Suffolk Pension Scheme
Manager meetings London: 2nd November 2015

This report covers the face-to-face fund manager meetings held with seven of the managers employed by the Suffolk Pension Fund, with BlueCrest Capital Management acting as hosts on this occasion. The seven managers presented on nine separate mandates. The meetings covered the difficult and volatile third quarter of 2015 and the outlook for the year ahead.

Overall the third quarter of 2015 was a very difficult time for markets, although the majority of our active managers once again delivered performance ahead of benchmark, the returns were still negative in absolute terms. As was the case in Q2 2015 the outlook remains a volatile one with attention increasingly focused on the Chinese economic slowdown and the knock-on affects now being felt across many economies and investment markets.

The timing of the expected US interest rate rise remains foremost in many investor's minds, however in a change to the sentiment from the early summer the continued delays in the move are now becoming the source of concern in itself. Despite these concerns, as mentioned in the last report, the divergence being seen in central bank policy is creating opportunities for active managers to deliver outperformance.

Additionally, the sell off in credits seen during Q3 has opened up opportunities for our credit mangers to utilise some of their "dry powder" defensive holdings and begin to pickup over sold bonds.

The meeting coincided with the approximate three year anniversary of three strategies that have formed the bedrock of the Suffolk Pension Scheme non property 'alternatives' portfolio. The mangers; Pyrford, Winton and BlueCrest all presented. The three managers between them manage over £200m in assets for the Suffolk scheme with Pyrford accounting for approximately 60% of this figure and the other two managers with approximately 20% each. In very broad terms and with acknowledgment to the different strategies and levels of risk being taken, Winton have had the best time with an 8.2% annualised return, BlueCrest have returned 4.17% annualised and Pyrford have achieved a 3.39% return. Please see below for more details on each of the mandates.

Blackrock: Active UK equity mandate (blended style growth orientation)

James Edwards (strategist, FIGO) and Fred Wood (client director) presented the equities report from Blackrock. Simon Betteley our usual client contact was not available on this occasion. Fred started the presentation with a quick run through of the main market drivers of the third quarter. These were dominated by concerns over slowing economic growth in China and the affect this slowdown was having not only on other emerging market and Pacific Rim economies, but on the earnings outlook for

companies in developed markets selling into China either directly of indirectly down the supply chain. The severe weakness in many commodity markets including oil, continued to weaken many emerging market economies and currencies. The continued uncertainty about the timing of the inventible US rate rise was also highlighted and noted as a contributor to some of the market uncertainty seen in recent months. It was also noted that the outlook for any upward path in interest rates is looking increasingly benign and gradual for both the US and the UK.

James provided detail on the main contributors to performance over the quarter. In terms of stocks held, Carnival the cruise ship operator performed well, benefiting from lower oil prices. The portfolio also benefited from strong returns from defensive companies like BAT and Next, who continue to generate high levels of free cash flow. However, the largest relative positive for the portfolio over the quarter was a zero holding in mining company Glencore. The stock fell 63% over the quarter and had an average index weight of almost 1%. Being underweight in resources stock, has been a major contributor to relative performance for the past year but was described as a "crowded trade" by James. I took this to mean that most of the selling had taken place and in the absence of further bad news it might be time to reduce the underweight position.

In terms of performance Blackrock continue to deliver very credible relative returns. Over the difficult Q3 period the portfolio returned -4.3% against an index down -5.7%, this has given Blackrock a positive absolute return over the last 12months of 2.8% which is a relative return of 5.1% against a broader market which fell -2.3% over the same period. This very strong period of relative returns for the portfolio has fed through into the longer term, with Blackrock now 2.3% p.a. ahead over three years and 2.7% ahead of benchmark since inception. As mentioned in previous reports the changes Blackrock made to the team and process a few years ago, still seem to be paying off in terms of performance, long may this last!

Blackrock: Fixed Interest (Global absolute return)

James Edwards who works as a strategist in the Fixed Income Global Opportunities fund (FIGO) began the presentation with a quick recap on the way the risk budget of the portfolio is allocated and emphasised both the unconstrained (by benchmark) approach and the very diversified nature of the portfolio.

The fund does not typically take on interest rate risk in the way a benchmark relative bond portfolio would normally be expected to do. The FIGO fund can run with duration (that is sensitivity to interest rates) from 7 to -2 years and currently sits close to zero. The FIGO portfolio has a lower risk than the Barclays Global Aggregate index but has a slightly higher yield. This is achieved by investing in a more diversified selection of credits and non-traditional fixed income instruments often employed for hedging purposes.

As this was only the second meeting with this new strategy James went through once again how the process for investment is carried out. There were also a number of slides examining how the portfolio is currently positioned in terms of geographic,

credit spread, exposure to currencies and how the duration of the portfolio is formed, including various long and short positions along the yield curve.

The rest of the meeting covered recent performance which is not particularly relevant for Suffolk as this is such a new investment. However, over the last month the fund was down about 0.5% and over the last quarter was down about 1%. The team are adding some emerging market currency risk to the portfolio as they expect a relief rally in this area as and when the Federal Reserve finally act and raise rates. Europe is another area of interest for the team particularly in the deleveraging banking sector.

Overall this was an informative meeting on a strategy that has many moving parts and it will be interesting to see how the various strategies play out over the medium term and in particular how these perform against a more traditional long only bond management style.

M&G Investments: Alpha Opportunities Fund (active credit)

This was the second meeting with M&G since the allocation of £175m into their global credit fund. We were also due an update on investments in M&G Distressed Opportunities funds I and II. This resulted in M&G arriving in numbers. Andrew Swan and Maria Stott from the client side. Richard Ryan (senior credit fund manager) covered the Alpha opportunities fund. The restructuring team reporting on DOF I and II were Andrew Amos (deputy fund manager, restructuring) and Andy Bishop (restructuring). The meeting was split into two with the team covering the Alpha opportunities fund presenting first.

Maria started by reiterating the objectives of the fund, which is to deliver performance via exposure to credit premium whilst minimising exposure to interest rate risk. The overall performance target is to beat LIBOR by 3-5% p.a. Andrew explained that although the portfolio is not taking interest rate risk it is exposed to shocks in the market that affect risk tolerance. For example, Chinese growth shocks. In fact since the first investment into this fund by Suffolk Pension scheme there had been a number of market shocks and the portfolio has had a negative return.

Much like Blackrock (FIGO), the period since first investment has been too short to gain any meaningful information. Contained in the report was the since inception figures showing the fund down 1.31%, a number of other indices were shown, both European and Sterling based, which were down between 2% and 4.4%. This illustrated the difficult time credits have had over the last few months. The M&G fund has been defensively positioned and with no interest rate risk and has therefore not fallen as much as the indices.

The balance of the meeting was spent going through a number of the recent shocks to markets, including the sell off in Glencore and how M&G have closely monitored credits that have been sold off in panic over the summer. These conditions have allowed stock picking managers like M&G to pick up yields in bonds disproportionate to the actual risks being run. Examples of RWE and Casino Guichard were covered in some detail with the help of slides showing the changing yields over the summer and

early Autumn. There was some very helpful detail on how certain credits would behave in the case of a credit downgrade and how coupon re-sets can provide good protection to investors who have a solid understanding of the underlying balance sheet health of a company in a panicking market.

The recent nervousness has allowed M&G to deploy a significant amount of the defensive assets that had been held for just such market conditions. The amount of defensive assets held in the portfolio fell from almost 20% to just 8.6% over the quarter. This seems to be M&G operating in just the way we would expect and assuming their stock picking skills hold up then performance should begin to pick up as markets stabilise.

There was a slight switch in personnel and the managers from the DOF team replaced Richard Ryan. The second presentation started with a very brief re cap on DOF I which is fully invested and should deliver more than its 15% IRR target as it begins its formal run down from next June. 17% of the investment has already been returned and there is some expectation for a further distribution back to Suffolk over the next six months, thereafter the fund will go into scheduled liquidation. The remaining eight investments are stable and on track to deliver the expected returns. All have undergone the required restructuring.

DOF II is now 72% drawn and will continue this process until June 2016, currently it has made 14 investments across 10 sectors in 7 countries. Performance is not really meaningful at this stage for a fund of this type but the report did included a since inception return of 6.83% net of fees. In the slide pack was a useful time line of how investors should expect this type of fund to evolve. In years 0-2, the fund makes initial investments, drawing down investors' capital as assets are purchased (this is the current DOF II position). In years 0-4, proceeds from the assets that have been exited and or dividends/coupons will be reinvested (occasionally partly returned as we saw in DOF I). In years 4-5 (with an option to extend to 7 years) proceeds from assets that have been exited and any coupons/dividends will be distributed to investors.

Overall another useful update from the M&G DOF team and so far the process seems to be on track. I have to say that no one can accuse M&G of not putting the resources into presenting to us, this was a large contingent with the right specialists and I think the information that came across was all the clearer for this.

Newton: actively managed global equity

With David Moylett (client director) unavailable on this occasion, it was Paul Markham (fund manager) presenting the Q3 report from Newton. At the last meeting with Newton we discussed to market concerns about slowing Chinese growth and the timing of US rate rises. These concerns that drove the summer volatility were an even stronger negative over Q3. It was a quarter that generated extreme divergence in sector returns with best performing sectors Consumer Staples and Utilities up around 2%, whilst the worst performing sectors Energy and Materials fell over 15% and 16% respectively. Given the announcement of some disappointing jobs and GDP data in the US it is now the Newton view that it would be an error for the US Federal reserve to

raise rates now. In concluding the round up of the investment landscape Paul reiterated the view that Emerging market fundamentals remain poor, impacted as they are by falling commodity prices, currency weakness and a slowing China.

Performance for the quarter was negative -4.1% compared to a benchmark of -6%. This relative outperformance continues a very good period of relative returns for Newton who have benefitted from taking a fairly defensive approach during a period of market nervousness. Over one year, the portfolio has returned 5.1% against a flat benchmark. Over three years, Newton are now 2.25% p.a. ahead of the benchmark which is within touching distance of the investment objective of 2.5% p.a. over a rolling three years. This very credible three-year performance has fed into the longer term numbers where the portfolio is now 1% p.a. ahead since inception in 2007.

The rest of the meeting was concerned with a number of stock examples, with Paul spending time to explain the main positive and negative stock contributions over Q3. Highlights on the positive side included Google that is delivering on a number of fronts beyond search, with YouTube going from strength to strength and the increasing screen size of smart phones allowing for a better platform for advertisements. The tobacco company Altria was very strong over the quarter and remains highly cash generative.

On the negative side, two holdings that detracted from performance over the quarter were Trip Advisor where there was some concerns over cash generation and Trimble Navigation (3D surveying & agricultural automation), where prior to results the stock underperformed on concerns over exposure to a weakening agricultural sector. However, both companies rebounded after the quarter end on stronger than expected results and in the case of Trip Advisor, the announcement of a strategic partnership with on-line hotel bookings.

The presentation concluded with a number of slides linking Newton's investment themes to specific stocks in the portfolio and in particular how the data revolution is impacting the positions in the portfolio. Overall another positive meeting albeit within the context of difficult and nervous Global markets.

Winton: Systematic Hedge Fund

Jonathan Anayi (Head of UK clients) presented the Winton report. It was Jonathan who gave us the interesting training session on quantitative techniques during September training day. This was a fairly short and straightforward presentation focusing on the recent performance. The report itself is a standard one, that I would imagine all clients in the Winton Futures fund get to see. It does contain a lot of detail about these methods used by Winton the portfolio construction methodology and some of the areas of active research. However, as these do not change very often most of the meeting will be spent going though the performance of the strategies that have either contributed or detracted from this performance.

The fund made 3.83% over the third quarter. Long positions in short term interest rates and short positions in gas and WTI oil futures were also positive performance

drivers over the quarter. Detractors included being long in US $ and long equity indices. A separate equity strategy, that of individual cash-equity market neutral positions made good returns over the quarter. Over the period, the largest portion of the 'risk budget' was utilised on rates and energy positions which both proved profitable. Although Winton did enjoy a good quarter it was volatile, with the fund down over 4% in August before bouncing back again in September.

Jonathan updated us that October had been a difficult month where the fund had lost 2%. This has left the whole strategy flat for 2015 YTD. With all the volatility and nervousness in markets it might be tricky for Winton's trend following models to make much progress. Jonathan produced a slide showing how low the correlation is between the Winton fund and various Equity and Bond indices. As Suffolk hold this type of investment for the purposes of diversification away from bond and equity returns this is good to see. It is disappointing that so far 2015 has delivered a zero return, however as previously mentioned they have delivered the best cumulative performance over the last three years.

BlueCrest: Multi Strategy Hedge Fund

Host BlueCrest, were represented by Stephen William (consultant relations) and by Simon Dannatt (member of the allocation team) who has presented before. The first part of the meeting was taken up by a complete run though of the changes that have occurred within BlueCrest over the last year. These include the spin-off of the Blue Trend strategy into a separate company called Systematica (this has been covered in previous reports in some detail). However, Stephen covered a number of additional changes to BlueCrest and the AllBlue product that were new. There has been a change of personnel in the important role of Chief Risk Officer. Matthew Weir who had been in the role for six years has stepped down and been replaced by James Dean who has been with BlueCrest for ten years, most recently in the role of Deputy CRO.

There have been two changes to the fees charged to AllBlue by the sub funds it invests in. BlueCrest Mercantile (trade credits) is reducing its fee from 2% to 1.5% (good). BlueCrest Capital International (global macro) is now accessed via a different share class with a 1% management fee compared to the previous 2% (very good). However, this new share class has a 25% performance fee compared to the previous 20% (not good).

The final change covered at the meeting was a switch to the 2x leveraged share class in the BlueTrend fund (run by Systematica). This was explained as a capital efficiency move, with only half the previous level of cash now being used to gain the same market exposure (interesting but volatile) which we were informed allows for increased expose to other sub funds.

The rest of the meeting concerned performance and changes to the allocations within AllBlue. Year to date AllBlue has returned 2.76%, with April and June both negative by more than 1%. The product has returned an annualised return of 4.17% net of fees since initial investment in October 2012. In terms of sub strategy, five were positive year to date, with equity strategies (cash equity trading) and multi-strategy credit the

strongest and capital international the largest detractor, largely because of sharp losses during April when the strategy was short in Swiss Franc at the time it spiked higher due to the removal of the peg to the €. Quantitative strategies, the equity market neutral fund has got off to a negative start after been carved out of BlueMatrix, which continues to be run by the team at Systematica.

In terms of the allocation changes this year, the largest were capital international moving from 16% to 21% and Equity Strategies moving from 10% to 17%. The cash allocation to BlueTrend appears to have reduced and is now at 5%. However, as mentioned above this is now a geared share class and so the exposure and volatility of the holding is in fact larger than previously held. The offsetting reductions are spread between credit, quantitative equity and mercantile.

Overall, it seems there is a feeling of constant change at BlueCrest, some of it quite major, others changes less so, however this is a strategy that charges high fees and has delivered a fraction over 4% since inception, which although in these difficult markets is not a major cause of concern, there is nothing here to get too excited about and the constant changes just flag up some concerns about future direction.

Pyrford: Absolute return fund using traditional equities and bonds

Pyrford were represented by Felim Glynn (client contact) who was joined on this occasion by Daniel McDonagh (head of portfolio management- Europe & UK). As this meeting marked the three year anniversary of Pyrford managing money on behalf of the Suffolk Pension Fund, Felim started by reiterating what the portfolio aimed to do. The key for Pyrford is not to lose money regardless of market conditions, the portfolio is constructed to beat inflation but with low volatility. The target of beating RPI by 5% p.a. has not been met, although Pyrford have beaten inflation. Since inception, the portfolio had returned 3.39% against a benchmark of 7.31%. Over the last year the returns are 2.28% against 5.94% for the benchmark.

As we had not met with Pyrford at the last meeting, Q2 was briefly covered. June was the worst month that the Pyrford fund had experienced since its inception in 1994. With bonds falling and both equities and the dollar also weakening. Even the more defensive holdings such as utilities suffered over concerns about high levels of debt. The portfolio lost 2.6% over the quarter, the majority of the fall being in June. Felim mentioned that 1.6% of this loss was from currency where Pyrford do not routinely hedge out risk.

Moving onto Q3, the portfolio has weathered the stormy markets reasonably well with a return of -0.19%, which although behind the RPI + 5% benchmark does look credible when viewed against a global equity index down almost 6%. It was the bond component of the portfolio that held up well over the quarter with both UK and Overseas bonds showing positive returns. The defensive nature of the UK equity portfolio generated flat returns against a falling market. Overseas equities faired less well, actually underperforming the wider market with a fall of -6.79%. In terms of individual contributions over the quarter, the bounce back in National Grid after a poor Q2 helped, as did the US Treasury bond that benefitted from renewed dollar

strength. Unsurprisingly BP was the single worst contributor to returns falling as the oil price remains weak. Daniel mentioned that the BP dividend is now the main area of concern. The company appears willing to maintain the current payment level but with low oil prices this might only be possible for eighteen months. There have been no significant (or any?) changes to the portfolio over the last six-month and no changes to the bearish view of both equities and bonds which has remained consistent over the three years of the Pyrford relationship.

Brookfield : Timberlands Fund V (timber investment)

The shortest meeting of the day was with Julian Schiller (client director) from Brookfield. When we last met with Brookfield we were into the third year of the commitment period and they had only made one investment, the option to extend this investment period had been taken and a number of opportunities were being actively pursued in the US, Australia and Latin America. Unfortunately the changes to the timber market that were explored at the last meeting have proved even more profound than expected and none of these opportunities materialised into investments. Put simply, the large amount of institutional money that is now chasing these projects has driven returns down to such an extent that using the Brookfield teams' assumptions, the available rates of return range from less than 3% to negative over the life of the project.

The team are still evaluating two opportunities in Brazil and New Zealand, but no additional calls are expected during 2015 and the chances of these deals being landed did not appear particularly high. Given this state of affairs and with no likelihood of a significant change in the environment, the team have decided not to seek any further extension to the investment period and will not be seeking any further capital. This decision leaves Suffolk with only $9.3m of its $47 commitment invested. This single investment in Florestas Sustentaveis, Brazil appears to being doing well and is predicted to deliver a 6% yield, the fund has a ten year life from the investment close with a opportunity of two one year extensions.

It is frustrating to have waited this long only to end up with a sub scale exposure, it is also frustrating to have met with Brookfield a year ago and been given positive feedback on the many prospects they hoped to land only for each one to disappear. It could also be an issue that Brookfield misread the market early in the investment period and held back in order to find better opportunities only to find the market become even more competitive as time moved on. None of this changes the fact that the committee will now need to decide how to allocate the residual funds.

Mark Stevens

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