

HYMANS ROBERTSON LLP

## Alliance Bernstein

### Addressee

This paper is addressed to the Officers and Pensions Committee of Suffolk County Council as administering authority for the Suffolk County Council Pension Fund (“the Fund”). It considers Alliance Bernstein’s mandate.

### Background

Alliance Bernstein commenced management of a UK equity mandate on behalf of the Fund on 10 June 2005. The mandate was initially funded at the level of approximately 14% of Fund assets. The mandate was never re-balanced (e.g. after the broad equity setback in 2008/9 when the manager had also suffered significant underperformance relative to benchmark) and no new money was allocated (due to persistent performance issues), so the proportion of assets had fallen to under 11% of Fund assets by the start of 2012. Part of the mandate was used to fund the investment in Absolute Return mandates, so the prevailing value of the mandate accounted for approximately 7.5% of Fund assets at end December 2012.

### Alliance Bernstein’s performance

The relative performance of active managers is highly sensitive to their style of management and the extent to which the portfolio they manage mirrors the shape of their benchmark index. Depending on the prevailing conditions, the style impact can be very significant. Alliance Bernstein’s UK mandate follows a “value” style discipline, and adopts a quite deep variation of that style.

Alliance Bernstein’s mandate is benchmarked against the FTSE All-Share index. The table below shows UK index returns (including specific style indices), along with Alliance Bernstein’s performance. MSCI are an index provider like FTSE. The index constituencies of FTSE and MSCI are not directly comparable, so the MSCI index return and the average of the MSCI value and growth indices will not necessarily be the same as the FTSE return. For example, the figures in the table below for the MSCI indices are behind the FTSE All-Share index result for every period. The 3 months data is for the quarter ending 31 December 2012. The one year, three year and five year columns in the table use calendar year data for periods ending 31 December 2012.

	3 months %	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
Alliance Bernstein (rel. To FTSE AllSh)	4.0 (0.2)	11.3 (-0.9)	4.2 (-3.0)	-3.0 (-5.4)
FTSE All-Share	3.8	12.3	7.5	2.5
MSCI UK index	3.5	10.2	6.7	2.1
MSCI UK Value	5.0	13.4	8.6	2.3
MSCI UK Growth	2.1	7.3	5.2	1.8

[The MSCI Value and Growth Indices are constructed using an approach that provides a precise definition of style using eight historical and forward-looking fundamental data points for every security. Each security is placed into either the Value or Growth Indices, or may be partially allocated to both (with no double counting). The objective of this index design is to divide constituents of the underlying MSCI index into respective value and growth indices, each targeting 50% of the free float adjusted market capitalization of the underlying market index.]

The table shows that, based on MSCI data, value outperformed growth quite strongly in 2012 at index level, but Alliance Bernstein’s underperformance (relative to the FTSE All-Share) continued over most of 2012.

---

HYMANS ROBERTSON LLP

### UK and global equity performance compared

Alliance Bernstein manages global equity and UK equity portfolios to a value style. They underperformed in 2012 in both mandate types. However, their global strategic value fund was among the strongest performers in Q4 of 2012, outperforming its benchmark index by over 4% in the single quarter (albeit still underperforming by 2.4% over the calendar year). Further, the strongest style groups over Q4 of 2012 on a global basis were managers with a strong bias to value or a strong bias to growth. This seeming inconsistency appears to be due to both groups holding committed (i.e. concentrated) portfolios chosen on a fundamental basis.

In the UK, there was no strong signal as to style influence on performance over Q4. We believe this is likely to be due to the concentrated nature of the UK index (by stock and by sector).

### Portfolio

The ten largest holdings in Alliance Bernstein's portfolio are Royal Dutch Shell and BP, HSBC and Barclays, Vodafone, GlaxoSmithKline and AstraZeneca, Rio Tinto, British American Tobacco and Imperial Tobacco. These comprised 57% of the portfolio. This group of stocks includes a number of income stocks (Vodafone, the oil majors, pharmaceutical and tobacco companies) as well as two banks and a mining company. One of the characteristics of 2012 was the underperformance of the income stocks relative to the cyclicals that performed very strongly, particularly in the second half of the year.

The strong performance of the UK market in January was focussed on the quality income stocks.

There is considerable variation in the drivers of stock market returns from quarter to quarter as investors' relative views of the need for security and the prospects for growth vary. If we avoid this "noise" and consider the broad credentials of the (major stocks) in Alliance Bernstein's portfolio, it does not look like the shape and constituency we would seek to sell by removing the manager. The Fund is a long-term investor and can afford to wait to collect returns delivered by the dividend stream which, for most of the stocks listed above, would be expected to grow over time. In what may well be a low returns environment, we believe this to be sufficient to deliver the level of performance that the Fund requires.

### Personnel

While there have been significant levels of departure from Alliance Bernstein over the years, these have largely been focussed in two areas – client relationship personnel and within "growth style" portfolio management. Due to prolonged weak performance, many clients have terminated mandates. Under these circumstances, there is much less need for client relationship personnel. Alliance Bernstein's performance suffered, particularly in 2008. With the benefit of hindsight, they would agree that they made poor portfolio decisions that year, in both their growth and value styles. However, we would argue that a large part of the underperformance of the Fund's mandate since then has come from the value style bias.

The key managers in Alliance Bernstein's value component remain in place; they form the core of their portfolio management activity. This includes, among others, Sharon Fay - Global CIO, Avi Lavi - Global Director of Value Research, and Tawhid Ali - Chief Investment Officer and Director of Research (UK and European Value Equities).

---

HYMANS ROBERTSON LLP

### Value style

This value team (which includes those listed above) remains committed to its concentrated value management style. We have attached an analysis of their portfolio produced by an organisation called Style Research, as an addendum to this paper. The important elements for style purposes are the top two charts.

The chart on the left shows, in the blue bars, that the portfolio is heavily skewed towards value style metrics (ratios) such as Book Value to Price and Dividends, Earnings and Cash Flow to Price as well as being skewed against growth metrics (the green bars). The chart on the right shows the portfolio is overweight large cap value; it is neutral in large cap growth. It also has a bias against small cap. One element shown on this chart is called Coverage (the third bar in each group). The chart shows Coverage is low relative to Market (the fourth bar). This is an indicator of the high degree of stock commitment in the portfolio to each group.

We believe these charts confirm that Alliance Bernstein's portfolio is managed in line with its intended style.

### Recommendation

We recognise that the performance of this mandate has been disappointing. Nevertheless, the Committee has already reduced the size of the mandate to 7½% of Fund assets, so that the influence has lessened. It is in the nature of the value style that it can take a long time for the value of the portfolio to be realised. Nevertheless, the style analysis shows that Alliance Bernstein remains committed to delivering the mandate style that they were asked to run. The team remains intact. We remain confident in the calibre of the investment team. We also believe that the portfolio is well set up to deliver the level of returns that the Fund requires. There is a danger that replacing Alliance Bernstein will lead to a worse outcome for the Fund, given the low level of persistence in manager's relative performance. Neither do we see any benefit in reducing the mandate below its current weight. Consequently, we recommend that the Committee continue with the mandate at its current share of Fund assets.

We will be pleased to answer any questions about this note, at the forthcoming meeting.

### Disclaimer

This paper should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Prepared by:-

John Hastings

Partner

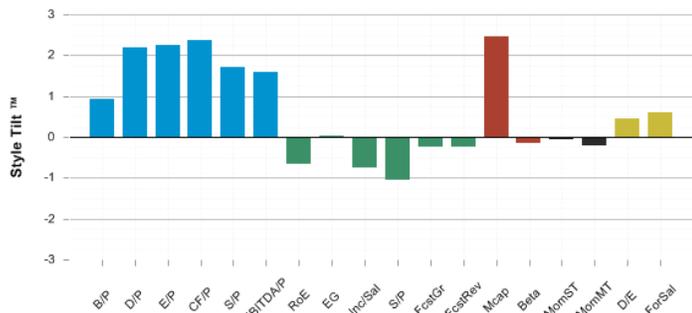
14 February 2013

For and on behalf of Hymans Robertson LLP

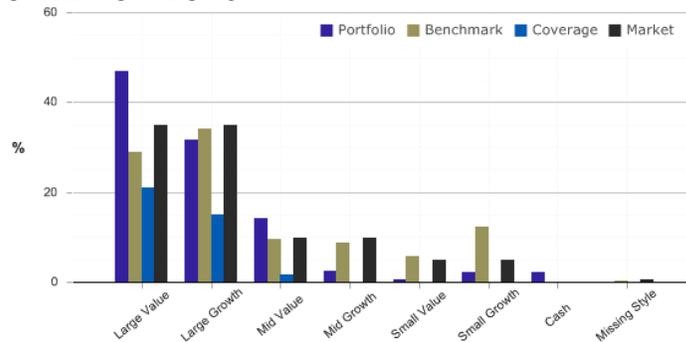
### Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

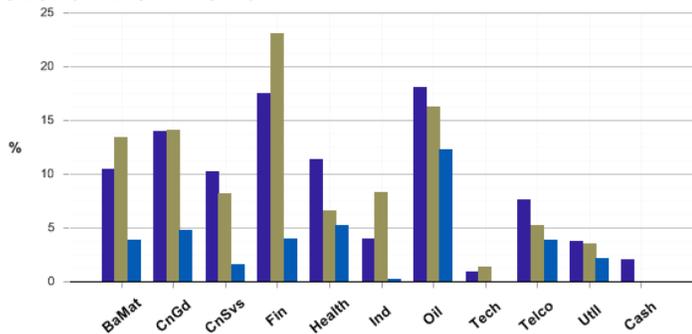
PORTFOLIO STYLE SKYLINE™



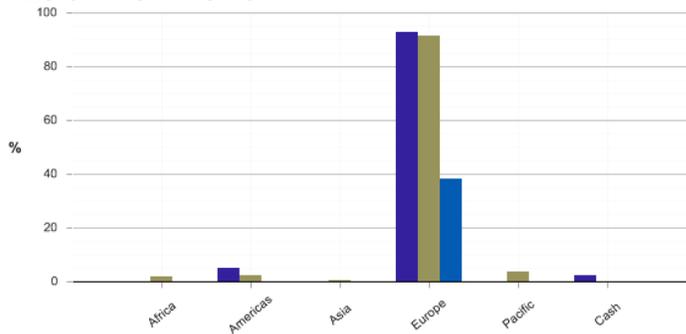
STYLE DISTRIBUTION



SECTOR DISTRIBUTION



REGION DISTRIBUTION



RISK ESTIMATES

Tracking Error	4.1%
Coverage	38.1%
Persistence Ratio	0.9
Portfolio Beta	1.01
Portfolio Volatility	17.6%
Benchmark Volatility	17.1%
Correlation (Port, BM)	0.97
# Stocks	Actual Effective
Portfolio	43 22.9
Benchmark	571 48.3

TOP 10 RISK CONTRIBUTORS

Security	Market	Sector	Style	Risk %	Port %	Bench %	Active Weight
HSBC HOLDINGS PLC	GBR	Financials	Large Value	26.37	6.98	0.00	6.98
HSBC BANK MALTA P.L.	MLT	Financials	Large Growth	16.61	0.00	6.10	-6.10
BARCLAYS PLC	GBR	Financials	Large Value	10.25	3.40	1.64	1.76
AVIVA PLC	GBR	Financials	Large Value	5.46	1.75	0.00	1.75
TESCO PLC	GBR	Consumer Services	Large Value	3.63	2.70	0.00	2.70
TESCO CORPORATION	USA	Oil & Gas	Small Growth	3.38	0.00	1.38	-1.38
BHP BILLITON LIMITED	AUS	Basic Materials	Large Value	2.92	0.00	2.30	-2.30
VODAFONE GROUP PUBLI	GBR	Telecoms	Large Value	2.72	6.55	3.87	2.68
TAYLOR WIMPEY PLC	GBR	Consumer Goods	Small Growth	2.58	1.06	0.11	0.95
XSTRATA PLC	GBR	Basic Materials	Large Growth	2.44	0.00	1.60	-1.60

The Top 10 Risk Contributors are those equity stocks contributing the largest proportions of Tracking Variance relative to the benchmark. Stock Styles, Sectors and Market of registration are also identified; and further information is also available from the full output report.

Risk Estimates focuses on the estimation and forward-looking analysis of Tracking Error risk. The Persistence Ratio measures how the Tracking Error estimate might be affected by any trending benchmark-relative performance of the stocks currently held in the portfolio. Ex ante estimates of Portfolio Beta, Volatilities and Correlations incorporate the most recently available structural data and project forward from estimates of security return characteristics.

CONTRIBUTION TO TRACKING ERROR BY STYLE

Style	Total	Cur Risk	Market X'terms	Market Risk	Sector X'terms	Sector Risk	Style X'terms	Style Risk	Equity X'terms	Equity Risk
Small Value	0.35	-0.01	0.01	-0.01	0.05	-0.05	0.06	0.03	0.01	0.27
Large Value	2.40	0.08	-0.73	1.24	-0.77	0.28	0.96	0.61	0.16	0.57
Small Growth	0.52	0.03	0.14	-0.28	0.16	0.08	-0.12	0.15	0.04	0.33
No style specified	-0.03	-0.01	0.02	-0.02	-0.01	0.01	-0.03	0.00	0.00	0.00
Large Growth	0.86	0.18	0.26	-0.64	0.39	0.06	-0.68	0.34	-0.43	1.37
Total	4.09	0.27	-0.31	0.30	-0.18	0.38	0.20	1.13	-0.23	2.54
Percent of Total	100.00	6.65	-7.63	7.25	-4.50	9.31	4.88	27.62	-5.69	62.10

The Contribution to Tracking Variance by Style identifies the principal sources of risk and further reveals risk compounding and risk offsets (via the Cross Terms, or "X'terms"). The analysis highlights the Style contributions at each level of risk (Market, Sector, Style, Equity) and so identifies, in the Equity Risk column, the Style sectors in which the portfolio is exposed to the largest stock specific bets.

LIQUIDITY

