

# Suffolk County Council Pension Fund

Review of Investment Managers' Performance for the Second Quarter of 2016



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For and on behalf of Hymans Robertson LLP  
September 2016

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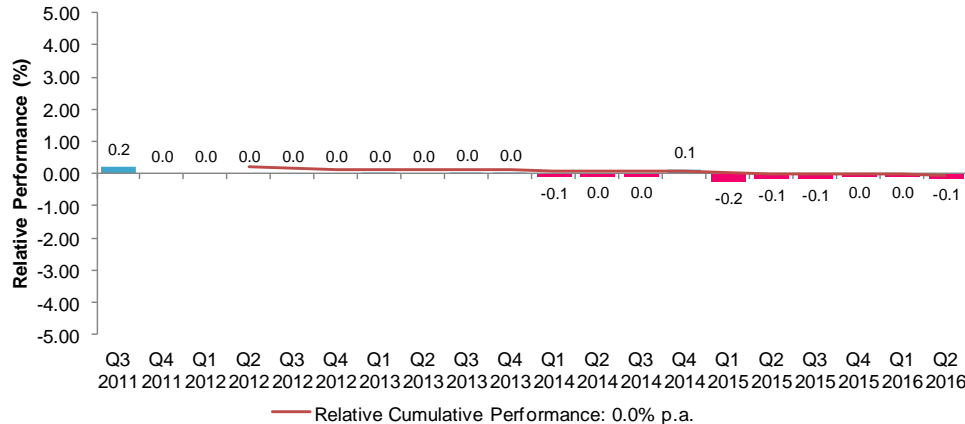
# Legal & General (Passive Multi-Asset)

## HR View Comment & Rating



There have been no significant changes affecting the management of the Fund's assets and we continue to rate L&G as one of the top passive managers in the market.

## 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

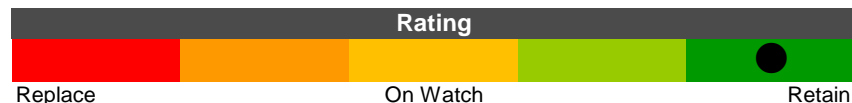
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	6.7	7.6	8.6	8.2
Benchmark	6.8	7.8	8.7	8.2
Relative	-0.1	-0.2	-0.2	0.0

\* Inception date 31 Mar 2004.



## BlackRock - UK Equity

### Recent News & Rating



In May 2016 BlackRock announced that long term Co-Head of UK Equities, James Macpherson, would be stepping up to a Deputy CIO role with Luke Chappell taking sole charge of the UK Equity team. Macpherson will complete the handover of his UK equity portfolio manager responsibilities (largely to Imran Sattar and Nick McLeod-Clarke) by end 2016. There have been a series of changes to the BlackRock UK equity team over the last 2 -3 years partly as the team adjusts to a smaller asset base in line with industry trends. We are comfortable that the team can absorb this transitional change and we are very confident of the abilities of Luke Chappell as a portfolio and team manager; Sattar and MacLeod-Clarke are also experienced, long term team members.

Separately, in July 2016, the manager announced that Lucy Marmion, a portfolio manager in the BlackRock UK Smaller Companies team was leaving the firm (this has an indirect effect on the Suffolk portfolio which holds c.6% in the BlackRock Smaller Companies fund which is managed by the team). Roland Arnold an experienced colleague and long term team member will take on most of her responsibilities.

We are maintaining our rating on BlackRock's UK equity capability at '5' – Preferred manager.

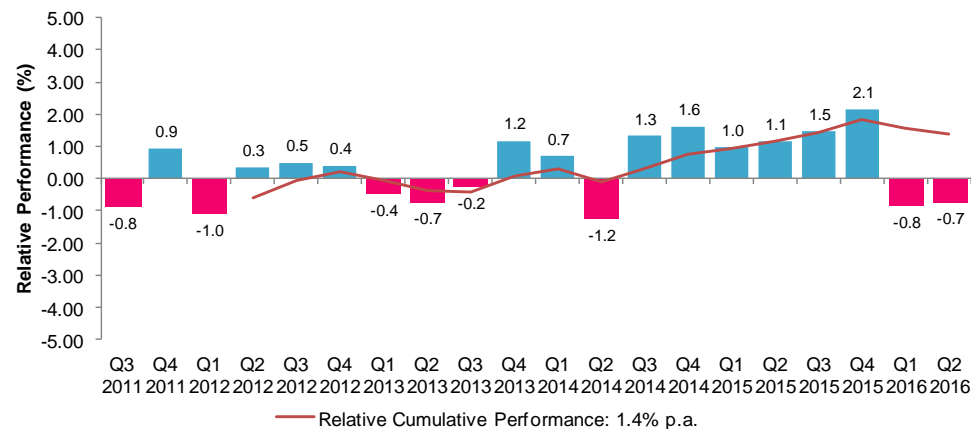
### Comment

Although the BlackRock portfolio underperformed modestly for the second consecutive quarter the fund remains significantly ahead of benchmark over 12 months and the longer term. The impact of the EU referendum had a modest effect on relative performance. BlackRock felt they had no information advantage to predict the result and had deliberately positioned the portfolio to withstand either result with only a modest position expecting a "Remain" result. In the end, the result led to outperformance from holdings with a bias to overseas earnings and underperformance from domestically orientated holdings.

Main detractors were banks Lloyds and Virgin Money whose shares fell sharply given the potential risk facing the UK economy. Other detractors also had exposure to the domestic economy and included Hays, Merlin and Bellway.

BlackRock believe there is a huge level of political and economic uncertainty and emphasise the need to maintain focus on businesses with clear competitive advantages. They also recognise that as managers they need to be nimble enough to adjust or change positions quickly, mindful of what was learned from the financial crisis of 2008/9.

### Relative Quarterly and Relative Cumulative Performance <sup>[i]</sup>



### Performance Summary - Table <sup>[ii]</sup>

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
<b>Fund</b>	4.0	4.4	8.6	7.7
<b>Benchmark</b>	4.7	2.2	5.9	6.3
<b>Relative</b>	-0.7	2.1	2.5	1.4

### 3 Year Relative Return

Actual % p.a.	Target % p.a.
2.5	2.0

### 3 Year Tracking Error

Actual % p.a.	Target % p.a.
2.2	-



## Newton - Global Equity

### Recent News & Rating

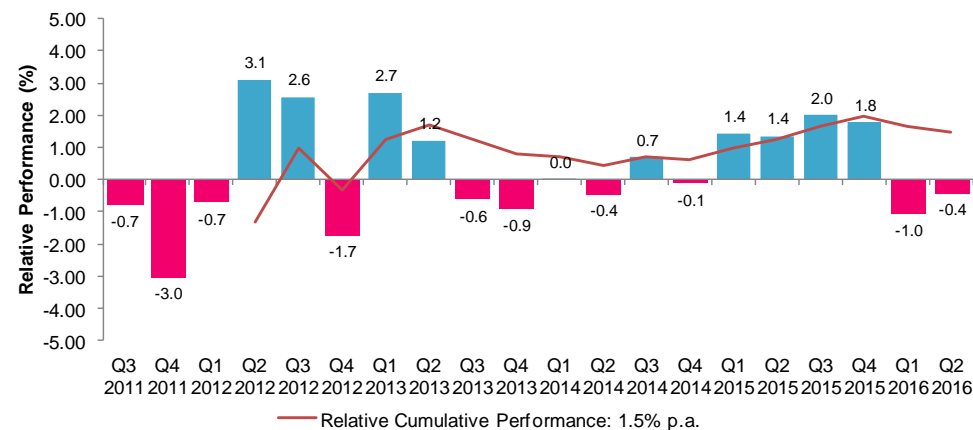


In August 2016, Newton announced that its high profile Chief Executive Officer, Helena Morrissey, was moving to become Non-Executive Chair of Newton's Board of Directors. She will be succeeded by Hanneke Smits as the CEO (designate). Morrissey has been Newton CEO for 15 years and arguably Newton has flourished under her tenure although turnover in senior personnel turnover has always been slightly on the wrong side of comfortable in our view. Smits was Chief Investment Officer at equity firm Adam Street Partners between 2008 – 2014. Morrissey will continue to for a period as an adviser and representative for Newton / BNY Mellon. This looks like a relatively straightforward succession and Morrissey does not have direct input into Newton's investment strategies. However, change can be unsettling and much will depend on any further changes Smits makes when she takes full control of what will be a much broader business than her previous private equity firms. We will be meeting Newton shortly but see no reason to change our underlying strategy ratings at this stage.

### Comment

The fund returned 8.2% over the quarter marginally underperforming its benchmark by 0.4%. In contrast to previous quarters, a number of the fund's large technology holdings performed poorly over the quarter, partly due to investor 'profit-taking' (i.e. investors selling their holdings in these stocks following a rise in price in order to realise profits). The fund's underweight to oil and mining stocks also detracted from performance as the commodities market continued its recovery. As per last quarter, the fund's large underweight to financials was beneficial to performance. Despite underperforming its benchmark this quarter, the fund's performance remains ahead of its benchmark over the longer term. Newton continue to favour a cautious approach in a market which they see as distorted by central bank actions, and hold a bias towards "higher quality" assets, seeking out investments with solid cash flows, robust balance sheets and flexible cost bases.

### Relative Quarterly and Relative Cumulative Performance <sup>[i]</sup>



### Performance Summary - Table <sup>[ii]</sup>

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
<b>Fund</b>	8.2	16.0	12.1	10.9
<b>Benchmark</b>	8.6	13.3	10.6	9.3
<b>Relative</b>	-0.4	2.4	1.3	1.5

### 3 Year Relative Return

Actual % p.a.	Target % p.a.
1.3	2.5

### 3 Year Tracking Error

Actual % p.a.	Target % p.a.
2.2	5-7



## Schroder - Property Fund of Funds

### Recent News & Rating



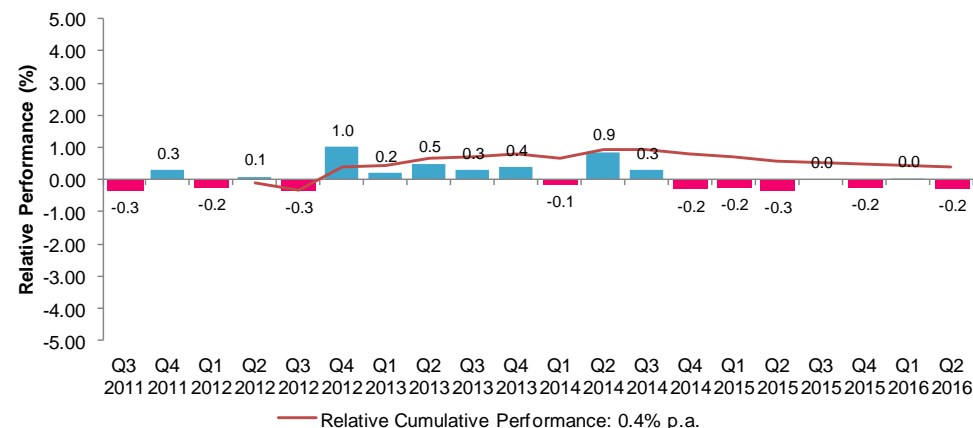
Schroder RECaP is a business that experienced considerable personnel change during the second half of 2015, with four departures from the team of six. This resulted in a change in our rating to "3: On Watch" in August 2015. Whilst Schroder RECaP has completed its recruitment and now has a new team in place, we retain concerns relating to the relationship between RECaP and the broader Schroder business and also wish to meet further with the full team to establish how the new team dynamics have developed. We therefore retain our rating at "3: On Watch" at this time, subject to further review in Q4 2016. Over the longer term, we regard the threat posed by LGPS pooling to be significant to the Schroder RECaP business. We consider Schroder to be in a weaker position than its peers and an unfavourable outcome from pooling could see the viability of the business in its current form being challenged.

### Comment

The property portfolio returned -0.1% over the quarter, lagging behind its benchmark return by 0.2%. Following the EU referendum result, property valuations were caveated by valuers in light of the short-term uncertainty, contributing to the mandate underperforming its benchmark (and low absolute return) over the quarter. Standard Life Pooled Property Fund (PPF) & L&G Managed Property Fund (MPF), have introduced a downward "fair value adjustment" (FVA) to reflect this uncertainty. Both funds made a -5% adjustment to their respective Net Asset Values at the end of June, which impacted performance of the portfolio. A further -5% (totalling FVA of 10%) was implemented by L&G after the quarter end and then amended back to -7.5% in total before the end of July; unless it is removed before the end of September this additional 2.5% will hurt performance in Q3. The largest negative contributor to relative performance was the BlackRock UK Property fund (13.3% of the mandate), which implemented an extra dealing charge on redemptions, increasing the bid spread to -5.75%. This additional charge is not reflected in the benchmark performance as it does not impact the fund's NAV.

In this period of volatility, the Schrodgers portfolio remains underweight to central London offices which is believed to be the most exposed to the repercussions of the EU referendum vote. Going forward, the manager is focussed on three areas: to increase regional office sector holdings, to invest in strategies which take advantage of the market volatility and to source real estate fund units at lower prices through the secondary market.

### Relative Quarterly and Relative Cumulative Performance <sup>[i]</sup>



### Performance Summary - Table <sup>[ii]</sup>

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-0.1	6.7	12.7	8.9
Benchmark	0.1	7.2	12.5	8.4
Relative	-0.2	-0.4	0.2	0.4

### 3 Year Relative Return

Actual % p.a.	Target % p.a.
0.2	0.75

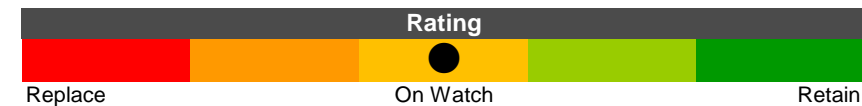
### 3 Year Tracking Error

Actual % p.a.	Target % p.a.
0.7	-



## Pyrford - Absolute Return

### Recent News & Rating



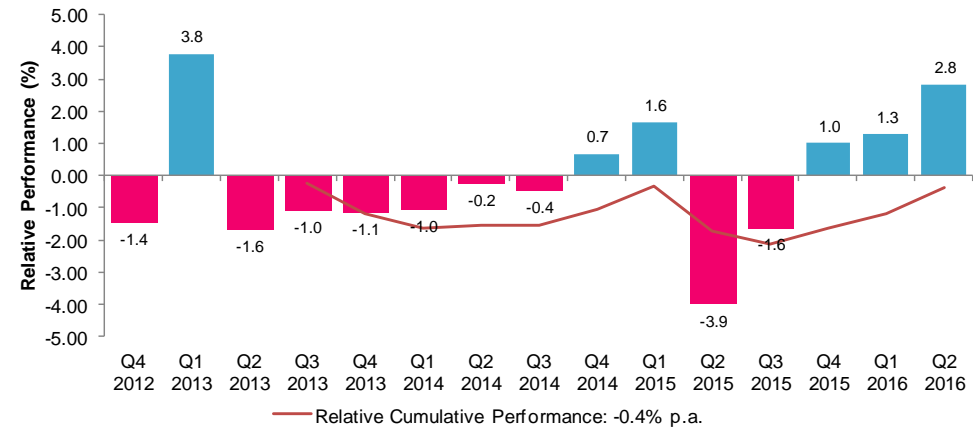
We continue to rate the fund as '3 - On watch'. There were no further significant updates during the first quarter of 2016.

### Comment

The fund's performance continues to be driven by equities with holdings in Switzerland, Sweden and Thailand driving a strong return for Q1. The fund's stock selection added to performance - UK equities outperformed the FTSE All Share Total Return Index (7.0% vs 4.7%) despite significant market volatility over the period. Although UK bond returns were positive, Pyrford underperformed relative to the broader UK bonds market in the falling yield environment, due to the fund's short-dated positioning. The fund also holds overseas bonds in the US, Canada and Australia which contributed positive returns supported by sterling weakness and commodity prices stabilising.

Pyrford have made no further changes to the asset allocation following the 5% top-up to equities in Q1 2016 and the fund remains defensively positioned. The fund's allocation remains 35% equities, 62% fixed income and 3% cash. The duration of the fixed income portfolio remains at an all-time low of 1.25 years, as the team continue to focus on short-dated securities in an effort to protect the fund from future rate rises. Over Q2, Australian bonds were added to overseas bonds and these represent 5% of the overall fund portfolio. The Swiss franc is the only currency exposure in the portfolio to be fully hedged.

### Relative Quarterly and Relative Cumulative Performance [1]



### Performance Summary - Table [1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.3	9.5	5.0	5.2
Benchmark	1.4	5.7	5.7	5.6
Relative	2.8	3.5	-0.7	-0.4

\* Inception date 31 Aug 2012.

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



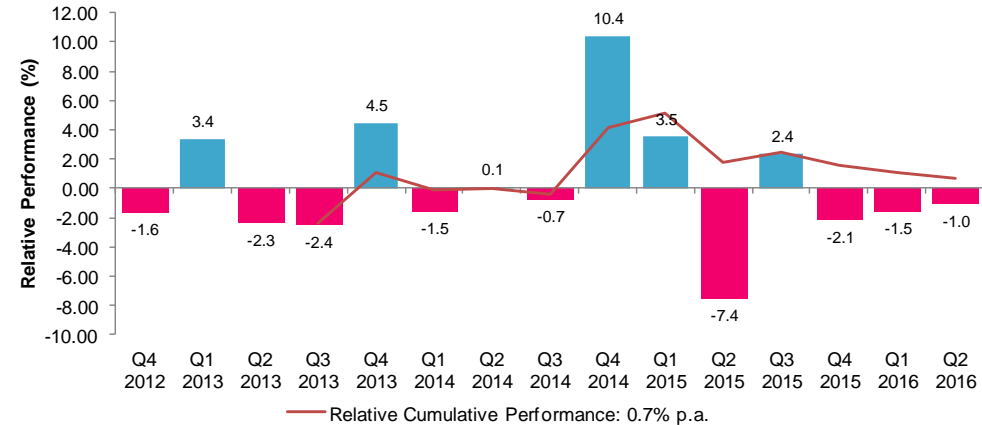
# Winton - Futures Fund

## Recent News & Rating



We rate Winton a 5-preferred manager. There were no significant changes over the second quarter of 2016.

## Relative Quarterly and Relative Cumulative Performance <sup>[i]</sup>



## Comment

The Fund returned 0.4% over the quarter. Although trailing the Cash +5%p.a target over the quarter and 12 months to 30 June 2016, the Fund has exceeded this target over 3 years and the period since inception. Q2'16 saw the Fund post negative returns in the first two months as the long positions in bonds and short-term interest rates weighed on returns in April and poor weather conditions in South America hurt some of the crop positions. In May, currencies and precious metals detracted. However, the Fund bounced back in June gaining c.4% in absolute terms with Winton's trading system and risk framework reacting appropriately to the market turbulence in the run up to and following the EU referendum.

## Performance Summary - Table <sup>[ii]</sup>

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.4	3.4	6.8	6.4
Benchmark	1.4	5.7	5.7	5.7
Relative	-1.0	-2.2	1.1	0.7

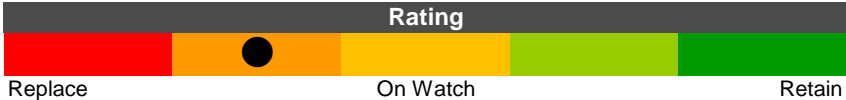
\* Inception date 30 Sep 2012.





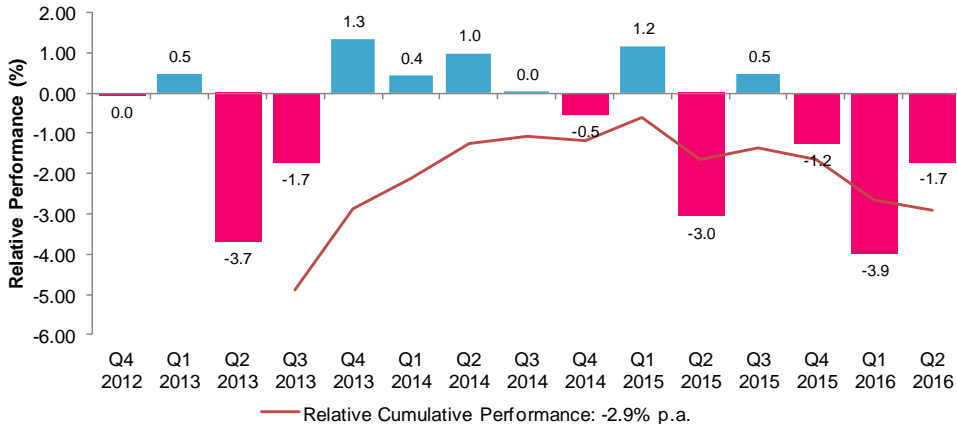
# BlueCrest - AllBlue Mandate

## Recent News & Rating



BlueCrest announced on 1st December 2015 its intention to return the capital managed across all of its funds to investors from all its funds. The firm's intention is to manage capital solely on behalf of the firm's partners and employees with no third-party money. As a result investors in AllBlue were effectively redeemed from the fund as of 4th January 2016.

## Relative Quarterly and Relative Cumulative Performance [i]



## Comment

Distributions of £1.4m were made over Q2'16. The end June valuation was £6.1m.

## Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.3	-0.9	3.0	2.6
Benchmark	1.4	5.7	5.7	5.7
Relative	-1.7	-6.3	-2.6	-2.9

\* Inception date 30 Sep 2012.



## M&G Alpha Opportunities

### HR View Comment & Rating



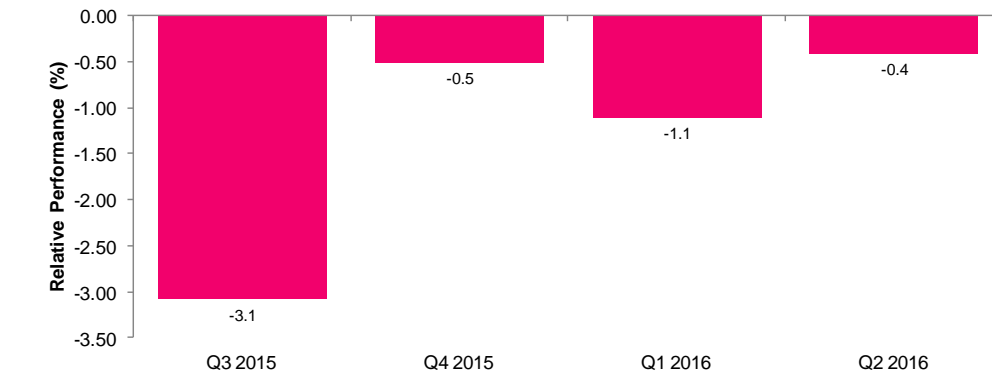
M&G is rated "5 - preferred provider" for global bonds.

No significant changes to report over the quarter to end June 2016.

### Recent News Comment

The Fund's positions in the industrial sector performed strongly in the first two months of the quarter resulting in the manager scaling back positions and taking profits. The Fund has significant exposure to the subordinated debt of insurers which underperformed other areas of the credit markets following concerns about the potential impact of the UK's vote to leave the European Union and the new Solvency II regulations. Over the quarter, the manager added exposure to the financial sector by purchasing further debt at more senior levels, hoping to take advantage of attractive pricing. The manager sold out of a position in an Italian bank following concerns with the bank's capital raising plans. The manager believes markets are understating risk and the Fund is positioned well to take advantage of mispricing of assets.

### Relative Quarterly and Relative Cumulative Performance <sup>[1] [i]</sup>



### Performance Summary - Table <sup>[ii]</sup>

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.0	0.5	-0.6
Benchmark	1.4	5.7	5.6
Relative	-0.4	-5.0	-5.9

\* Inception date 28 Apr 2015.

[1] Excludes part quarter to 30 Jun 2015



## BlackRock Fixed Interest Global Opportunities

### HR View Comment & Rating



BlackRock is rated "5" - preferred provider" for global bonds.

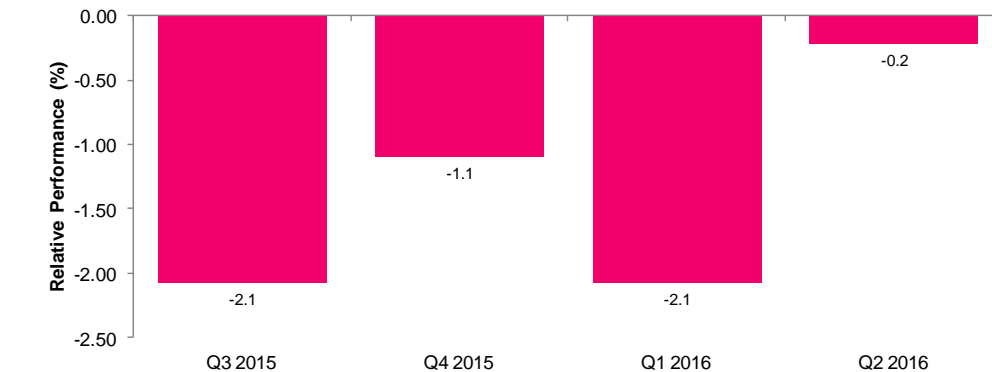
No significant changes to report over the quarter to end March 2016.

### Recent News Comment

The long US duration position (which was increased in the run-up to the EU referendum) contributed strongly to returns and US high yield and securitised assets positioning also helped. A positive contribution also came from Asian rates and credit strategies. Emerging Market exposure was beneficial as was the Gold Exchange Traded Fund position which provided a hedge on the flight to quality scenario following the EU referendum vote. The long sterling position was the biggest detractor (being in place as BlackRock's main expression of a "remain" vote). BlackRock did take the opportunity to reduce this on a sterling rally prior to the vote.

Risk has been reduced in the portfolio – including emerging market foreign exchange position and some currency positions including the sterling position mentioned above. They do still like peripheral sovereign bonds from a fundamental view but did reduce holdings as part of the overall risk reduction in the run-up to the referendum. BlackRock remain positive on the outlook for European credit, especially with regard to the financial sector, as they believe these assets will be supported by ECB monetary policy. They see US investment grade as a source of attractive risk adjusted income and a positive stance on selective Emerging Markets which should benefit from the US Central Bank's "normalisation" programme and range bound path for the US dollar.

### Relative Quarterly and Relative Cumulative Performance <sup>[1] [i]</sup>



### Performance Summary - Table <sup>[ii]</sup>

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.2	0.1	-0.2
Benchmark	1.4	5.7	5.7
Relative	-0.2	-5.3	-5.6

\* Inception date 04 Jun 2015.

[1] Excludes part quarter to 30 Jun 2015



