Suffolk County Council Pension Fund

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

Prepared By:

Matt Woodman - Senior Investment Consultant
David Millar - Senior Investment Analyst

For and on behalf of Hymans Robertson LLP
September 2015

Contents

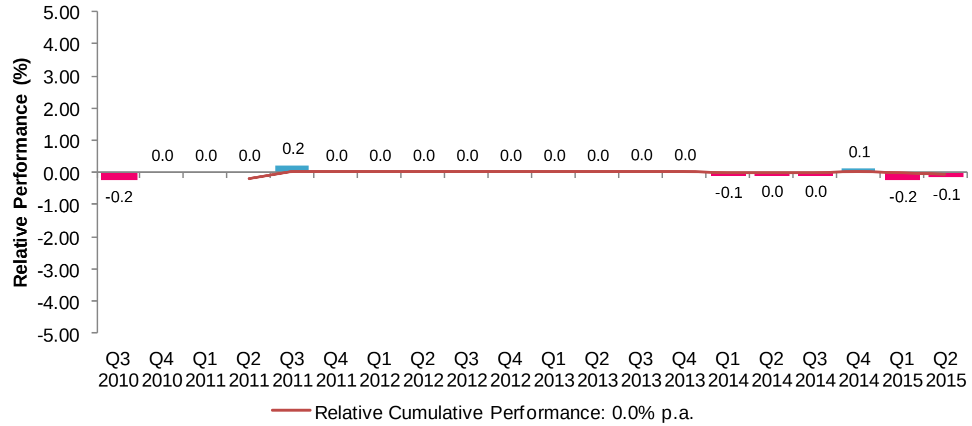
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile 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.

Legal & General (Passive Multi-Asset)

HR View Comment & Rating

In September LGIM announced that Chad Rakvin will succeed Ali Toutounchi as Global Head of Index Funds. Rakvin was recruited from Northern Trust in 2013 to lead LGIM's index funds expansion in the US. Rakvin will report to Head of Investments. Toutounchi will work through a handover period with Rakvin and will continue to be involved with LGIM in a strategic and advisory capacity. Julian Harding, Director of Index Fund Management in the UK is leaving LGIM and Colm O'Brien, who joined from Irish Life in 2012, will take over his responsibilities. Harding's departure is clearly a consequence of losing out to Ravkin to succeed Toutounchi. In our view Harding was a good manager who understood the UK market very well and his departure is an unfortunate consequence of these changes. Rakvin and O'Brien have plenty of relevant investment experience but have also had much less time at LGIM and less involvement with the UK market than the individuals they are replacing. Notwithstanding the incidence of change in senior personnel at LGIM, we see no reason to question the continuity of the business at this point and maintain our rating of LGIM's passive capability at '5' - Preferred manager.

Relative Quarterly and Relative Cumulative Performance [i]



Recent News Comment

Both the component funds and overall portfolio continue to track their benchmarks within the expected tolerances.

Performance Summary - Table

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-4.5	9.1	10.2	8.2
Benchmark	-4.4	9.3	10.3	8.2
Relative	-0.1	-0.2	-0.1	0.0

* Inception date 31 Mar 2004.

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

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 July BlackRock announced that Richard Plackett, co-manager of the of the high profile £1.4bn UK Special Situations retail fund, is to retire at the end of 2015 Luke Chappell will take on co-management of the Special Situations fund along with Roland Arnold who has been co-manager since 2012 and joined BlackRock in 2000. Chappell currently manages £3.1bn of largely institutional client assets across the Focus and '+2%' portfolios. There is inevitably some question over whether Chappell will be 'over-extended' by taking on 'front line' retail responsibilities. We are retaining our '5' – Preferred manager rating for BlackRock's UK equity capability but will meet the team within the next 2 - 3 months to make a more detailed assessment.

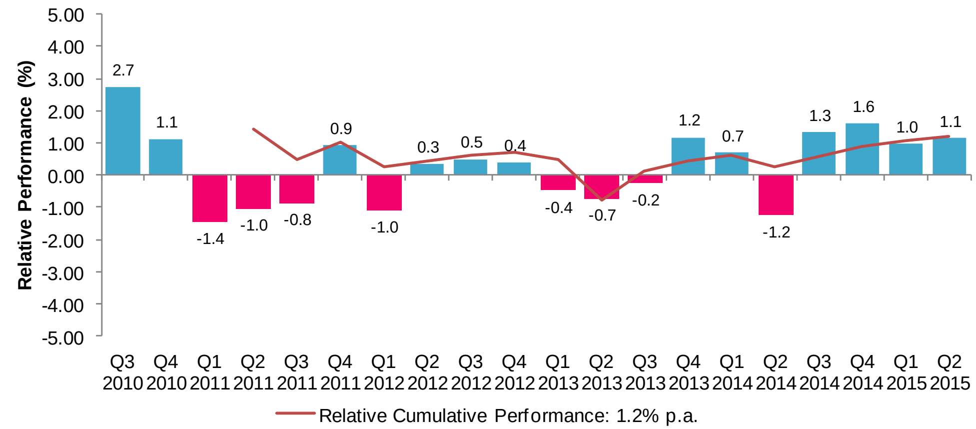
Comment

Although posting a modestly negative absolute return, the BlackRock UK Equity portfolio outperformed its benchmark over the quarter by 1.1%.

BlackRock's allocation to their Smaller Companies Fund was the biggest contributor to outperformance over the quarter as small companies outperformed the All Share Index significantly. The next biggest contributor to outperformance was the holding of BG where the share price appreciated as a result of the bid by Royal Dutch Shell. Retailer Next also contributed to outperformance as the company continued to perform strongly due to robust consumer spending in the UK and announced strong sales growth and a further special dividend in lieu of a share buyback. More generally, BlackRock saw good performance from companies with consistent earnings delivery and believes these types of companies will continue to do well whilst bond yields remain low.

Longer term performance remains strong, significantly ahead of benchmark (and target over 12 months) and close to target over 3 years. Although ahead of benchmark over 5 years, the outperformance over this period is below the 2% p.a. target but still positive net of fees.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-0.5	7.9	13.0	12.1
Benchmark	-1.6	2.6	11.0	10.7
Relative	1.1	5.1	1.8	1.2

3 Year Relative Return

Actual % p.a.	Target % p.a.
1.8	2.0

3 Year Tracking Error

Actual % p.a.	Target % p.a.
1.8	-

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

Newton - Global Equity

Recent News & Rating

In June Newton announced that its CIO, Simon Pryke, was leaving the firm. Pryke has been in the role for just over 3 years and has been involved in many of the recent organisational changes at the firm. The pace of these changes is expected to slow and Pryke apparently wants to continue in a more strategic / managerial role than Newton can now offer. There will be no direct CIO replacement. Instead Charles French (15 years at Newton) will assume a Head of Investment role, focusing on the successful functioning of the investment process; he will report to Chief Executive Officer, Helena Morrissey. Morrissey herself will move to sit within the investment team and take on more direct responsibility for people management. Although this was a surprise and seemed a little abrupt, we expect minimal direct impact at the portfolio management level (Pryke was not involved in managing portfolios).

In July Newton announced that portfolio manager, Raj Shant (12 years at Newton) will relinquish his Pan European portfolio management role in order to concentrate on global equities. Shant was already sitting in on global equity team meetings. In time Shant will be named as alternate manager on some portfolios. This will have no impact on Jeff Munroe's role as Head of Global Equities.

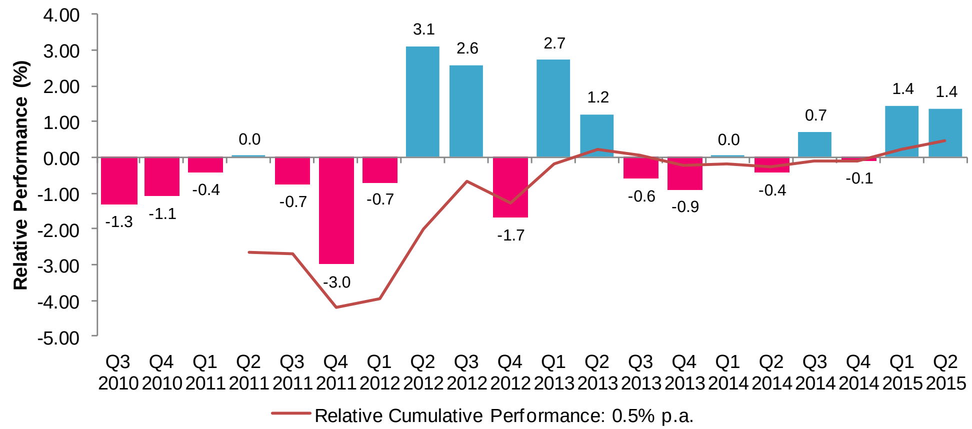
Comment

The Fund outperformed over the quarter (like the BlackRock UK equity fund, outperforming despite a negative absolute return). Stock selection within the consumer staples, consumer discretionary and information technology sectors was a key contributor to performance. The utilities sector contributed positively, owing largely to the position in Centrica.

Stock picking was the key driver of outperformance, Microsoft, in the information technology sector, posted stronger than expected results. Other strong performers were Japan Tobacco and Yum! Brands (owner of KFC, Pizza Hut, Taco Bell). Overall, stock selection added 1.4% to relative performance over the quarter (effectively the entire outperformance).

Newton remain cautious of an environment distorted by and manipulated by monetary authorities and continue to emphasise the importance of seeking out investments with structural tailwinds or haven qualities with robust cash flows and prices with margins of safety. They believe this well help immunise portfolios, to an extent, from potential market volatility.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-4.0	13.3	15.3	11.3
Benchmark	-5.3	9.5	12.9	10.8
Relative	1.4	3.5	2.1	0.5

3 Year Relative Return

Actual % p.a.	Target % p.a.
2.1	2.5

3 Year Tracking Error

Actual % p.a.	Target % p.a.
2.8	5-7

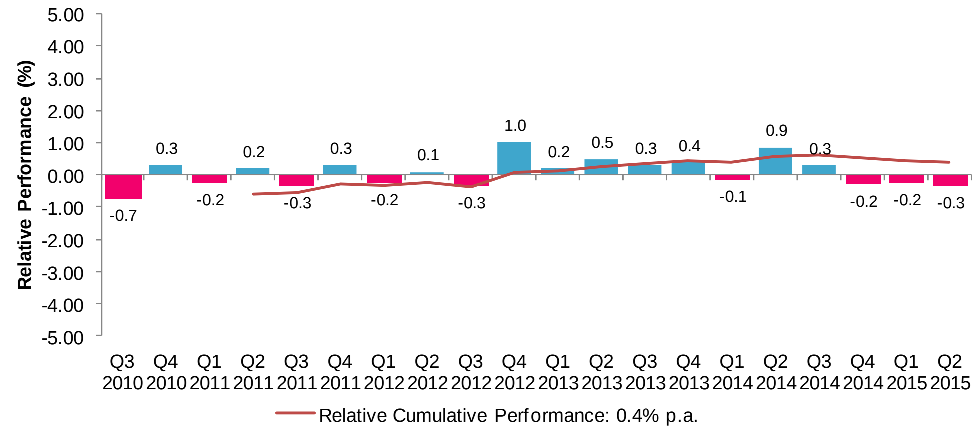
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder - Property Fund of Funds

Recent News & Rating

During the first half of 2015, Schroder undertook an internal review of its business and as a consequence, Jennifer Murray, a portfolio manager, left Schroder. On 25 August 2015, another portfolio manager, Tony Doherty resigned from the team to take up a position with LGIM. This was completely unexpected given the previous change and places a significant resource constraint on Schroder. In particular, Doherty's resignation leaves Graeme Rutter as the sole senior fund manager on the team and with significant additional portfolio management and client responsibilities in the short term. Coupled with a reduction in the level of intellectual challenge and monitoring that will inevitably ensue is a concern. Whilst Schroder will recruit to fill this gap and have some ability to draw on other internal resource, these changes will not be immediate. Given the increased risk that this change places on portfolios (although offset by the fund of funds nature of the portfolio), we are downgrading our rating of Schroder's indirect property management capabilities, to "3: On Watch". We will consider how Schroder address this resourcing issue before any further change to the rating is made.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The Schroder property portfolio continued to produce a positive absolute return over the quarter (3.0%) although its return was marginally below the benchmark (3.3%).

Underperformance was due in the main to the modestly negative impacts of core fund holdings and the cash held as value add holdings made a positive contribution. Similarly, over 12 months cash and core style holdings has had a diluting effect whist the value add holdings have added to relative performance. Longer term performance remains ahead of benchmark.

The redemption of the Standard Life UK Shopping Centre Trust and Henderson Central London Office Fund has been completed reducing the portfolio's overweight to shopping centres and central London offices in favour of more regional properties. All cash (5.2% of portfolio) held is fully committed and awaiting drawdown. Schroders expect property returns to remain strong over the rest of 2015 but moderating thereafter and their strategies reflect a need for medium term income and rental growth.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	3.0	15.0	11.4	8.9
Benchmark	3.3	15.5	10.6	8.5
Relative	-0.3	-0.5	0.8	0.4

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.8	0.75

3 Year Tracking Error

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

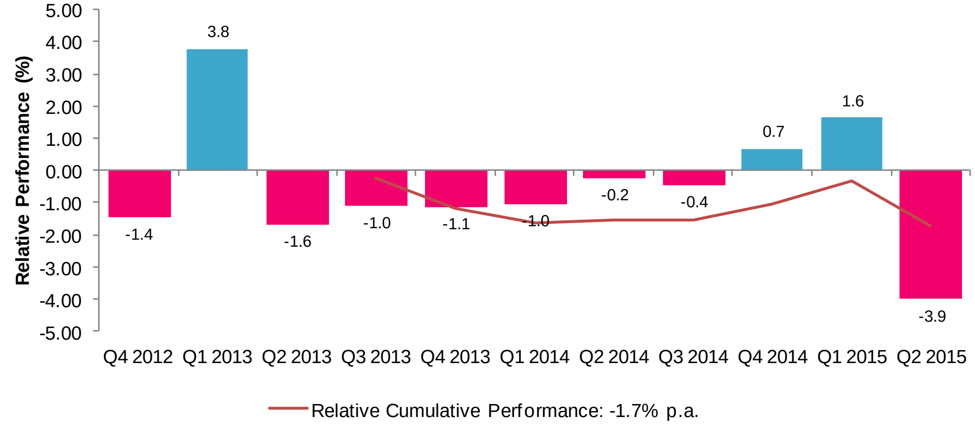
Source: [i] Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] DataStream, Fund Manager, Hymans Robertson

Pyrford - Absolute Return

Recent News & Rating

During the first quarter Pyrford announced the retirement of its founder and investment chairman Bruce Campbell. We do not expect a significant impact on the strategy as a result because since 2010, Campbell has had limited day to day involvement with the firm or the strategy and it is Tony Cousins (CEO nad CIO) that has been the key decision maker, with support from the other senior members of the investment team. We have not seen the investment philosophy or approach to investing change and we do not expect it to change 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, such as the financial crisis in 2008. However with low return expectations for equities and government bonds we are concerned that the fund will struggle to meet its target return of RPI +4% and we therefore believe it prudent to put the fund "On-Watch". We are monitoring the situation closely and recently met the manager for an update (more information detailed below).

Relative Quarterly and Relative Cumulative Performance [1]



Comment

Although Pyrford's underperformance appears large, it is relative to their target and they did provide some degree of protection in the recent market volatility. Pyrford are value investors and believe sticking to their investment style and philosophy is paramount. As such the portfolio has been very defensively positioned over the past few years (c60% in developed market government bonds) as their view was that equities were overvalued. The bond duration is low – around 2 years – to avoid interest rate risk. However Pyrford currently see the bond exposure as an alternative to cash that won't lose money but recognise they are not generating a return on this holding. Pyrford's view is that they will be able to protect capital and then put money to work (as they did in 2008) as equities begin to look cheap. The team have in place certain trigger points for increasing the equity exposure, the first being a 4.5% dividend yield and increasing from there.

It is commendable that Pyrford have 'stuck to their knitting' and the fund has produced a consistent absolute return since its inception; the manager has been particularly successful in protecting capital during periods of market stress, such as the financial crisis in 2008. It will be interesting to see how the fund holds up if this period of market volatility continues and we see further falls in equity markets. Given the current positioning the fund is likely to lose some money albeit not to the extent of broader markets. However it will be the team's ability to put that cash back to work in equities (as they did in 2008) that will enable them to get even close to achieving the target return. The fund remains 'On-watch'.

Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-2.6	3.5	3.8
Benchmark	1.4	5.7	5.6
Relative	-3.9	-2.1	-1.8

* Inception date 31 Aug 2012.

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

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

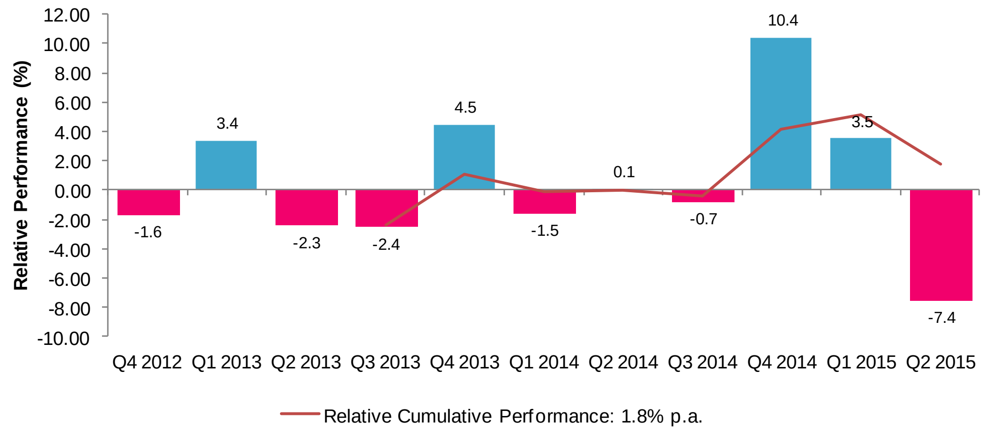
Winton - Futures Fund

Recent News & Rating

Rating				
Replace		On Watch		Retain ●

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.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The fund posted a return of -6.1% over the quarter.

In April, the downward trend in the price of oil reversed and gained nearly 5% over the month. This detracted from performance. In other commodities, there were mixed returns throughout the quarter. Heavy rains in the US Midwest hampered crop prospects, and some agricultural markets such as corn and wheat, saw prices spike up. This detracted from performance as the fund was short these markets going into the quarter. A positive contribution from commodities came from metals. The price of silver, copper, platinum and palladium all declined over the quarter and the strategy benefitted from short exposure to these markets.

The fund suffered from long net exposure to equities following the strong rallies experienced in these markets, particularly the US and Europe. However despite the uncertainty in Europe the Euro actually appreciated against the US dollar contributing to losses as the fund was short Euro long USD. Elsewhere in currency markets, a strong rally in Sterling following the majority conservative win at the elections in May did help offset some losses from short euro exposure.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-6.1	11.1	7.6
Benchmark	1.4	5.7	5.7
Relative	-7.4	5.1	1.8

* Inception date 30 Sep 2012.

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

BlueCrest - AllBlue Mandate

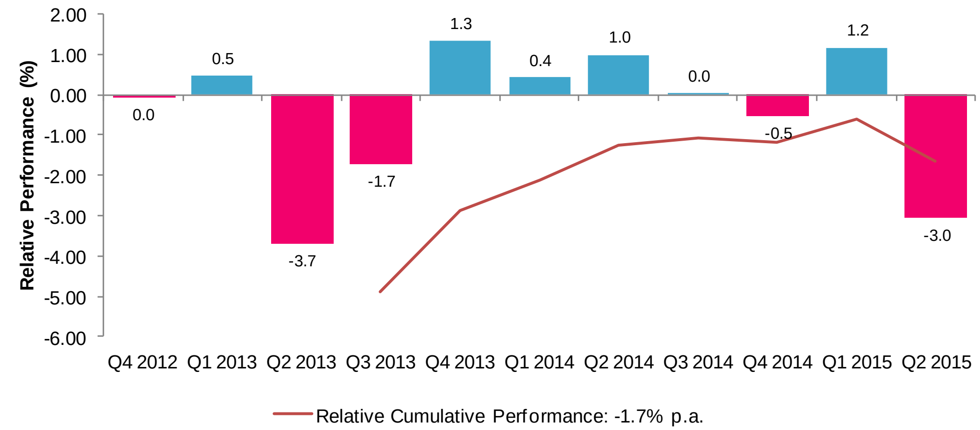
Recent News & Rating

Rating

Replace | On Watch | Retain

BlueCrest's Chief Risk Officer, Matthew Weir has resigned. Weir had set up the risk reporting and control infrastructure of the was part of the risk management group and a member of the All Blue Asset Allocation committee. It has been a challenging period for BlueCrest; the flagship fund has suffered significant net outflows. One of the primary measures of the collective risk has been the fund's 'allocation ratio' (essentially a measure of leverage). Generally the ratio has been less than 2 times capital to AUM. It is now 3.2 times capital. The fund is still managed to relatively low overall risk level and has high levels of cash such that the increase in leverage is not currently of significant concern. We do not view positively the departure of a key member of the management team, and particularly the Chief Risk Officer at a time which has been so challenging for the firm. Naturally there are concerns that internal issues concerning risk taking for the flagship fund contributed to his departure. BlueCrest deny this is the case and have sought to provide assurance that the strict risk controls and process that Weir was responsible for putting in place is being adhered to, and the recent increase in leverage does not breach any risk limits. We retain the highest rating for the investment, but will review the rating when we have considered the situation in more detail.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The fund generated a net return of -1.7% over the quarter. The key detractor from performance was BlueTrend which was down -13% over the second quarter. Following the recent strong performance from this fund the second quarter acts as a reminder as to the volatility of the strategy. Many of the strong trends across markets that had proved so profitable for the strategy up until the end of Q1 this year saw broad-based reversals. One of these trades over the past 12 months has been the falling oil price, with BlueTrend benefiting from sizeable short positions in energies, generally. In April this downward trend reversed and oil gained nearly 5% over the month. This detracted from performance. In other commodities, there was mixed returns throughout the quarter, shorting some agricultural markets detracted whilst short positions in metals helped performance. Market conditions in June were particularly challenging and the strategy saw losses across all four asset classes (equities, currencies, fixed income and commodities). In Europe, the backdrop of the Greek crisis and instability in the Eurozone was actually favourable for the BlueCrest Capital International fund which has a strong fixed income focus and actively trades, driven by macro views around central bank activities, their likely actions and market reactions that will impact the level of rates and the shape of the yield curve. This fund was up 3.6% in the second quarter.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-1.7	3.2	3.9
Benchmark	1.4	5.7	5.7
Relative	-3.0	-2.3	-1.7

* Inception date 30 Sep 2012.

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

M&G Alpha Opportunities

HR View Comment & Rating

M&G is rated "5 - preferred provider" for fixed income.

No significant changes to report since the decision to appoint M&G.

Recent News Comment

Performance data will be added once the mandate has a complete quarter of performance to report.

BlackRock Fixed Interest Global Opportunities

HR View Comment & Rating

The BlackRock Fixed Interest Global Opportunities fund is rated "5 - preferred provider".

No significant changes to report since the decision to appoint BlackRock for this mandate.

Recent News Comment

Performance data will be added once the mandate has a complete quarter of performance to report.