Suffolk County Council Pension Fund

Review of Investment Managers' Performance for the Third Quarter of 2014

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For and on behalf of Hymans Robertson LLP

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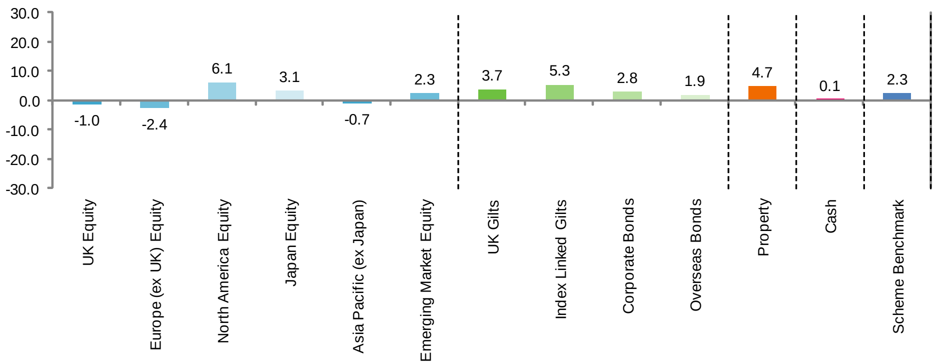
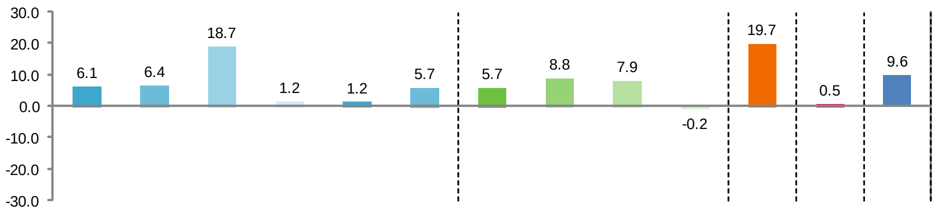
Historic Returns for World Markets to 30 September 2014

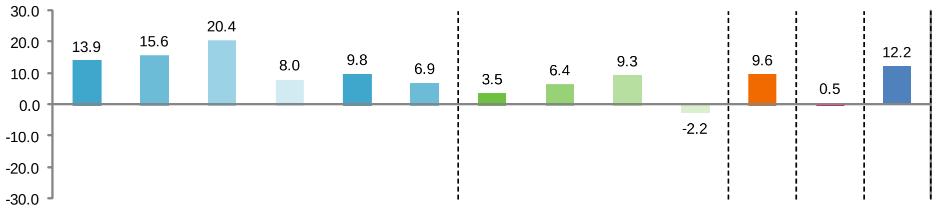
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Economic news in recent months was mixed. Europe and Japan posted slightly disappointing estimates for economic growth during the three months to the end of September. The figures for the UK and the US were ahead of expectations and continue to be the strongest of the developed economies. The OECD and IMF indicated they expect lower global economic growth in 2014 and 2015 than they forecast earlier this year, partly due to the impact of the geopolitical tensions in Ukraine and the Middle East. The referendum in Scotland caused relatively little volatility in UK markets.

Short term interest rates in the UK and US were unchanged during the quarter. The European Central Bank (ECB) reduced interest rates, from 0.15% to 0.05% in September, following a similar cut in June. It also announced an asset purchase program, aimed at providing liquidity to the financial system and boosting lending. This contrasts with recent central bank policy in other major economies. Investors expect that the Bank of England and the US central bank may raise short-term rates in early 2015 as unemployment and growth measures continue to improve, although rate rises may be delayed by the lower than expected wage growth and inflation seen in recent months.

In general, equity markets rose over the quarter, despite modest declines in the UK and continental Europe. Commodity prices broadly fell, as geopolitical tensions had little impact on energy production, demand for industrial metals in China fell, and agricultural prices were impacted by a bumper grain harvest.

Key events during the quarter were:

Global Economy

· The UK recession was shallower than first thought, according to the Office for Budget Responsibility;
· UK inflation (CPI) fell to a five year low of 1.5% (v. target of 2%) in August;
· Eurozone inflation fell to 0.3% in September (the lowest rate since October 2009);
· Strong economic growth in the UK and US contrasted sharply with slow growth in the Eurozone;
· Short-term interest rates were unchanged in UK and US and cut, from 0.15% to 0.05%, in the Eurozone, which also introduced a form of quantitative easing.

Equities

· The best performing sectors relative to the FTSE All World Index were Health Care (+5.9%) and Technology (+5.7%); the worst were Oil & Gas (-7.4%) and Basic Materials (-4.1%);
· Shares in Alibaba, a Chinese internet company, rose 38% on their first day of trading on the New York Stock Exchange in September, in a world-record $25bn flotation.

Bonds and Currencies

· Gilt yields fell (prices rose) as inflation continued to undershoot its target;
· Sterling fell by c.5% against the US dollar but rose slightly against the euro and the yen.

Asset Structure

Asset Structure (at Target and at Quarter End) [i]

Mandate	Manager	Value £m	Current %	Target %	Difference %
Equity					
UK	BlackRock	185.70	9.3	9.0	0.3
	Alliance Bernstein	152.56	7.7	7.0	0.7
Regional	L&G	415.47	20.9	16.0	4.9
Global	Newton	285.21	14.3	13.0	1.3
Bonds					
Gilts	L&G	41.62	2.1	2.0	0.1
Corporate	L&G	234.31	11.8	12.0	-0.2
Index Linked	L&G	82.01	4.1	4.0	0.1
Cash	Internal	9.49	0.5	1.0	-0.5
Alternative					
Private	Pantheon	69.78	3.5	5.0	-1.5
	Wilshire				
Targeted	Pyrford	106.26	5.3	6.0	-0.7
	BlueCrest	34.78	1.7	2.0	-0.3
	Winton	35.30	1.8	2.0	-0.2
Emerging Mkt Debt	L&G	39.58	2.0	2.0	0.0
Distressed Debt	M&G	37.17	1.9	2.0	-0.1
Infrastructure	KKR	30.74	1.5	2.5	-1.0
	Partners	9.03	0.5	2.5	-2.0
Timberland	Brookfield	6.55	0.3	2.0	-1.7
Property	Schroder	215.12	10.8	10.0	0.8
Total		1,990.68			

Comment

On the face of it, the Fund's equity allocation appears significantly overweight. However, when combined with the alternatives allocation, the Fund's other growth asset allocation designed to diversify the equity allocation, the total allocation to growth assets is only marginally overweight and we do not view this as a particular concern (especially given the alternatives allocation is still being drawn). We are therefore not proposing a change at the current time.

Source: [i] Fund Manager, WM/State Street

Performance Summary

Performance Summary [1] [i]

Period		Newton - Global Equity	Alliance Bernstein - UK Equity	BlackRock - UK Equity	BlueCrest Hedge Fund	Legal & General - Multi Asset	Pyrford - Absolute Return	Winton - Hedge Fund	M&G Debt Opportunities Fund	Schroders - Property	Total Fund
3 Months (%)	Absolute	3.8	-0.9	0.3	1.4	3.1	1.0	0.7	-1.9	4.3	2.4
	Benchmark	3.0	-1.0	-1.0	1.4	3.1	1.4	1.4	1.9	4.0	2.3
	Relative	0.7	0.1	1.3	0.0	0.0	-0.4	-0.7	-3.8	0.3	0.2
12 Months (%)	Absolute	10.6	6.1	8.2	8.7	9.8	2.9	8.1	7.8	18.6	9.4
	Benchmark	11.2	6.1	6.1	5.7	9.9	5.7	5.7	8.0	16.9	9.6
	Relative	-0.5	0.0	2.0	2.8	-0.1	-2.6	2.3	-0.2	1.4	-0.2
3 Years (% p.a.)	Absolute	16.2	14.8	14.6	4.5	11.9	3.9	5.2	10.3	8.6	12.0
	Benchmark	15.1	13.9	13.9	5.6	11.9	5.6	5.6	8.0	7.4	12.2
	Relative	1.0	0.7	0.6	-1.1	0.0	-1.6	-0.4	2.1	1.1	-0.2
5 Years (% p.a.)	Absolute	9.9	7.8	10.5	N/A	8.5	N/A	N/A	N/A	10.2	8.7
	Benchmark	9.8	9.7	9.7	N/A	8.6	N/A	N/A	N/A	9.6	9.3
	Relative	0.1	-1.8	0.7	N/A	0.0	N/A	N/A	N/A	0.5	-0.5

Comment

The Suffolk Fund returned 2.4% over Q3 of 2014 which was modestly ahead of its benchmark return of 2.3%. It is -0.2% behind its benchmark over the last 12 months returning 9.4% versus a benchmark return of 9.6%.

Newton outperformed their benchmark over Q3 of 2014 by 0.7%. They are -0.5% behind of benchmark over 12 months. Newton's portfolio benefitted from M&A activity in the quarter.

Alliance Bernstein performed marginally ahead of their benchmark over Q3 of 2014 by 0.1%. They are broadly in line with their benchmark over 12 months. The biggest positive factor was the zero holding of Tesco.

BlackRock outperformed their benchmark by 1.3% over Q3. Their portfolio is 2.0% ahead of benchmark over 12 months.

BlueCrest returned 1.4% over Q3. Their diversified range of hedge fund strategies performed well over the quarter and last 12 months.

Pyrford returned 1.0% over Q3. Their defensive positioning has been detrimental over the last 12 months.

Winton returned 0.7% over Q3. Their overall outperformance over 12 months has arisen due to their ability to tactically allocate to attractive parts of the market.

Schroder's portfolio returned 4.3% (net of fees) over Q3. Their specialist funds in particular have added value.

L&G performed in line with expectations.

M&G Debt Opportunities Fund underperformed and we are investigating this and will report further at the Committee meeting.

[1] 3 Year Returns are since inception for M&G (30 June 2012), Pyrford (31 August 2012) and BlueCrest & Winton (both 30 September 2012).

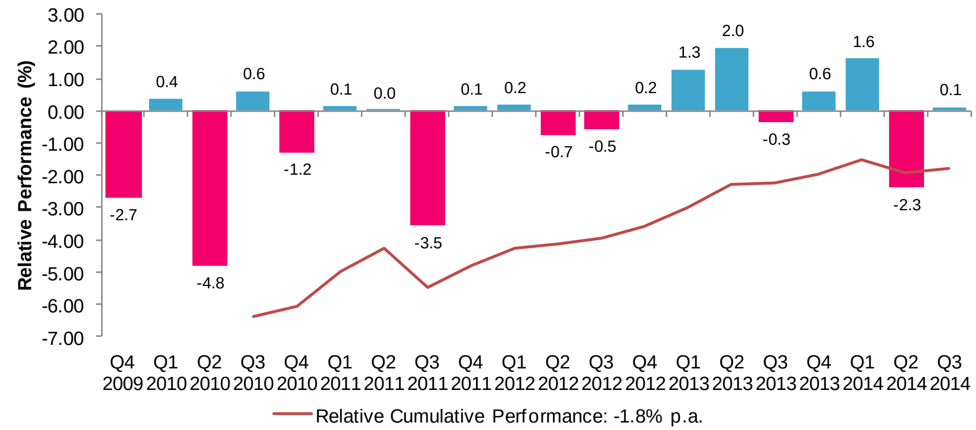
Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited, WM/State Street

Alliance Bernstein - UK Equity

Recent News & Rating

No significant news to report this quarter. There were no changes to the UK Value team or process.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The Fund’s return over the quarter was broadly in-line with benchmark, although the absolute return was negative. Similarly, relative returns are in line with benchmark over the last 12 months, however, over 12 months the absolute return has been positive at just over 6%,

Over the quarter, the biggest positive contributor to relative performance was the zero holding of Tesco, the portfolio avoided the impact of the steep fall in Tesco’s share price following the announcement that the company had overstated profits. The portfolios sector positioning also had a small positive impact, notably underweighting industrial commodities and an overweight in telecoms.

Stock selection had a broadly neutral impact. Debenhams and the French plastics company Omnium continued to detract as did GlaxoSmithKline which reported disappointing earnings. On the positive side, the holding of housebuilder Barrat was a positive contributor with a 62% increase in profits and one of the largest stocks in the portfolio, Vodafone, also outperformed.

Bernstein see the recent fall in the UK equity market as an opportunity for value investors.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-0.9	6.1	14.8	7.8
Benchmark	-1.0	6.1	13.9	9.7
Relative	0.1	0.0	0.7	-1.8

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.7	2.0

3 Year Tracking Error

Actual % p.a.	Target % p.a.
2.3	3-5

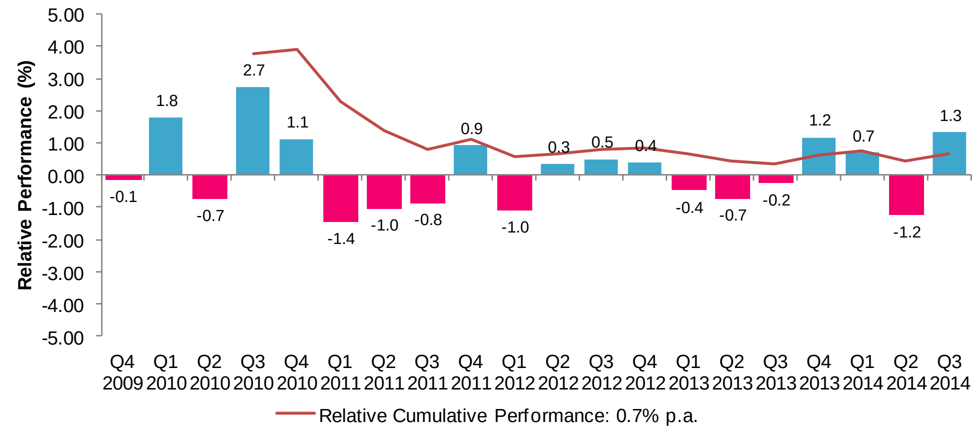
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

BlackRock - UK Equity

Recent News & Rating

No significant news to report this quarter.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The Fund outperformed in the quarter and is significantly ahead of the index over 12 months. The fund benefitted from positive earnings results from ITV, Next, Reed Elsevier and Reckitt Benckiser. The holding in Shire also rose after the company accepted a raised bid from US pharmaceutical group AbbVie. Not holding Tesco also helped relative Fund performance. The main detractors included BHP Billiton following a fall in commodity prices, whilst Spectris and Aviva suffered from adverse currency movements and weakness in demand.

Blackrock have added a new holding in Carnival, on signs of an improvement in pricing across Carnival's brands which, if sustained, should lead to a rapid improvement in earnings from depressed levels. They initiated a position in recruitment specialist Hays, where the Australian business is showing stabilisation and growth potential in Germany. Within the mining sector they have sold Glencore and have purchased diversified mining conglomerate BHP Billiton to maintain overall exposure to global economic cyclicals. They believe that BHP is better positioned at the bottom end of the cost curve to remain profitable despite lower commodity prices and offers a good dividend yield. BlackRock sold Tate & Lyle at the start of the quarter on concerns that competition from Chinese producers could effect some parts of the business. They reduced the position in strongly performing Shire following the agreed bid from AbbVie and Spectris following demand weakness.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	0.3	8.2	14.6	10.5
Benchmark	-1.0	6.1	13.9	9.7
Relative	1.3	2.0	0.6	0.7

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.6	2.0

3 Year Tracking Error

Actual % p.a.	Target % p.a.
1.7	-

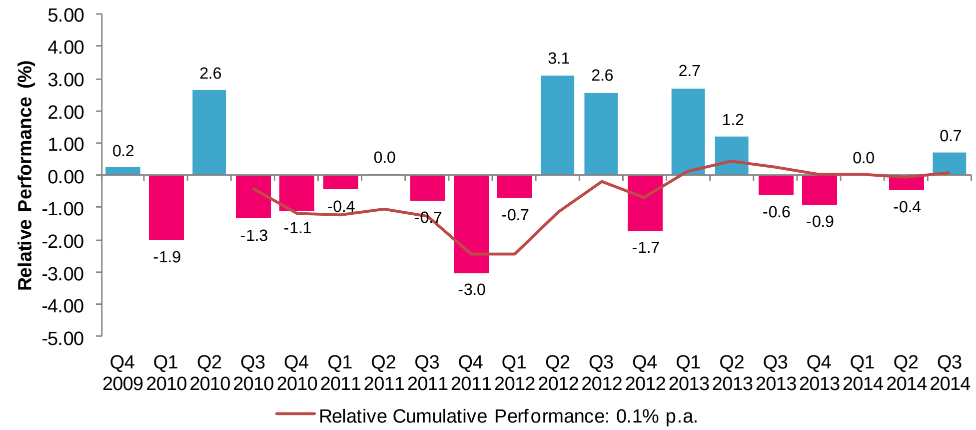
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Newton - Global Equity - Summary

Recent News & Rating

There were no material developments to report during the quarter; Newton remain one of our preferred global equity managers.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The portfolio outperformed its benchmark over the quarter, driven by stock selection within the information technology, consumer discretionary and financials sectors. The information technology sector was the greatest source of outperformance, with an overweight allocation proving beneficial given the sector's relative strength over the period, and stock selection also boosting returns.

Another area of relative strength was the consumer discretionary sector, in which the discount stores TJX and Dollar General were especially strong over the period.

An underweight position in the financials sector, which outperformed but where Newton remain cautious, was offsetby positive stock selection. The holding of Citigroup, the US bank, was particularly beneficial amid solid results. The portfolio was negatively impacted by its holdings in the telecommunications sector where Sprint suffered as it emerged that regulatory barriers appeared too great for its merger with Deutsche Telekom's US mobile network, T-Mobile US.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	3.8	10.6	16.2	9.9
Benchmark	3.0	11.2	15.1	9.8
Relative	0.7	-0.5	1.0	0.1

3 Year Relative Return

Actual % p.a.	Target % p.a.
1.0	2.5

3 Year Tracking Error

Actual % p.a.	Target % p.a.
3.7	5-7

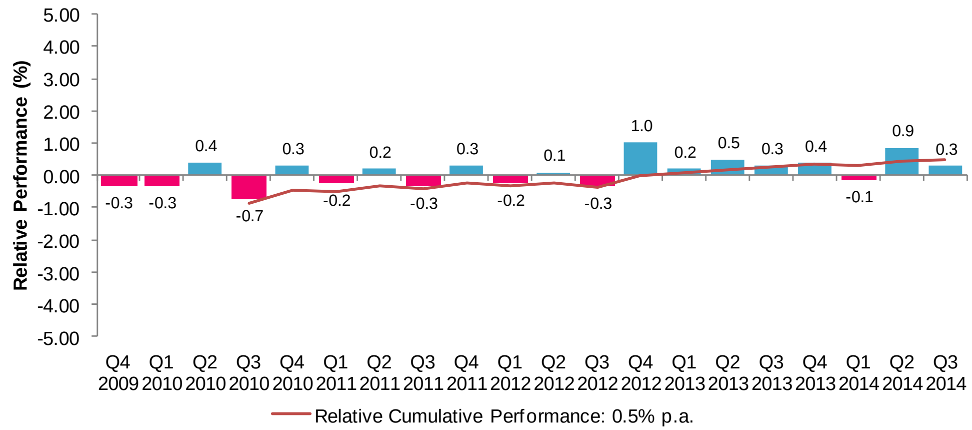
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder - Property Fund of Funds

Recent News & Rating

No significant news to report. Our rating remains unchanged.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The property portfolio outperformed its benchmark, and has exceeded its target over one, three and five years – also providing strong positive absolute returns.

Strong performance from specialist funds have helped recent returns with the returns from core balanced funds in line with benchmark. In the third quarter, the Industrial Property Investment trust was the strongest performer driven by a strong income yield and improving capital values.

Over the last year, exposure to London office funds has been helpful. However, Schroders continue to reduce London office exposure and have served redemptions for the Henderson Central London Office Fund and West End of London Property Unit Trust. The investments to replace them will typically be in higher income sectors which Schroders feel will be more beneficial in the next investment cycle. Schroders are also looking to build up their industrial holdings and are close to competing a new holding.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	4.3	18.6	8.6	10.2
Benchmark	4.0	16.9	7.4	9.6
Relative	0.3	1.4	1.1	0.5

3 Year Relative Return

Actual % p.a.	Target % p.a.
1.1	0.75

3 Year Tracking Error

Actual % p.a.	Target % p.a.
0.8	-

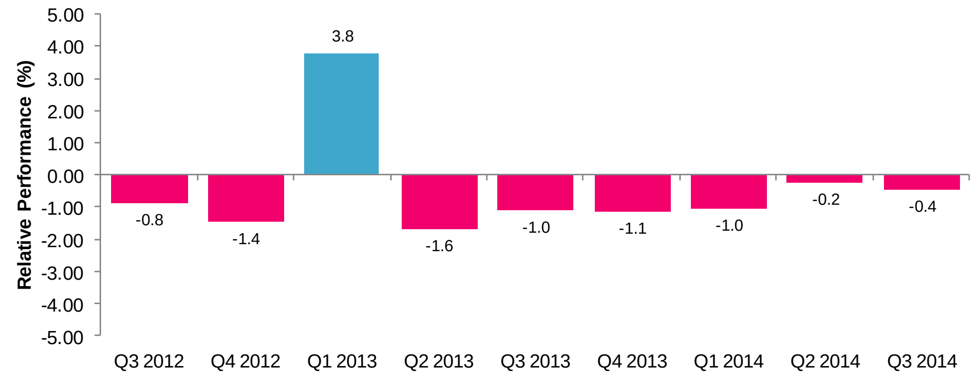
Source: [i] Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] DataStream, Fund Manager, Hymans Robertson

Pyrford - Absolute Return

Recent News & Rating

As previously advised. Pyrford announced that Tony Cousins, CIO & CEO would expand his role to act as CEO for both Pyrford and Lloyd George Management ("LGM"), both part of BMO Global Asset Management ("BMO GAM"). We have concerns about him being stretched in these joint roles. Bruce Campbell, the founder and Investment Chairman of Pyrford, said in October that Tony Cousins' main responsibility continues to be his role of CIO for Pyrford and managing the firm whilst working for Lloyd George is likely to be just a temporary solution.

Relative Quarterly and Relative Cumulative Performance [1]



Comment

Pyrford delivered a return of 1.0% over the third quarter and is up 2.9% over 12 months. Two thirds of the fund is held in bonds. UK bonds were marginally up as yields continued to fall, however the returns were held back because the fund only holds short-duration gilts which are not as sensitive to changes in interest rates. The fund's overseas bonds had a positive contribution to returns over the quarter, primarily because of the US dollar appreciation. UK equities hurt returns during the quarter. Tesco was one of the main detractors from performance year to date and the position was closed after the company cut its dividend in August (reducing losses on this position). Exposure to US equities contributed positively to performance over the quarter, in large part because of the strengthening of the US dollar, but also partially from stock selection. The fund's allocation to defensive overseas equities has been the largest positive contributors to performance year to date.

The fund's equity allocation was reduced by 5% during the quarter. However the fund's asset allocation remains relatively unchanged over the past 12 months. The current target weightings (67% in bonds, 30% in equities and 3% in cash) are the same as they were prior to the crisis in 2008. Pyrford continues to believe that central bank policies have driven equity and long-duration sovereign bond prices to levels where they are not supported by fundamentals. To reflect this view, the fund mainly holds defensive, non-cyclical equities and short-dated bonds.

Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.0	2.9	3.9
Benchmark	1.4	5.7	5.6
Relative	-0.4	-2.6	-1.6

* Inception date 31 Aug 2012.

[1] Excludes initial part quarter (1 month to 30/9/12)

Source: [i] DataStream, Fund Manager, Hymans Robertson

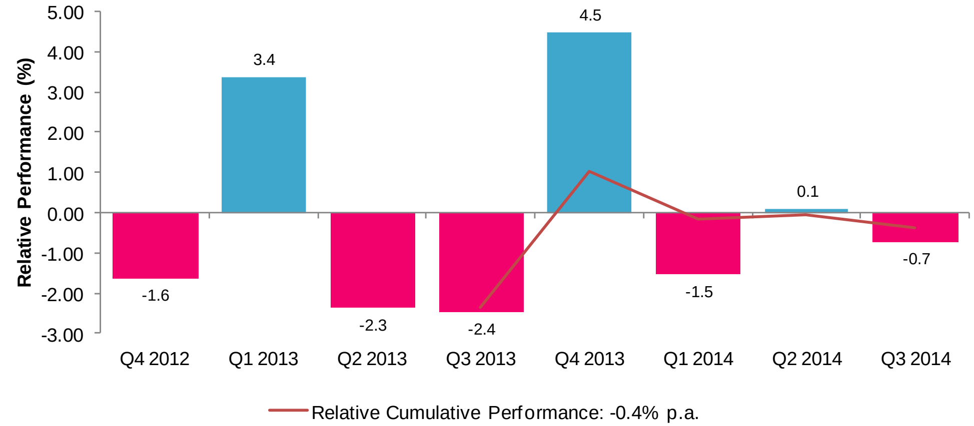
Winton - Futures Fund

Recent News & Rating

No significant news to report this quarter.

Winton became a signatory of the UN Principles for Responsible Investment during the quarter and is currently looking at ways to incorporate ESG data in to its systems.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The fund returned 0.7% over the quarter and is now up 8.1% over 12 months. Long exposure to bonds had the most significant positive contribution to performance over the quarter; in particular positions in European bonds performed well while U.S. bonds were broadly flat. Precious metals also enhanced returns as the price of gold continued to fall during the quarter benefitting the fund's short position.

Winton have expressed concerns that the current low level of volatility in markets is encouraging participants to take excessive risk in order to generate returns. Winton believe that this may lead to a market correction and more specifically a liquidity event such as we saw during the financial crisis. David Harding, the founder and CEO of Winton indicated that Winton's reluctance to increase leverage is a key contributor to the Futures fund underperforming its peers during 2014. Unlike some of the other larger trend-following funds which have a higher volatility target, Winton is intentionally targeting lower volatility (and therefore returns) to offer institutional investors' portfolios diversification from traditional asset classes at a reasonable level of risk.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	0.7	8.1	5.2
Benchmark	1.4	5.7	5.6
Relative	-0.7	2.3	-0.4

* Inception date 30 Sep 2012.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

BlueCrest - AllBlue Mandate

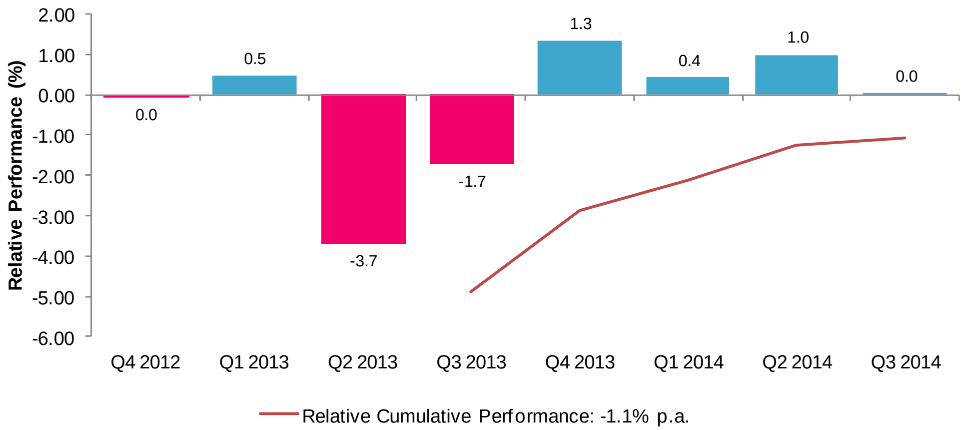
Recent News & Rating

BlueCrest Capital Management Limited ("BlueCrest") announced its intention to spin-off its systematic trading strategies group into a new independent business named Systematica Investments ("Systematica"). The new business will be led by BlueCrest's current Head of Systematic Trading, Leda Braga. Systematica will be majority owned by Braga and her team, with BlueCrest retaining a minority interest in the firm. The size of BlueCrest's interest has not been disclosed. Once Systematica has been set up it will become the investment manager of BlueTrend; BlueCrest's managed futures fund which currently has AUM of £5.2bn and is currently managed by Braga's team. The new firm is due to start in January 2015, however given the level of work involved with setting up the new business including legal and risk, compliance and infrastructure we do not view this as a fixed date. It is intended that 100 of BlueCrest's staff will be moved to the new firm, all of which currently work within the Systematic trading strategies business at BlueCrest under Leda Braga. At this stage BlueCrest have confirmed there have been no departures as a result of this re-structuring of the business; however we will continue to monitor the team's stability closely.

Comment

There has been limited information provided to explain the rationale for these changes, which are not insignificant from a corporate perspective. BlueCrest have stated that there were discussions going on behind the scenes for a while between Leda Braga and Michael Platt (the firm's founder and CIO) as to the future development of the firm's systematic strategies. BlueCrest also explained that the systematic strategies team had become more and more autonomous over the years. We may speculate that there was a difference between what Platt and Braga each envisioned for the future of these strategies which has led to the decision to spin-out this part of the business. It is worth noting that Michael Platt started BlueCrest as a discretionary investment management business and he continues to be the lead portfolio manager for the firm's flagship discretionary macro fund. In our view, at this stage, this announcement does not warrant a change in our manager rating for BlueCrest's BlueTrend Fund and we continue to rate it a 5 ("Preferred manager"). The rationale for this is that the business being spun-off is the systematic trading strategies which do not rely on any key individual to make investment decisions. We therefore do not expect the formation of the new business and subsequent changes to the organisational structure to have a significant impact on the BlueTrend strategy. In our view Leda Braga and her team will have a strong alignment of interests with investors in BlueTrend since the new firm Systematica will be dependent on this strategy which will represent over 90% of the new firm's assets under management. We are, however, mindful of the fact that such a significant organisational change carries execution risk and we will therefore continue to closely monitor developments to ensure this does not have a negative impact on the ongoing management of BlueTrend nor alters the nature of the strategy.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.4	8.7	4.5
Benchmark	1.4	5.7	5.6
Relative	0.0	2.8	-1.1

* Inception date 30 Sep 2012.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Market Conditions

General

In Q3 2014, economic data released pointed to a divergence in fortunes amongst the global economies. The pace of expansion in the US and UK was robust; despite this the Federal Reserve and Bank of England have indicated that interest rate rises in the countries are still some way off. On the other hand growth in the Eurozone has stagnated, with inflation slowing sufficiently to prompt the European Central Bank (ECB) to cut interest rates again in September in an attempt to stimulate lending. Weakness was also evident in Japan, where the latest data indicated that the economy has suffered the sharpest fall since the earthquake three years ago. Equities, as measured by the FTSE All World index, rose (+3.2%) led by gains in North America and Japan, as the S&P 500 crossed the symbolic 2,000 mark in August for the first time before markets receded in late September. Eurozone equities struggled as the near collapse of Portugal's Banco Espírito Santo, combined with the ongoing political tension in Ukraine and sanctions imposed on Russia by the West, weighed heavily on investor sentiment. Emerging markets performed broadly in line with their developed counterparts over the quarter, as a number of countries (including India, Mexico and Thailand) enjoyed rallies on the prospect of political change and economic reform. Bond markets delivered positive returns over the quarter, as investor demand continued to drive yields lower. The rally in UK property gained more momentum; the IPD index has now risen by almost 20% over the past 12 months.

Equities

Major equity markets delivered mixed returns over Q3, as gains in North America and Japan were partially offset by weakness in the UK, Europe and the Pacific Basin. Overall, the FTSE All World saw a solid increase of 3.2% in sterling terms, with the strongest sterling-denominated returns coming from North America and Emerging Markets (6.1% and 3.2% respectively) as the Dollar surged against the Pound. Of the major equity markets, Europe ex-UK was the weakest performer in sterling terms (-2.4%), while the UK struggled (-1.0%). Over 12 months to 30 September 2014, the FTSE All World index rose by 11.8% in sterling terms, with Western markets North America (18.7%) providing the strongest returns. Eastern equities produced more modest returns as both Japan (with a strong local currency return of 13.3% eroded by depreciation in the Yen) and the Pacific Basin delivered 1.2%, while Emerging Markets returned a respectable 6.7%. Over the quarter, the major global sectors produced mixed returns. In a reversal from Q2, Oil & Gas was the worst performing sector relative to the All World index, underperforming by -7.4% as the price of crude oil fell, despite ongoing conflicts in the Middle East which failed to disrupt supplies. Healthcare was the best performing sector (+5.9% relative), with valuations boosted by ongoing M&A activity. Over 12 months the best performing sector was Technology (+14.5% relative), significantly ahead of the weakest sector, Basic Materials (-8.3% relative). Style variation over the quarter, as measured by MSCI global indices, saw Value stocks (-2.4%) underperform Growth stocks (+0.1%). Growth stocks have now significantly outperformed their Value counterparts over the past 12 months (14.0% vs 6.2%).

UK equities

UK Equities were subdued over the quarter, with the FTSE All Share Index delivering a negative absolute return of -1.0%. Firms of all sizes struggled, as large cap stocks (FTSE 100) returned -0.9% over the quarter, with FTSE 250 (mid cap stocks) returning -1.5% and Small Cap -0.8%. Over the 12 month period ending 30 September 2014, the FTSE 100 returned 6.1%, marginally outperforming the FTSE 250 (5.9%) while both lagged the FTSE Small Cap (6.6%). Growth stocks underperformed Value stocks by -0.6% over the quarter, but are ahead by 0.7% over 12 months. At a sector level, the strongest performers were Financials and Telecoms (+3.7% and+3.6% relative to the FTSE All Share respectively), while the weakest sector was Oil & Gas (-5.3% relative). Over 12 months, the strongest sector was Healthcare (+18.3% relative), while the weakest sector was Consumer Services (-7.4% relative). The best performing stock in the FTSE 100 index was the industrial equipment rental company Ashtead Group, which returned 21.6% relative to the All Share Index. Pharmaceutical company Shire built on their robust performance during Q2 to deliver another strong quarterly return of +18.0% relative to the All Share Index. Tesco was the worst performing stock over the quarter, delivering a relative performance of -33.8%, with the retail giant suffering a massive drop in profits due to the ongoing supermarket price war and an apparent £250m 'black-hole' in the company accounts.

Bonds

Bonds performed strongly over the quarter, with both gilts and corporate bonds posting positive returns. The All Stocks Gilts index returned 3.7%, outperforming UK investment grade credit (2.8%) to reverse the recent trend of corporate bond market dominance as investors' appetite for risk lessened. Index-linked gilts delivered the strongest returns over the period at 5.3% as real yields continued to fall. The spread of returns within UK corporate bonds increased over the quarter as investors became more risk averse, with AAA ratings producing robust returns of 5.4% and BBB-rated issues delivering more modest returns of 2.1%. Bonds have produced steady performance over the 12 months to 30 September 2014, delivering strong positive returns but lagging global equity performance (11.8%). UK Gilts rose 5.7% and Corporate Bonds gained 7.9%, whilst Index-Linked Gilts returned 8.8%. Overseas bonds returned 2.0% over the quarter in sterling terms, with a notable divergence in performance between the different regions. Eurozone government bonds delivered solid gains in local currency terms as the ECB cut rates, but Euro weakness against Sterling had a negative impact. US Treasuries on the other hand were broadly flat in Dollar terms, but would have been assisted by the Dollar's improvement against the Pound.

Property

The IPD Monthly index return (on directly held property) for Q3 was 4.7%, slightly behind the Q2 return of 5.1%. As in Q2, capital growth exceeded the income return over the quarter (capital growth 3.2%, income return 1.5%). Industrial property was the best performing sector over the quarter (5.6%) followed closely by Offices (5.4%), with Retail (3.9%) lagging behind once again. For pooled funds, the weighted average return (net of manager fees) for All Balanced Pooled Property Funds was 4.0%, with a distribution yield (after fees) of 2.6%.

Market Conditions (Ctd)

Active Manager Performance

Global equities

We monitor a constituency of 60 global equity managers, for which the median return over Q3 was -0.7% relative to benchmark. Unsurprisingly, there is a wide range (12.1%) between the performance of top (+5.0%) and bottom funds (-7.1%) over the quarter. Over the preceding 12 months, the median return was -1.1% relative to benchmark; while the interquartile range of outcomes was +0.7% to -2.1% relative to benchmark. The dispersion of returns between the strongest and weakest performing managers over the preceding year was 15.4% (8.0% vs -7.4%). Over the 3 year period ending 30 September 2014, the median return was +0.4% ahead of benchmark while the interquartile range was +1.5% p.a. to -0.9% p.a.

UK equities

Among 28 UK equity managers' funds we follow, the median return over the third quarter was +0.1% ahead of benchmark. Over the 12 months ending 30 September 2014 the median return was +1.1% relative to benchmark, and the interquartile range of outcomes was +2.2% to -1.5%. The dispersion of returns was wide (16.6%), with the strongest performing manager delivering +9.8% relative to benchmark while the weakest produced a relative return of -6.8%. Over 3 years, the median return was +2.0% p.a. relative to benchmark, while the interquartile range was +3.7% p.a. to +1.5% p.a.

Bonds

We record the performance of 75 bond managers' funds. Of these, 18 are benchmarked against gilts, 10 against index-linked gilts, 25 are benchmarked against corporate bonds, 12 are aggregate bond funds and 10 are absolute return bond funds benchmarked against cash. Any detailed comparisons are complicated by the varying investment objectives of the funds. For managers benchmarked against gilts, the scope to outperform is relatively constrained unless managers include off-benchmark corporate bond exposure in their portfolios. For managers of corporate bond funds, the median return over the year was +0.8% relative to benchmarks while the interquartile range was +1.0% to +0.5%. The strongest performing manager over the preceding 12 months to 30 September delivered a relative return of +2.3%, whilst the weakest manager underperformed by -0.9% over the period. For the managers benchmarked against the aggregate market, the median return over the 12 months was +0.9% relative to benchmark. The 12 managers we follow delivered relative returns in the range +2.4% to -0.1% over the preceding 12 months. Over the 3 years ending 30 September, the median relative return of the managers benchmarked against the broad market was +0.9% p.a. Over the same period, the strongest performing manager delivered relative returns of +2.7% p.a. while the weakest manager underperformed the market by -0.1%.

Manager Summary

Manager	Investment Style	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *				
Newton - Global Equity	Global Thematic	23 Jul 2007	MSCI AC World	Outperform by 2.5% p.a. over 3 and 5 years					●
Alliance Bernstein - UK Equity	Value	10 Jun 2005	FTSE All Share	Outperform by 2% p.a. over rolling 3 year periods		●			
BlackRock - UK Equity	Active	19 Jul 2007	FTSE All Share	Outperform by 2%					●
BlueCrest Hedge Fund	Credit	30 Sep 2012	3M LIBOR +5%	-					●
Legal & General - Multi Asset	Passive	31 Mar 2004	Composite	Track Benchmark					●
Pyrford - Absolute Return	Absolute Return	31 Aug 2012	3M LIBOR +5%	-				●	
Winton - Hedge Fund	Momentum	30 Sep 2012	3M LIBOR +5%	-					●
M&G Debt Opportunities Fund	Distressed Debt	30 Jun 2012	Absolute Return of 8% p.a.	Absolute Return of 15% p.a.					●
Schroders - Property	-	31 Mar 2001	IPD All Balanced Funds Wtd Ave	Outperform by 0.75% p.a. over rolling 3 year period				●	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.