                             |
| Performance                  | 15.7%            | -                       | -                           |
| Benchmark                    | 7.7%             | -                       | -                           |
| Relative Return              | 8.0%             | -                       | -                           |
| <b>Five Years p.a.</b>       |                  |                         |                             |
| Performance                  | 10.9%            | -                       | -                           |
| Benchmark                    | 5.4%             | -                       | -                           |
| Relative Return              | 5.5%             | -                       | -                           |
| <b>Since Inception p.a.</b>  |                  |                         |                             |
| Performance                  | 10.1%            | -0.1%                   | 9.3%                        |
| Benchmark                    | 6.2%             | -0.1%                   | 9.4%                        |
| Relative Return              | 3.9%             | 0.0%                    | -0.1%                       |

### Global Equities performance for the period ending 30 June 2019

#### 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 30 June 2019.

|                       | <b>Investec<br/>£000s</b> | <b>Wellington<br/>£000s</b> | <b>LGIM<br/>£000s</b> | <b>JP Morgan<br/>£000s</b> | <b>Total<br/>£000s</b> |
|-----------------------|---------------------------|-----------------------------|-----------------------|----------------------------|------------------------|
| Valuation 01-Apr-19   | 219,766                   | 238,172                     | 281,051               | 98,177                     | 837,166                |
| Investment            | 0                         | 0                           | 0                     | 0                          | 0                      |
| Distribution          | 0                         | 0                           | 0                     | 0                          | 0                      |
| Increase in Valuation | 12,633                    | 18,433                      | 8,078                 | 4,092                      | 43,236                 |
| Valuation 30-Jun-19   | 232,399                   | 256,605                     | 289,129               | 102,269                    | 880,402                |

## 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 30 June 2019.

|                              | Investec | Wellington | LGIM<br>Smart<br>Beta | LGIM<br>Smart<br>Beta<br>(Hedged) | JP Morgan |
|------------------------------|----------|------------|-----------------------|-----------------------------------|-----------|
| <b>Inception</b>             | Dec-15   | Dec-15     | Jul-18                | Jul-18                            | Apr-12    |
| <b>Quarter to Date</b>       |          |            |                       |                                   |           |
| Performance                  | 5.7%     | 7.7%       | 6.3%                  | 3.0%                              | 4.2%      |
| Benchmark                    | 6.5%     | 6.5%       | 6.2%                  | 3.0%                              | 3.0%      |
| Relative Return              | -0.8%    | 1.2%       | 0.1%                  | 0.0%                              | 1.2%      |
| <b>Twelve Months to Date</b> |          |            |                       |                                   |           |
| Performance                  | 9.4%     | 11.7%      | 8.9%                  | 5.0%                              | 4.1%      |
| Benchmark                    | 10.3%    | 10.3%      | 9.1%                  | 5.7%                              | 5.0%      |
| Relative Return              | -0.9%    | 1.4%       | -0.2%                 | -0.7%                             | -0.9%     |
| <b>Three Years to Date</b>   |          |            |                       |                                   |           |
| Performance                  | 13.4%    | 14.9%      | -                     | -                                 | 13.8%     |
| Benchmark                    | 13.6%    | 13.6%      | -                     | -                                 | 12.5%     |
| Relative Return              | -0.2%    | 1.3%       | -                     | -                                 | 1.3%      |
| <b>Five Years to Date</b>    |          |            |                       |                                   |           |
| Performance                  | -        | -          | -                     | -                                 | 9.1%      |
| Benchmark                    | -        | -          | -                     | -                                 | 8.7%      |
| Relative Return              | -        | -          | -                     | -                                 | 0.4%      |
| <b>Since Inception</b>       |          |            |                       |                                   |           |
| Performance                  | 14.2%    | 15.9%      | 8.9%                  | 5.0%                              | 6.0%      |
| Benchmark                    | 14.7%    | 14.7%      | 9.1%                  | 5.7%                              | 6.0%      |
| Relative Return              | -0.5%    | 1.2%       | -0.2%                 | -0.7%                             | 0.0%      |

- 8.2 Investec underperformed its benchmark over three months by 0.8% and by 0.9% over the twelve months to the 30 June 2019. Wellington outperformed their benchmark by 1.2% over three months and by 1.4% over twelve months. Since inception, Wellington has outperformed their benchmark by 1.2%, whilst Investec has underperformed by 0.5%.
- 8.3 JP Morgan have outperformed their benchmark for the quarter by 1.2% but underperformed by 0.9% over twelve months. JP Morgan outperformed the benchmark by 1.3% over 3 years and by 0.4% over 5 years. Since inception JP Morgan's performance has matched the benchmark of 6.0%.

## 9. Manager Commentaries (Active Mandates)

### 9.1 Schroders (UK Smaller Companies)

The fund outperformed its FTSE Small Cap (ex-investment companies) benchmark over the period of three and twelve months as well as over three and five years. Miniatures manufacturer and table top gaming Games Workshop performed well on the back of further earnings upgrades. Mining royalty company Anglo Pacific, a sizeable off-benchmark position, also generated double-digit share price returns as a

robust set of quarter 1 results further underlined the company's ability to deliver sustainable growth from an increasingly well diversified portfolio of royalty assets. These assets give Anglo Pacific exposure to both old and new economies, serving end markets from steel production (thermal coal, iron ore mines) to the emerging battery chemistry sector. The company, which focusses on less volatile royalties associated with a miner's revenue line, enjoyed strong growth in royalties in quarter 1, which hit a new quarterly record. This was driven by royalties from the Kestrel thermal coal mine in Australia, where output is growing rapidly, and strong royalty growth from Anglo Pacific's Canadian iron ore asset, due to robust iron ore prices.

Performance benefited from not owning high leveraged UK roadside assistance group AA, professional services firm RPS (profit warning related to its Australian operations) and UK tour operator Thomas Cook amid balance sheet concerns. Avoiding Costain was also beneficial after the UK infrastructure specialist warned on profits due to contract delays, as was a zero weighting in Lookers, which confirmed that the Financial Conduct Authority is investigating historic finance-backed sales by the UK car dealer.

On the negative side, mobile advertising platform provider Tremor International (formerly Taptica International) performed poorly. Sentiment towards the shares was negatively impacted by news that Uber Technologies had filed a lawsuit against the company. More widely, investors remain sceptical of Tremor's recent acquisition of AIM-quoted peer RhythmOne. In our opinion, the deal considerably strengthens Tremor's competitive positioning in the rapidly growing video advertising market.

Not owning telecoms company KCOM and business-to-business media group Tarsus detracted from performance (recommended bid offers for both companies) so did a zero weighting in countermeasures specialist Chemring, which experienced a relief rally as interim results were in line with expectations.

Globally diversified multi-channel fashion retailer Ted Baker was another negative in the wake of a profit warning. The warning resulted from a combination of challenging trading conditions and company-specific issues after the departure of its founder and CEO.

The holding in the very successful AB Dynamics, a supplier of automotive "testbeds" to car makers was sold. Jersey Oil & Gas was sold after disappointing appraisal drilling of the explorer's Verbiere discovery in the North Sea. A new holding in specialist annuity provider Just Group was established following its demotion from the FTSE 250 index. The shares trade at a significant discount to the company's embedded value. A new holding was initiated in Attraqt, which specialises in search and merchandising solutions to online retailers in the UK and the US. Targeting the same market as larger quoted peer 4imprint (which is owned in the mid-cap portfolio) Attraqt is at a much earlier stage in its strategic development and gives exposure to a structurally growing but highly fragmented market.

## 9.2 Brunel (UK Equities)

The FTSE All Share index underperformed global markets during the quarter. Sectors which display a domestic bias, such as utilities, provided a negative return amidst further political and Brexit uncertainty, with Theresa May resigning as PM and a further extension of the Brexit deadline to 31 October 2019.

The UK economy shrank by 0.4% in April, reflected in the GBP/USD decline by -2.3% over the quarter. However, with US interest rate cuts expected we may see a potential weakening of the USD in future.

Over the quarter, the portfolio has marginally underperformed the FTSE All Share by -0.12%, returning 3.13% versus the FTSE All Share return of 3.26%. Manager relative performance was mixed over the quarter.

Since inception on 21 November 2018, the portfolio has returned 9.28%, an underperformance of -0.15% versus the FTSE All Share over the same period. Again, relative performance by managers was mixed over the period.

### 9.3 Investec (Global Equities)

The portfolio underperformed the index over three months. In aggregate, the 4Factor model performance was marginally negative for the quarter, impacted primarily by the Value factor which provided a significant headwind.

In terms of detractors to performance over the period, exposure to the energy sector proved challenging, mainly driven by oil and gas company Range Resources. Continued weaker gas and liquefied natural gas prices and the absence of announcements on further asset sales to reduce debt levels continue to challenge the firm.

Google parent company Alphabet was a significant stock-level detractor, as it sold off as the US Justice Department may investigate Google for hampering competition. Hong Kong real estate developer CK Asset Holdings was among the portfolio's most significant stock-level detractors; its latest yearly results were held back by a few projects being pushed back into the 2019 fiscal year.

The consumer discretionary sector also weighed on performance, as several holdings were caught out by rising trade tensions between the US and China. This weighed most heavily on clothing conglomerate PVH, as well as retailers Foot Locker and Tiffany's. The overweight position in tobacco company Imperial Brands detracted from performance in a challenging industry environment alongside weak first-half results in the new generation products, resulting in sales downgrades.

More positively, stock selection in industrials contributed to sector-level performance. The position in US power generation system specialist Generac was among the leaders as recent power outages in California drove increased demand for Generac's home standby generators.

At a sector level, one of the strongest performers was Utilities, with the position in Spanish company Iberdrola contributing the most to this. The company has repositioned its business toward more regulated and faster-growing renewables assets over the last few years, which should lead to more predictable earnings and further diversification internationally. Its Brazilian unit Neoenergia, the energy distributor, went public in a significant listing in that country's stock market this year. The largest stock contributor to portfolio performance was precious metal miner Newcrest Mining, which was lifted on a rallying gold price. Microsoft was another top performer, buoyed by investor optimism about its cloud services business, Azure. In its third quarter results, it exceeded expectations with strong growth across its divisions, particularly cloud, while increases in its earnings per-share are driven by both higher revenue growth and margin expansion.

US pharmaceutical company IQVIA Holdings also contributed positively to performance, as the company upgraded its forecasts for how quickly it would grow over the medium term. Positive earnings also strengthened returns of US firm Ingersoll-Rand as well as news of the merger between its spun-off industrial unit and competitor, Gardner Denver, creating a dominant company in the heating, ventilation and air conditioning market.

#### 9.4 Wellington (Global Equities)

The portfolio outperformed the index over the quarter. Strong selection in industrials was modestly offset by selection in healthcare. On a regional basis, strong selection in North America was modestly offset by selection in Japan.

Within industrials and consumer staples, the top relative contributors were being overweight to Lockheed Martin and Nestle, respectively. Within healthcare and energy, the top relative detractors were being overweight to Teva Pharmaceutical Industries and EnCana, respectively.

Shares of Lockheed Martin rose after the company raised its profit and sales forecast for 2019, benefiting from higher production of the F-35 fighter jet and an increase in arms sales that have bolstered the company's order backlog. Teva Pharmaceuticals was sold off during the period in response to the expansion of a 2016 lawsuit alleging industry price-fixing. The stock also experienced weakness after announcing an unexpected cash settlement over its role in the production and manufacturing of opioids.

#### 9.5 JP Morgan (Emerging Market Equities)

**Quarterly review:** The portfolio outperformed its benchmark over the three month period as both stock selection and country allocation contributed to relative returns. Stock selection in China was one of the leading contributors to relative returns during the period, specifically driven by the portfolio's lack of exposure to Baidu, a multinational technology company specialising in Internet-related services and products and artificial intelligence. During the period, the company reported worse than expected Quarter 2 2019 numbers, on the back of both cyclical and structural headwinds. Specifically, weaker advertising demand, tighter regulations, and larger supply of advertising inventory has weighed on the stock.

Stock selection in Brazil, also aided relative returns, specifically the portfolio's exposure to MRV Engenharia e Participacoes, the largest homebuilder and real estate company in Brazil. The stock rose 45% (in USD terms), on the back of better than expected Quarter 1 2019 results. Net revenue increased during the period, mainly due to faster construction cycle and sales growth. The management team also had a positive tone regarding 2019 outlook, expecting an acceleration in launches.

On the downside, underweight exposure to South Africa proved to be a drag on relative returns. While being currently underweight this market for valuation purposes, strengthening gold prices, boosted the market during the period. The portfolio's exposure to OTP bank, in Hungary, also weighed on relative performance as the stock came under pressure from falling Euro rates.

**12 month review:** The portfolio underperformed its benchmark over the twelve-month period as stock selection detracted from relative returns while country allocation boosted relative returns. Stock selection in Taiwan proved to be a drag on relative returns, specifically led by stocks that have exposure to the Apple supply chain. The portfolio's exposure to Global Wafers, a global leader in semiconductor technology, weighed on relative performance during the period as the stock fell over 38.1% (in USD terms) on the back of slower-than-expected demand as a result of softer global growth.

The portfolio's overweight in Turkey also weighed on relative returns as the market fell 17.8% (in USD terms). The heightened geopolitical risk, inflation pressures, and a weak Lira have weighed on the market during the period.

Stock selection in Brazil boosted relative returns during the period as the election of Jair Bolsonaro drove Brazilian equities higher in the last quarter of 2018, and the beginning of 2019 on the back of elevated hopes for market-oriented reforms. Exposure to Banco do Brasil and Itau were some of the leading contributors to relative returns over the 12 month period.

**David Wilkes**  
**Service Manager for Operational Finance**  
August 2019