

# Suffolk County Council—UK Value Plus

## Current Strategy Review

### Agenda Item

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**Nicholas Davidson**, Senior Portfolio Manager, Bernstein Value Equities

**Ian Burton**, Director—Client Relations



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# Your Mandate

- **Inception Date:** June 10, 2005
- **Mandate Size:** £122 million\*
- **Benchmark:** FTSE All Share
- **Premium Target:** 1.5% annualised above benchmark over full market cycles
- **Risk Target:** Tracking error of 3% to 5%\*

\*As of December 31, 2012

# Bernstein UK Value Equities: Investment Policy Group

## UK Value Equities Portfolio Team

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### Tawhid Ali

Chief Investment Officer and Director of Research  
—UK and European Value Equities

## Advisory Members

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### Sharon Fay

Head of Equities and Chief  
Investment Officer—Global Value

### Kevin Simms

Chief Investment Officer—  
International Value Equities

### Avi Lavi

Global Director of Value Research

### Takeo Aso

Director of Research—  
International Value Equities

### Kent Hargis

Head—Quantitative Value Research

### Nicholas Davidson

Senior Portfolio Manager

### Role of IPG

- Oversight and risk management
- Product design and enhancement
- Special research projects

### Tenure

- Average of 23 years in industry
- Average of 15 years with Bernstein

As of February 28, 2013

# Performance Summary

In Pounds

	<b>4Q 2012</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Since Inception*</b>
<b>Suffolk County Council</b>	<b>4.0%</b>	<b>11.3%</b>	<b>4.2%</b>	<b>(3.0)%</b>	<b>2.4%</b>
FTSE All Share Index	3.8%	12.3%	7.5%	2.5%	6.4%
Relative Performance	+0.2%	(1.0)%	(3.3)%	(5.6)%	(4.0)%

As of December 31, 2012

\*Inception: June 10, 2005

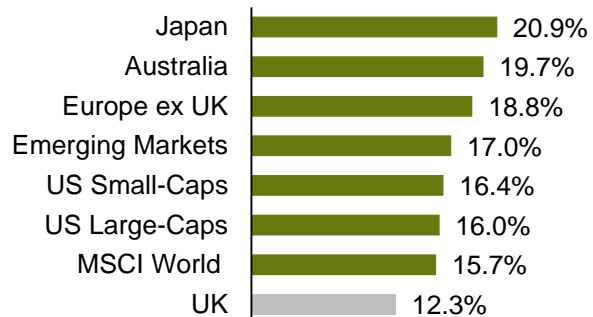
Periods of more than one year are annualized. Numbers may not sum due to rounding. Past performance is no guarantee of future results. The returns presented above are gross of fees. The results do not reflect the deduction of investment-management fees; the client's return will be reduced by the management fees and any other expenses incurred in the management of its account. For example, a £100 million account, paying a 0.50% annual fee, with a given rate of 10% compounded over a 10-year period would result in a net-of-fee return of 9.5%.

Source: FTSE and Bernstein; see Performance Disclosure.

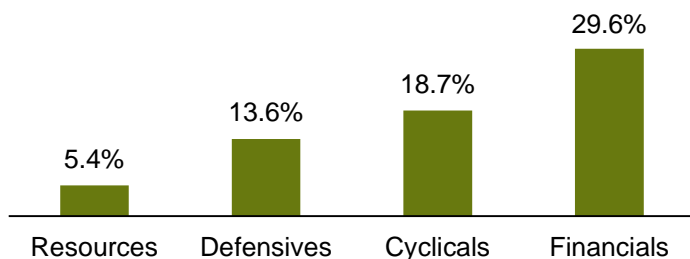
# Global Equities Advanced, Led by Financials

## 2012: Gains Spanned Regions and Sectors

### Regional Returns (Local Currencies)\*

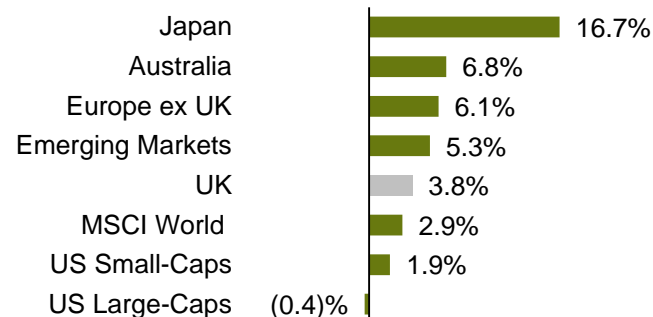


### MSCI World Supersector Returns (USD)\*\*

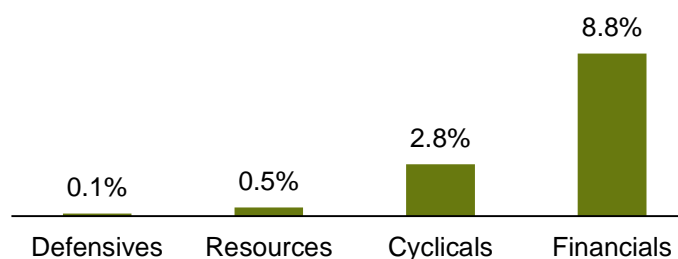


## 4Q 2012: Japanese and Financial Stocks Led the Market

### Regional Returns (Local Currencies)\*



### MSCI World Supersector Returns (USD)\*\*



As of December 31, 2012

\*Japan is represented by TOPIX, Australia by S&P/ASX 300, Europe ex UK by MSCI Europe ex UK, emerging markets by MSCI Emerging Markets, US small-caps by Russell 2000, US large-caps by S&P 500 and UK by FTSE All-Share.

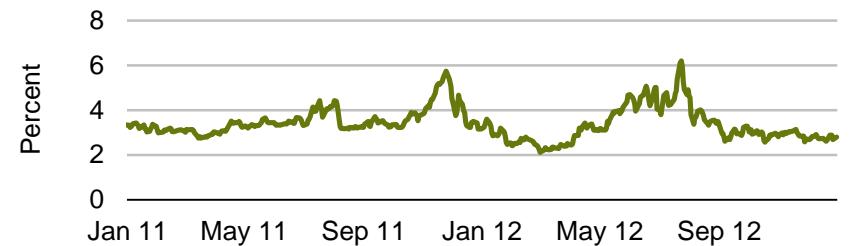
\*\*Resources consists of energy, industrial commodities and gold; defensives consists of consumer staples, medical, telecom and utilities; and cyclicals consists of capital equipment, construction & housing, consumer cyclicals, technology and transportation.

Source: Bloomberg, FTSE, MSCI, Russell Investments, S&P, Tokyo Stock Exchange and AllianceBernstein

# Receding Macro Fears Started to Drive Return to Fundamentals

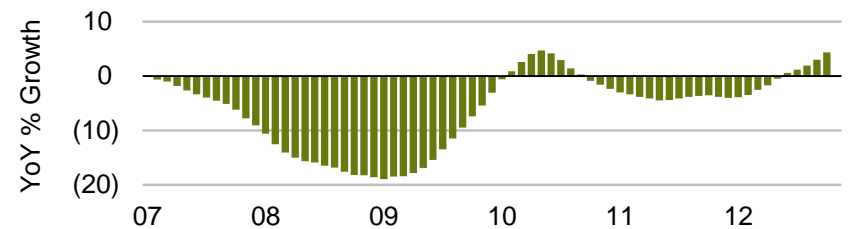
- Spanish government two-year bond yields receded as actions to stem the euro crisis gained credence in markets

Spanish Government Two-Year Bond Yields

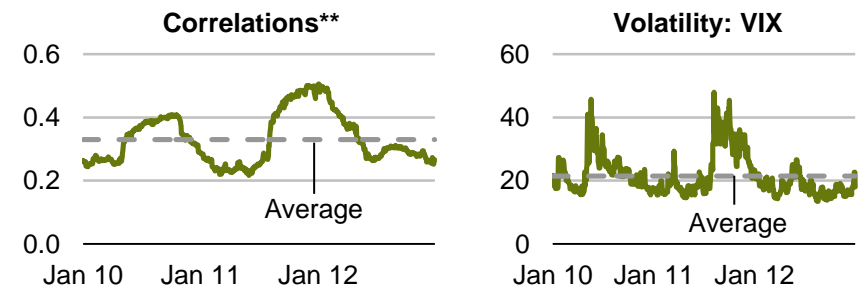


- The US housing market began to show signs of life after a prolonged slump

US Home Prices: S&P/Case Shiller 20-City Composite Index\*



Global Stock Correlations and US Market Volatility



- Correlations declined in 2012, meaning investors began to pay more attention to stock fundamentals. Volatility also eased

Through December 31, 2012

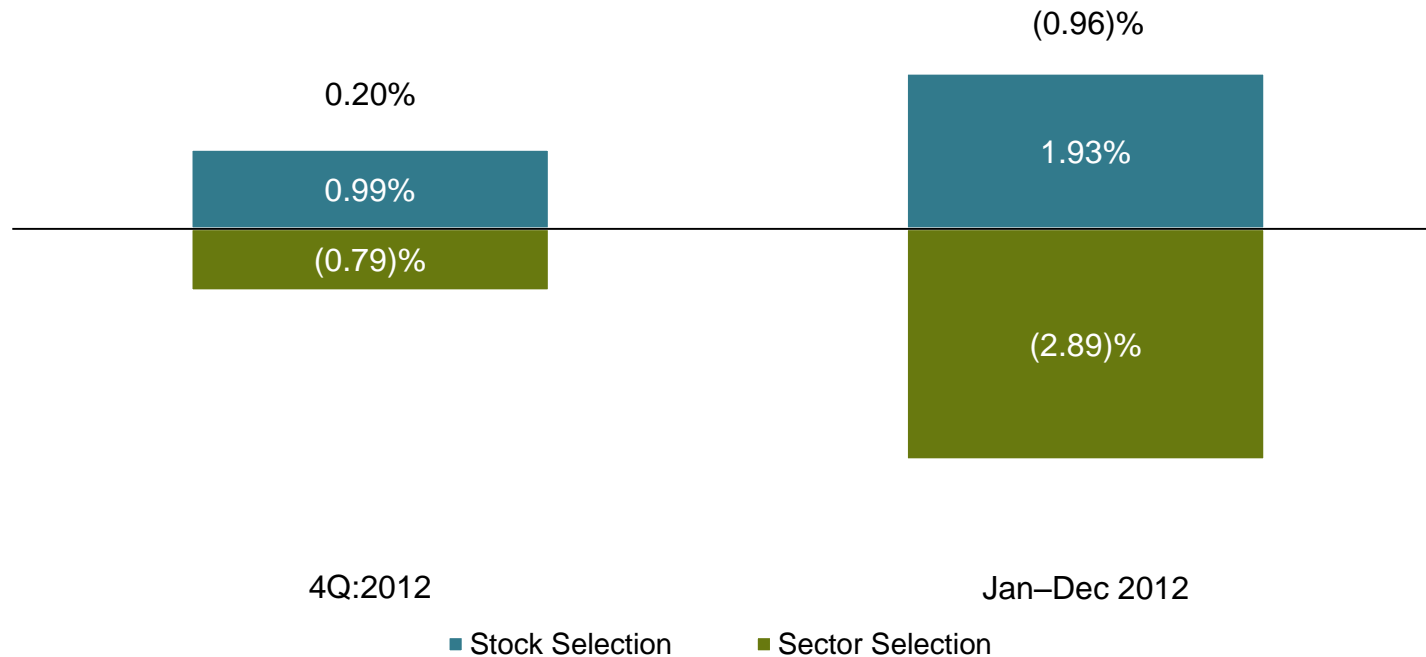
\*Through October 31, 2012

\*\*Rolling daily returns over six months. Correlation is a statistical measure of how two values move in relation to one another.

Source: Bloomberg, Chicago Board Options Exchange, Credit Suisse, MSCI and S&P

# Bernstein UK Value Plus: Relative Performance

## Relative Performance vs. FTSE All Share



As of December 31, 2012

Based on the Suffolk County Council account; measured against FTSE All Share. Numbers may not sum due to rounding. This is supplemental information to the GIPS-compliant performance and disclosure page.

Source: FTSE and AllianceBernstein; see Performance Disclosure.

# Attribution Summary: Research Insights Begin to Be Rewarded

- Fundamental progress in many cyclically exposed holdings was rewarded later in the year as euro area–related fears began to recede

- Several more defensive names lagged in the fourth quarter

## Contributors

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### 4Q: 2012

- Rio Tinto
- Barclays
- Lloyds Banking Group
- Taylor Wimpey

- BG Group (u/w)

- Tyson Foods
- Lyondell Basell

### 2012

- Lloyds Banking Group
- Barclays
- Taylor Wimpey
- Bodycote

- BG Group (u/w)

- Renault
- Lyondell Basell

## Detractors

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### 4Q: 2012

- E.ON
- Hewlett-Packard

- Vodafone
- AstraZeneca
- BP
- Wm Morrison
- GlaxoSmithKline

### 2012

- Hewlett-Packard
- Anglo American
- BP
- FirstGroup
- Vodafone
- Shell
- Imperial Tobacco

As of December 31, 2012

Based on the Suffolk County Council UK Value Plus Account

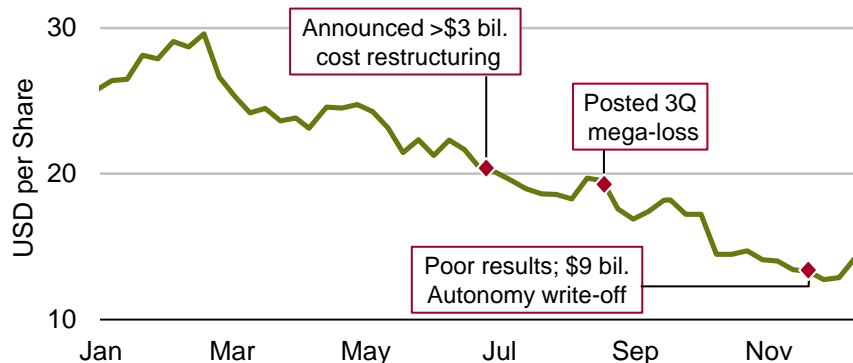
Source: MSCI and AllianceBernstein; see Disclosures and Important Information.



# What Worked and What Didn't in 2012: Non-UK Names

## Technology

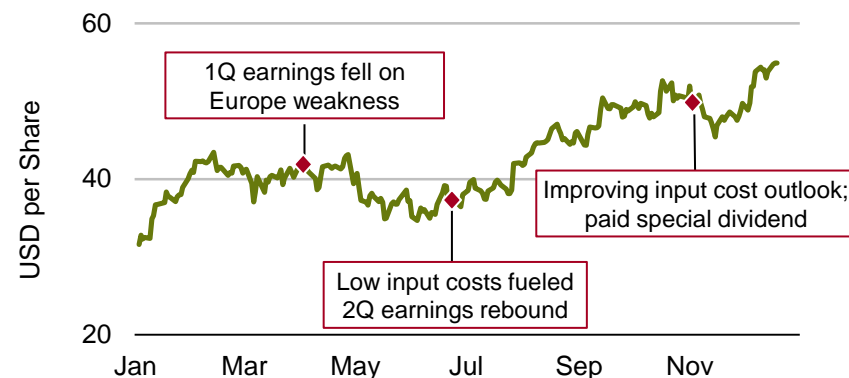
### Hewlett-Packard: 2012 Share Price



- **Investment thesis:** Strong balance sheet, strong cash flows and market-leading positions in diversified segments
- **What happened?** Investors lost remaining confidence in management in the face of further bad news
- **Current outlook:** Material challenges remain, but 2013 cash flows should be strong. Cost cuts are likely to help maintain profitability, making stock look especially cheap at less than four times normalized earnings forecasts
- **Recent action:** Maintained position

## Industrial Resources

### LyondellBasell: 2012 Share Price



- **Investment thesis:** Shale gas boom in the US provides feedstock cost advantage relative to international competitors
- **What happened?** Low feedstock costs drove higher-than expected earnings; company paid out excess profits in a special dividend in October
- **Current outlook:** Sustained high profitability in petrochemicals as feedstock costs hit new lows; improved outlook in refining. Stock attractive at 10.8 times normalized earnings forecast
- **Recent action:** Added to position

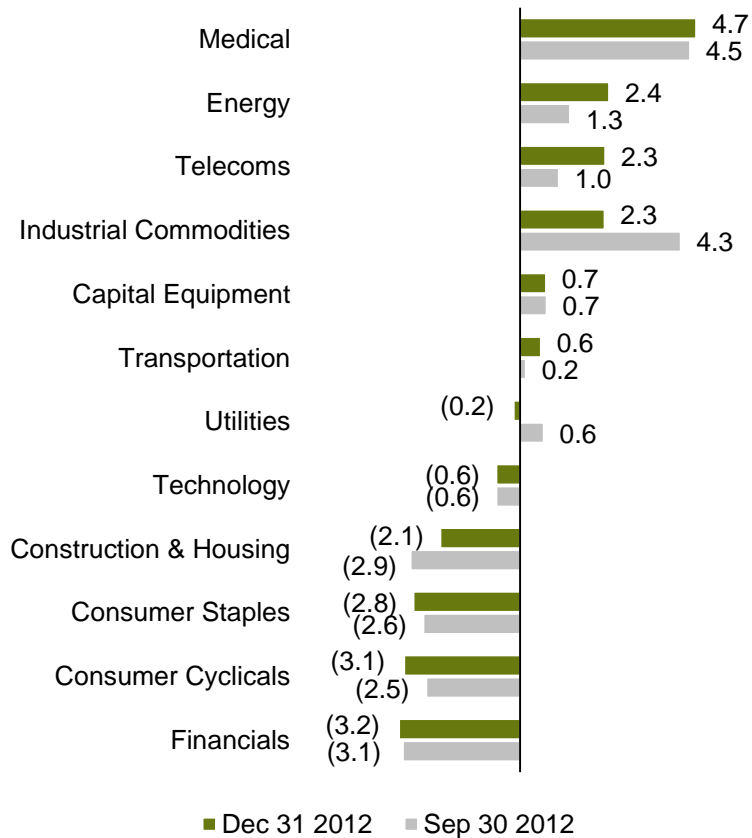
Through December 31, 2012

References to specific securities are presented to illustrate the application of our investment philosophy and are not to be considered recommendations by AllianceBernstein. The specific securities identified and described above do not represent all of the securities purchased, sold or recommended for the product, and it should not be assumed that investments in the securities identified were or will be profitable. We would be happy, upon request, to furnish a listing of all investments made during the prior one-year period.

Source: FactSet, S&P, company reports and AllianceBernstein; see Disclosures and Important Information.

# UK Value Plus: Sector Positions Reflect Breadth of Opportunity

## UK Value Plus Relative Weights by Sector (Percent)



## Significant Transactions Oct 1–Dec 31, 2012

	Buys/Adds	Sells/Trims
<b>Energy</b>	<ul style="list-style-type: none"> <li>Royal Dutch Shell</li> <li>BP</li> </ul>	
<b>Telecom</b>	<ul style="list-style-type: none"> <li>Virgin Media</li> </ul>	
<b>Industrial Commodities</b>		<ul style="list-style-type: none"> <li>BHP Billiton</li> </ul>
<b>Capital Equipment</b>	<ul style="list-style-type: none"> <li>Morgan Crucible</li> <li>Valeo</li> </ul>	<ul style="list-style-type: none"> <li>Bodycote</li> </ul>
<b>Utilities</b>		<ul style="list-style-type: none"> <li>E.On</li> </ul>
<b>Construction &amp; Housing</b>	<ul style="list-style-type: none"> <li>Persimmon</li> <li>Berkeley Group</li> </ul>	
<b>Consumer Cyclicals</b>		<ul style="list-style-type: none"> <li>Sainsburys</li> <li>Big Yellow</li> </ul>
<b>Financials</b>	<ul style="list-style-type: none"> <li>Intermediate Capital</li> </ul>	

As of December 31, 2012

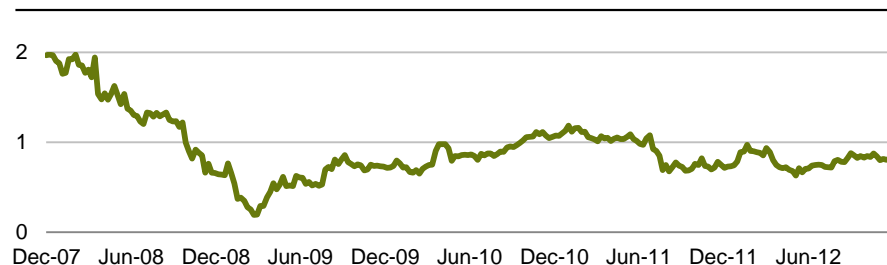
Based on the Suffolk County Council UK Value Plus accounted managed to the FTSE All Share Index

Source: FTSE and AllianceBernstein; see Disclosures and Important Information.

# Intermediate Capital Group: Undervalued Opportunity in Specialised Finance

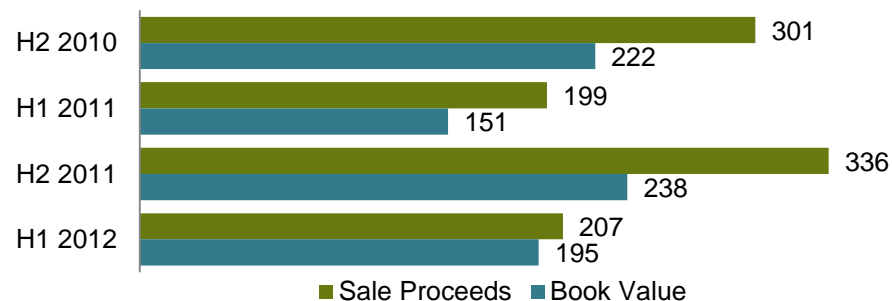
- Mezzanine finance specialist ICG trades at a historically low valuation – and a significant discount to its book value

ICG Price to Book Valuation (x)



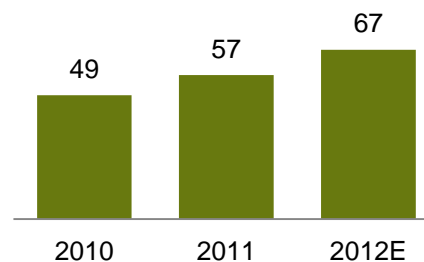
- The discount looks unjustified given that the proceeds from ICG's recent asset sales have exceeded the book value of the assets sold

Recent Asset Sales: Book Value versus Proceeds (£m)

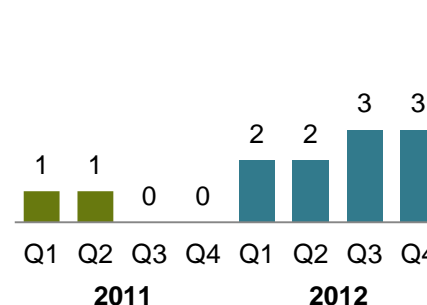


- ILG's growing third party asset management business and improved deal pipeline suggest that the company has plenty of scope to put capital freed by recent disposals profitably to work

Third Party Fee Income (£m)



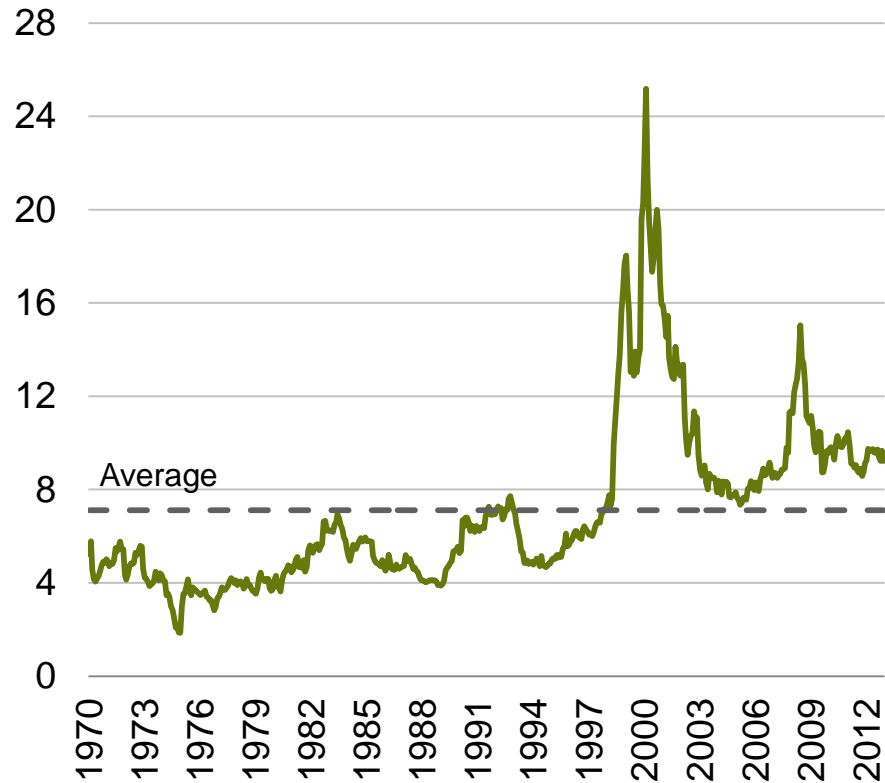
New Financing Deals



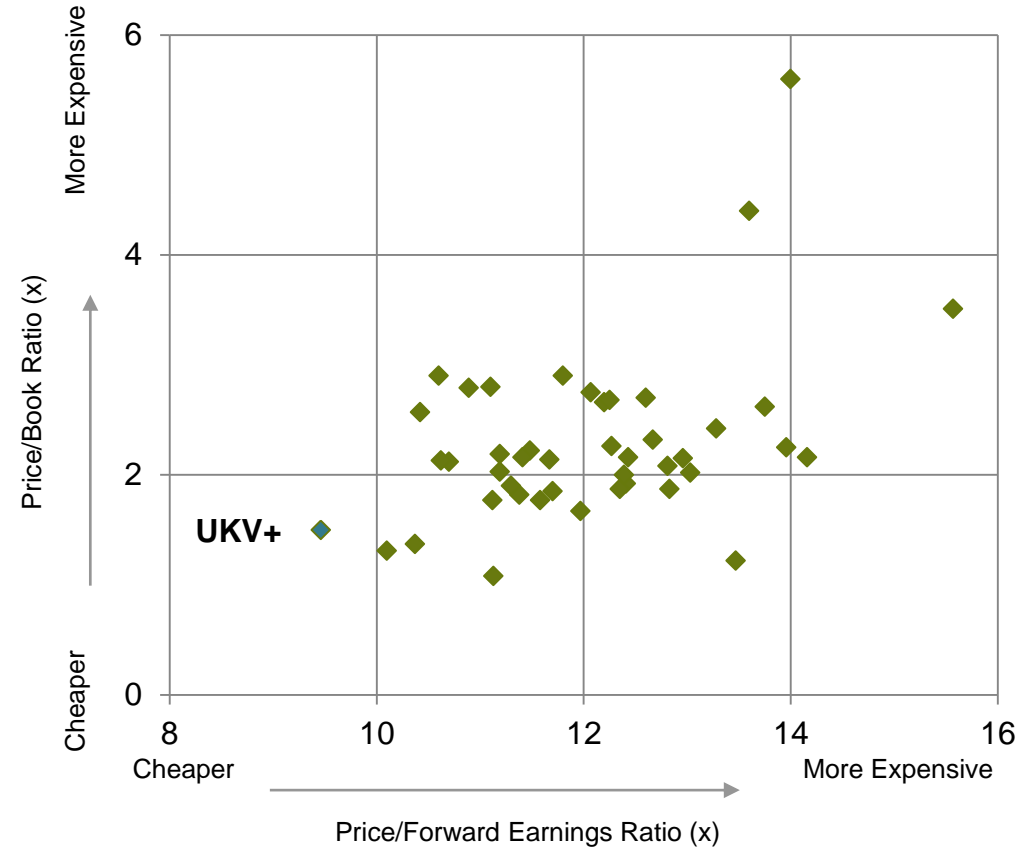
As of 31 December, 2012  
Source: Company reports and AllianceBernstein

# UK Value Plus: Unique Positioning to Capture the Value Rebound

UK Equities: Q5/Q1 Price/Book Spreads



UK Manager Universe: P/E vs. P/B\*



As of December 31, 2012

\* Based on the eVestment Alliance global large-cap value universe, including 62 managers who reported both price to forward earnings and price to book value as of December 31, 2012.

Source: Center for Research in Security Prices (CRSP), eVestment Alliance, MSCI and AllianceBernstein; see Performance Disclosure.

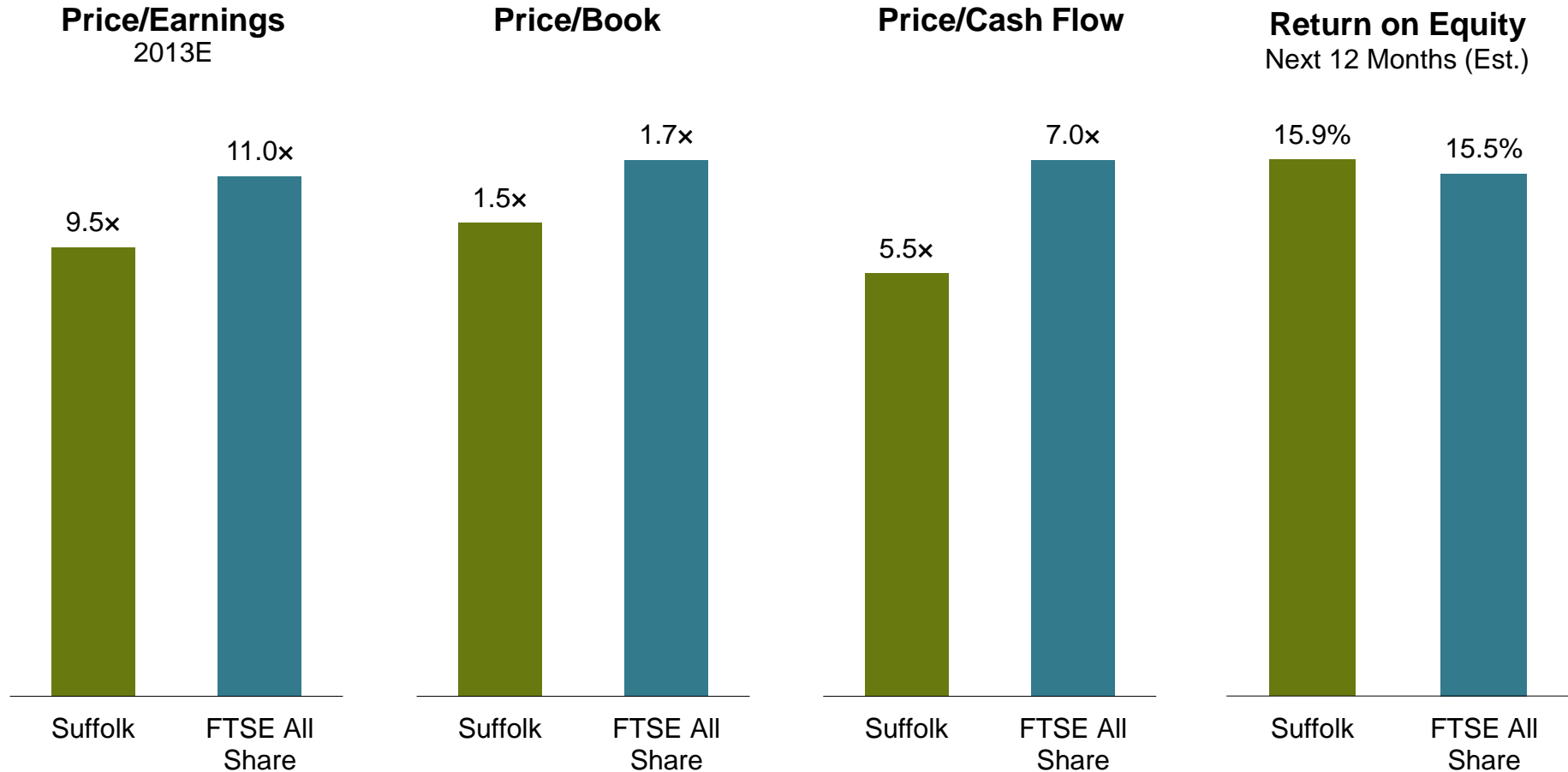
# Value Recovery Checklist: What Changed in 2012?

Market environment has improved	Volatility	✓	Market turbulence has eased
	Correlations	✓	Stocks are trading more individually
Risk appetite remains subdued	Investor Asset Preferences	✗	Safer assets, such as high-dividend-yield stocks, remain in favor
	Fund Flows	✗	Inflows to fixed income continue alongside equity outflows
Value recovery is just beginning	Value Factor Performance	✓	Signs of improvement in performance of low price-to-book and price-to-earnings stocks
	Value Spreads	✗	Still extremely wide, signaling huge potential for recovery

✓ = Changed    ✗ = Unchanged

# Appendix

# Portfolio Characteristics: Attractive Valuations and Strong Cash Flows



As of December 31, 2012  
Based on Suffolk County Council UK Value Plus Account  
Source: FTSE, Thomson I/B/E/S and AllianceBernstein

# Bernstein UK Value Plus: Largest Active Weights

## 10 Largest Overweights

AstraZeneca	+2.9%
BP	+2.9
Imperial Tobacco	+2.6
Rio Tinto	+2.3
Vodafone	+2.2
Royal Dutch Shell	+1.7
GlaxoSmithKline	+1.6
Barclays	+1.6
British American Tobacco	+1.3
Tesco	+1.2

## 10 Largest Underweights

Diageo	(2.5)%
Standard Chartered	(1.8)
Unilever	(1.6)
Sabmiller	(1.5)
BHP Billiton	(1.5)
Reckitt Benckiser Group	(1.4)
Prudential	(1.2)
BT Group	(1.0)
Xstrata	(1.0)
Rolls-Royce	(0.9)

As of December 31, 2012

Based on the Suffolk County Council UK Value Plus Account versus FTSE All Share

Source: FTSE, Thomson I/B/E/S and AllianceBernstein



# Bernstein UK Value Plus: Sector Weights

## Largest Sector Overweights and Underweights

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Medical	+4.7%
Energy	+2.4
Telecoms	+2.3
Industrial Commodities	+2.3
Capital Equipment	+0.7
Technology	(0.6)
Construction and Housing	(2.1)
Consumer Staples	(2.8)
Consumer Cyclicals	(3.1)
Finance	(3.2)

As of December 31, 2012

Based on the Suffolk County Council UK Value Plus account versus FTSE All Share

Source: FTSE and AllianceBernstein

# Non-UK Holdings

<b>Stock Name</b>	<b>Country</b>	<b>Sector</b>	<b>UK Value Plus Weight (%)</b>
LyondellBasell	United States	Industrial Commodities	1.1%
Virgin Media	United States	Telecoms	1.1%
Pfizer	United States	Medical	1.1%
Valeo	France	Capital Equipment	1.0%
Tyson Foods	United States	Consumer Staples	1.0%
Hewlett Packard	United States	Technology	0.9%
<b>Total</b>			<b>6.2%</b>

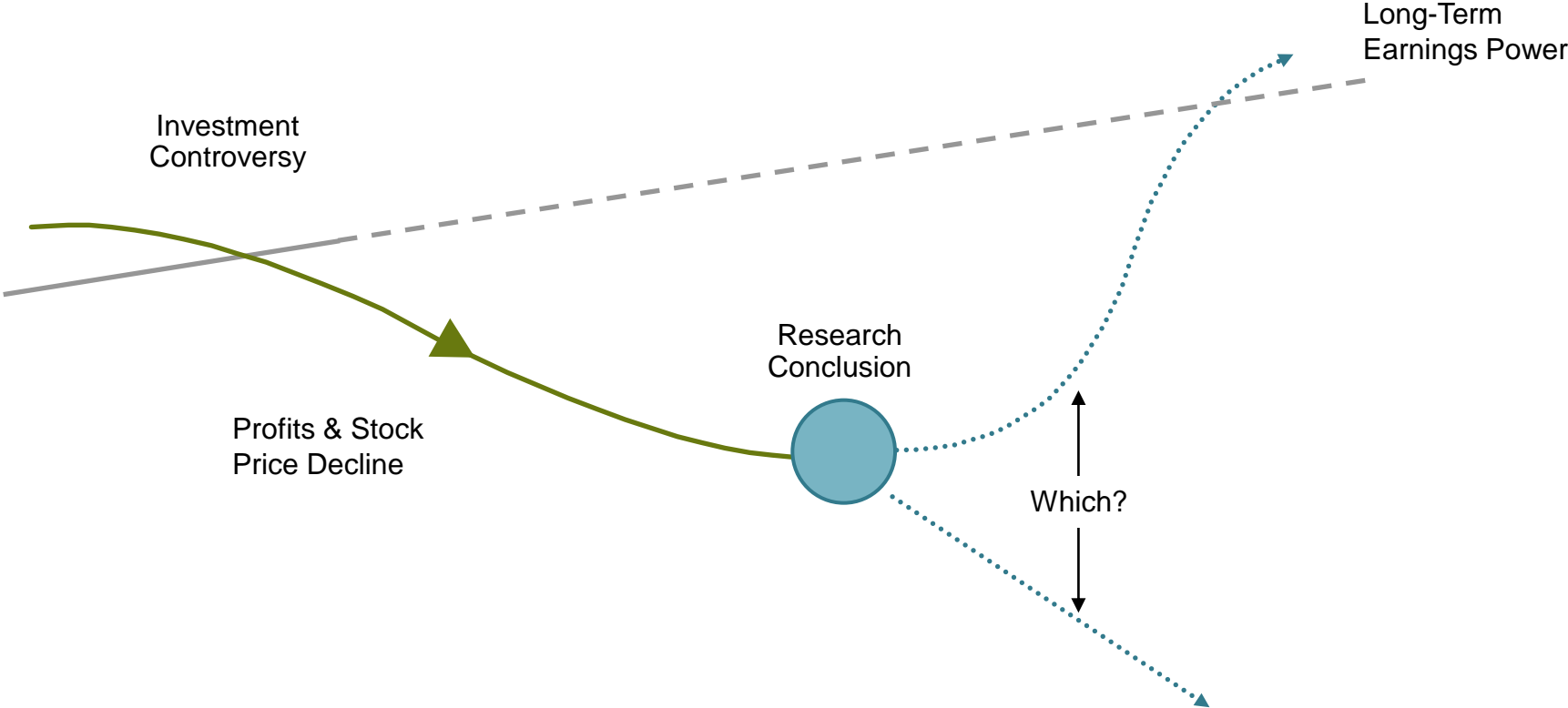
As of December 31, 2012

Based on the Suffolk County Council UK Value Plus account

Source: AllianceBernstein; see Disclosures and Important Information.

# Our Philosophy: Enduring Patterns of Behavior Create Opportunities

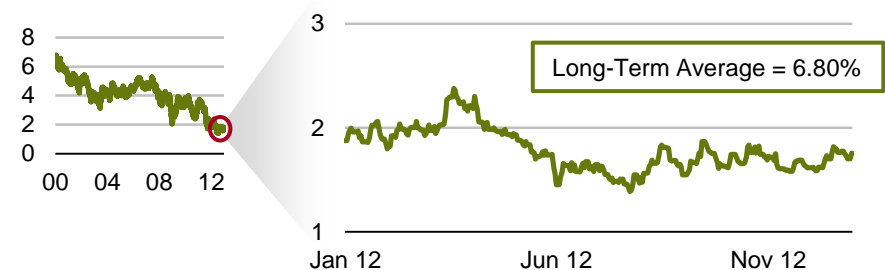
Our goal is to buy future cash earnings for the lowest price



# Despite Reduced Anxiety, Investors Remained Tilted Toward Safety

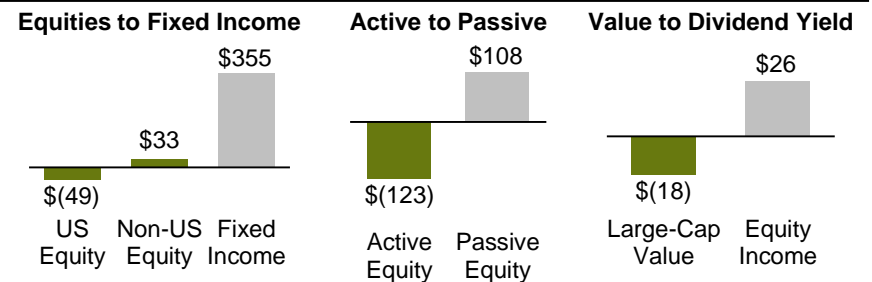
- US government bond yields remained at historical lows as a result of central bank action and investors' preference for perceived safety

10-Year US Government Bond Yields (Percent)



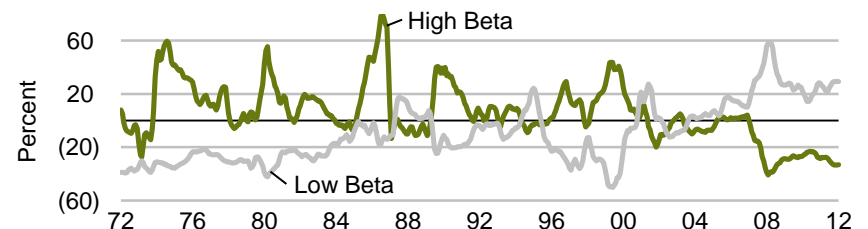
- Fund flows are still skewed toward fixed income and more stable equities, such as high-dividend-yield stocks

Net New Flows: January–November 2012 (USD Billions)\*



- As a result, low-beta stocks are unusually expensive. Investors are still shunning stocks with longer time horizons for returns

Relative Price/Book of High- and Low-Beta Stocks\*\*



As of December 31, 2012

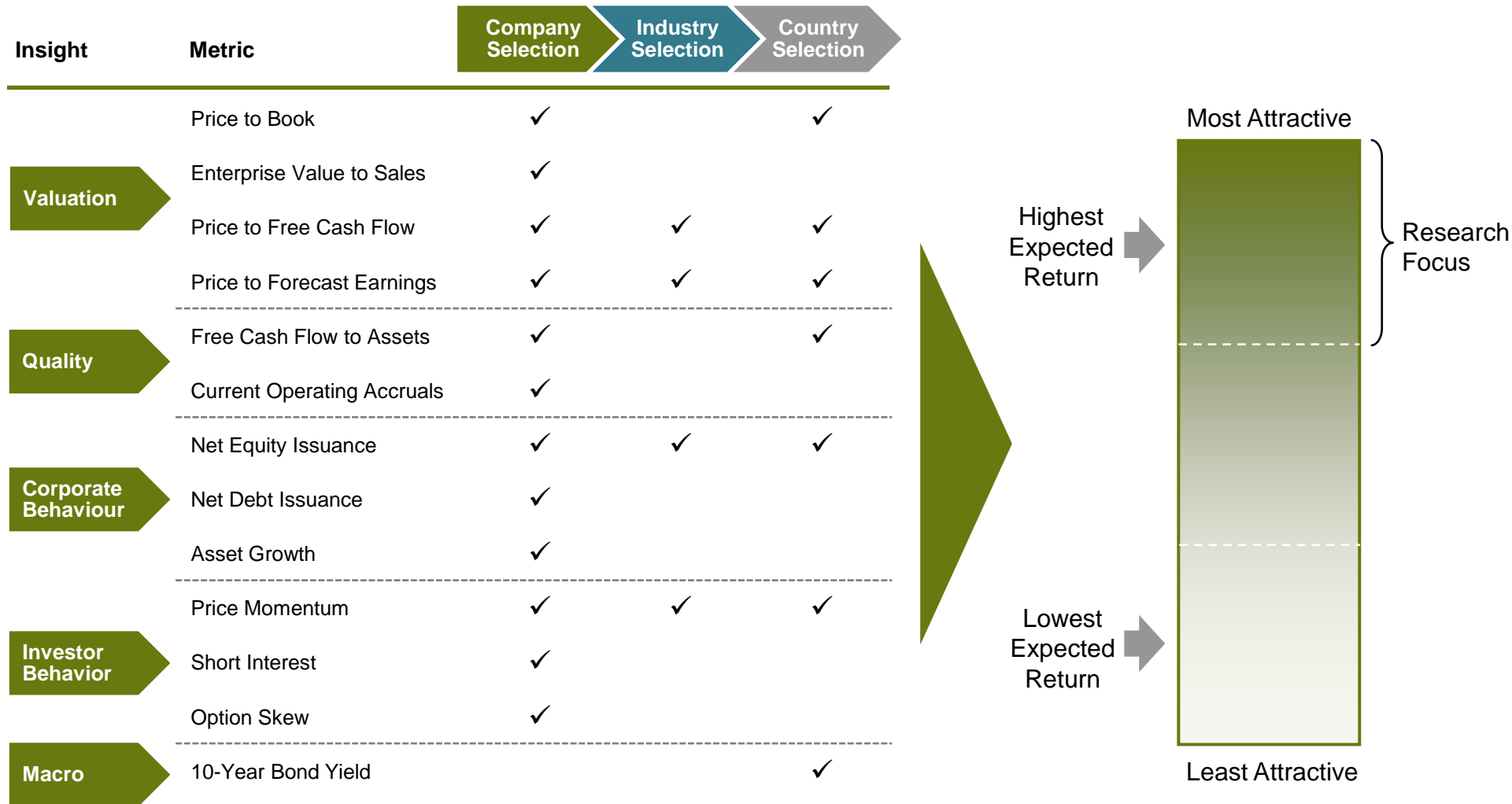
\*Based on Lipper categories. Includes US-domiciled mutual funds and exchange-traded funds; excludes closed-end funds, sector and specialty equity funds

\*\*Price/book ratios of the highest and lowest quintiles of monthly beta within the Bernstein global large-cap universe of stocks versus MSCI World

Source: Bloomberg, Center for Research in Security Prices, FactSet, Lipper, MSCI, Strategic Insight and AllianceBernstein

# Investment Process: Identify Value Opportunities

## Expected Return Model



As of September 30, 2012  
Source: AllianceBernstein

# Bernstein Analysts: Extensive Research Resources

Fundamental Research	Commodities	Consumer	Financials	Industrials	Technology/Telecom
	Benjamin Bahr Vlad Byalik Michelle Dunstan Raphael Fiorentino Takeshi Ishiga Akihiro Kaga Akhil Kapoor Peter Luppino James Robertson Jeremy Taylor David Yao	Neil Abraham Aaron Bigbee Valerie Brown Rajeev Eyunni Bryce Hill Danny Huang Kayoko Ohara Stephen Salzone Mark Underwood Steve Warner	Steve Findley Hamish FitzSimons Benjamin Gigot Ajit Ketkar John Lin Vivian Lubrano Katsuhiko Mano Shri Singhvi Anu Venkataraman	Andrew Birse Charles Gex Aiko Hemmi Taro Hirano Atsushi Horikawa Satya Inampudi Anthony Moran Erik Turenchalk Lily Zheng	Vivian Chen Gayle Hameister Cem Inal
Quantitative Research	Value Equities	Itay Moshenberg Nicholas Oleng Lilian Quah Shanshan Wu Nelson Yu Liang Zhu	Shared Research Resources	Currency Fixed Income Quantitative Research Team	

As of December 31, 2012  
 Analysts may cover multiple sectors.

# Disclosures and Performance Notes

# Disclosures and Important Information

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Past performance is not a guide to future performance.

## **Additional Information**

The value of investments and the income from them can fall as well as rise and you may not get back the original amount invested.

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