Agenda Item 7

Suffolk County Council Pension Fund

Review of Investment Managers' Performance for the First Quarter of 2015

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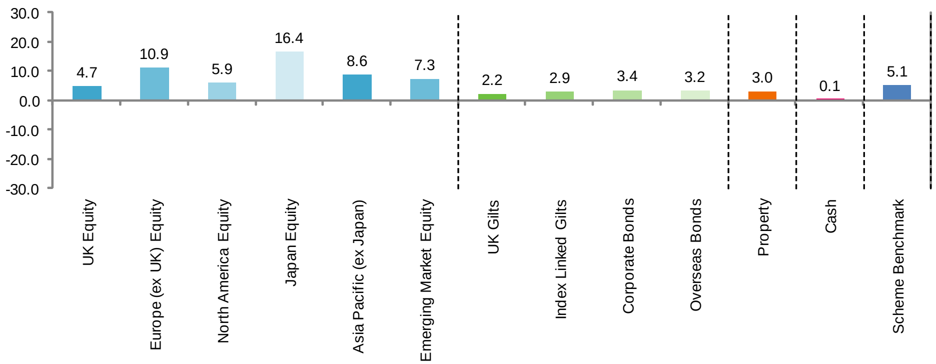
For and on behalf of Hymans Robertson LLP
May 2015

Contents

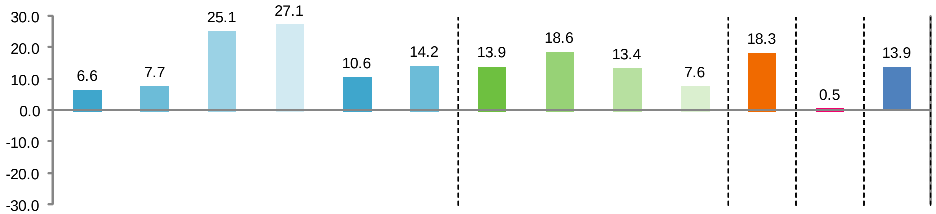
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile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

Historic Returns for World Markets to 31 March 2015

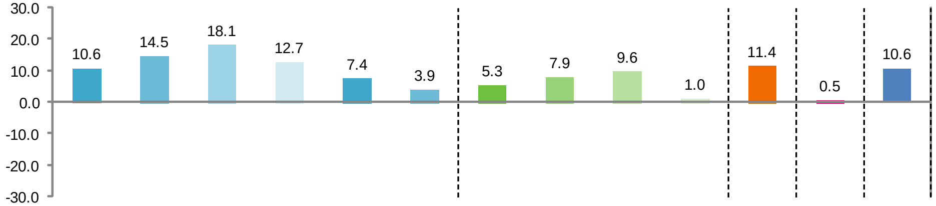
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Global equity and bond markets rose during the first quarter of 2015. A major support was lower inflation, which lessened investors' concerns about short-term interest rates being raised, at least in the immediate future.

Economic news was varied. Although the US has enjoyed higher economic growth than other major markets, news during the quarter was a little disappointing. Poor weather and the impact of the strong dollar were contributory factors. In contrast, data relating to the Eurozone indicated some improvement, albeit from a very low base. The European Central Bank launched a programme of quantitative easing in March. This will result in the purchase of up to €1.1tn of government and private debt over the next eighteen months.

In the UK, official estimates for economic growth in 2014 were revised from 2.6% to 2.8%, the highest rate since 2007, and estimates for 2015 remain strong. In February, the Governor of the Bank of England expressed the view that inflation could temporarily fall below zero because of falling oil prices.

A recurring theme throughout the quarter was when and by how much the US might start to 'normalise' short-term interest rates from the current record low. This difficult task has to be handled with extreme care in the US, and ultimately in other major financial centres.

Key events during the quarter included;

Global Economy

· Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
· UK inflation (CPI) fell to 0% in February (lowest since records started in 2008);
· Modest deflationary pressures persisted in the Eurozone throughout the quarter;
· The US Central Bank gave mixed signals over potential rises in short-term interest rates;
· Japan's economic growth remained subdued, after emerging from recession in late 2014;
· China set 2015 growth target at 7.0%, lower than that achieved (7.4%) in 2014.

Equities

· The strongest sectors relative to the FTSE All World Index were Health Care (+5.4%) and Consumer Services (+2.6%); the weakest were Utilities (-7.0%) and Oil & Gas (-5.4%);
· Corporate activity included $50bn merger of Heinz and Kraft Foods (US) and £10.3bn acquisition of O2 (UK) by Hutchison Whampoa of Hong Kong.

Bonds and currencies

· The Euro fell to 11 year low against US$, unsettled by Eurozone quantitative easing;
· German five year bonds sold at a negative yield, joining Denmark, Finland and Netherlands.

Asset Structure

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

Portfolio Value **£2,184,766,047**

Asset	Value £m	Quarter end %	Target %	Difference %
Equity	1,151.72	52.7	45.0	7.7
Bonds & Cash	401.39	18.4	20.0	-1.6
Alternatives	631.66	28.9	35.0	-6.1
Total	2,184.77	100.0	100.0	

Mandate	Manager	Value £m	Current %	Target %	Difference %
Equity					
UK	BlackRock	200.39	9.2	9.0	0.2
	L&G	157.47	7.2	6.0	1.2
Regional	L&G	247.85	11.3	9.0	2.3
Global	Newton	325.62	14.9	13.0	1.9
	L&G RAFI	220.39	10.1	8.0	2.1
Bonds					
Gilts	L&G	43.37	2.0	2.0	0.0
Corporate	L&G	263.45	12.1	13.0	-0.9
Index Linked	L&G	91.51	4.2	4.5	-0.3
Cash	Internal	3.06	0.1	0.5	-0.4
Alternative					
Private	Pantheon	57.82	2.6	4.0	-1.4
	Wilshire				
Targeted	Pyrford	126.61	5.8	6.0	-0.2
	BlueCrest	39.08	1.8	2.0	-0.2
	Winton	44.63	2.0	2.0	0.0
Emerging Mkt Debt	L&G	40.84	1.9	2.0	-0.1
Distressed Debt	M&G	38.78	1.8	2.0	-0.2
Infrastructure	KKR	36.81	1.7	2.5	-0.8
	Partners	9.57	0.4	2.5	-2.1
Timberland	Brookfield	7.15	0.3	2.0	-1.7
Property	Schroder	230.37	10.5	10.0	0.5
Total		2,184.77			

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).

The targets shown reflect the restructuring of the assets including the removal of Bernstein and the adjustment of the L&G mandate to include a RAFI equity allocation (which took place in January).

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

Performance Summary

Performance Summary [1] [i]

		Newton - Global 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	9.0	5.7	2.6	6.1	3.1	5.0	3.2	2.6	5.2
	Benchmark	7.5	4.7	1.4	6.3	1.4	1.4	1.9	2.8	5.1
	Relative	1.4	1.0	1.2	-0.2	1.6	3.5	1.2	-0.2	0.1
12 Months (%)	Absolute	20.4	9.4	7.5	17.2	7.5	20.1	9.8	17.4	14.7
	Benchmark	18.4	6.6	5.7	17.4	5.7	5.7	8.0	16.6	13.9
	Relative	1.7	2.7	1.7	-0.1	1.7	13.6	1.7	0.7	0.7
3 Years (% p.a.)	Absolute	16.6	12.3	5.0	11.2	5.2	11.1	10.1	10.4	11.0
	Benchmark	13.5	10.6	5.7	11.2	5.6	5.7	8.0	9.4	10.6
	Relative	2.7	1.5	-0.6	0.0	-0.4	5.2	2.0	0.9	0.4
5 Years (% p.a.)	Absolute	10.2	9.3	N/A	9.4	N/A	N/A	N/A	9.0	8.7
	Benchmark	9.5	8.3	N/A	9.4	N/A	N/A	N/A	8.5	8.8
	Relative	0.7	0.9	N/A	-0.1	N/A	N/A	N/A	0.5	-0.1

[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

Comment

The **Suffolk Fund** returned 5.2% over Q1 of 2015 which was ahead of its benchmark return of 5.1%. It is 0.7% ahead its benchmark over the last 12 months returning 14.7% versus a benchmark return of 13.9%.

Newton significantly outperformed their benchmark over Q1 of 2015 by 1.4%. They are 1.7% ahead of benchmark over 12 months. Stock selection in the Consumer Staples and Financials sectors boosted performance over the quarter.

Alliance Bernstein. Disinvestment was completed on 23 January 2015.

BlackRock outperformed their benchmark by 1.0% over Q1. Their portfolio is 2.7% ahead of benchmark over 12 months. Stock selection was positive.

BlueCrest returned 2.6% over Q1. Their diversified range of hedge fund strategies performed well over the quarter and last 12 months.

Pyrford returned 3.1% over Q1. Their defensive positioning has been detrimental over the last 12 months but Q1 has boosted their longer term performance.

Winton returned 5.0% over Q1. Their overall outperformance over 12 months has arisen due to their ability to tactically allocate to attractive parts of the market. Over the quarter, long exposure to European equities and bonds was beneficial.

Schroder's portfolio returned 2.6% (net of fees) over Q1. Their specialist funds in particular have added value, core and balanced funds have fared less well.

L&G performed in line with expectations.

M&G Debt Opportunities Fund has produced a positive absolute return and is ahead of its 8% p.a. absolute return target over the short and longer term. We have taken valuations and performance from the WM Report. M&G have informed us that an administrative error by State Street may lead to a small revision in numbers in Q2 reporting.

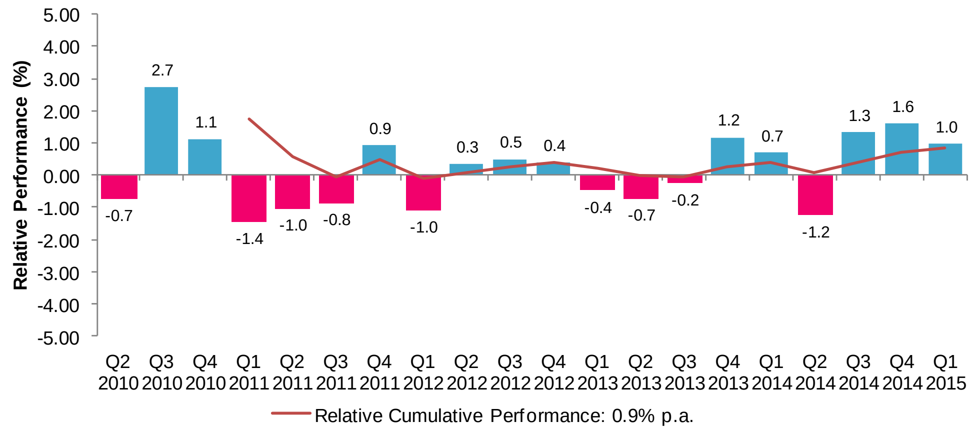
BlackRock - UK Equity

Recent News & Rating

We rate BlackRock's main UK Equity +2% strategy at '5 - Preferred strategy'. This remains a well resourced team despite the departures of portfolio managers Hugo Tudor and Simon Young. Core and Specialist teams have merged under the joint leadership of James Macpherson and Luke Chappell but there is still an element of performance dispersion between individual portfolio managers. Relatively concentrated portfolios are seeing a gradual shift from style neutral to moderate quality/growth bias. Active share is relatively low at c.60%.

In March 2015 BlackRock announced that Ralph Cox, leader of the Small and Mid Cap Equity team, had decided to leave the firm possibly to pursue a different career. Mike Prentis, Managing Director, has taken over Cox's role. Prentis joined BlackRock 10 years ago and has almost 30 years of industry experience. There has been a steady turnover of UK equity personnel at BlackRock over the past couple of years and while we regard this as less than ideal, this is a large team and remains well resourced so we are maintaining our positive rating at this time.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

Blackrock outperformed in the quarter and are significantly ahead of benchmark over 12 months. Essentra rallied on excellent results and a positive outlook for 2015. Prudential, Carnival and EasyJet also benefitted after delivering positive results, whilst Friends Life continued to rally as the synergies from the combination with Aviva became apparent. The main detractors included resources based companies Rio Tinto and BG Group, given commodity price weakness. Dixons Carphone lagged following the very strong rise in its share price last year, although operating trends remain positive. Not owning Tesco detracted from relative returns as the shares rose strongly on hopes that management changes can restore value.

BlackRock added theme park company Merlin Entertainment to the portfolio where growth is likely from new park openings and also a general upturn in consumer spending and lower energy prices. They sold out of some companies which have been sought by investors as a replacement for bond like investments (at a time when bond yields are so low). BlackRock believe some of these have become overvalued and sold out of Reckitt Benckiser, SAB miller and reduced their holding in British American Tobacco.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	5.7	9.4	12.3	9.3
Benchmark	4.7	6.6	10.6	8.3
Relative	1.0	2.7	1.5	0.9

3 Year Relative Return

Actual % p.a.	Target % p.a.
1.5	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

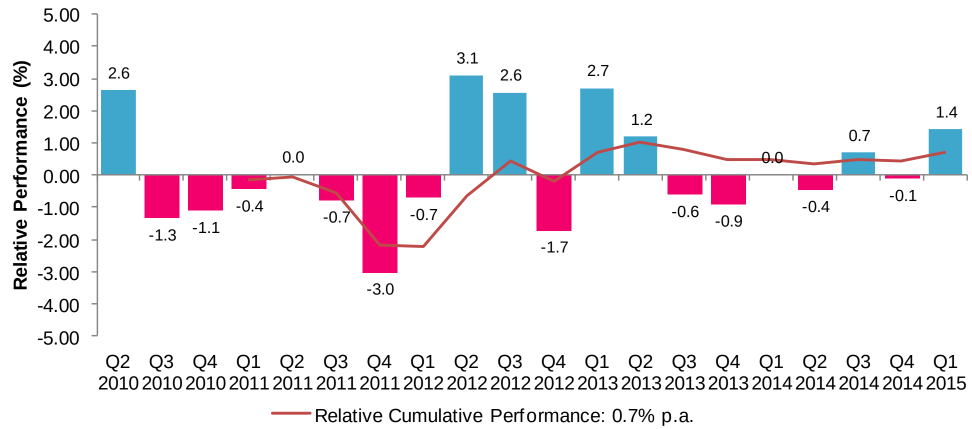
Newton - Global Equity - Summary

Recent News & Rating

We rate Newton's Global Equity strategy at '5 – Preferred manager'. Since Jeff Munroe took over as lead manager at the end of 2011, portfolio rationalisation, a subtle shift in emphasis towards stable growth businesses and a greater weight on analyst recommendations has been rewarded with a consistent improvement in performance.

During the period Newton announced that it was reducing the "typical" range of holdings on its Global Equity and Global Opportunities strategies to 60 – 90 (formerly 80 – 120) and 30 – 50 (formerly 40 – 60) respectively. In our view this simply reflects a change which has been steadily implemented since Jeff Munroe took over the lead portfolio manager role for the core Global Equity products in late 2011. We are comfortable with this change. There were no other relevant business issues reported over the period.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

Newton outperformed significantly over the quarter with a strong absolute return of 9.0% (benchmark 7.5%). Consumer staples stocks were the best performers particularly Kraft Foods and Japanese Tobacco. Japanese stocks in general were beneficial. Financial stocks also added to performance. Longer term performance is also well ahead of benchmark. Newton remain concerned by the high valuations of assets which they fear will not be matched by a sharp acceleration in profits - they believe that future returns are unlikely to be as high as in recent times.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	9.0	20.4	16.6	10.2
Benchmark	7.5	18.4	13.5	9.5
Relative	1.4	1.7	2.7	0.7

3 Year Relative Return

Actual % p.a.	Target % p.a.
2.7	2.5

3 Year Tracking Error

Actual % p.a.	Target % p.a.
3.1	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 changes to report over the quarter to end March 2015.

Relative Quarterly and Relative Cumulative Performance [i]

Comment

The Schroder property portfolio continued to produce a positive absolute return over the quarter (2.6%) although its return was marginally below the benchmark (2.8%). Underperformance relative to the benchmark came from Core and Balanced funds and in particular the managed pension funds whose assets saw less valuation movement than the market. The BlackRock UK property Fund which is one of the Fund's larger holdings underperformed – that fund's alternative non mainstream holdings have performed less well although Schroders expect that the BlackRock fund's investment in GP surgeries and student accommodation will support long term returns. Transaction costs associated with re-investing capital returned to the portfolio also held back returns.

As mentioned above, Schroders have been reallocating capital distributions from opportunistic funds into core funds including Threadneedle PUT and L&G Managed Pension Fund to allow capital to be deployed efficiently and positioning the portfolio for medium term as well as short term income and performance. Schroders' sector view remains unchanged. They have reduced central London office weighting and are looking to position the portfolio towards industrials and alternative property types. They are looking to increase regional exposure and have served a redemption in the Standard Life UK Shopping Centre Trust to reduce aggregate retail exposure.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.6	17.4	10.4	9.0
Benchmark	2.8	16.6	9.4	8.5
Relative	-0.2	0.7	0.9	0.5

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.9	0.75

3 Year Tracking Error

Actual % p.a.	Target % p.a.
0.9	-

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

Pyrford - Absolute Return

Recent News & Rating

Pyrford announced in April that Bruce Campbell, Investment Chairman, was retiring. Campbell founded Pyrford in 1987 and remained Chief Executive and Chief Investment Officer until December 2010. At that time he took up the role of Investment Chairman; a full-time position with overall responsibility for Pyrford's investment activities. Tony Cousins, who was co-CIO, assumed the roles of CEO and CIO. Cousins has over 20 years' tenure at the firm and industry experience of over 30 years and has been integral to the succession planning for Campbell's retirement.
Whilst we do not expect any significant impact on the strategy as a result of Campbell's retirement we took this opportunity to undertake a review of the strategy and our expectations of the manager's ability to achieve its return target going forward. We are generally supportive of Pyrford's relatively straightforward approach to absolute return multi-asset investing. The fund has produced a consistent absolute return since its inception and has been particularly successful in protecting capital during periods of market stress. However with low return expectations for equities and government bonds we are concerned that the fund will struggle to meet its target return and we are therefore downgrading the Global Absolute Return Strategy from 4 – "Retain" to 3 -"On-Watch".

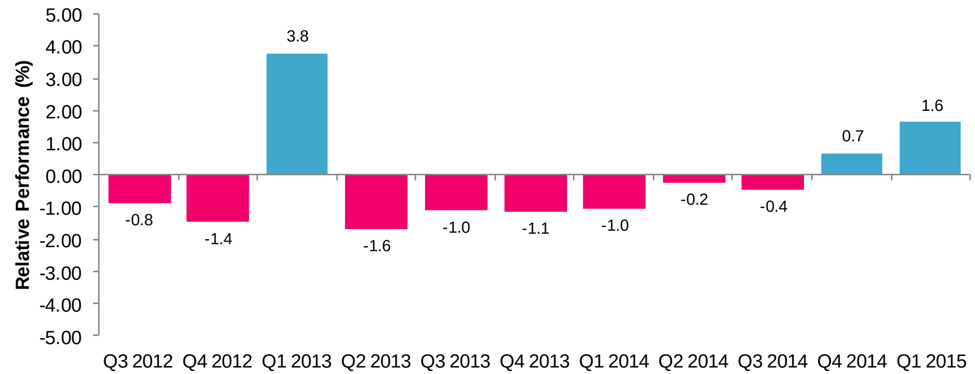
Comment

Pyrford posted a return of 3.1% during the first quarter of the year and has returned 7.5% over the past 12 months.

Strong equity returns drove performance during the first quarter. Exposure to overseas stocks was the main contributor, particularly in Europe and Japan where the markets benefitted from central bank easing. UK equities also enhanced returns, although to a lesser extent than the other regions. Security selection did not add value during the quarter as the fund's overseas holdings marginally underperformed the FTSE All World Ex-UK index while the UK equity holdings trailed the FTSE All Share index because of the manager's cautious approach.

Despite its large allocation to fixed income (67%), the fund has not fully participated in the bond rally over the past year because it only holds short dated government bonds which are not as sensitive to changes in interest rates. Therefore the fund's gilt holdings underperformed the FTSE All Stocks Gilt Index by a wide margin. The overseas bond holdings outperformed its benchmark because of the unhedged position in US Treasuries as the US dollar continued to appreciate.

Relative Quarterly and Relative Cumulative Performance [1]



Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	3.1	7.5	5.2
Benchmark	1.4	5.7	5.6
Relative	1.6	1.7	-0.4

* Inception date 31 Aug 2012.

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

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

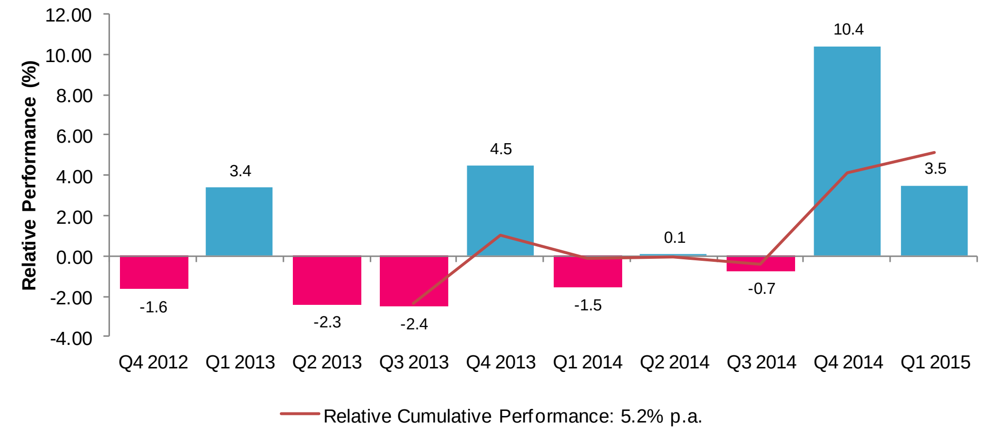
Winton - Futures Fund

Recent News & Rating

Winton continues to expand the organisation with a vision to become an institutional asset manager with a much broader offering than it flagship managed futures programme. The firm now has 400 employees globally, although most are based either in the Oxford research centre or in the firm's new London office. The long-only quantitative equity programme has begun gaining traction with now just over £1bn assets under management and the managed futures programme remains stable at £20bn. The firm continues to review capacity but at this stage does not believe this is an issue due to the depth of the markets and the instruments it uses to trade.

Following the departure of the firm's CEO in 2014, Tony Feitter-Lao, David Harding assumed his responsibility as CEO. At the time he was also Chairman of the board of directors. To improve governance and independent oversight Winton Capital recently appointed Sir David Walker as Chairman. Walker joins from the Chairman position at Barclays which he has held since 2012.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The fund posted a return of 5.0% over the first quarter and is up 20.1% over 12 months. Performance was driven by long exposure to European equities and bonds, which saw their prices keep trending higher as the European Central Bank began its quantitative easing programme. Being long German Bunds was particularly profitable as rates have continued to fall into negative territory for maturities up to eight years. The fund had a small short position in the Swiss Franc which detracted when the Swiss Franc rallied following the Swiss National Bank's decision to remove the link to the Euro, however this was more than offset by the gains made from long exposure to the US dollar against the Euro. The US dollar continued to appreciate because of the relatively strong US economy and expectations of the Federal Reserve being the first central bank to raise rates, while the Euro weakened because of slow economic growth in the region and the aforementioned monetary easing. Winton closed a small position in the Russian Rouble during the quarter because of concerns over liquidity and pricing transparency. Shorting oil was one of the key contributors to strong performance in 2014 and the position also enhanced returns in the beginning of 2015. Short exposure to copper hurt performance in March after its price increased due to reduced supply. This was because of labour protests at one of the world's largest copper mines in Chile.
The single cash equities strategy was slightly positive during the quarter. Energies, consumer discretionary and consumer staples had positive contributions at the sector level, while information technology stocks detracted from returns. The cash equities strategy takes long positions in single equities while shorting indices. In an attempt to increase precision in the strategy, the research team is now considering shorting single equities as it has become cheaper in recent years. This is still at the research stage and has not been implemented into fund yet.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	5.0	20.1	11.1
Benchmark	1.4	5.7	5.7
Relative	3.5	13.6	5.2

* Inception date 30 Sep 2012.

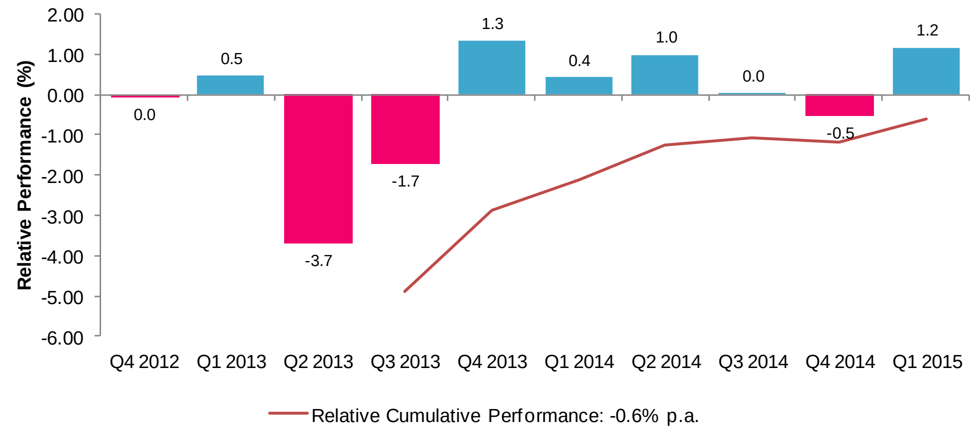
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

BlueCrest - AllBlue Mandate

Recent News & Rating

We rate BlueCrest a ‘5’ Preferred Manager. The AllBlue fund is a multi-strategy vehicle that invests in the BlueCrest fund range of both discretionary and systematic funds. It was created to provide a diversified absolute return fund with low correlation to traditional assets, since its inception in 2005 it has exhibited a correlation to equities of 0.1. Part of the philosophy behind BlueCrest is that building the firm on two distinct investment strategies should enable it to perform in all market conditions, and reduces concentration risk. Q1 saw BlueTrend spin-off into a new firm Systematica. At this stage BlueCrest continues to allocate to BlueTrend and the business is now sufficiently diversified that the impact of this organisational change is limited. There were no further significant changes over the quarter to 31st March 2015.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The fund generated a net return of 2.6% over the first quarter. Divergent central bank policies are creating trends in both interest rate markets and currency markets. These macro developments have provided many of the opportunities BlueCrest has captured over the past several months. Over the last quarter, one of the most significant detractors was currency but all other strategies contributed positively. The Emerging markets fund contributed a return of 1.1% with gains made both in sovereign credit in Asia and Latin America and also in FX. BlueTrend, like managed futures funds in general, had a strong start to the year. Fixed income and currency markets were the key contributors, notable trends were in Bunds and Eurodollars markets, as the ECB initiated their quantitative easing program during the quarter resulting in the Euro falling to a 12-year low against the US Dollar and fixed income yields generally fell ever lower.

On the downside, and related to currencies, BlueCrest Capital International (BCI), the flagship global macro fund, had a short position in the Swiss franc on which the impact at the fund level was approximately -5%. Performance of BCI detracted 1.0% from All Blue performance over the quarter.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	2.6	7.5	5.0
Benchmark	1.4	5.7	5.7
Relative	1.2	1.7	-0.6

* Inception date 30 Sep 2012.

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

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					●
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.