Pension Fund Committee 27 November 2019

Listed Market Equities

Performance Summary for the period ending 30 September 2019

UK Equities

1. Background

1.1 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.

1.2 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 (£613.8M) at 30 September 2019 are shown in the table at paragraph 4.1.

1.3 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.

2. Valuation

2.1 The table below summarises the valuations for the three managers as at 1 April 2019 and 30 September 2019.

	Schroders	LGIM	Brunel	Total
	£000s	£000s	£000s	£000s
Valuation 01-Apr-19	52,033	374,014	187,596	613,643
Investment	0	0	0	0
Disinvestment	0	0	-25,000	-25,000
Change in Valuation	2,004	17,003	6,180	25,187
Valuation 30-Sep-19	54,037	391,017	168,776	613,830
	3.9%	4.5%	3.3%	4.1%

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 2019.

	Schroders	LGIM Passive	Brunel UK Active
Inception	Apr-06	Jul-18	Nov-18
Quarter to Date			
Performance	-0.8%	1.3%	0.3%
Benchmark	-1.2%	1.3%	1.3%
Relative Return	0.4%	0.0%	-1.0%
Year to Date			
Performance	3.9%	4.5%	3.4%
Benchmark	-0.3%	4.6%	4.6%
Relative Return	4.2%	-0.1%	-1.2%
Twelve Months to Date			
Performance	-8.0%	2.8%	-
Benchmark	-7.8%	2.7%	-
Relative Return	-0.2%	0.1%	-
Three Years p.a.			
Performance	9.9%	-	-
Benchmark	3.0%	-	-
Relative Return	6.9%	-	-
Five Years p.a.			
Performance	11.1%	-	-
Benchmark	5.7%	-	-
Relative Return	5.4%	-	-
Since Inception p.a.			
Performance	9.9%	0.9%	9.6%
Benchmark	6.0%	1.0%	10.8%
Relative Return	3.9%	-0.1%	-1.2%

Global Equities

4. Background

4.1 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.

5. Valuation

5.1 The table below summarises the movement in valuations for all managers for the financial year to 30 September 2019.

	Investec £000s	Wellington £000s	LGIM £000s	JP Morgan £000s	Total £000s
Valuation 01-Apr-19	219,766	238,172	281,051	98,177	837,166
Investment	0	0	0	0	0
Disinvestment	0	0	-5,000	0	-5,000
Increase in Valuation	19,490	28,378	24,118	3,618	75,604
Valuation 30-Sep-19	239,256	266,550	300,169	101,795	907,770
	8.9%	11.9%	8.6%	3.7%	9.0%

6. Performance

6.1 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 2019.

	Investec	Wellington	LGIM Smart Beta	LGIM Smart Beta (Hedged)	JP Morgan
Inception	Dec-15	Dec-15	Jul-18	Jul-18	Apr-12
Quarter to Date					
Performance	3.0%	3.9%	4.9%	2.6%	-0.5%
Benchmark	3.8%	3.8%	4.9%	2.6%	-1.1%
Relative Return	-0.8%	0.1%	0.0%	0.0%	0.6%
Year to Date					
Performance	8.9%	11.9%	11.5%	5.7%	3.7%
Benchmark	10.6%	10.6%	11.4%	5.7%	1.9%
Relative Return	-1.7%	1.3%	0.1%	0.0%	1.8%
Twelve Months to Date					
Performance	6.4%	7.9%	10.9%	4.7%	4.5%
Benchmark	7.8%	7.8%	11.0%	5.1%	3.7%
Relative Return	-1.4%	0.1%	-0.1%	-0.4%	0.8%
Three Years to Date					
Performance	11.4%	13.1%	-	-	8.5%
Benchmark	12.2%	12.2%	-	-	7.9%
Relative Return	-0.8%	0.9%	-	-	0.6%
Five Years to Date					
Performance	-	-	-	-	8.9%
Benchmark	-	-	-	-	8.1%
Relative Return	-	-	-	-	0.8%
Since Inception					
Performance	14.1%	15.9%	11.2%	6.1%	5.7%
Benchmark	14.8%	14.8%	11.4%	6.7%	5.6%
Relative Return	-0.7%	1.1%	-0.2%	-0.6%	0.1%

6.2 Investec underperformed its benchmark over three months by 0.8%, by 1.7% over the year to date and by 1.4% over the twelve months to the 30 September 2019. Wellington outperformed their benchmark by 0.1% over three months, by 1.3% over the year to date and by 0.1% over twelve months. Since inception, Wellington has outperformed their benchmark by 1.1%, whilst Investec has underperformed by 0.7%.

6.3 JP Morgan have outperformed their benchmark for the quarter by 0.6%, 1.8% for the year to date and by 0.8% over twelve months. JP Morgan outperformed the benchmark by 0.6% over 3 years and by 0.8% over 5 years. Since inception JP Morgan's performance has outperformed the benchmark by 0.1%.

7. Manager Commentaries (Active Mandates)

7.1 Schroders (UK Smaller Companies)

The fund outperformed its FTSE Small cap (ex-investment companies) benchmark over the three-month period.

Enterprise software specialist Aptitude Software (formerly Microgen) was the top individual contributor over the period after unveiling plans to return £45 million to shareholders following the disposal of its Microgen Financial Systems subsidiary. Defence and security business Cohort was another top performer after its Portuguese subsidiary EID was awarded a significant contract to supply equipment to the Portuguese army. Meanwhile, specialist manufacturer Avon Rubber was another of the holdings to deliver double-digit share price returns after investors welcomed its acquisition of 3M's ballistic-protection business. Not owning collapsed tour operator Thomas Cook, or low-cost short-haul holiday operator On the Beach benefited performance. Similarly, avoiding UK challenger bank Metro Bank supported performance amid fears around the strength of its capital position.

On the negative side, LED lighting products manufacturer Dialight fell sharply on the back of a profit warning. Provider of wound sealant and dressings Advanced Medical Solutions performed poorly after interim results marginally missed expectations, causing some investors to question the stock's high rating. Other detractors included Colefax, a designer and distributor of furnishing fabrics and wallpaper, which cautioned that trading conditions are challenging, and enterprise software specialist Altitude Group, on the back of disappointing interim results.

The holding in medical enterprise software supplier Craneware were sold on the back of valuation concerns and also sold financial administration services business JTC. Additions included countermeasures specialist Chemring, North Sea focused oil and gas producer EnQuest, challenger financial services platform Equals and support services group Mitie, whose management-led turnaround is making good progress.

7.2 Brunel (UK Equities)

The FTSE All share index underperformed global developed markets during the quarter, posting a return of 1.3% over the quarter and 14.4% year to date. During the quarter, a new prime minister, Brexit uncertainty, and weak growth indicators all led investors once again to favour more defensive sectors such as Healthcare and Utilities, while economically sensitive sectors such as Financials and Materials underperformed.

Over the quarter, the portfolio has underperformed the FTSE All Share by 0.98%, returning 0.29% against the FTSE All Share return of 1.27%. Since inception on 21 November 2018, the portfolio has returned 9.59%, an underperformance of -1.23% against the FTSE All Share over the same period.

7.3 Investec (Global Equities)

The portfolio underperformed the index over the third quarter of 2019. The4Factor screening part of the process was negative for portfolio performance in aggregate for the quarter.

Negative stock selection in real estate was a significant headwind to portfolio returns at a sector level. This was led by Hong-Kong listed CK Asset Holdings, which sold off as a result of continued civil unrest in the city. This also affected insurer AIA Group.

Healthcare stocks underperformed in the period as concerns grew about potential US healthcare reform arising from the upcoming US presidential election. Portfolio holdings affected included Alexion Pharmaceuticals, Anthem and IQVIA Holdings. In communication services, the position in US media conglomerate CBS Corporation retreated due to investor disappointment over its merger with Viacom.

Oil and gas company Range Resources continued to be weak, affected by softer gas prices and the absence of announcements on assets sales to reduce leverage continued to challenge the firm.

Conversely, Japanese beverage company Asahi Group rebounded in August, as the market started to take a more favourable view of its recent Australian acquisition. Positive stock selection in communication services also drove performance. This was largely due to the outperformance of Google parent company Alphabet which was lifted by a material re-acceleration in growth which went some way to address competition concerns. US financials stock Fidelity Information Services rallied, as it delivered better organic growth and margins in the first quarter since its merger with Worldpay closed.

NIKE positively surprised on earnings and raised full-year guidance on gross margins. Following two quarters of disappointing operating results due to investments more than absorbing gross profit outperformance, it was pleasing to see evidence of these investments paying off in line with our thesis. US medical device company Medtronic also outperformed following a solid set of results, beating expectations on earnings and profits, while it also increased forward earnings guidance.

7.4 **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.

7.5 **JP Morgan (Emerging Market Equities)**

Quarterly review: The portfolio outperformed its benchmark over the three-month period. The portfolio's underweight to South Africa boosted relative performance during the quarter, as the market fell 12.6% (in USD terms). Investors have been frustrated by the pace of reform in the economy, and furthermore, the vulnerability of the Rand to external risks, also weighed on the market during the quarter.

Stock selection in Taiwan was one of the leading contributors to relative returns during the quarter, most notably led by the portfolio's exposure to Taiwan Semiconductor (TSMC), the world's largest foundry producer of integrated circuits. The company's share price recovered as it became increasingly apparent that TSMC would only be minimally affected by the ongoing skirmishes between China and the US related technology, given its dominant position.

On the downside, the portfolio's exposure to Banco Macro, was one of the leading detractors to relative performance. The stock fell in line with Argentinian equities, following the results of the August 11th primary elections that showed opposition candidate Alberto Fernandez leading President Marci ahead of the October elections.

Lack of exposure to Naver, a South Korean internet advertisement and search portal business, hindered performance during the quarter. The stock was boosted by positive guidance from management with respect to their outlook on growth and resilient margins.

12 Month Review: The portfolio outperformed its benchmark over the twelve-month time period. The portfolio's overweight to Brazil was a leading contributor to returns in the year period, as the market rose 25.4% (in USD terms). The election of Jair Bolsonaro drove Brazilian's equities higher in the last quarter of 2018, and the beginning 2019 on the back of elevated hopes for market-oriented reforms. As a result, positions in Banco do Brasil, Itau unibanco and Banco Santander Brasil, were among the top contributors to performance in the year.

Additionally, the portfolio's underweight exposure to Saudi Arabia also boosted relative returns. The drone attacks on the largest crude oil processing plant in the world (owned by Aramco) weighed on the market during the period.

On the downside, the portfolio's lack of exposure to Gazprom, one of the largest producers of gas in the world, was a leading detractor from relative returns during the period. For a number of years, the company has declined to increase its dividend to levels requested by the Government citing CAPEX requirements. The stock price was boosted by the unexpected announcement that they will rise their 2018 dividend by 60%.

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