Agenda Item
1

Shetland Islands Council

Shetland Islands Council **05 June 2013**

Pension Fund Management Annual Review 2012/13	
F-032-F	
Executive Manager Finance	**Corporate / Finance Service**

1.0 Summary

1.1 The purpose of this report is to inform Members on the position and performance of the Council's Pension Fund external investments, with fund managers for the financial year 2012/13.

1.2 This report also fulfils a requirement under The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 for the Council, as administering authority for the Pension Fund, to keep investment managers' performance under review.

1.3 From this report there are recommendations to note fund manager performance during 2012/13. To note performance as either satisfactory where a manager's performance is above benchmark and target, or to just note performance where the manager's performance was above benchmark but below target, or to note performance as unsatisfactory where the manager's performance was below benchmark.

2.0 Decision Required

2.1 It is recommended that the Council:

- note with satisfaction the performance of BlackRock (equity and bond fund) in 2012/13; and

- note the performance of Schroders (property fund) in 2012/13.

3.0 Detail

3.1 The Pension Fund has two fund managers, with total investments under management at the end of March 2013 of £306 million. These investments are split between the following managers and asset classes as follows:

Funds under Management at 31 March 2013

Manager	Fund	% of Reserves
BlackRock	Equity and Bond	93
Schroders	Property	7

3.2 BlackRock and Schroders will both give presentations at this Council meeting concerning their investment performance over the year to end March 2013.

3.3 Karen Thrumble will attend the meeting from WM Company, which is part of State Street. WM Company are performance analysts and they independently monitor and report to the Pension Fund on each investment manager's performance. Karen will analyse each fund manager's performance relative to the markets they invest in, before that Fund Manager's presentation to the Council.

3.4 Along with this report are attached the presentational documents from BlackRock and Schroders plus a pension performance report from the WM Company covering the relevant funds.

3.5 The external investments of the Pension Fund are co-ordinated by the Council's Treasury function. The Council's reserves and Charitable Trust's reserves (as per Service Level Agreement) are also co-ordinated by the Council's Treasury function. This approach delivers a unified approach; ensures that all the funds benefit from the knowledge and experience of Council Officers; and provides useful comparisons.

3.6 The Council's Pension Fund is in a growth phase where incomes from Council and Employee contributions are projected to exceed benefits paid for some time to come. Consequently, a long-term investment strategy is appropriate. This allows us to have a higher percentage of equity investments, which in itself produces a greater volatility of returns over the short to medium term, i.e. 1-3 years, but is less evident over longer periods. Over the long term this investment policy has proved beneficial with the Pension Fund up 28% over the last 5 years and up 122% over the last 10 years.

3.7 At the last actuarial review in 2011 the Pension Fund was 91% funded, with employer contributions set at 18.7% for Council employees in 2012/13.

3.8 The managers, type of mandate and market value are listed below:

Manager	Mandate	Market Value £ million 2013	2012
BlackRock	Equities and Bonds	285	239
Schroders	Property	21	21
		306	260

3.9 During 2012/13 the market value of the Pension Fund increased by £46 million, an increase of 17.7%.

3.10 In this report I will review each fund manager in turn and compare their performance in 2012/13 against the market performance where they were asked to invest, and also against the additional out performance target we asked them to achieve.

3.11 Due to the nature of the investments these managers are investing into, we take a long term investment view, generally a five year period. I will therefore not only look at each manager's performance over 2012/13 but I will also look at their performance over a five year period, or from inception of the mandate if that is shorter.

3.12 In the main, this report concentrates on manager performance relative to the markets but we also need to consider the effect of any cash withdrawals or injections to the funds and the performance of the markets themselves. These influences can easily alter the absolute fund value.

3.13 The following table shows the effect on the fund due to withdrawals/additions and the investment return.

	Pension Fund £ million
As at 31.03.12	260
(Withdrawals)/Additions	6
Investment Return	40
As at 31.03.13	306

3.14 The figures show how an investment return of £40 million has benefited the overall investments during the year. This equates to an investment return of 15.0%. The £6 million of additions is in main due to the difference between the employer and employee contributions (Council and admitted bodies) versus the pension payments during the year.

3.15 The 2012/13 market performance by asset class is set out below:

		%
Equities:	UK	16.8
	North America	19.3
	Europe (Ex UK)	18.0
	Japan	14.3
	Pacific (Ex Japan)	18.1
	Emerging	17.6

Bonds:	UK Gilts	5.2
	UK Corporate	12.0
Property		2.5
Cash		0.4

3.16 As can be seen from the asset returns in 2012/13 all asset classes produced positive returns with the major equity sectors producing double digit figures. The fund manager has negligible influence over the market's return but they may be required by the mandate agreement to invest into these markets. The main constituent of a fund's performance is the market return, i.e. where the fund is invested. A fund manager is only asked to outperform the market return, i.e. a UK equity scenario in 2012/13 where a fund manager is asked to outperform the market by 1% would equate to a 17.8% target return.

3.17 This report reviews performance in 2012/13; a quick update for the start of this financial year sees a rising equity market with some confidence coming from America due to improving economic statistics. There are still concerns over Europe due to the economic problems some of the countries continue to face.

3.18 The current investment strategy is at present under review. Hymans Robertson the Pension Fund's investment consultants are conducting the investment review. The review is aiming to find an investment strategy which will focus on achieving a 100% funding level over a period of time, which is before the Pension Fund's contributions equal benefits payable. The results of the investment strategy review will be reported to the Council during 2013/14.

4.0 Fund Manager Review

4.1 The rest of this report takes each mandate in turn and discusses manager performance.

4.2 A Fund Manager's performance is measured against a specific fund benchmark, which is made up of market indices of the countries where they invest.

4.3 A Fund Manager's target is a level of outperformance above the benchmark that is seen as achievable with a low level of measured risk on a given mandate. The Manager will actively seek to produce investment returns in order to achieve the stated target. Performance at or above target is desirable but any returns above the benchmark will add value to the fund above the market return.

Schroders - Property Fund

4.4 Schroders were awarded a £20 million Property Mandate in March 2007 with the first investments commencing in July 2007. It was agreed that Schroders would be allowed time to invest, to give added protection to the capital value of the investment. Schroders have therefore only invested when good opportunities arose, to the extent that they achieved full investment of the fund during the later part of 2010/11.

4.5 The benchmark for this fund is based on a 100% UK property investment. The fund manager does however have the scope to invest up to a maximum of 30% of the fund in overseas property if attractive investment opportunities exist. The performance target for this fund is to beat a specific benchmark by 1.0% per annum.

4.6 Schroders have used the flexibility in the mandate to invest in their European property fund. This investment is currently about 20% of the overall mandate. This investment initially outperformed but over the last few years has been a drag on performance due to the general European economic climate.

4.7 The following table sets out in summary the performance of Schroders versus the benchmark and the performance target in 2012/13, and also on a cumulative basis over a five-year investment period.

Fund Performance versus Benchmark and Target

	Fund Return (%)	Performance v Benchmark (%)	Performance v Target (%)
2012/13	0.4	0.1	-0.9
Five years 08/09 to 12/13	-3.7	3.0	-2.0

The performance v benchmark figure gives the percentage that the fund has out or underperformed the benchmark return (market indices).

The performance v target figure gives the percentage that the fund has out or underperformed the set target.

4.8 The Property Fund with Schroders in 2012/13 increased in value by 0.4%, which was 0.1% above the benchmark return and 0.9 below the target. The property market return was low for 2012/13 and Schroders has just managed to outperform the market.

4.9 On a cumulative basis over the five year rolling monitoring period Schroders are still above the benchmark return by 3.0% but under the target by 2.0%. The fund’s performance from inception (July 2007) is down by 1.8% but due to Schroders management the fund is 18.6% above the general property market benchmark.

4.10 Schroders initially received £10 million in July 2007, since then they have periodically requested funds until full investment of the mandate (£20 million) was achieved in the later part of 2010/11. Since July 2007 property markets have fallen about 20% but Schroders has maintained the fund value, and at the end of March 2013 it was £20.9 million. Schroders have used the time well during difficult markets to achieve exposure to the property market. They invested when good opportunities arose to avoid incurring capital losses.

BlackRock - Equity and Bond Fund

4.11 BlackRock was initially a large US fund management business but over the past few years they have acquired Merrill Lynch and BGI, to become one of the largest global fund managers. BlackRock are an active investment manager so their purchase of BGI, a passive fund manager, fitted well into the overall structure with no disruption to BGI's operations. A passive investment process is predominately computer controlled and as expected no issues or problems have occurred. In fact the larger BlackRock business may produce investment opportunities for the Pension Fund.

4.12 BGI (now BlackRock) was initially appointed as the Pension Fund's transition manager and in that role they have the capability to hold funds on a passive basis, i.e. track the market indices. The Pension Fund is currently making use of this facility, after the decision (min ref 160/08) to terminate Capital International's management of the mandate. BGI conducted the transfer of the fund's assets near the end of 2008, with performance monitoring commencing 1st January 2009.

4.13 This ongoing passive holding will be reviewed within the investment strategy review to be conducted during 2013/14 by Hymans Robertson.

4.14 BlackRock's benchmark for this fund is based on 45% UK Equities, 45% Overseas Equities and 10% bonds. As the fund is passively invested the benchmark and the target are the same, i.e. one aim the index return. For performance comparison purposes the fund return is only compared against the benchmark (index) return. As the fund is trying to achieve the index return, it is the closeness of the performance to the index that is important. A passive investment takes away the manager risk leaving just the market return risk.

4.15 The following table sets out in summary the performance of BlackRock versus the benchmark return for 2012/13 and also on a cumulative basis since inception of the mandate in January 2009.

Fund Performance versus Benchmark

	Fund Return (%)	Performance v Benchmark (%)
2012/2013	16.3	0.1
Four and a quarter years Jan 09 - Mar 13	63.4	0.3

The performance v benchmark figure gives the percentage that the fund has out or underperformed the benchmark return (market indices).

4.16 The equity and bond fund with BlackRock increased in value by 16.3% in 2012/13, which is 0.1% above the benchmark return. This shows the fund has mirrored the market return very closely.

4.17 On a cumulative basis over the four and a quarter year rolling monitoring period the fund is 0.3% above the benchmark return, which is close to the fund's investment aim. During this period the fund has increased in value by 63.4%, which equates to a return of 12.3% per annum.

5.0 Implications

Strategic

5.1 Delivery On Corporate Priorities – This report links to the Council's corporate priorities, defined in its Corporate Plan, specifically in relation to assisting the Council in ensuring the financial resources are managed so that the Council can sustain and develop the economy.

5.2 Community /Stakeholder Issues – None.

5.3 Policy And/Or Delegated Authority – In accordance with Section 2.2 of the Council's Scheme of Administration and Delegations, the Executive Committee has delegated authority to secure the co-ordination, control and proper management of the financial affairs of the Council. However, the performance of Fund Managers is a matter reserved for the Council.

5.4 Risk Management – All investments carry some degree of investment risk but these risks are actively managed and minimised through diversification of fund managers, assets, benchmarks, markets, size of holdings etc..

5.5 Equalities, Health And Human Rights – None.

5.6 Environmental – None.

Resources

5.7 Financial – The long-term performance of the Pension Fund is one of the criteria that can affect the overall funding level of the Pension Scheme. This funding level then influences the contribution rate the Council is required to make into the Pension Scheme.

5.8 Legal – As required by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, where investment managers have been appointed their performance is to be kept under review by the Council.

5.9 Human Resources – None.

5.10 Assets And Property – None.

6.0 Conclusions

6.1 Schroders outperformed their benchmark by 0.1% in 2012/13, during a low returning property market. Over the five year period Schroders are

3.0% above the benchmark and since inception of the mandate in July 2007 they are 19.8% above the benchmark.

6.2 BlackRock was 0.1% above their benchmark for 2012/13, and since inception in January 2009 they are 0.3% above their benchmark. An index tracking fund tries to replicate the market performance and this performance is very close to that aim.

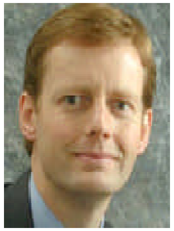
6.3 Equity and Bond markets rose significantly while property returns were low during 2012/13. This along with the fund managers' management of the funds helped to contribute £40 million in value to the Pension Fund during 2012/13.

For further information please contact:
James Gray, Executive Manager of Finance
Telephone: 01595 744607
E-mail: james.gray2@shetland.gov.uk

END

Shetland Islands Council Pension Fund

Property Multi-Manager



Geoff Day
Client Director
Tel: 020 7658 3399
Email: geoffrey.day@schroders.com

Rob Bingen
CEF I Fund Manager
Tel: 00 31 20 3016 578
Email: rob.bingen@schroders.com

Jennifer Murray
Fund Manager
Tel: 020 7658 6276
Email: jennifer.murray@schroders.com

5 June 2013

Additional information: For Professional Investors only. Not Suitable for Retail Clients

Schroders

Contents

Property multi-manager team

Stable, dedicated and experienced property team

Schroder Property

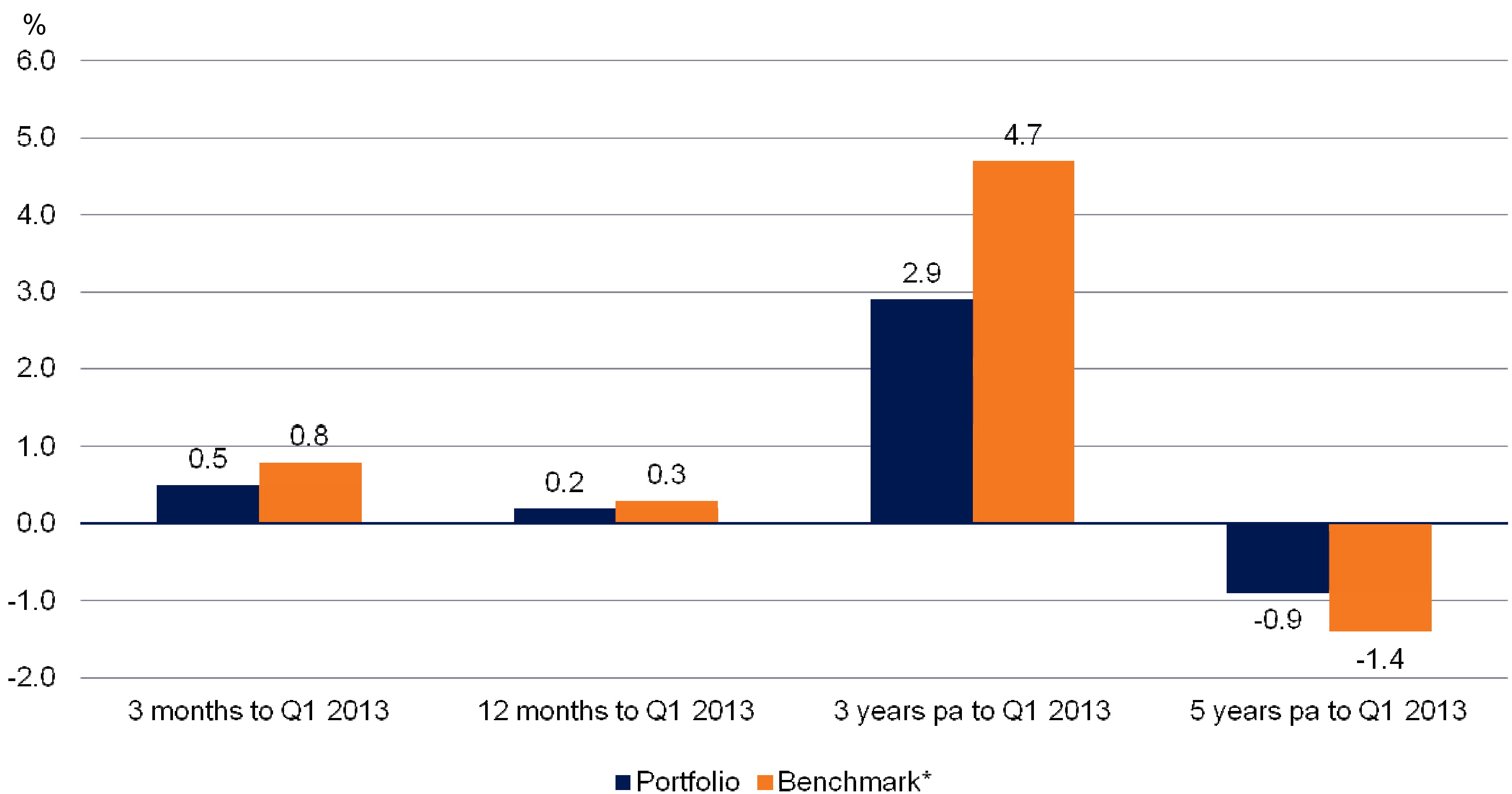
Direct investment 43 professionals	Product 9 professionals	Indirect investment 6 investors 2 specialist dealers	Investment support (legal, accounting, transitions) 15 professionals	Economic and Property research 3 professionals

Team	Position	Responsibility
Graeme Rutter (18 years)	Head of Property Multi-Manager	Business management, portfolio management & strategy
Rob Bingen (18 years)	Head of Securities and Global Solutions	Business management, portfolio management & strategy
Jennifer Murray (18 years)	Portfolio Manager	Portfolio management & strategy, fund monitoring
Tony Doherty (12 years)	Portfolio Manager	Portfolio management & strategy, fund sourcing and product creation
Keeran Kang (5 years)	Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Ben Forster (4 years)	Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis

Source: Schroders, 31 December 2012. Numbers in brackets indicate years of experience.

Portfolio performance

Quarter 1 2013



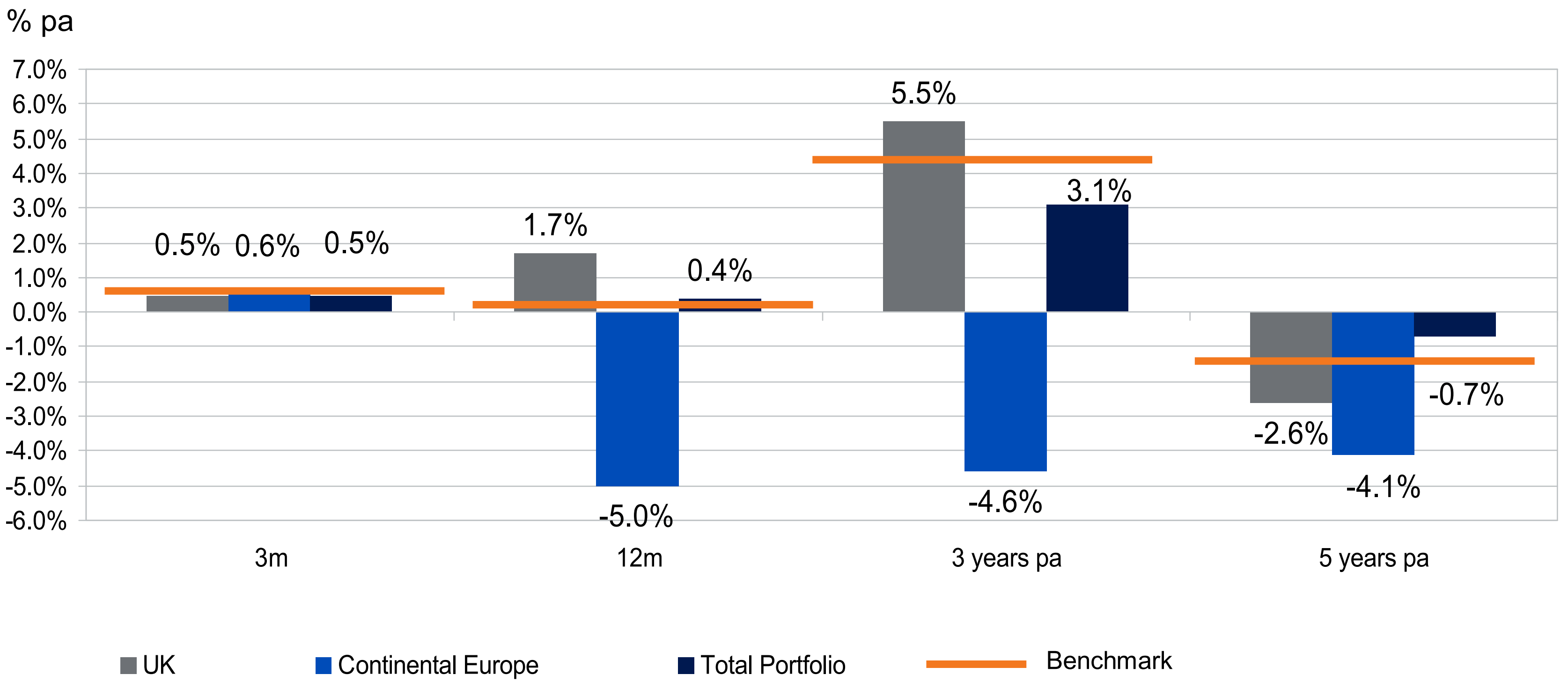
*Benchmark is AREF/IPD UK Quarterly Property Fund Indices All Balanced Funds Weighted Average. Performance presented net of fees. Past Performance is not a guide to future performance and may not be repeated. Please refer to the Important Information at the back of this document regarding past performance

Source: Schroders and AREF/IPD UK Quarterly Property Fund Indices, 31 March 2013

Portfolio performance

Quarter 1 2013

Portfolio total returns (gross) – UK and Continental Europe



*Benchmark is AREF/IPD UK Quarterly Property Fund Indices All Balanced Funds Weighted Average. Total performance presented net of fees; UK and CE is gross of multi-manager fees. Past Performance is not a guide to future performance and may not be repeated. Please refer to the Important Information at the back of this document regarding past performance.
Source: Schroders and IPD, 31 March 2013

Schroder Real Estate Fund of Funds – CEF I*

Actively managed, diversified Continental European property fund

- Closed ended fund valued at €157 million
- Twelve year life fund to 2018
- Investments in 16 property funds, mostly closed ended
- Exposure to 436** properties, worth €11 billion
- Loan to value of 51.5%***

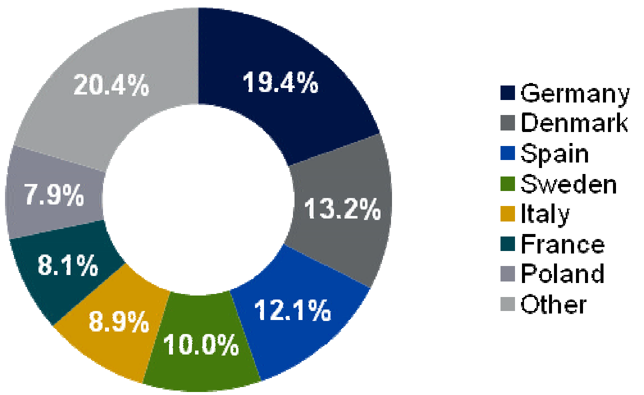
*Continental European Fund I. **Total number excludes Corestate and ANF due to their large exposures to residential properties; ***Calculated on a look through basis to underlying real estate funds divided by CEF I net asset value excluding listed securities. Data may be subject to rounding.
1: I Malatesta, Rimini, owned by IGD SiiQ; 2. 8a Avenida, Portugal, owned by Sierra Portugal Fund; 3. Baden-Baden, Germany, owned by Henderson Herald
Source: Schroders, 31 March 2013

CEF I Portfolio

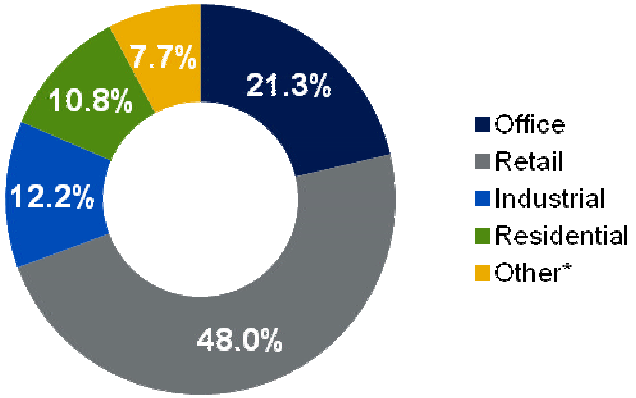
Portfolio characteristics

Fund Style	Fund	Target holding market	% total NAV
Core	Henderson Herald	Europe, retail	3.8%
	Sierra Portugal Fund	Portugal, retail	3.5%
	CG Malls Europe	Europe, retail	0.0%
Value add	IRUS European Retail Property Fd	Europe, retail	15.5%
	Aberdeen Property Fund Denmark	Denmark, all sectors	11.1%
	Corestate German Residential	Germany, residential	9.9%
	Cornerstone Nordic Retail Fund	Nordic, retail	8.4%
	Pradera Central & Eastern Europe	Central Europe, retail	8.4%
	NREP Logistics AB	Nordic, logistics	6.5%
	Rynda en Primeur	France, office/industrial	5.9%
	AXA European Added Value Fund	Europe, all sectors	3.3%
	Valad V+ Nordic Property Fund	Nordic, all sectors	1.4%
Opportunity	AXA European RE Opp. Fund II	Europe, all sectors	9.2%
	FREO Germany II Partners	Germany, all sectors	3.7%
Listed	Immobiliare Grande Distribuzione	Italy, all sectors	2.6%
	ANF Immobilier	France, retail	0.5%
	Net cash and other assets		6.4%
	Total (€m) / Weighted Average (%)		100.0%

Country weightings, % NAV



Sector weightings, % NAV



*Includes mainly mixed use assets. Source: Schroders, 31 March 2013.
Data subject to rounding.

CEF I Performance record

31 March 2013

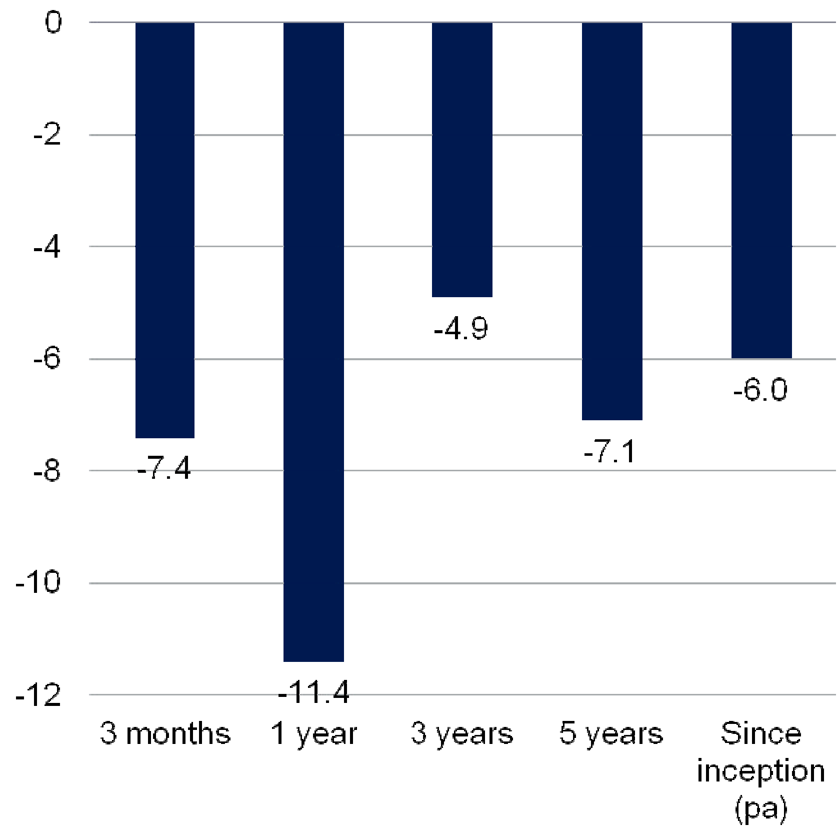
Positive drivers

- New investments in the Nordics and CEE
- Core funds focusing on prime quality assets
- Discounted purchases of funds

Negative drivers

- Portuguese shopping centre funds
- Gearing
- “Secondary” assets

IRR % to 31 March 2013 (in euro)



Source: Schroders, 31 March 2013. Note: I units, Inception date 19 October 2007. Performance calculated (net of fees) on an IRR basis in Euros. Note: Returns for periods of 1 year or more are calculated on an IRR basis. Returns since inception are also calculated on an IRR basis. Returns for periods of less than one year are calculated on an IRR basis, but de-annualised.

How are we managing your investment?

March 2013

- **Governance.** Engage with the manager and co-investors to ensure close alignment of interest
  - Ensure managers negotiate the best terms on loan negotiations and refinancings
  - Ensure terms of the fund are correctly applied
  - Protect investors' interests
  - Minimise tax leakage
- **Trading opportunities.** Monitor secondary market to assess opportunities
  - Secondary purchases of Henderson Herald, AXA EREOF II
  - Review potential sale opportunities
  - Listed securities
- **Consider reinvestment of capital and return of capital**

Source: Schroders

Portfolio holdings

Neinver – Irus Pan-European Retail Property Fund (15.5% NAV)

Investment description and rationale

- Portfolio of outlet malls in Spain, Italy and Poland
- Low vacancy rates, despite difficult economy
- Strong operational performance of malls

Performance considerations

- Positive performance since inception
- Operational results remain strong with 3% sales growth in 2011 and occupancy at 97.7%
- A fall in valuations in most of the Southern European properties in 2012 were offset by valuation increases elsewhere in the portfolio

Irus European Retail Property Fund

Source: Schroders, 10 February 2013

European property outlook

Summary

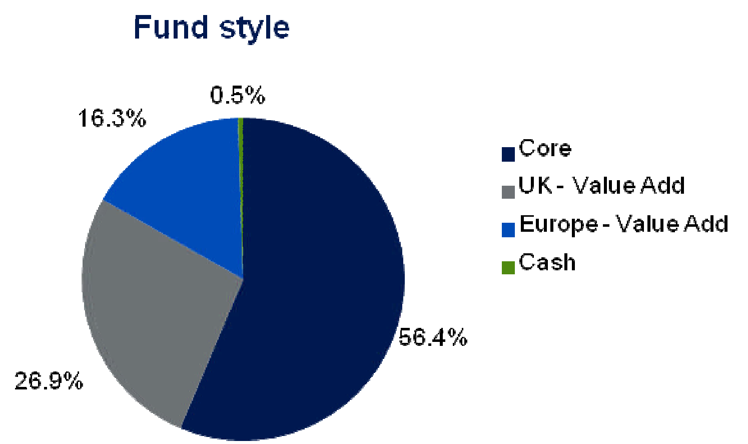
- **Economy:**
  - 2013 will be another weak year. Only export-orientated countries and international hubs will see growth.
  - Most European economies won't move up into second gear until 2014.
- **Occupier markets:**
  - Although structural factors will support logistics and office demand in northern Europe in 2013, net absorption will be modest and net effective rents will probably fall in many cities.
  - Geneva, London, Munich, Stockholm, Stuttgart and Vienna are likely to lead the next upswing in office rents in 2014. High levels of development are likely to restrain rental growth in Oslo and Warsaw.
  - Certain Tier 2 office markets – Lyon, western France, Hannover, Karlsruhe - should also see rental growth.
  - Regional shopping centres , stores in big city centres and tourist destinations and grocery retail should be most internet resistant.   Towns with no point of difference, or with falling population should be avoided.
- **Investment market:**
  - Most northern markets have reasonable liquidity (except NL). Southern European markets are illiquid.
  - Property debt is starting to become more available, but margins remain elevated .
  - Prime yields in the North should hold firm in 2013 and the upward drift in secondary yields could halt. Prime yields in the South could start to fall, but pricing is uncertain and there is a significant risk of a wave of distressed sales in Spain.
- **Total returns:**
  - Total returns on average investment grade European property should average 6-8% per year between end-2012 and end-2016. Performance will be back-end loaded in most markets.

Portfolio characteristics

Quarter 1 2013

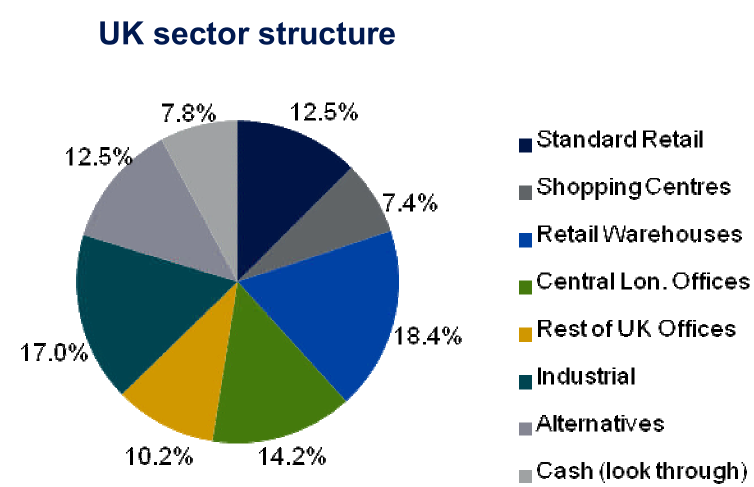
Characteristics

- Portfolio value of £20.9 million
- 13 holdings
- £11.9 billion underlying property assets
- 56.4% open ended "core" funds
- 16.0% loan to value (average exposure via underlying funds)



Portfolio holdings

Holding	Style	Value	% portfolio
BlackRock UK Property Fund	Core	1,775,614	8.5
Hermes Property Unit Trust	Core	1,990,044	9.5
L&G Managed Funds Property Unit Trust	Core	2,432,505	11.6
Lothbury Property Trust	Core	1,031,488	4.9
Mayfair Capital Property Unit Trust*	Core	1,933,212	9.2
Standard Life Pooled Pension Property Fund	Core	2,636,262	12.6
Henderson Central London Office	Value Add	930,614	4.4
Henderson UK Retail Warehouse Fund	Value Add	586,896	2.8
Industrial Property Investment Fund	Value Add	928,841	4.4
Real Income Fund*	Value Add	1,478,615	7.1
Standard Life UK Shopping Centre Trust	Value Add	513,676	2.5
Threadneedle Strategic Fund IV	Value Add	1,183,189	5.7
Schroder Continental European Fund I*	Europe	3,402,868	16.3

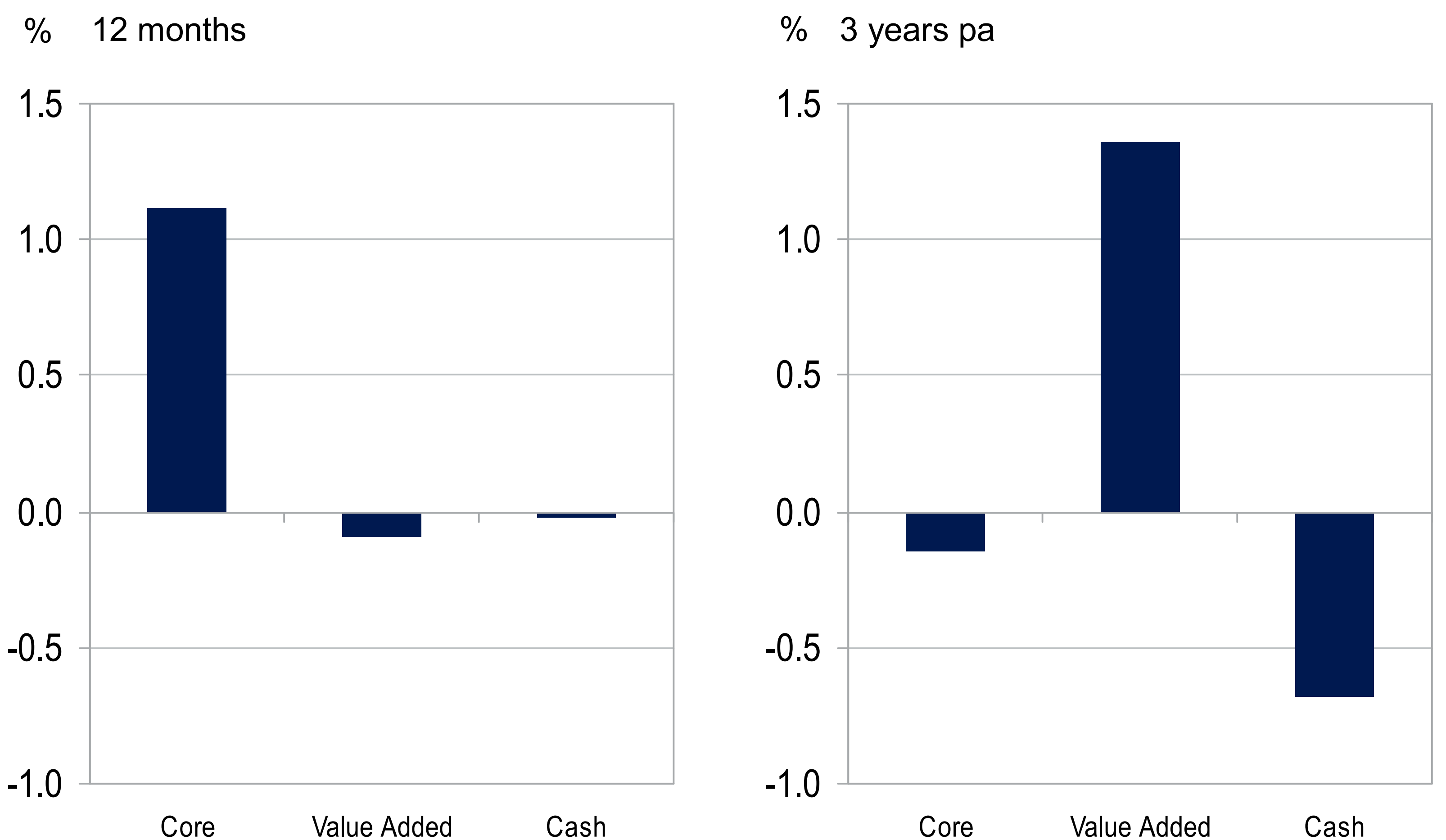


*Schroder Managed Fund
Source: IPD and Schroders, March 2013

UK performance

Relative contributions to UK performance by fund style, quarter 1 2013

Contribution relative to benchmark by fund style

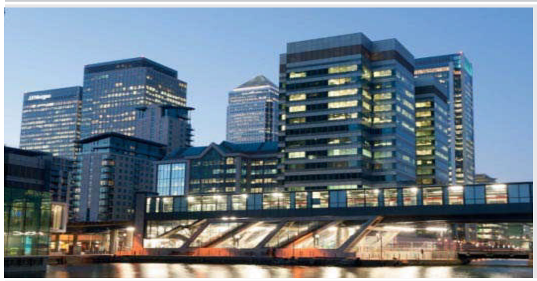


Source: Schroders, 31 March 2013

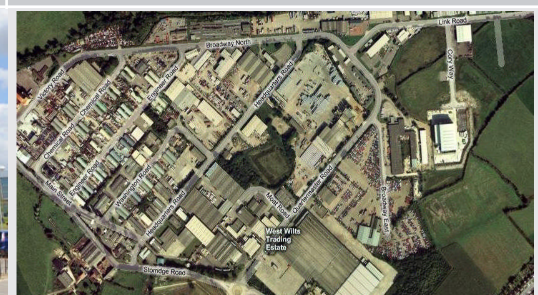
UK performance

Structure, stock selection and market timing have delivered

Sector weights	Quality assets	Beneficial pricing
Henderson Central London Office Fund	Hermes PUT	SLI UK Shopping Centre Fund



Real Income Fund	Lothbury Property Trust	Industrial Property Investment Fund

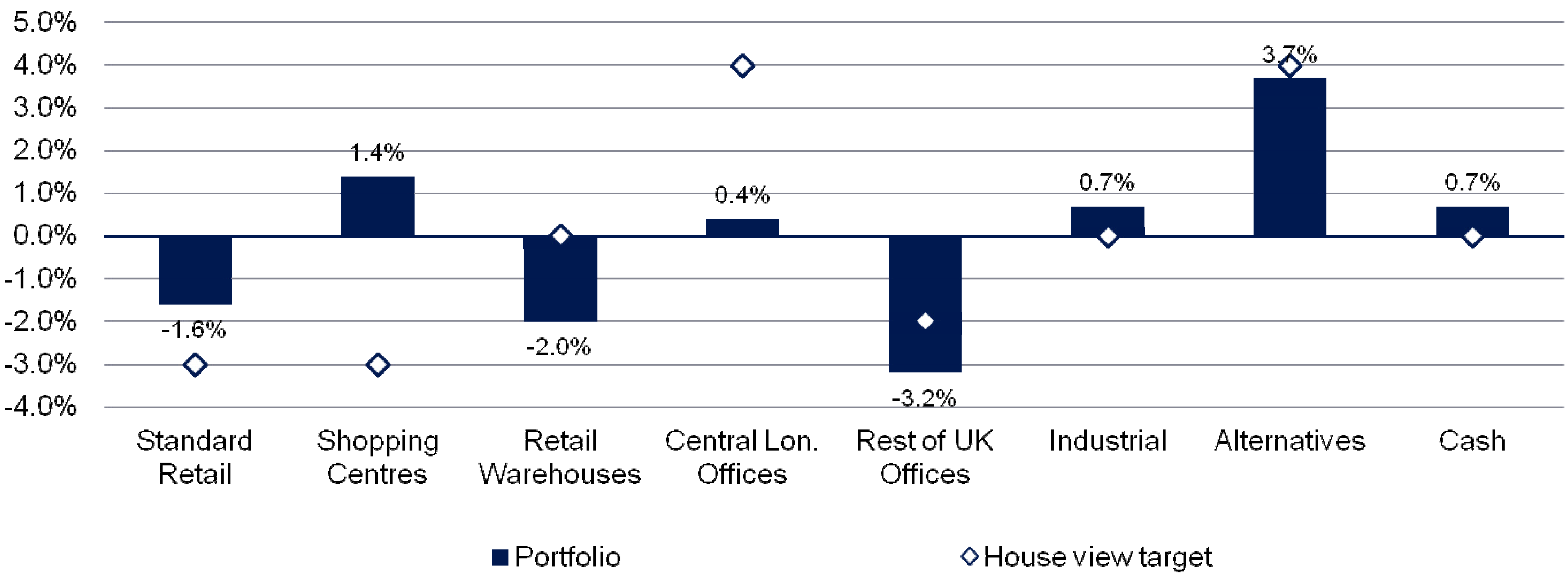


The examples shown above are for illustrative purposes only and are not to be considered a recommendation to buy/sell.
Source: Schroders, 31 March 2013

Sector structure

Sector weightings relative to benchmark*

% gross asset value



Data subject to rounding. *Benchmark AREF/IPD UK Quarterly Property Fund Indices – All Balanced Funds Weighted Average.
Source: Schroders, IPD, 31 March 2013

Summary

Mandate

- Highly diversified property portfolio, with over £11 billion of underlying assets
- Schroders approach includes a high level of engagement with managers
- Portfolio is fully invested and initial transaction costs have been absorbed

Performance

- Investment in continental Europe was beneficial in early stages of the mandate
- European investment have not recovered to the same extent as UK markets
- UK investments are out-performing over one and three years
- Value added funds with a central London or income bias are amongst top performers
- Core funds have recovered purchase costs; in aggregate out-performing over 12 months

Outlook

- Occupier markets remain subdued
- Property appears fair value against other asset classes
- An increase in the availability of debt is putting pressure on loan margins
- There is anecdotal evidence of greater appetite for less “prime” property
- Income will however remain key to performance

Source: Schroders, March 2013

Appendices

Schroders

Schroders' business

Schroders: a strong property fund manager

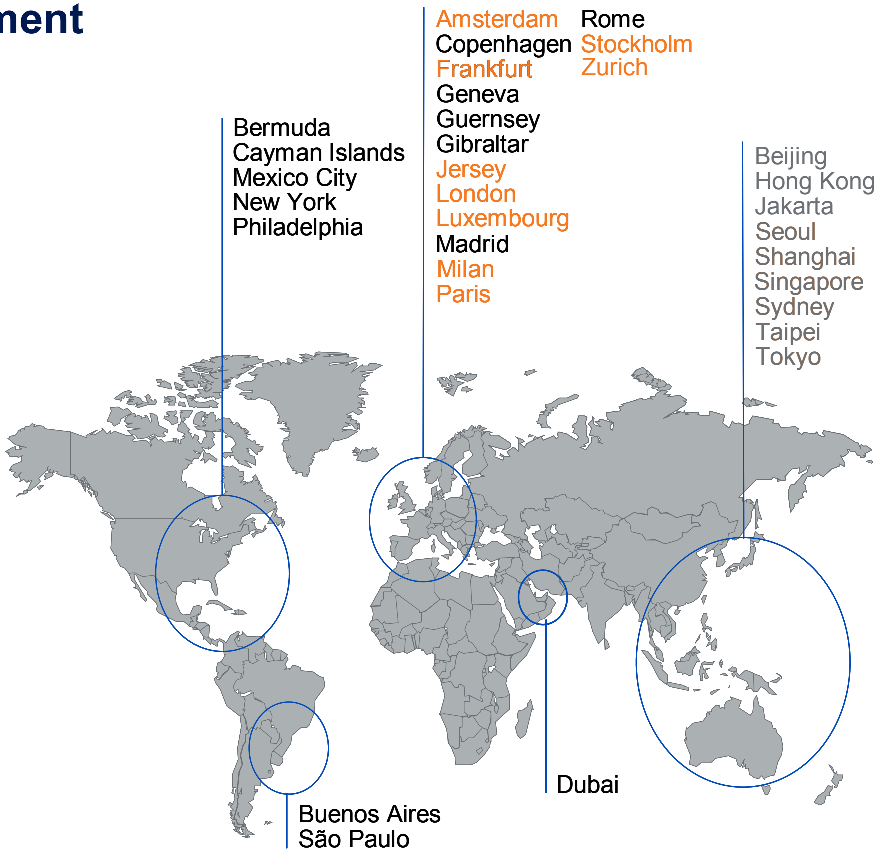
Broad investment capability and experience

Schroders – an independent asset management firm

- Family control enables long term approach
- Total assets under management £236.5 billion

Exclusive focus on asset management:

- Property managers for over 40 years
- £10.5 billion* of property assets managed
- Direct investments (pooled, separate account and listed)
- Multi-manager (pooled and separate account)
- Property securities



Source: Schroders 31 March 2013. Property assets managed or administered in locations shown in orange.
*including crossholdings

Schroders' property multi-manager business

31 March 2013

- Managed property multi-manager mandates since 1998
- £2.5 billion under management
- 30 segregated clients, 4 pooled funds
- £807 million traded in 2010; £495 million traded in 2011; £318 million 2012
- Real Income Fund: launched in March 2011
- Performance track record is GIPS compliant

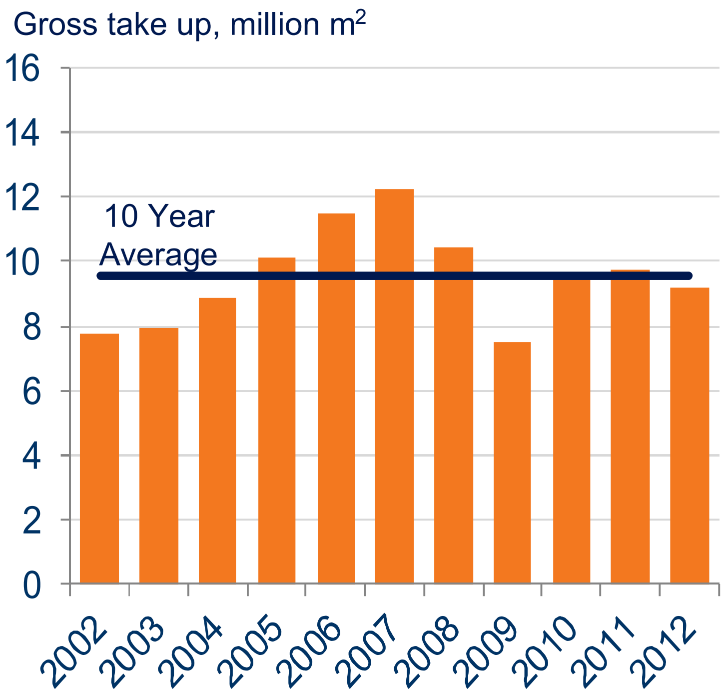
Source: Schroders, 31 March 2013

Continental Europe market overview

Demand for office and logistics space has surprised on up-side

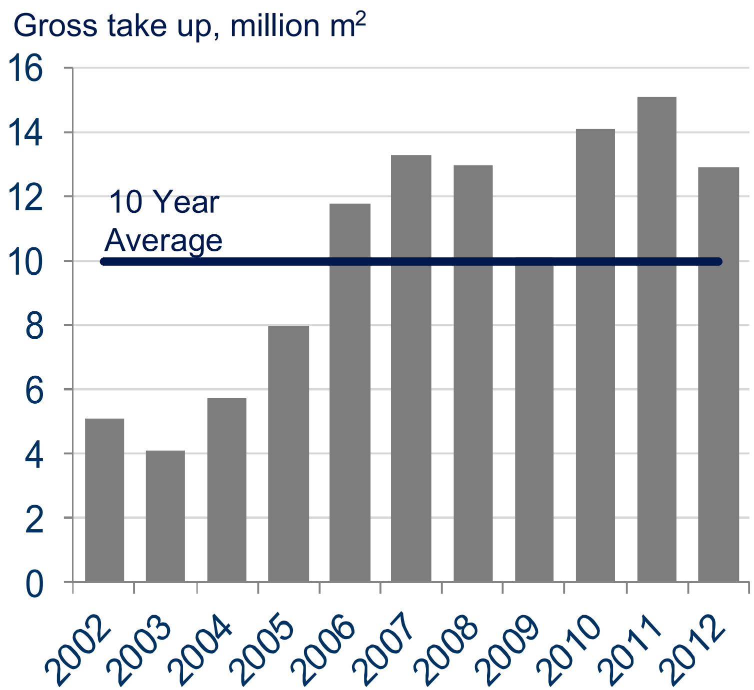
Structural changes have helped to maintain demand

European Office Demand



- Large tenants moving out of CBD to more efficient buildings in cheaper locations in Amsterdam, Hamburg, Paris, Stockholm.

European Logistics Demand



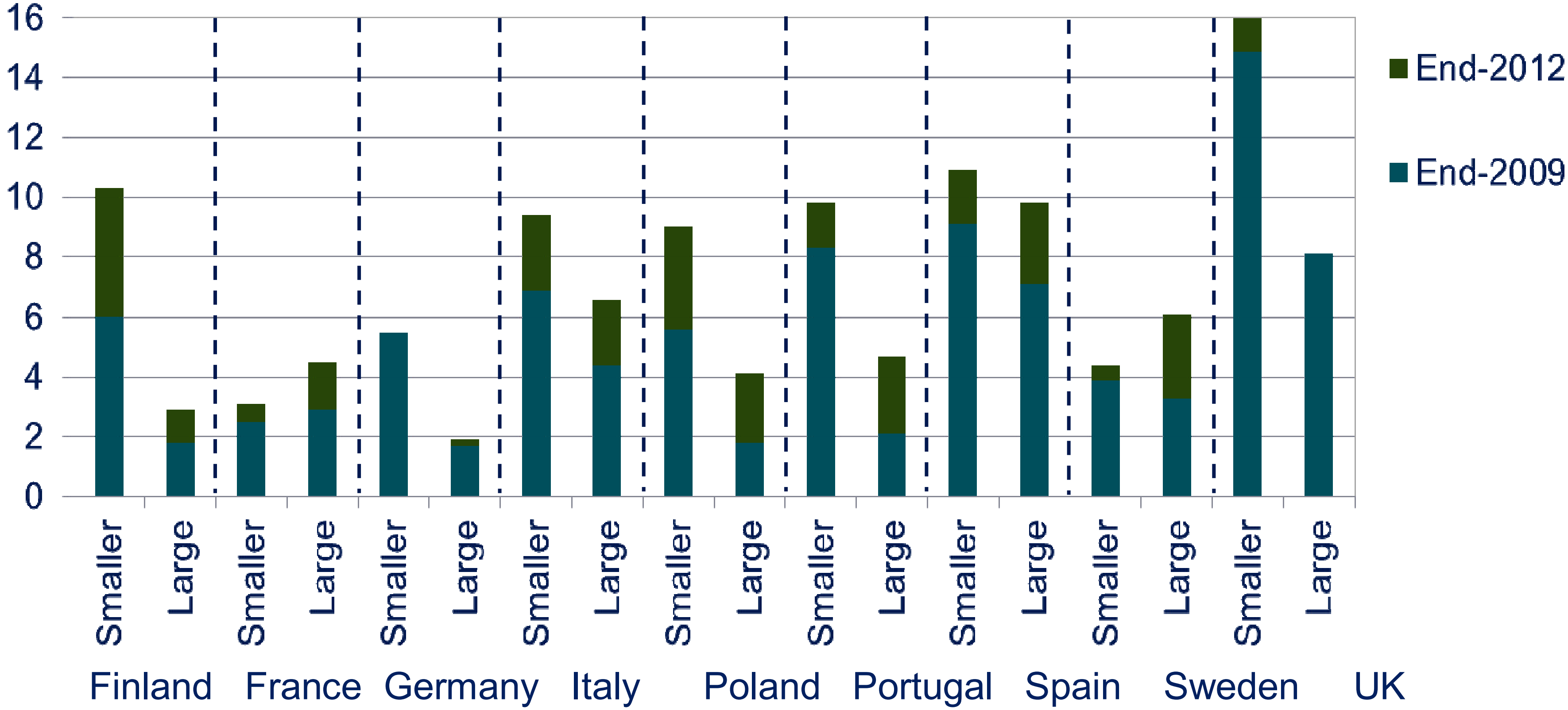
- On-line retail accounted for approximately 30% of take-up in 2012.
- Further growth in contracting out to 3PLs.

Source: CBRE, JLL, PMA. March 2013.

Shopping centre vacancy rates

Even big centres impacted by falling real incomes, on-line sales (except Germany)

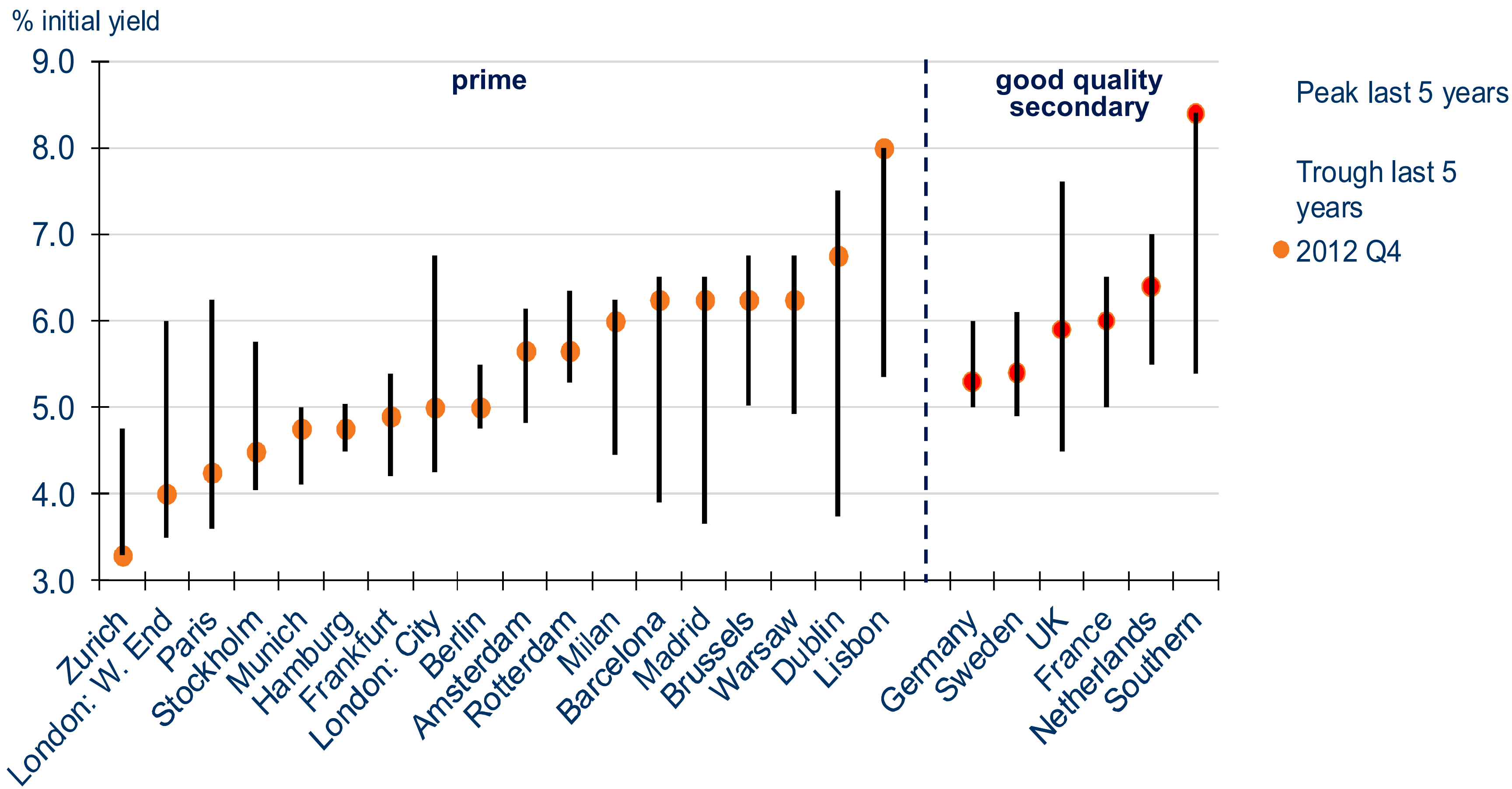
Vacancy, % of centre units



Source: PMA, March 2013.
Large defined as shopping centres >40,000 m^2.

Prime and average office yields

Good quality secondary assets have not seen same compression as prime

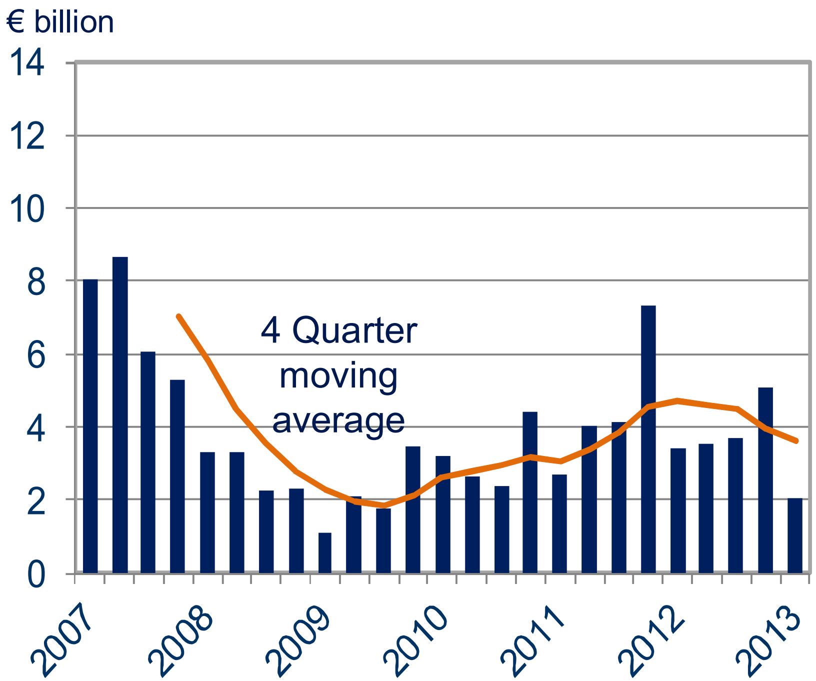


Source: CBRE, IPD, RCA, Schroders. February 2013

French and German investment markets

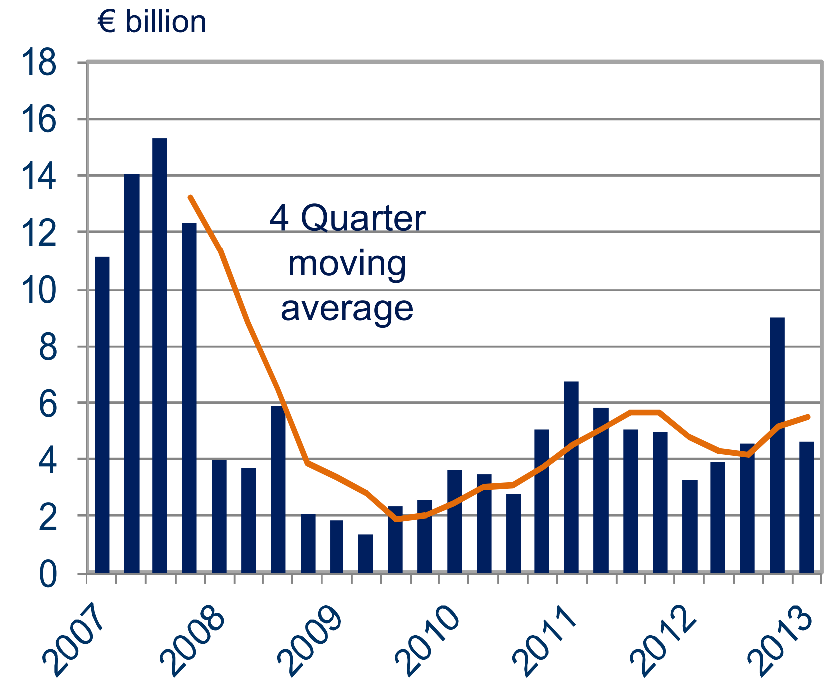
German market is gaining momentum. More muted increase in liquidity in France.

France



2007	2008	2009	2010	2011	2012
€28.1bn	€11.2bn	€8.4bn	€12.7bn	€18.2bn	€15.8bn
Foreign Investors		-	37%	46%	47%

Germany



2007	2008	2009	2010	2011	2012
€52.8bn	€15.6bn	€8.1bn	€15.0bn	€22.5bn	€20.7bn
Foreign Investors		-	48%	40%	48%

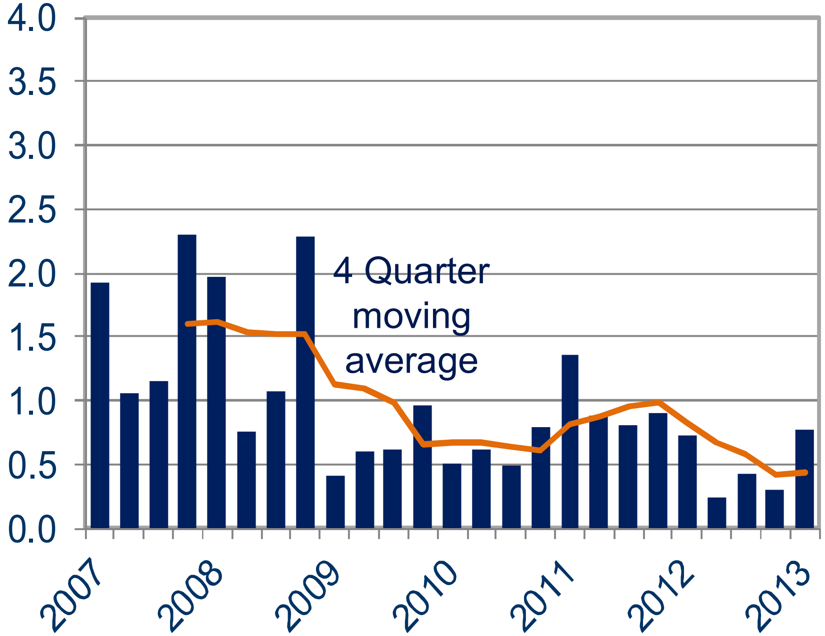
Source: Real Capital Analytics, Schroders. May 2013.
Note that data refer only to retail, office and industrial transactions. Late reporting means figures for last two quarters are often subsequently revised up.

Italian and Spanish investment markets

Sentiment is beginning to improve, but liquidity is still sporadic

Italy

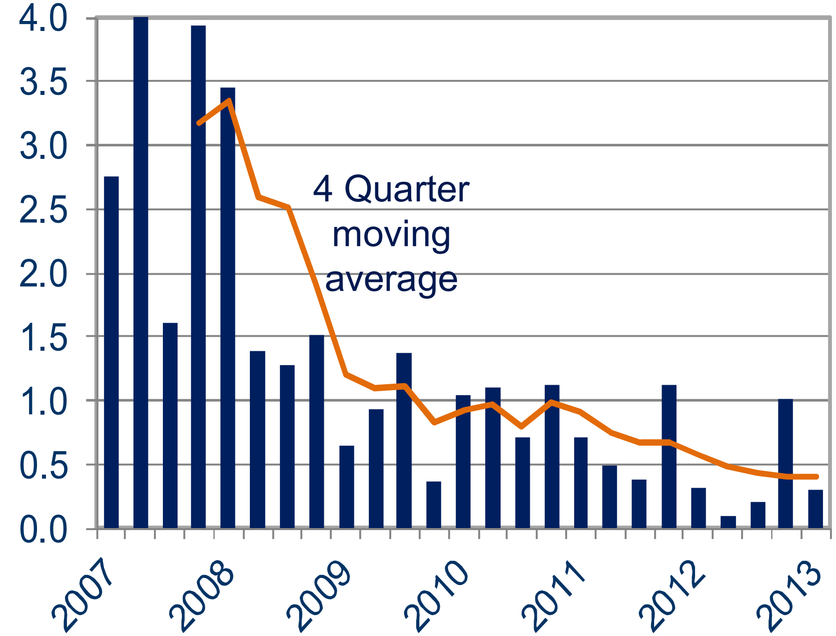
€ billion



2007	2008	2009	2010	2011	2012
€6.4bn	€6.1bn	€2.6bn	€2.4bn	€3.9bn	€1.78bn
Foreign Investors		-	41%	39%	52%

Spain

€ billion



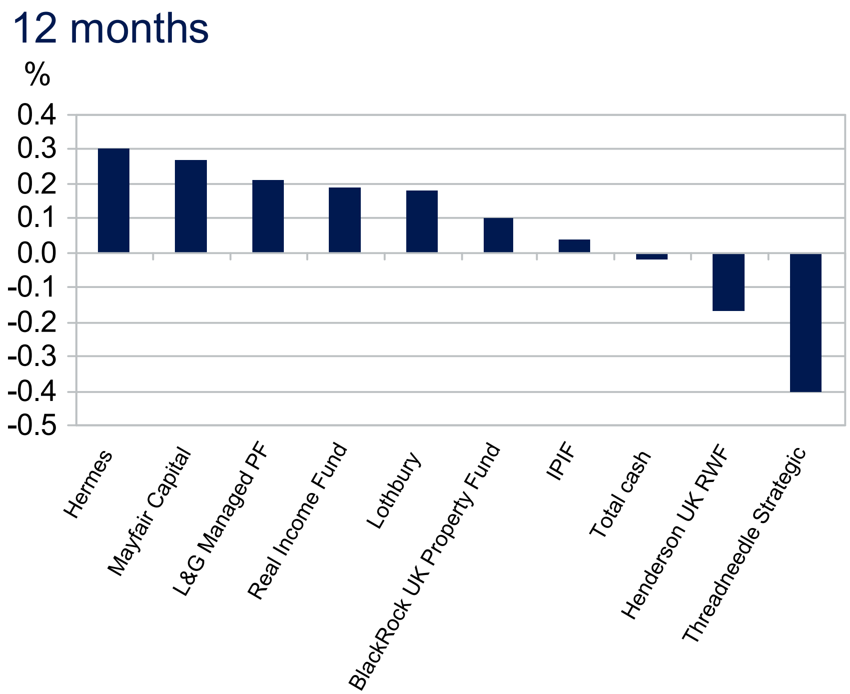
2007	2008	2009	2010	2011	2012
€12.7bn	€7.6bn	€3.3bn	€4.0bn	€2.7bn	€1.6bn
Foreign Investors		-	57%	47%	45%

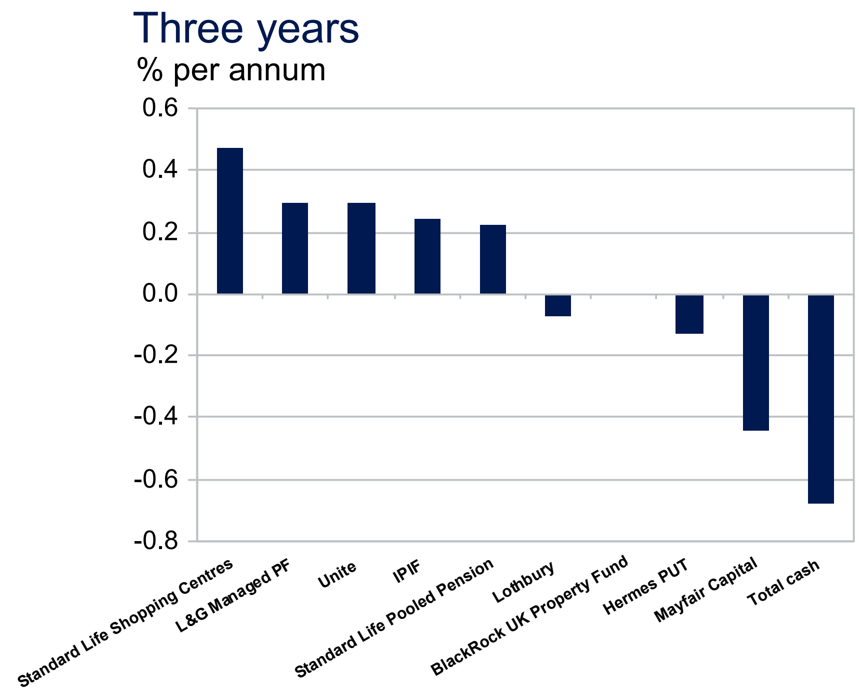
Source: Real Capital Analytics, Schroders. May 2013.
Note that data refer only to retail, office and industrial transactions. Late reporting means figures for last two quarters are often subsequently revised up.

UK market overview

UK performance

UK contributions relative to benchmark by stock



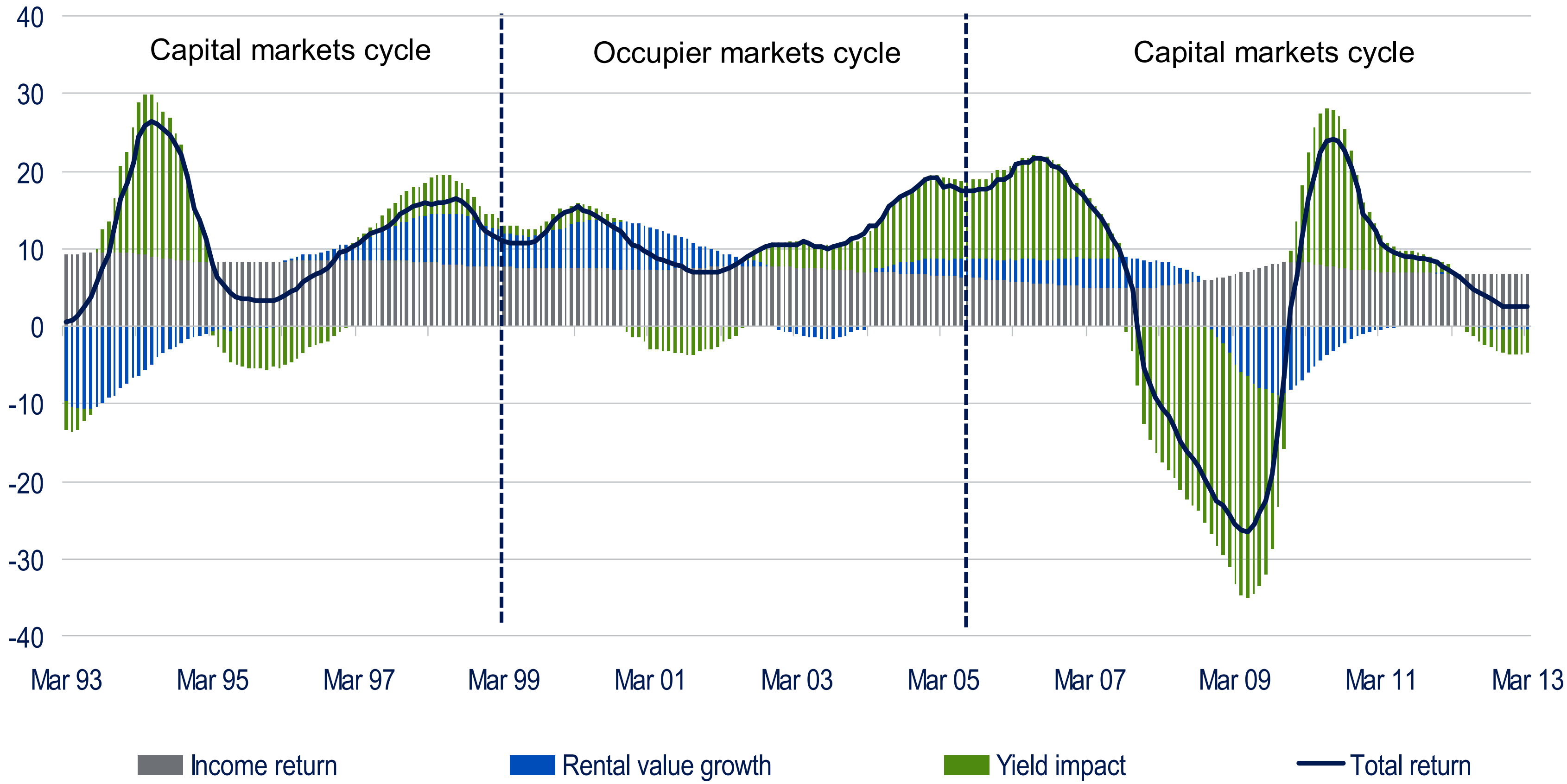


*Benchmark is AREF/IPD UK Pooled Property Fund Indices All Balanced Funds Weighted Average. Total performance presented gross of fees.
Past Performance is not a guide to future performance and may not be repeated. Please refer to the Important Information at the back of this document regarding past performance.
Source: Schroders, 31 March 2013

UK market overview

Income has been a consistent driver of returns

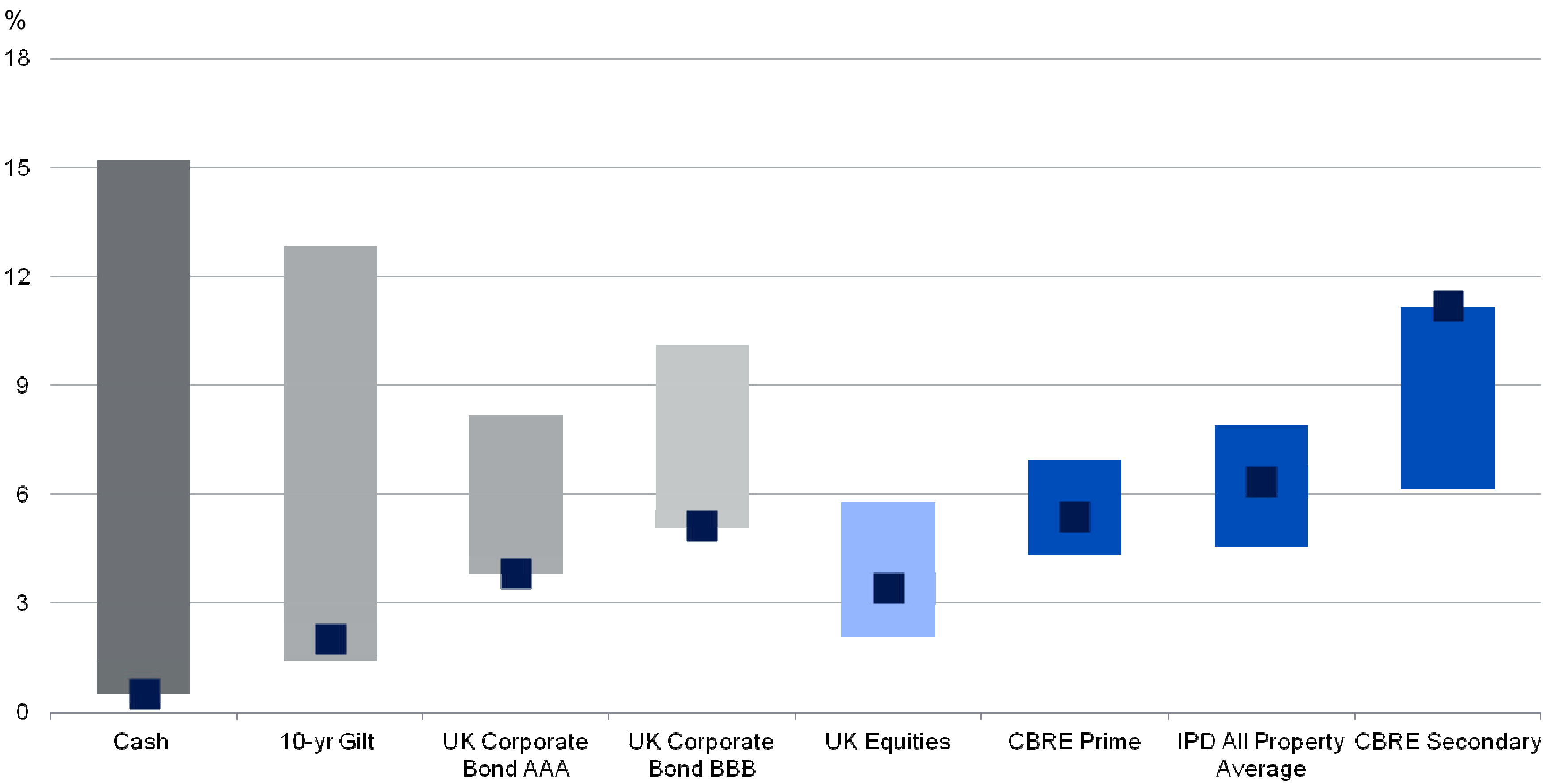
Components of UK property market returns: rolling 12m return (%)



Source: IPD Monthly Index, Schroders, March 2013

UK market overview

Current yields versus long term ranges*



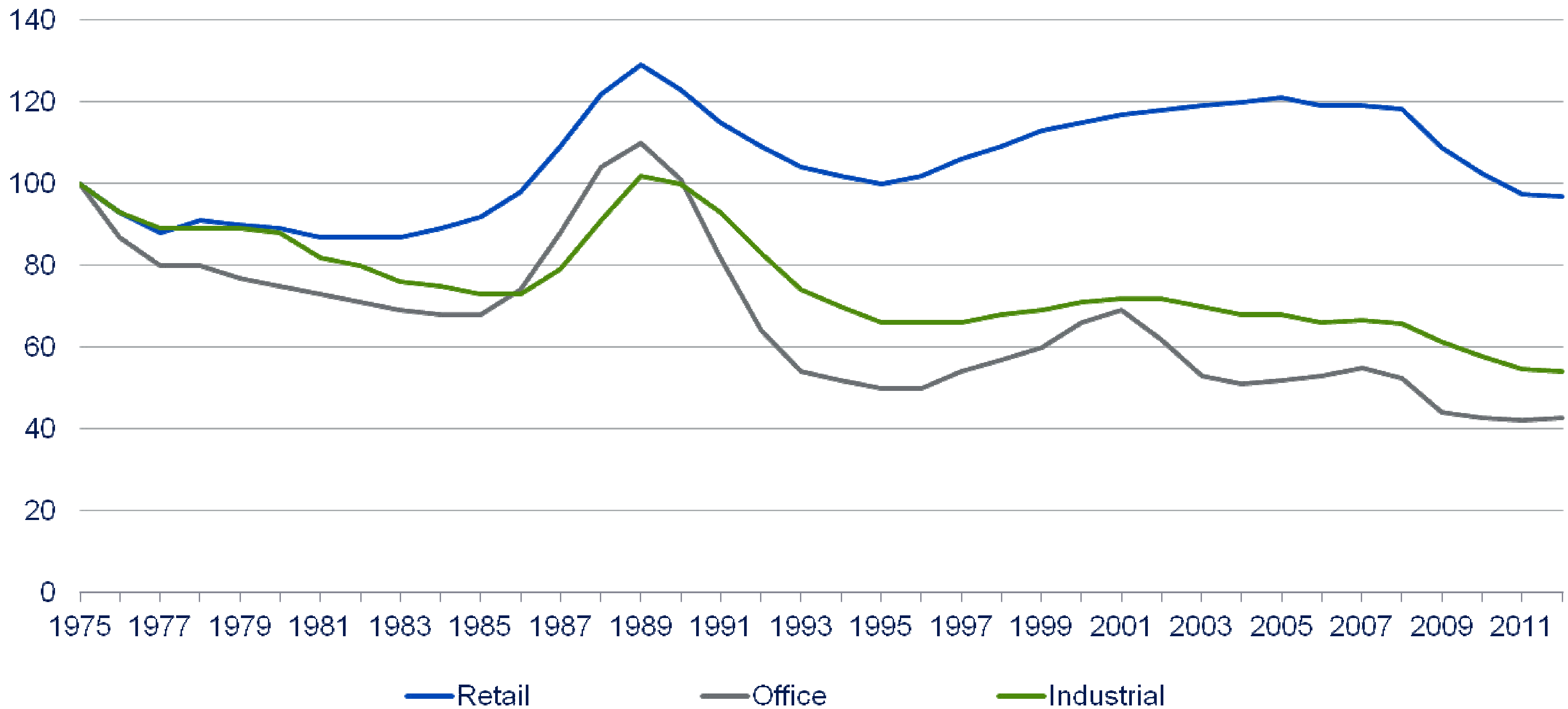
*Longest time period selected for each data series, based on availability of data, so 'long term' covers varying time periods. Shortest time period relates to secondary UK real estate (13 years). Other data covers 15 year periods or longer.

Source: Schroders, Datastream, March 2013

UK market overview

Retail rents still relatively expensive in real terms

Real rental value growth, 1975=100

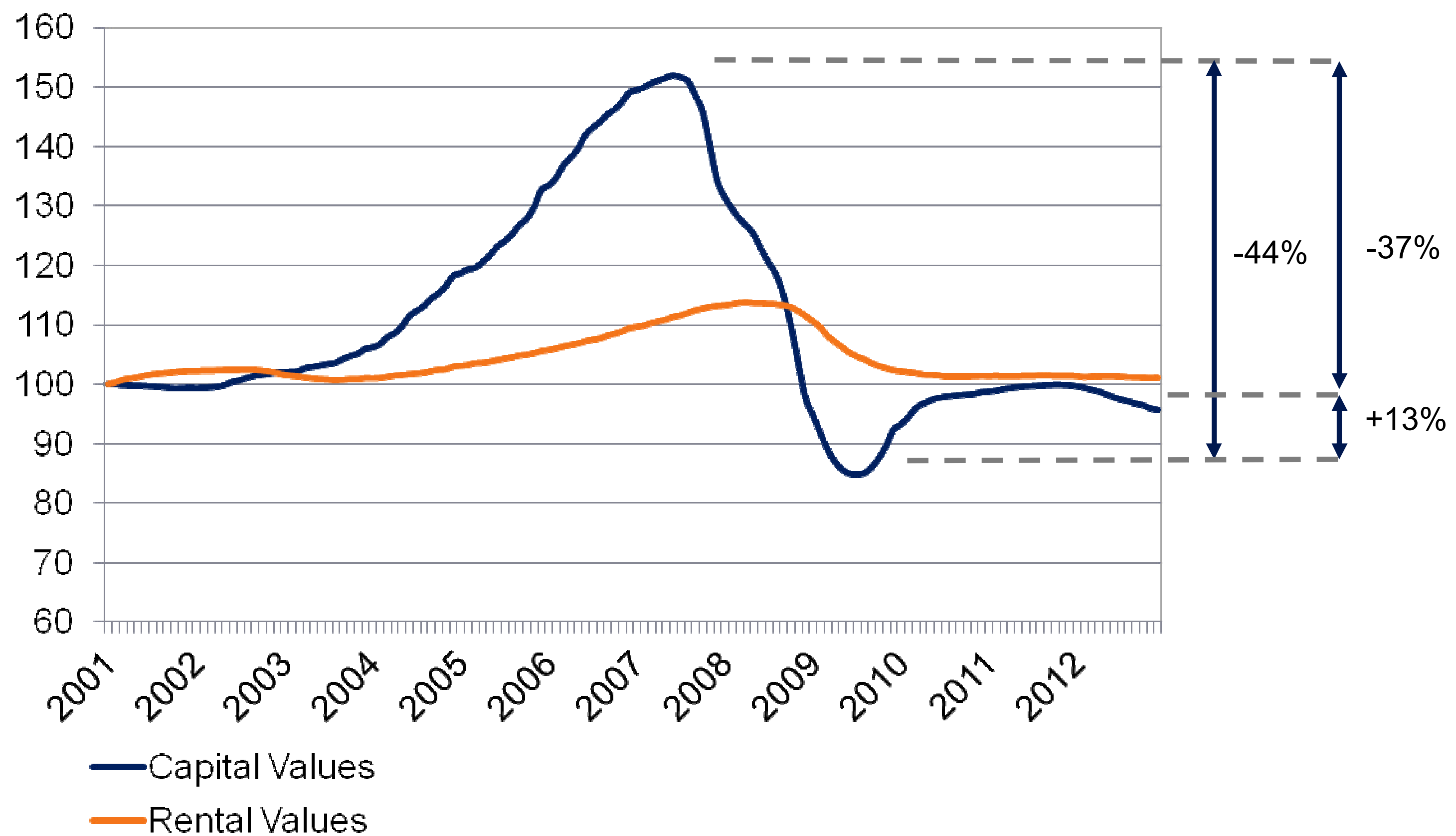


Source: IPD, December 2012

UK market overview

Commercial capital values are back in touch with rental values

Jan 2001 = 100, nominal terms



Source: IPD Monthly Index, Schroders. January 2013

UK market overview

Quarter 2 2013

- Most occupational markets are likely to remain subdued in 2013, with tenants waiting for signs of a sustained recovering in the economy before committing to new space.
- There are some bright spots. We expect to see an increase in logistic requirements from retailers on the edge of big cities to accommodate the growth in e-commerce and the need for same day delivery.
- Leisure spend also continues to be remarkably resilient; whilst consumers are increasingly buying music and films through online channels, cinema and restaurant operators have successfully embraced the internet by using vouchers and special offers to entice new customers.
- The key to performance will be positioning portfolios towards growth. The central London office market is expected to deliver strong rental growth from 2014, whilst away from the capital we continue to favour areas of the market where rents have rebased and offer potential.
- With a shortage of available stock, an increase in debt and equity investors still active, we believe that some money will switch away from prime, long-lease properties and into growth assets.
- We are forecasting all property total returns of 6.6% p.a. out to 2017. Rental growth of 1.2% p.a. will prop up capital values under pressure from upward yield movement. The income return will hold steady at 5.8% p.a. over this horizon.

Source: Schroders, May 2013

Constructing a bespoke multi-manager portfolio

Constructing a bespoke multi-manager portfolio

The case for property multi-manager

- Diversification across all sectors
- Access to major sectors and across lot sizes
- Very low asset or tenant specific risk

Value is added through:

- Access to specialist opportunities and managers
- Negotiation of best terms and prices
- Creation of bespoke products
- Potential for lower transaction costs
- Out-sourced governance

1. Kensington Village owned by Schroder UK Property Fund
2. Westcott Venture Park owned by Rockspring Hanover Property Unit Trust
3. Sainsbury's in Cheltenham owned by Hermes Property Unit Trust

The examples shown above are for illustrative purposes only and are not to be considered a recommendation to buy/sell. Schroder Exempt Property Unit Trust is now named Schroder Property Fund. The fund converted to a Property Authorised Investment Fund on 31 July 2012.
Source: AREF/IPD UK Pooled Property Fund Indices and Schroders, 31 March 2013

Constructing a bespoke multi-manager portfolio

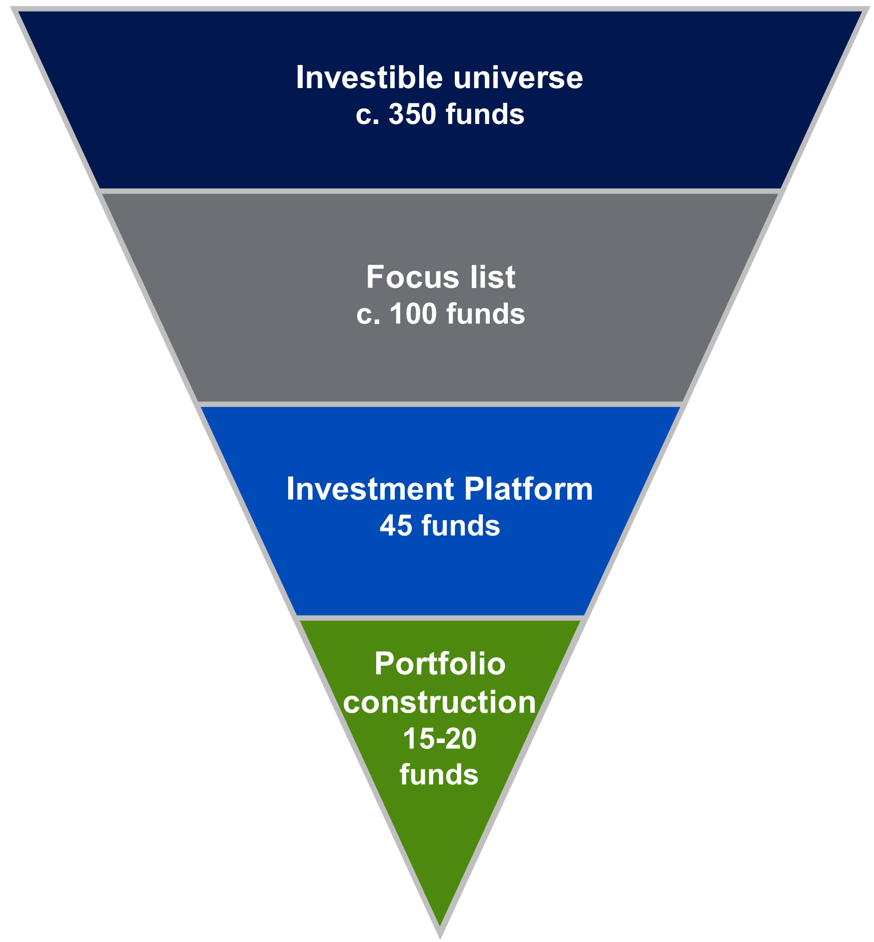
Fund considerations

	Characteristics	
Core	Open ended – with notice periods and deferral mechanisms Usually diversified across sectors and regions Generalist manager May be a constituent of the benchmark Income and rental growth should be the primary contributors to returns Low leverage and some cash for liquidity should be expected	 Electra: Schroder Exempt Property Unit Trust
Value Add	Closed ended Sector, region or style specific Specialist manager Targets higher returns than core May use leverage May have a secondary market for units	 Craigleith: Henderson UK Retail Warehouse Fund
Opportunity	Designed to take advantage of market “opportunities”: timing or stock Lower income – focussed on capital gains through asset management Typically higher leverage: over 60% LTV Unlikely to have a secondary market for units	 Borehamwood: Gresham Real Estate Fund II

Source: Schroders

Constructing a bespoke multi-manager portfolio

Fund screening and monitoring process



Source: Schroders, 31 March 2013

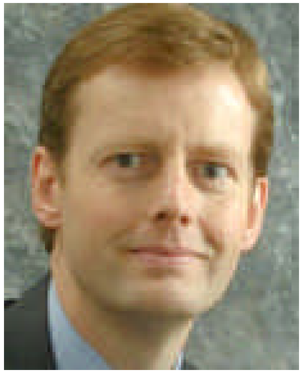
The examples shown above are for illustrative purposes only and are not to be considered a recommendation to buy/sell.

Curriculum vitae

Curriculum vitae

Geoffrey Day – Client Director

- Client Director in our dedicated Client Servicing team, based in London
- Joined Schroders in 1996
- Jointed Flemings as a fund manager for pension funds and charity clients in 1987. Investment career commenced in 1980
- Degree in Business Studies, University of Plymouth



Jennifer Murray – Property Fund Manager, Property Multi-Manager

- Eighteen years investment experience
- Joined Schroders in 1999
- Since 2005 fund manager for segregated property multi-manager portfolios and fund advisor to The Schroder Indirect Real Estate Fund. Based in London
- In 2003 became the fund manager of Schroder Emerging Retail Property Unit Trust (SERPUT), an award winning fund.   Previously retail asset manager for Schroder Exempt Property Unit Trust (SEPUT)
- Investment career began in 1994 at Weatherall Green & Smith where she qualified as a chartered surveyor, working in investment valuation, management and agency
- Member of the Royal Institution of Chartered Surveyors
- MA (Hons) in Geography, University of St Andrews. MSc in Land Management and Development, University of Reading

Curriculum vitae

Rob Bingen – Head of Property Securities and Global Solutions

- Rob is Head of Property Securities and Global Solutions, an expanding area in conjunction with Schroders' multi asset team. He sits on Schroders central property investment committee which reviews all direct investment activities and is a member of the property asset allocation committee.
- Joined Schroders in October 2007, based in Amsterdam. Eighteen years investment experience.
- Fund manager of Schroder Real Estate Fund of Funds – Continental European Fund I and II
- Senior Portfolio Manager since 1998 at ABP. Responsible for sourcing, structuring, negotiating and managing in excess of €1.6 billion of equity investments in more than 25 different funds, private equity and joint venture transactions in Europe
- Joined PVF Pensions in 1994 (now part of Foreign & Colonial) as Portfolio Manager. Responsible for the global listed real estate portfolio. Within PVF, initiated the creation of mortgage finance (pooled) funds for clients
- Academic degree in economics from the University of Amsterdam. Completed VBA course
- Former Board Member of INREV and Co-Chair of the Performance and Benchmarking Committee

Important information

Participation in the Schroder Property multi-manager service may involve investment in various asset classes including property equity and collective investment schemes ("Funds") within the meaning of Section 235 of the Financial Services and Markets Act 2000 ("FSMA"). Most of these Funds are not authorised unit trust schemes, OEICs or recognised schemes within the meaning of the FSMA and therefore constitute unregulated collective investment schemes.

Investors and potential investors should be aware that past performance is not a guide to future returns. No warranty is given, in whole or in part, regarding performance of the portfolio and there is no guarantee that the investment objectives will be achieved. The value of units and other investments and the income from them may fluctuate upwards or downwards and cannot be guaranteed. Property-based pooled vehicles such as property unit trusts, invest in real property, the value of which is generally a matter of a valuer's opinion. It may be difficult to deal in the units or to sell them at a reasonable price, thus creating a liquidity risk. There may be no recognised market for units in the Funds and, as a result, reliable information about the value of units in the Funds or the extent of the risks to which they are exposed may not be readily available. A potential conflict with the Manager's duty to the client may arise where the Manager invests in units in a Fund(s) managed by itself or an Associate. However the Manager will ensure that such transactions are effected on terms which are not materially less favourable than if the potential conflict had not existed.

This document is intended for the use of the addressee or recipient only and may not be reproduced, redistributed, passed on or published, in whole or in part, for any purpose, without the prior written consent of Schroder Property Investment Management Limited ("SPrIM"). This document is not an offer or a solicitation to acquire or dispose of an interest in any investment instruments described herein. Any terms contained in this document are indicative terms for discussion purposes only and are not intended to provide the sole basis for evaluation of any instruments described. Neither this document nor any other statement (oral or otherwise) made at any time in connection herewith is an offer, invitation or recommendation to acquire or dispose of any investment or to enter into any transaction.

The opinions, intentions, expectations and beliefs contained in this document, unless otherwise stated, are those of SPrIM. The information and opinions and associated estimates and forecasts contained herein have been obtained from or are based on sources believed by us to be reliable, but no responsibility can be accepted for error of fact or opinion. The estimates and forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors. This does not exclude or restrict any duty or liability that SPrIM has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system.

For the purposes of the Data Protection Act 1998, the data controller in respect of any personal data you supply is Schroder Property Investment Management Limited. Personal information you supply may be processed for the purposes of investment administration by any company within the Schroders Group and by third parties who provide services and such processing may include the transfer of data outside of the European Economic Area. Schroder Property Investment Management Limited may also use such information to advise you of other services or products offered by the Schroder Group unless you notify it otherwise in writing.

Schroder Property Investment Management Limited
31 Gresham Street
London
EC2V 7QA
Registration No 1188240 England
Schroder Property Investment Management Limited is authorised and regulated by the Financial Conduct Authority.

The Shetland Islands Council Pension Fund

Graham Jung, Director

5 June 2013

Page intentionally blank for printing purposes

Agenda

1. An update on BlackRock

2. Your portfolio at BlackRock

3. Corporate governance

4. Market outlook and trends

An update on BlackRock

BlackRock at a glance

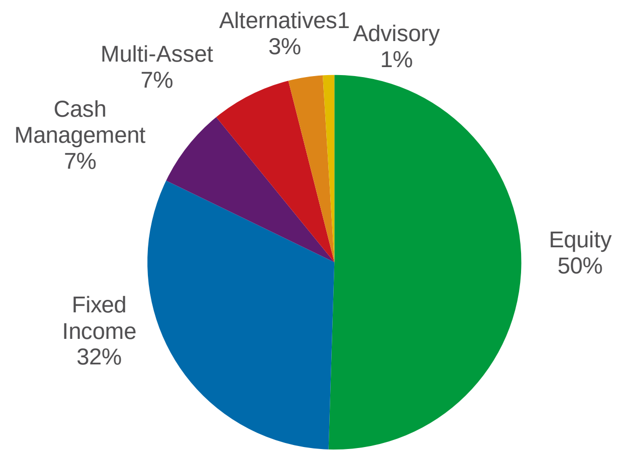
BlackRock Mission Statement

Create a better financial future for our clients by building the most respected investment and risk manager in the world

BlackRock facts

- Established in 1988 and public since 1999 (NYSE: BLK)
- Independent with no majority shareholder
- $3.94 trillion assets under management
- Broad product range available through mutual funds, ETFs, commingled funds, and separate accounts
- 22 primary investment centers
- 68 cities in 30 countries
- Over 10,000 employees; Over 1,600 investment professionals
- Fiduciary model/culture - no proprietary trading
- BlackRock Solutions® oversees $14.2 trillion in assets
- Financial Markets Advisory Group advises public and private financial institutions on key assignments
- Dedicated transitions team helps clients change investment exposure, minimizing risk and cost

$3.94 trillion managed across asset classes



$3.94 trillion in assets as of 31 March 2013
[1]Includes commodity and currency mandates

As of 31 March 2013

Your portfolio at BlackRock

Shetland Islands Council Pension Fund - asset allocation as at 31 March 2013

Fund Name / Asset Class	Value (£000s)	Weight (%)	Benchmark Allocation (%)
Aquila Life UK Equities	122,088	42.8	42.9
BlackRock Europe ex-UK Equities	40,782	14.3	14.0
BlackRock North American Equities	29,364	10.3	9.9
BlackRock Japanese Equities	28,914	10.1	9.5
BlackRock Pac Basin ex Japan Equities	28,690	10.0	9.5
Gilts (Gilttrak)	13,305	4.6	5.0
BlackRock UK Corporate Bond Index Fund	12,188	4.3	5.0
ICS Sterling Liquidity Fund / Cash	9,892	3.5	4.2
Total	**285,263**	**100.0**	**100.0**

Note: Asset allocation columns may be subject to minor rounding differences.

Source: BlackRock

Shetland Islands Council Pension Fund - performance to 31 March 2013

	Q3 2012 (%)		12 Months (%)		3 Years (%)	
Portfolio	**Account**	**Benchmark**	**Account**	**Benchmark**	**Account**	**Benchmark**
Aquila Life UK Equities	10.35	10.32	16.81	16.77	8.81	8.78
BlackRock Europe ex-UK Equities	10.31	10.09	17.40	16.79	3.68	3.18
BlackRock North American Equities	17.39	17.40	18.22	18.16	11.24	11.21
BlackRock Japanese Equities	19.46	19.50	14.22	14.21	3.30	3.32
BlackRock Pac Basin ex Japan Equities	14.58	14.56	26.15	26.08	9.66	9.62
BlackRock UK Corporate Bonds	1.68	1.68	12.15	11.97	8.75	8.62
BlackRock UK Gilts	0.58	0.70	4.87	5.25	7.81	8.21
Cash	0.10	0.09	0.60	0.38	0.62	0.42
Total	**11.02**	**10.89**	**16.31**	**16.21**	**7.74**	**7.71**

The returns shown are client specific, in sterling and gross of fees unless otherwise stated.

.

Source: BlackRock

Corporate governance

Our Corporate Governance Philosophy

As a fiduciary investor, our primary duty is to act in our clients' best interests

As a long-term investor, with significant investment in index-tracking strategies, we're patient and persistent in working with our portfolio companies to build trust and develop mutual understanding.

As a large investor we are able and feel a responsibility to monitor the companies in which we invest and to engage with them **constructively and privately** where we believe that would help protect shareholders' interests.

We don't try to micro-manage companies; we present our views as a long-term shareholder and listen to companies' responses.

We don't discuss company engagements publicly because you don't need to make headlines to protect shareholder value.

We will vote against management when we judge that direct engagement has failed.

Engagement with portfolio companies

BlackRock believes engagement is a means to protect and enhance the value of our clients' assets

Our approach to engagement has long been one of having a private dialogue with companies, setting out our views and discussing ways that any concerns could be addressed

Triggers for engagement

- Corporate governance concerns (e.g., board/management weakness; remuneration; accounting issues; weak shareholder rights; disclosure; social, ethical or environmental impacts; etc.)
- Historic underperformance of share price
- Complicated or controversial items on general meeting agenda
- Portfolio Screening

Forms of engagement

- Discussion with executive management
- Discussion with non-executive directors
- Face-to-face meetings with management or board members
- Engagement with other shareholders (where appropriate)
- Communication with company's advisors
- Proxy voting

Typical topics addressed

- Corporate governance
  - Shareholder rights / governance structures
  - Board effectiveness, composition, refreshment
  - Social, ethical, environmental risks
- Strategy
  - Growth drivers
  - Portfolio of business
  - Key risks
- Financial performance / sustainability
- Operations

Market outlook and trends

Market outlook

Macro Views

- **Risk Assets** - Low market volatility and supportive policy provides support for risk assets over cash & government bonds.
- **Developed Markets** – Preference for US equity due to household and employment market improvements.
- **Emerging Markets** – China still growing but structural issues exist. Inflation is replacing 'hard landing' as the key risk - shifting central bank policies from easy to neutral. Prefer specific countries (ASEAN, Mexico)

Key Uncertainties

- **Political** elections remaining – Iran (June), Germany (Sept/Oct)
- **Geopolitical** tensions
- **Low volatility** could rise

Asset Classes

- **Equities** – Prefer US on private sector support, UK mid caps on benefit of sterling weakness, and Japan on aggressive Bank of Japan action.
- **Fixed Income** – Prefer High Yield bonds within credit, due to benign corporate conditions and yield cushion against interest rate rises.
- **Commodities** – Energy – Market is roughly balanced, Iran election is June is a wild card. Lack of demand and fears of the end of QE have reduced the attraction of metals
- **Currency** – Prefer US Dollar on domestic fundamentals and 'safe haven' status over Japanese Yen and Euro

Source: BlackRock
Views shown are representative of the BlackRock Multi-Asset Strategies team as at March 2013 and may be subject to change

Trends in Local Government Pension Scheme investment

Equities

- Alternative passive approaches
  - Small cap
  - Emerging markets
- Diversifying into other growth assets

Bonds

- Active credit mandates
- Liability Driven Investment (LDI)
  - Inflation-only hedging
  - 'Active' LDI

Alternative assets - Secure Income

- Infrastructure
- Long lease property

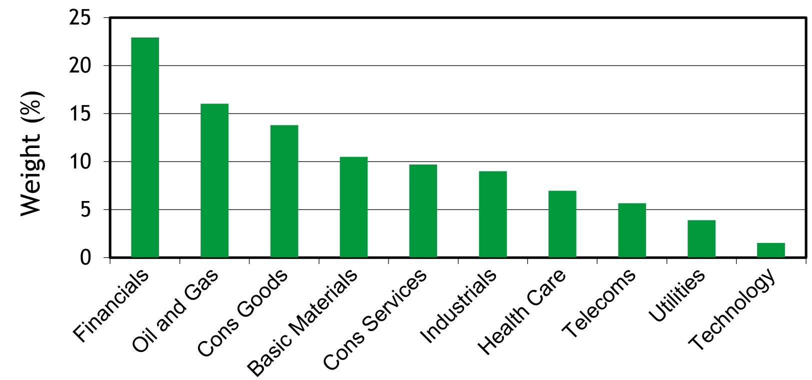
Appendix

Q1 2013 – Aquila Life UK Equity Index Fund

Fund Details	
Index	FTSE All Share
Number of stocks	630
Number of countries	1
Fund AUM	£23,214m
Replication technique	Full Replication

Performance to 31/03/13	Fund (%)	Index (%)
Q1	10.3	10.3
1 year	16.8	16.8
3 years p.a.	8.8	8.8
Since inception p.a. (Sep-94)	8.0	8.0

Sector Composition



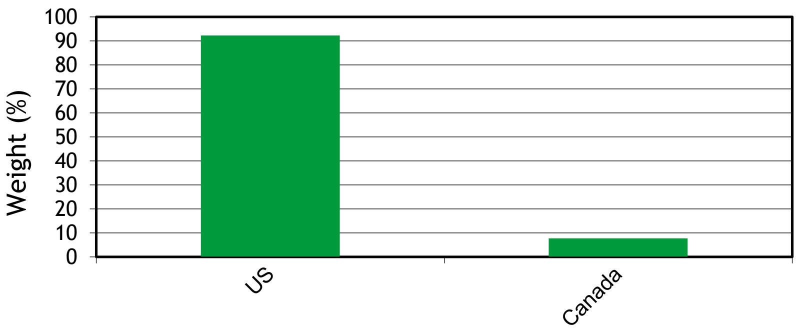
Top Ten Stocks	Sector	Weight (%)
HSBC	Financials	6.6
Vodafone	Telecoms	4.7
BP	Oil and Gas	4.5
Royal Dutch Shell A	Oil and Gas	4.1
GlaxoSmithKline	Health Care	3.9
British American Tobacco	Cons Goods	3.5
Royal Dutch Shell B	Oil and Gas	2.9
Diageo	Cons Goods	2.7
AstraZeneca	Basic Mat	2.1
BHP Billiton	Basic Mat	2.1

Source: BlackRock as at 31 December 2012. Performance is gross of management fees, net of admin & custody and based on closing prices, with net income reinvested. Past results are not necessarily indicative of future results.

Q1 2013 – North America Index Fund

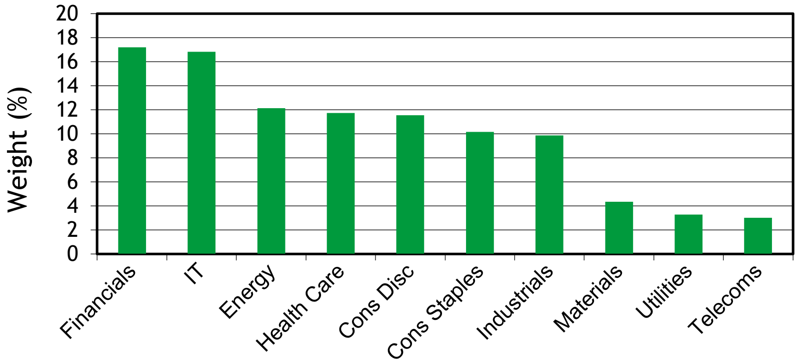
Fund Details	
Index	MSCI North America Index
Number of stocks	699
Number of countries	2
Fund AUM	$1,938m
Replication technique	Full Replication

Top Ten Countries



Performance to 31/03/13	Fund (%)	Index (%)
Q1	9.66%	9.67%
1 year	12.35%	12.30%
3 years p.a.	11.30%	11.25%
5 years p.a.	4.91%	4.85%

Sector Composition



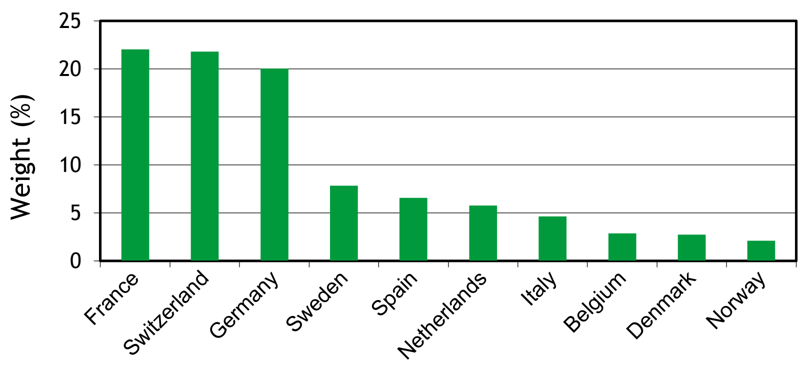
Top Ten Stocks	Country	Weight (%)
Exxon Mobil Corp	US	2.60
Apple	US	2.53
General Electric Co	US	1.52
Chevron Corp	US	1.47
IBM Corp	US	1.43
Johnson & Johnson	US	1.43
Microsoft Corp	US	1.36
Procter & Gamble Co	US	1.34
Google A	US	1.33
Pfizer	US	1.33

Source: BlackRock as at 31 March 2013. Performance is gross of management fees, net of admin & custody and based on closing prices, with net income reinvested. Past results are not necessarily indicative of future results.

Q1 2013 – Europe ex-UK Index Fund

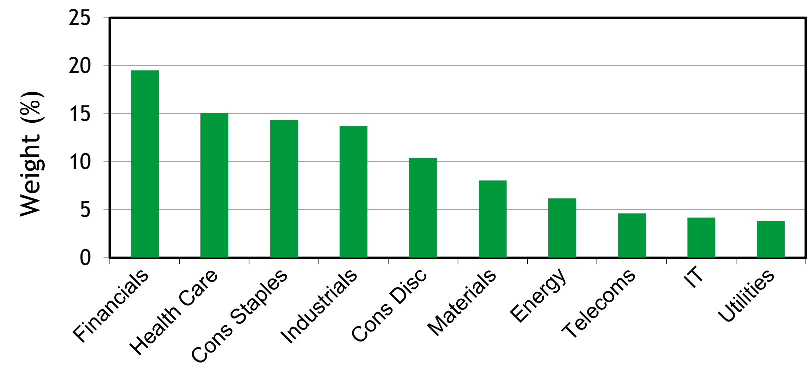
Fund Details	
Index	MSCI Europe ex UK Index
Number of stocks	332
Number of countries	15
Fund AUM	$1,964m
Replication technique	Full Replication

Top Ten Countries



Performance to 31/03/13	Fund (%)	Index (%)
Q1	5.63%	5.58%
1 year	15.71%	15.11%
3 years p.a.	5.59%	5.03%
5 years p.a.	1.25%	0.72%

Sector Composition



Top Ten Stocks	Country	Weight (%)
Nestlé	Switzerland	4.86
Roche	Switzerland	3.41
Novartis	Switzerland	3.41
Sanofi	France	2.53
Total	France	2.13
Siemens	Germany	1.88
Bayer	Germany	1.78
BASF	Germany	1.68
Anheuser-Busch Inbev	Belgium	1.66
SAP	Germany	1.54

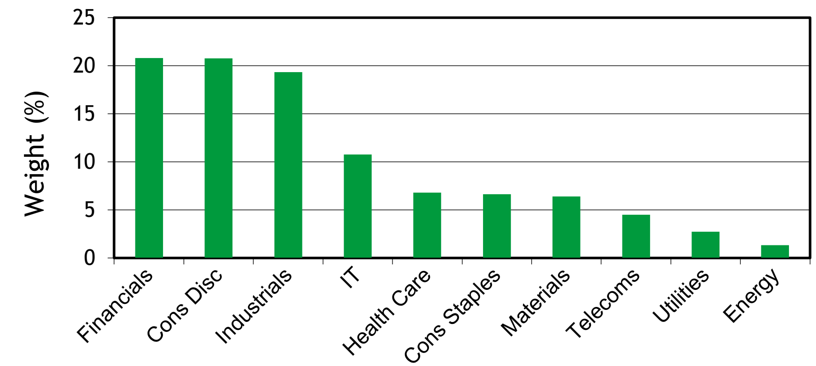
Source: BlackRock as at 31 March 2013. Performance is gross of management fees, net of admin & custody and based on closing prices, with net income reinvested. Past results are not necessarily indicative of future results.

Q1 2013 – Japan Index Fund

Fund Details	
Index	MSCI Japan Index
Number of stocks	317
Number of countries	1
Fund AUM	$957m
Replication technique	Full Replication

Performance to 31/03/13	Fund (%)	Index (%)
Q1	11.64%	11.63%
1 year	8.60%	8.54%
3 years p.a.	3.41%	3.35%
5 years p.a.	-0.45%	-0.52%

Sector Composition



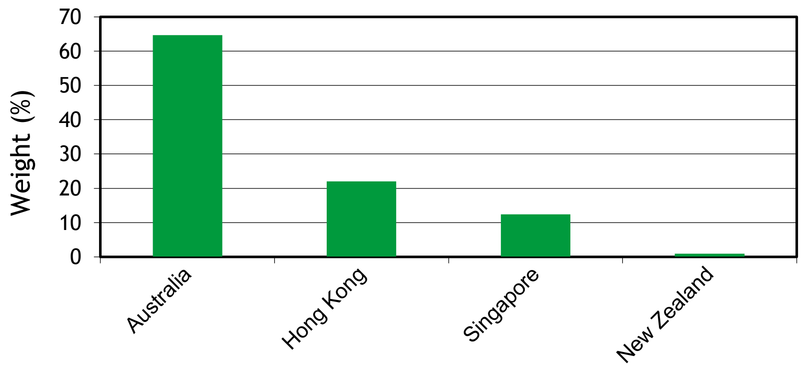
Top Ten Stocks	Sector	Weight (%)
Toyota	Cons Disc	5.93
Mitsubishi UFJ Financial Group	Financials	3.06
Honda Motor	Cons Disc	2.55
Sumitomo Mitsui Financial Group	Financials	2.20
Mizuho Financial Group	Financials	1.97
Softbank	Telecoms	1.82
Canon	IT	1.72
Takeda Pharmaceutical	Health Care	1.70
Japan Tobacco	Cons Staples	1.45
Mitsubishi Estate	Financials	1.41

Source: BlackRock as at 31 March 2013. Performance is gross of management fees, net of admin & custody and based on closing prices, with net income reinvested. Past results are not necessarily indicative of future results.

Q1 2013 – Pacific Rim ex-Japan Index Fund

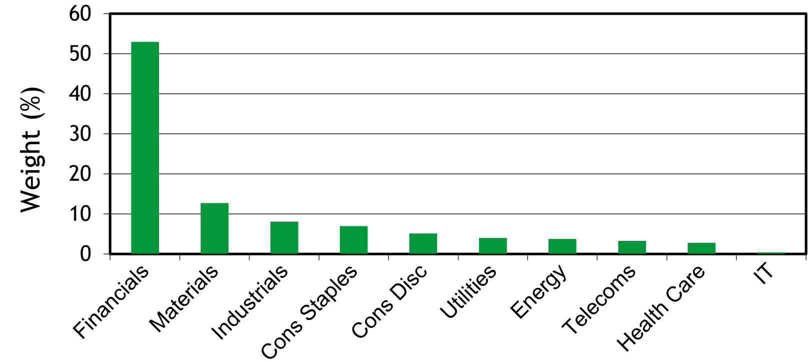
Fund Details	
Index	MSCI Pacific Rim ex Japan
Number of stocks	145
Number of countries	4
Fund AUM	$598m
Replication technique	Full Replication

Top Ten Countries



Performance to 31/03/13	Fund (%)	Index (%)
Q1	7.04%	7.02%
1 year	19.89%	19.82%
3 years p.a.	9.72%	9.65%
5 years p.a.	6.27%	5.98%

Sector Composition



Top Ten Stocks	Country	Weight (%)
Commonwealth Bank	Australia	7.01
BHP Billiton	Australia	6.74
Westpac Banking	Australia	6.07
Australia and New Zealand Banking Group	Australia	4.97
National Australia Bank	Australia	4.59
AIA Group	Hong Kong	3.25
Woolworths	Australia	2.67
Wesfarmers	Australia	2.59
CSL	Australia	1.90
Rio Tinto	Australia	1.60

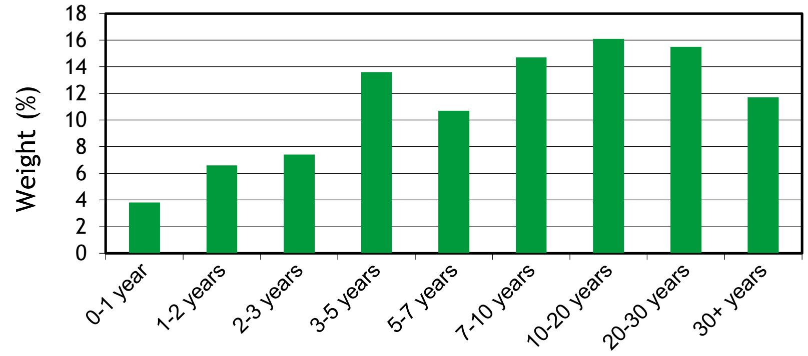
Source: BlackRock as at 31 March 2013. Performance is gross of management fees, net of admin & custody and based on closing prices, with net income reinvested. Past results are not necessarily indicative of future results.

Q1 2013 – GiltTrak Fund

Fund Details	
Index	FTSE UK Gilts All Stock Index
Number of stocks	39
Number of countries	1
Fund AUM	£156.8m
Replication technique	Full Replication

Performance to 31/03/13	Fund (%)	Index (%)
Q1	0.59	0.70
1 year	4.88	5.25
3 years p.a.	7.83	8.21
Since inception p.a. (Sep-00)	5.67	6.02

Fund maturity allocation



Top Ten Issues	Maturity	Weight (%)
UK Conventional Gilt 5.0%	9-7-2014	4.04
UK Conventional Gilt 4.0%	3-7-2022	3.94
UK Conventional Gilt 5.0%	3-7-2025	3.81
UK Conventional Gilt 5.0%	3-7-2018	3.77
UK Conventional Gilt 4.5%	3-7-2019	3.58
UK Conventional Gilt 4.0%	9-7-2016	3.52
UK Conventional Gilt 4.25%	6-7-2032	3.44
UK Conventional Gilt 4.75%	9-7-2015	3.41
UK Conventional Gilt 4.75%	3-7-2020	3.34
UK Conventional Gilt 4.75%	12-7-2030	3.27

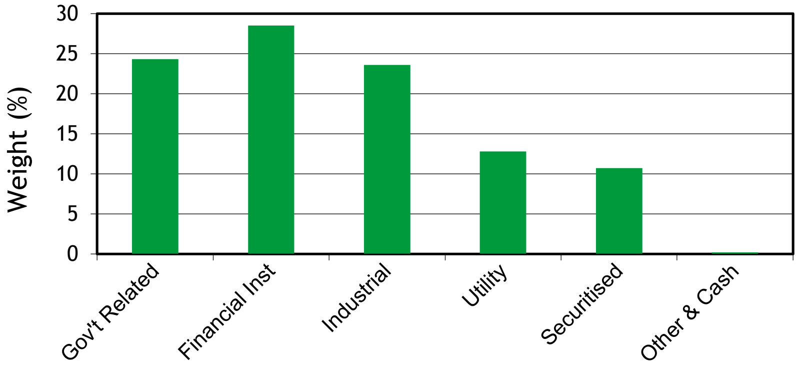
Source: BlackRock as at 31 March 2013. Performance is gross of management fees, net of admin & custody and based on closing prices, with net income reinvested. Past results are not necessarily indicative of future results.

Q1 2013 – UK Corporate Bond Index Fund

Fund Details	
Index	iBoxx £ Non-Gilt Index
Number of stocks	993
Number of countries	1
Fund AUM	£840m
Replication technique	Full Replication

Performance to 31/03/13	Fund (%)	Index (%)
Q1	1.68	1.68
1 year	12.15	11.97
3 years p.a.	8.80	8.62
Since inception p.a. (Sep-00)	6.74	6.45

Fund sector allocation



Top Ten Issues	Maturity	Weight (%)
European Inv Bank 6.00%	12-7-2028	1.05
KFW Bankengruppe 6.00%	12-7-2028	0.80
European Inv Bank 5.625%	6-7-2032	0.63
KFW Bankengruppe 5.55%	6-7-2021	0.62
European Inv Bank 4.375%	8-7-2015	0.55
Barclays Bank Plc 10.0%	21-5-2021	0.52
European Inv Bank 3.375%	9-8-2014	0.52
Barclays Bank Plc 14.0%	31-12-2049	0.49
European Inv Bank 3.375%	9-8-2014	0.47
KFW Bankengruppe 5.50%	12.7-2015	0.47

Source: BlackRock as at 31 March 2013. Performance is gross of management fees, net of admin & custody and based on closing prices, with net income reinvested. Past results are not necessarily indicative of future results.

For further information

Graham Jung

Graham jung@blackrock.com T: +44 (0) 20 7743 4532 F: +44 (0) 20 7743 1000

BlackRock at-a-glance

Some 100 investment teams in 30 countries that cover the world's major financial markets

Diverse client base represented by more than 100 countries

Over 10,000 employees, including more than 1,600 investment professionals

Investment excellence and client service – related awards around the world

The BlackRock advantage

Strength in asset management and a culture of risk management

Focus on problem solving to meet our clients' unique situations

Culture of integrity, transparency, accountability and investment excellence

Global investment platform that maximises local insights

Widely held public company with a majority of independent directors

BlackRock capabilities and services

Investment strategies: Client-driven solutions

Comprehensive risk management

Flexible and targeted exposure

Creative solutions for complex challenges

Global presence, local efforts

BlackRock Investment Management (UK) Limited

12 Throgmorton Avenue, LONDON EC2N 2DL, UNITED KINGDOM

Tel: 020 7743 3000 | Fax: 020 7743 1000 | www.BlackRock.co.uk

Important notes

The following notes should be read in conjunction with the attached document:

- Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Services Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: 020 7743 3000. Registered in England No. 2020394. For your protection telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited.
- Past performance is not a guide to future performance and should not be the sole factor of consideration when selecting a product. All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed. Changes in the rates of exchange between currencies may cause the value of investments to go up and down. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.
- Mandates we manage may be exposed to finance sector companies, as a service provider or as counterparty for financial contracts. In recent months, liquidity in the financial markets has become severely restricted, causing a number of firms to withdrawn from the market, or in some extreme cases, becoming insolvent. This may have an adverse affect on the mandates we manage.
- Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.
- This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.
- This material is for distribution to Professional Clients (as defined by the FSA Rules) and should not be relied upon by any other persons.
- Subject to the express requirements of any client-specific investment management agreement or provisions relating to the management of a fund, we will not provide notice of any changes to our personnel, structure, policies, process, objectives or, without limitation, any other matter contained in this document.
- No part of this material may be reproduced, stored in retrieval system or transmitted in any form or by any means, electronic, mechanical, recording or otherwise, without the prior written consent of BlackRock.

UNLESS OTHERWISE SPECIFIED, ALL INFORMATION CONTAINED IN THIS DOCUMENT IS CURRENT AS AT 5 JUNE 2013.

BLACKROCK®

Agenda Item
2

Shetland Islands Council

Shetland Islands Council **05 June 2013**

Fund Management Annual Investment Report 2012/13	
F-031-F	
Executive Manager Finance	**Corporate / Finance Service**

1.0 Summary

1.1 The purpose of this report is to inform Members on the position and performance of the Council's external investments with fund managers for the financial year 2012/13.

1.2 This report also complies with the consent issued by the Scottish Ministers under the Local Government Investments (Scotland) Regulations 2010, and with the requirements of the CIPFA Code of Practice for Treasury Management in Public Services, in respect of the requirement to report to the Council an annual investment report, which evaluates the Council's investment performance for the previous financial year.

1.3 From this report there are recommendations to note fund manager performance during 2012/13. To note performance as either satisfactory where a manager's performance is above benchmark and target, or to just note performance where the manager's performance was above benchmark but below target, or to note performance as unsatisfactory where the manager's performance was below benchmark.

2.0 Decision Required

2.1 It is recommended that the Council:

- approve the Annual Investment Report for 2012/13 for the purposes of the consent issued by the Scottish Ministers by virtue of section 40 of the Local Government in Scotland Act 2003;

- note with satisfaction the performance of Insight (bond fund) in 2012/13; and

- note the performance of GMO (equity fund) in 2012/13.

- note the performance of Baillie Gifford (equity fund) in 2012/13;

3.0 Detail

3.1 The Council has three fund managers, with total investments under management at the end of March 2013 of £206 million.

3.2 The Council's reserves are currently invested between two equity managers, Baillie Gifford and GMO, and one bond manager Insight. The Council invests in two types of assets, equities and bonds, and the allocation between these is split 75% equities and 25% bonds. Also within equities there is a 50:50 split between UK and Overseas equities. These allocations were set when the investment strategy was last reviewed in 2010/11. Since then markets have moved and funds have been recalled, which has altered these percentages but not sufficiently to warrant any corrective action. As the investments are in assets whose values are constantly changing there has to be flexibility around these initial levels.

3.3 The managers, type of mandate and market value are listed below:

Manager	Mandate	% of Reserves	Market Value £ million 2013	2012
Insight	Bond	26%	53	51
GMO	Equity	32%	66	59
Baillie Gifford	Equity	42%	87	83
			206	193

3.4 Baillie Gifford, Insight and GMO will all give presentations at this Council meeting concerning their investment performance over the year to end March 2013.

3.5 Karen Thrumble will attend the meeting from WM Company, which is part of State Street. WM Company are performance analysts and they independently monitor and report to the Council on each investment manager's performance. Karen will analyse each fund manager's performance relative to the markets they invest in, before that Fund Manager's presentation to the Council.

3.6 Along with this report are attached the presentational documents from Baillie Gifford, Insight and GMO plus a performance report from the WM Company on the relevant funds.

3.7 The external investments of the Council (i.e. other than those invested in the local economy) are co-ordinated by the Council's Treasury function. The Pension Fund and Charitable Trust's reserves (as per Service Level Agreement) are also co-ordinated by the Council's

Treasury function. This approach delivers a unified approach; ensures that all the funds benefit from the knowledge and experience of Council Officers; and provides useful comparisons.

3.8 In this report I will review each fund manager in turn and compare their performance in 2012/13 against the market performance where they were asked to invest, and also against the additional out performance target we asked them to achieve.

3.9 Due to the nature of the investments these managers are investing into, a long term investment view is appropriate, generally a five year period. I will therefore not only look at each manager's performance over 2012/13 but I will also look at their performance over a five year period, or from inception of the mandate if that is shorter.

3.10 In the main, this report concentrates on fund manager performance relative to the markets but we also need to consider the effect of any cash withdrawals or injections to the funds and the performance of the markets themselves. These influences can easily alter the absolute fund value.

3.11 The following table shows the effect on the fund due to withdrawals/additions, the investment return over the financial year to March 2013 and the previous financial year.

	SIC Funds £ million	
	2012/13	2011/12
Opening Value	193	223
(Withdrawals)/Additions	(16)	(36)
Investment Return	29	6
Closing Value	206	193

3.12 During 2012/13 the value of the Council's reserves increased by £13 million.

3.13 The figures show an overall investment return of £29 million during the financial year 2012/13. This equates to an investment return of 15% on the opening fund value. This return is higher than the long-term average return, and is mainly due to some confidence returning to the markets over the final three months of the financial year, along with the fund managers' performance in those markets.

3.14 The withdrawals from the SIC Funds totalled £16 million, £3 million from Insight, £3 million from GMO and £10 million from Baillie Gifford, during the financial year to March 2013. This equates to 8.3% of the opening fund value. These withdrawals are required to cover the Council's revenue deficit and capital works programme.

3.15 The Council aims to keep a working balance in its Bank Account, i.e. a minimum balance of £2 million. Any withdrawals from the investments are to cover payments while maintaining the minimum balance. The decision on where to withdraw funds is based on the investment strategy, performance of managers, asset class returns and from profit positions.

3.16 Cash withdrawals from the Council's reserves of £16 million are unsustainable. Withdrawals of this size over the long term would reduce the reserves further, and are greater than long term average expected returns, on the current reserve's value.

3.17 The 2012/13 market performance by asset class is set out below:

		%
Equities:	UK	16.8
	North America	19.3
	Europe (Ex UK)	18.0
	Japan	14.3
	Pacific (Ex Japan)	18.1
	Emerging	17.6
Bonds:	UK Gilts	5.2
	UK Corporate	12.0
Property		2.5
Cash		0.4

3.18 As can be seen from the asset returns in 2012/13 all asset classes produced positive returns with the major equity sectors producing double digit figures. The fund manager has negligible influence over the market's return but they may be required by the mandate agreement to invest into these markets. The main constituent of a fund's performance is the market return, i.e. where the fund is invested. A fund manager is only asked to outperform the market return, i.e. a UK equity scenario in 2012/13 where a fund manager is asked to outperform the market by 1% would equate to a 17.8% target return.

3.19 This report reviews performance in 2012/13; a quick update for the start of this financial year sees a rising equity market with some confidence coming from America due to improving economic statistics. There are still concerns over Europe due to the economic problems some of the countries continue to face.

3.20 The current investment strategy is at present under review to ensure it is fit for purpose and consistent with the requirements of the Mid Term Financial Review. The results of the investment strategy review will be reported to the Council in the next couple of months.

4.0 Fund Manager Review

4.1 The rest of this report takes each mandate in turn and discusses manager performance.

4.2 A Fund Manager's performance is measured against a specific fund benchmark, which is made up of market indices of the countries where they invest.

4.3 A Fund Manager's target is a level of outperformance above the benchmark that is seen as achievable with a low level of measured risk on a given mandate. The Manager will actively seek to produce investment returns in order to achieve the stated target. Performance at or above target is desirable but any returns above the benchmark will add value to the fund above the market return.

GMO

4.4 GMO was awarded this mandate in February 2007 and they started to manage this mandate in August 2007.

4.5 This fund is invested in equities and is split 60% UK equities and 40% overseas equities. The performance target for this fund is to beat this specific benchmark by 1.0% per annum.

4.6 The following table sets out in summary the performance of GMO versus the benchmark and the performance target in 2012/13, also on a cumulative basis over a five-year investment period.

Fund Performance versus Benchmark and Target

	Fund Return (%)	Performance v Benchmark (%)	Performance v Target (%)
2012/13	17.3	0.1	-0.9
Five years 08/09 to 12/13	42.1	-1.4	-6.1

The performance v benchmark figure gives the percentage that the fund has out or underperformed the benchmark return (market indices).

The performance v target figure gives the percentage that the fund has out or underperformed the set target.

4.7 GMO returned 17.3% in 2012/13, which was 0.1% above the benchmark return and 0.9% below the target. The fund has not only produced a good return during 2012/13 but GMO has slightly outperformed a in a rising equity market.

4.8 On a cumulative basis over the five year rolling monitoring period GMO are 1.4% below the benchmark return and 6.1% below the target return. The fund has over the five year period increased in value by 42.1%, which equates to a return of 7.3% per annum.

4.9 This mandate is invested into two main equity funds, UK and overseas. The UK fund has performed well and is above the market return but it is the overseas fund that has disappointed and underperformed the market, which has dragged down the overall performance.

4.10 Every mandate is reviewed after its initial five-year investment period, and GMO's five-year period concluded during 2012/13. A review of this mandate will be included within the investment strategy report which is currently being prepared by KPMG.

Insight

4.11 Insight has managed this fund since 2001. Insight is owned by Bank of New York Mellon (BONYM). BONYM have various investment businesses throughout the world but generally leave the companies alone to continue with their specialist services.

4.12 Insight's fund is invested against a benchmark comprising 40% in UK Government Gilts, 40% in Corporate Bonds and 20% in a bond fund benchmarked against a 3-month cash index. This benchmark was put in place in March 2011, prior performance data to that date will be compared against Insight's old benchmark which was 80% bonds and 20% cash.

4.13 Insight's performance target for this fund is to beat the specific benchmark by 1.5% per annum.

4.14 The following table sets out in summary the performance of Insight versus the benchmark and the performance target in 2012/13, also on a cumulative basis over a five-year investment period.

Fund Performance versus Benchmark and Target

	Fund Return (%)	Performance v Benchmark (%)	Performance v Target (%)
2012/13	10.4	3.2	1.7
Five years 08/09 to 12/13	43.8	4.9	0.3

The performance v benchmark figure gives the percentage that the fund has out or underperformed the benchmark return (market indices).

The performance v target figure gives the percentage that the fund has out or underperformed the set target.

4.15 Insight returned 10.4% in 2012/13, which was 3.2% above the benchmark return and 1.7% above the target. The Fund has not only produced a good return during 2012/13 but Insight has outperformed in a rising bond market.

4.16 On a cumulative basis over the five-year rolling monitoring period Insight are 4.9% above the overall benchmark return, and 0.3% above the target. The fund has over the five-year period increased in value by 43.8%, which equates to 7.5% per annum.

4.17 Insight has over the long term outperformed the benchmark, added value to the fund, and outperformed the set target.

Baillie Gifford

4.18 Baillie Gifford has managed this fund since 2001. The performance target for this fund is to beat a specific benchmark by 1.5% per annum.

4.19 Baillie Gifford's fund is invested into two of their funds, the UK Alpha Fund 39% (UK equities), and the Global Alpha Fund 61% (overseas equities). These are reasonably aggressive funds, e.g. the Global Alpha Fund holds around 90 stocks throughout the world on a bottom up investment basis giving a high conviction concentrated portfolio. This benchmark was put in place in 2010; prior performance data before that date will be compared against Baillie Gifford's old benchmark which was 73% in UK equities, 23% in overseas equities and 2% in cash.

4.20 The following table sets out in summary the performance of Baillie Gifford and Co versus the benchmark and the performance target in 2012/13, also on a cumulative basis over a five-year investment period.

Fund Performance versus Benchmark and Target

	Fund Return (%)	Performance v Benchmark (%)	Performance v Target (%)
2012/13	18.4	1.1	-0.4
Five years 08/09 to 12/13	57.6	11.2	3.3

The performance v benchmark figure gives the percentage that the fund has out or underperformed the benchmark return (market indices).

The performance v target figure gives the percentage that the fund has out or underperformed the set target.

4.21 Baillie Gifford returned 18.4% in 2012/13, which was 1.1% above the benchmark return and 0.4% below the target return. The fund has not only produced a good return in 2012/13 but Baillie Gifford has outperformed in a rising equity market.

4.22 On a cumulative basis over the five-year rolling monitoring period Baillie Gifford are 11.2% above the overall benchmark return, and 3.3% above the target. The fund has over the five-year period increased in value by 57.6%, which equates to a return of 9.6% per annum.

4.23 Baillie Gifford has over the long term outperformed the benchmark and added value to the fund, and outperformed the set target.

5.0 Implications

Strategic

5.1 Delivery On Corporate Priorities – This report links to the Council's corporate priorities, defined in its Corporate Plan, specifically in relation to assisting the Council in ensuring the financial resources are managed so that the Council can sustain and develop the economy.

5.2 Community /Stakeholder Issues – None.

5.3 Policy And/Or Delegated Authority – In accordance with section 2.2 of the Council's Scheme of Administration and Delegations, the Executive Committee has delegated authority to secure the co-ordination, control and proper management of the financial affairs of the Council.

However, in accordance with section 2.1.3 of the Council's Scheme of Administration and Delegations, the approval of any annual investment strategy or annual investment report required by any consent issued by Scottish Ministers by virtue of Section 40 of the Local Government in Scotland Act 2003, is reserved to the Council.

5.4 Risk Management – All investments carry some degree of investment risk but these risks are actively managed and minimised through diversification of fund managers, assets, benchmarks, markets, size of holdings etc.

5.5 Equalities, Health And Human Rights – None.

5.6 Environmental – None.

Resources

5.7 Financial – Performance by a Fund Manager will have long-term financial consequences for the Council. There are no decisions from this report, so there are no immediate financial consequences.

5.8 Legal – This report complies with the consent issued by the Scottish Ministers under the Local Government Investments (Scotland) Regulations 2010, to give an Annual Investment Report after the year end on the investment position to the Council.

5.9 Human Resources – None.

5.10 Assets And Property – None.

6.0 Conclusions

6.1 During 2012/13 Insight outperformed their bond benchmark and target. GMO just outperformed their equity benchmark in 2012/13, but they did not achieve their target. Baillie Gifford outperformed their equity benchmark but they did not achieve their target in 2012/13. All of the fund managers added real value to the Council Reserves in 2012/13, over and above the return of the markets they were investing into.

6.2 Equity and bond markets rose significantly during 2012/13, which helped the funds to produce positive returns. This along with the fund managers' management of the funds helped to contributed £29 million in investment returns to the Council's reserves during 2012/13.

For further information please contact:
James Gray, Executive Manager Finance
Telephone: 01595 744607
E-mail: james.gray2@shetland.gov.uk

END

GMO

North America | Europe | Asia-Pacific

Shetland Islands Council

UK Core and World Ex-UK Equity

5th June 2013

Agenda

- GMO Overview
- Performance Review
  - World Ex-UK Equity
  - UK Core Equity

Presenters

Naser Bashir, Portfolio Manager

Naser is engaged in portfolio management for global quantitative equity portfolios. Naser joined GMO in London in 2005 and holds a BSc and MSc in Economics from the London School of Economics & Political Science. He also holds a MSc in Computer Science from Birkbeck, University of London and is a CFA charterholder.

Peter Froude, Client Relationship Manager

Peter is a client relationship manager in our London office. Beginning at GMO in 1998, he managed the operations team until 2007. Prior to joining GMO, he worked for UBS Asset Management (formerly PDFM Limited) as the team leader for both UK and International client administration services. Peter began his industry career providing investment support for one of the UK's largest pension funds. He has over 25 years industry experience.

GMO Overview

- Global firm - private partnership, investment management is sole business
- Institutionally focussed business that has been in the UK since 1987 with a long-serving investment team
- Quantitative approach that offers rigorous and emotion-free decision making
- More than 100 investment professionals and more than 500 employees worldwide.
- 45 active partners

£72 billion of assets under management, including:

Equities:	£50 billion
Fixed Income:	£7 billion
Natural Resources:	£1 billion*
Asset Allocation:	£32 billion**
Absolute Return:	£7 billion**

Note: The asset breakout above may not include all underlying assets and thus may not add up to the total AUM figure shown.
* Natural Resources include: 1) GMO Renewable Resources assets; and 2) assets of GMO's Resources Strategy.
** Relevant Asset Allocation and Absolute Return assets are also accounted for within Equities and Fixed Income strategies.
Assets managed by GMO Renewable Resources, a joint venture, is not part of the GIPS compliant firm, GMO. GMO Renewable Resources has assets under management of $1,732,054,733 as of 3/31/13.

Source: GMO As of 31/3/13

GMO Investment Capabilities

Current Status:
- Open
- Capacity Constrained
- Closed

U.S. Equities
- U.S. Core
- U.S. Intrinsic Value
- U.S. Growth
- U.S. Small/Mid Cap

International Equities
- Foreign (Int'l Active)
- Foreign Small Companies (Int'l Active)
- International Intrinsic Value
- International Growth Equity
- International Core Equity
- Japan Equity[1]
- International Small Companies

UK Equities
- UK Value
- UK Core
- UK Income

Global Equities
- Global Active[1] (Int'l Active)
- Global Focused Equity (Int'l Active)
- Quality
- Global Equity

Emerging Equities
- Emerging Markets
- Emerging Countries
- Emerging Domestic Opportunities

Fixed Income
- Core Plus Bond
- Debt Opportunities
- Global/International Bonds
- Emerging Country Debt
- Emerging Country Local Debt[1]

Alternative Assets
- Agriculture[1]
- Forestry[1]
- Resources

Absolute Return
- Total Equities[1]
- Tactical Opportunities[1]
- Emerging Country Debt Long/Short[1]
- Currency Hedge[1]
- Fixed Income Hedge[1]
- Emerging Currency Hedge[1]
- Credit Opportunities[1]
- Mean Reversion[1]
- Systematic Global Macro[1]
- Multi-Strategy[1] (combination of strategies above)

Asset Allocation

U.S. Equity Allocation	International Equity Allocation	Global Equity Allocation	Global Asset Allocation
Real Return Global Balanced Asset Allocation[1]	Benchmark-Free Allocation/ Global Real Return (UCITS)	Global Allocation Absolute Return[1]	Real Return Asset Allocation[1]

[1] Privately offered and available only to qualified purchasers. Call GMO for further information.

Note: Does not include all GMO capabilities. Source: GMO As of 10/5/13

GMO Global Equity

Investment team

Co-Heads

Tom Hancock (17) David Cowan (6)

Research

Quantitative

Neil Constable (6)

Simon Harris (23)
Anthony King (10)
Carl O'Rourke (6)
Paul Wang (4)
Prasun Agarwal (3)
Mark Ingham (12)
Joe Stein (9)
Martin Tarlie (5)
Melanie Rudoy (3)

Fundamental

Ty Cobb (15)

Eric Liu (4)
Matt Finkelstein (1)
Chris Fortson (3)

Portfolio Management

Strategy

Chuck Taylor (21)
Tara Oliver (16)
Tom Smith (14)
Seth Glattstein (11)
Naser Bashir (7)
Lucas White (6)
Kim Mayer (6)
Justin Ashmall (4)
Anthony Hene (17)
Chuck Joyce (14)
Leanne Kunz (13)
Tom Rosalanko (7)
Sam Klar (6)
Alex Hebert (6)
Hassan Chowdhry (5)
Doug Francis (3)

Implementation

John Mann (16)

Julie Coady (14)
John Breedis (10)
Chris Cullinan (13)
Carson Pratt (5)

Execution

John Mann (16)

Malica Aronowitz (20)
Jason Johnson (13)
Ryan Rouillard (8)
John Caron (2)
Brian Smith (15)
Chris Snow (10)
Kelly Shannon (5)

Glossary Of Terms

Value Investing
The search for shares where the price is unreasonably low.

Momentum Investing
The search for shares that are riding a wave of sentiment and appreciating fast.

Quantitative Investing
Investing with hard rules playing an important role in decision making.

High Quality Companies
Companies that have little debt and a strong record of profits.

.

Summary

- Shetland Islands Council hired GMO to manage value-oriented World ex-UK Equity and UK Core Equity portfolios in August 2007.
- We manage £66m for you against a benchmark index of 60% FTSE All-Share / 40% FTSE World ex-UK.
- Since 2007, value investing has not been rewarded and recent returns have lagged stronger markets.
- Value investing wins over time, and the best relative returns for value investors have typically followed periods of underperformance (due to the bargain prices that emerged).
- Today US High Quality companies are compelling, while value stocks in Europe trade at bargain prices.

Source: GMO

Performance Review

Shetland Islands Council

Performance data in GBP (net of fees) as at 31 March 2013

			Annualized					
Investment	**Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**Since Inception ***	**Market Value (M)**	**% of Account**
UK Equity Core (08/24/2007)	1.87 %	10.94 %	18.97 %	10.20 %	7.73 %	5.45 %	40.0	61.0 %
FTSE All-Share	1.40	10.32	16.77	8.78	6.74	4.62		
Value Added	0.47	0.62	2.20	1.42	0.99	0.83		
World ex-UK Equity (08/24/2007)	1.50	12.92	14.41	6.55	6.85	5.14	25.6	39.0
FTSE World ex UK	2.05	14.86	17.60	8.51	8.69	6.94		
Value Added	-0.55	-1.94	-3.19	-1.96	-1.84	-1.80		
Total Asset Allocation (08/24/2007)	**1.73**	**11.71**	**17.14**	**8.70**	**7.38**	**5.33**	**65.6**	**100.0**
*Policy Benchmark ** *	1.66	12.13	17.15	8.71	7.58	5.61		
Value Added	0.07	-0.42	-0.01	-0.01	-0.20	-0.28		

** Periods of less than a year are not annualized*

***** 60% FTSE All-Share/40% FTSE World ex UK***

Note:
The FTSE World ex-UK is an unhedged index.

Performance data quoted represents past performance and is not predictive of future performance.

World Ex UK Equity

Investment Philosophy

Global Equity

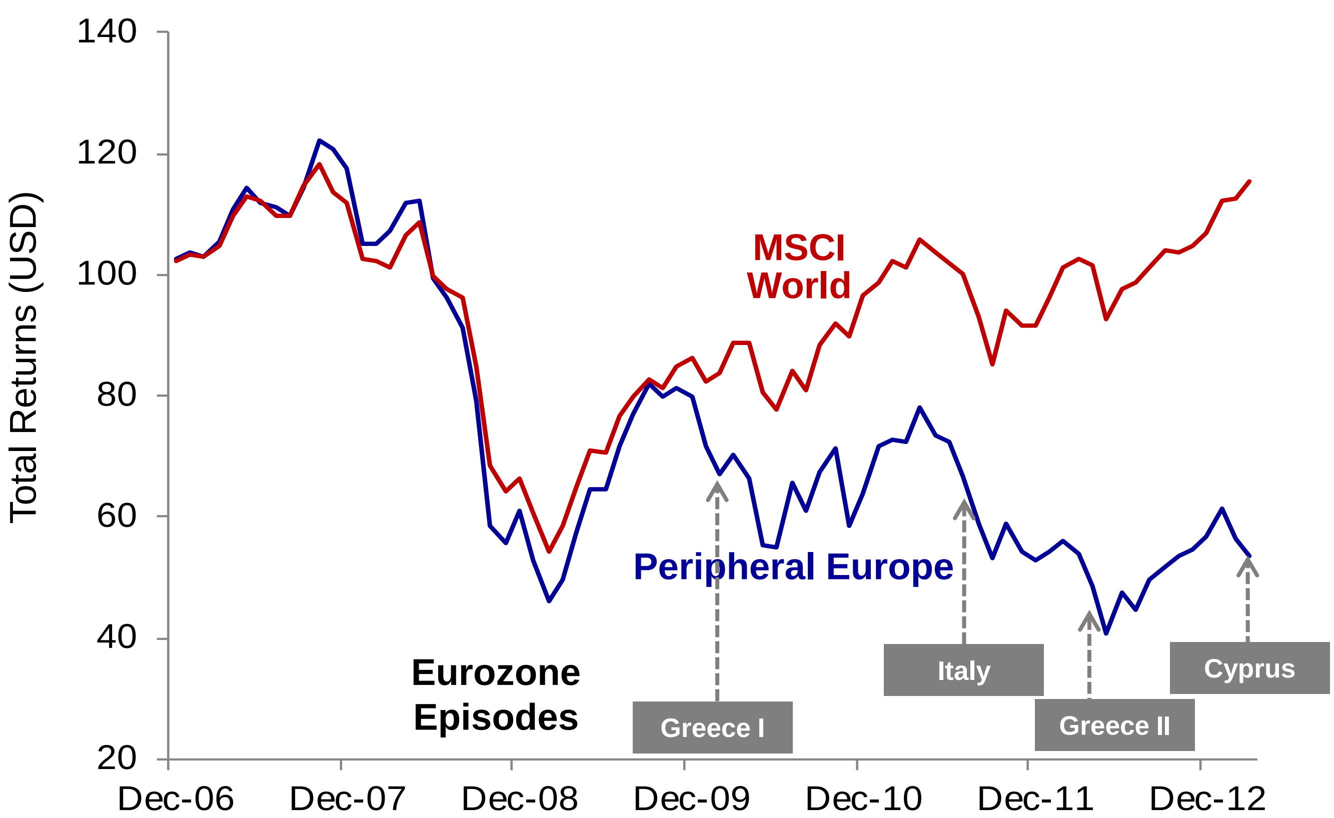
Fundamental Value Matters

Quality Is Worth a Premium

Momentum Complements Value

Quantitative, Not Quant

Performance Of MSCI World And Peripheral Eurozone Equities



- The Eurozone periphery has underperformed whenever the Eurozone crisis has intensified

Chart shows GMO's calculation of total return in USD for the MSCI and the Peripheral Europe (Portugal, Italy, Ireland , Greece and Spain) components of the MSCI World Index.

Source: GMO
As at 31/3/13

What Helped Or Hindered Over The Last Year?

Helpful

- Healthcare overweight:
- Materials underweight:

Hindered

Spain France

- Eurozone overweight:
- Financials underweight:

Shares are named for example only and do not necessarily form part of any current GMO portfolio. This not a recommendation to purchase or sell any particular shares.

Market Backdrop

- Equity markets are globally at or slightly above fair value.
- Bond markets are being "managed" by central banks.
- Worries remain about debt / GDP levels, budget deficits and slow growth, but painful reforms are happening and will help over the longer-term.

Your Positioning

- Overweight to eurozone stocks; still good value even after recent better performance.
- US high quality multinationals attractively priced with expanding customer base in emerging markets.
- Overweight to Japan as companies strive to reach global profitability levels (pushed on by success of South Korean companies like Samsung).

Risks:

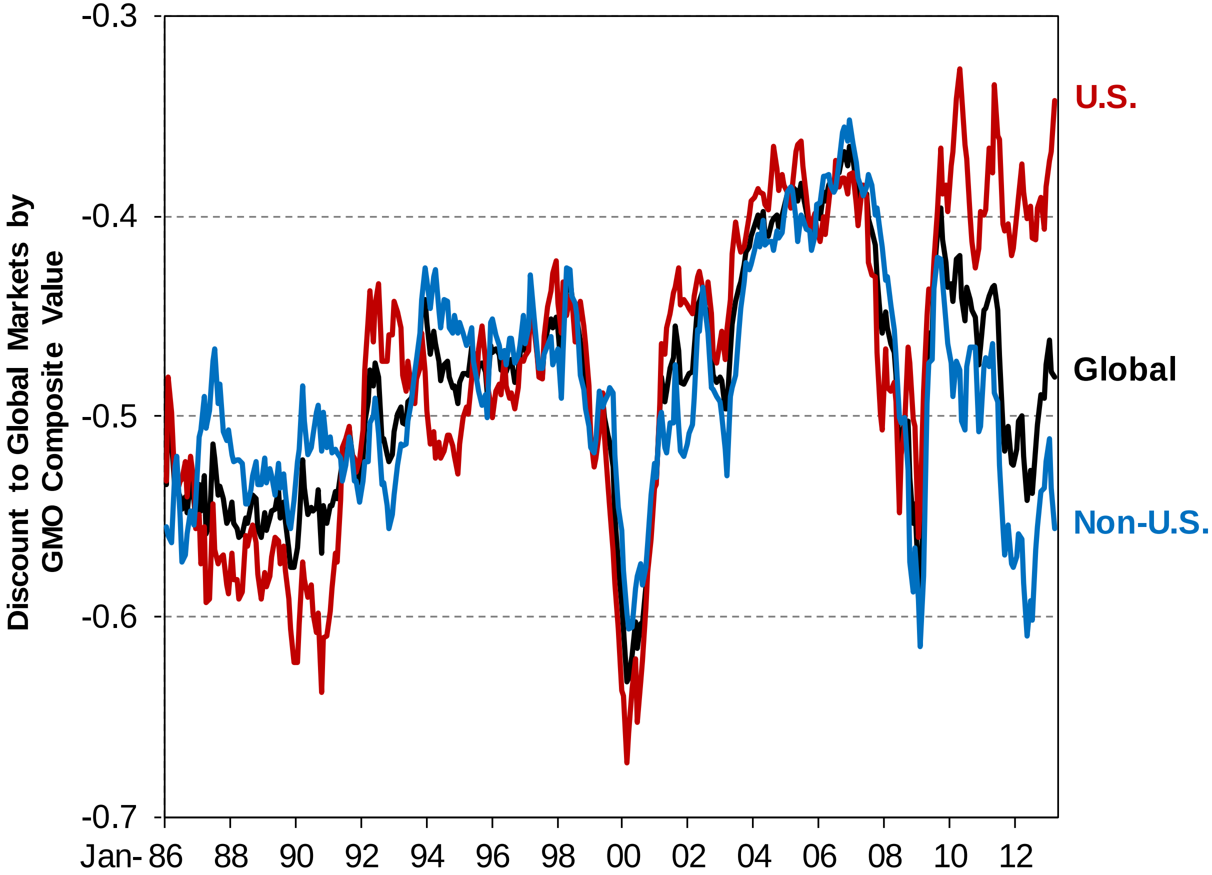
- Deterioration in eurozone economy and re-emergence of sovereign debt crisis.
- Windfall taxes on basic utilities, energy and telecoms.

Positive Triggers:

- Willingness of large high quality companies to sell/spin-off divisions.
- Cheap financing helps push M&A activity.

Shares are named for example only and do not necessarily form part of any current GMO portfolio. This not a recommendation to purchase or sell any particular shares.

European Value Stocks Remain Attractive



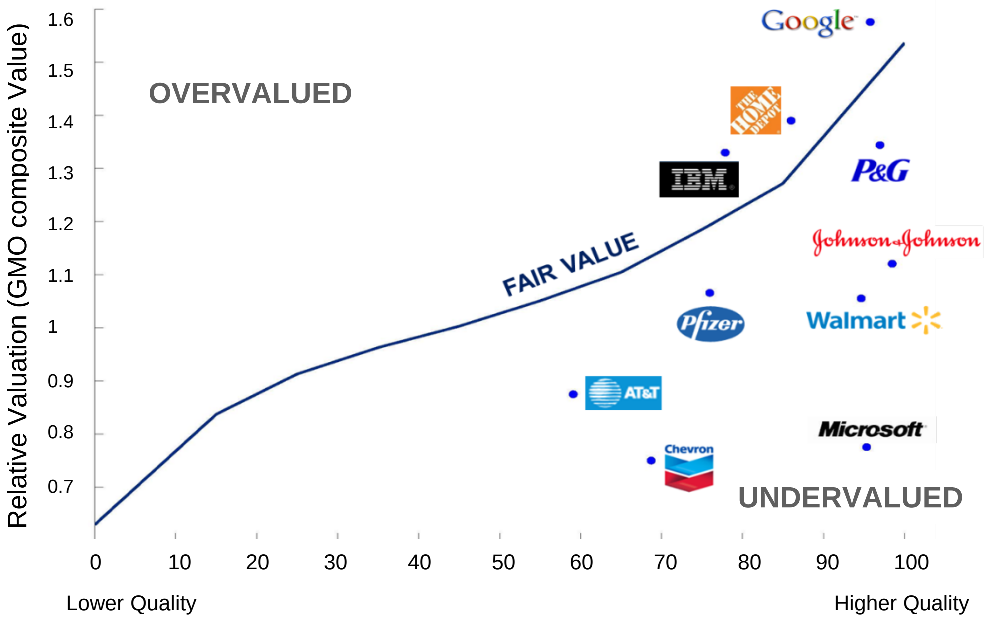
European versus US Integrated Oil & Gas Company comparison

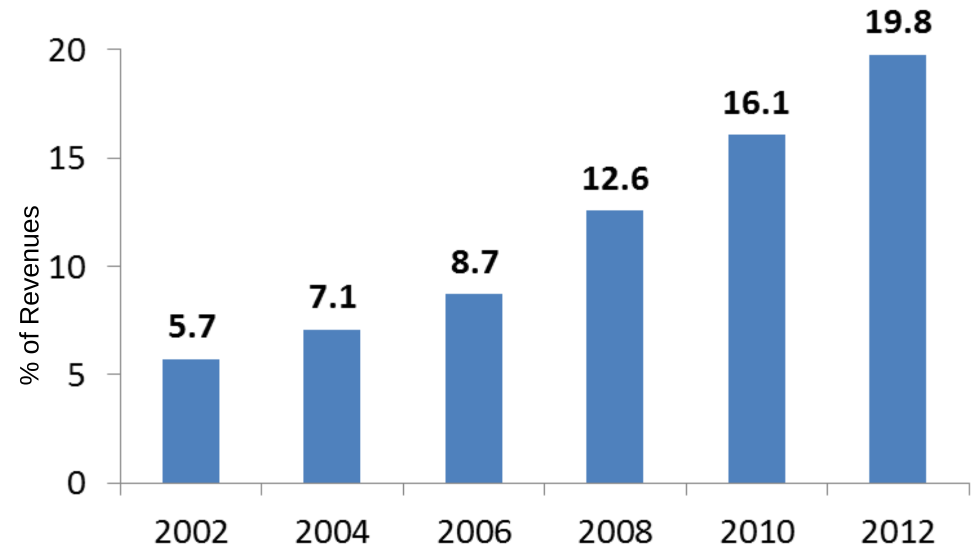
	TOTAL	ExxonMobil
Price to Earnings	8x	11x
Price to Book Value	1.2x	2.4x

Shares are named for example only and do not necessarily form part of any current GMO portfolio. This not a recommendation to purchase or sell any particular shares.

Source: GMO
As at 31/3/2013

US High Quality: Attractive And Expanding In Emerging Markets





Average percentage of revenues generated in emerging markets by US high quality companies in your portfolio.

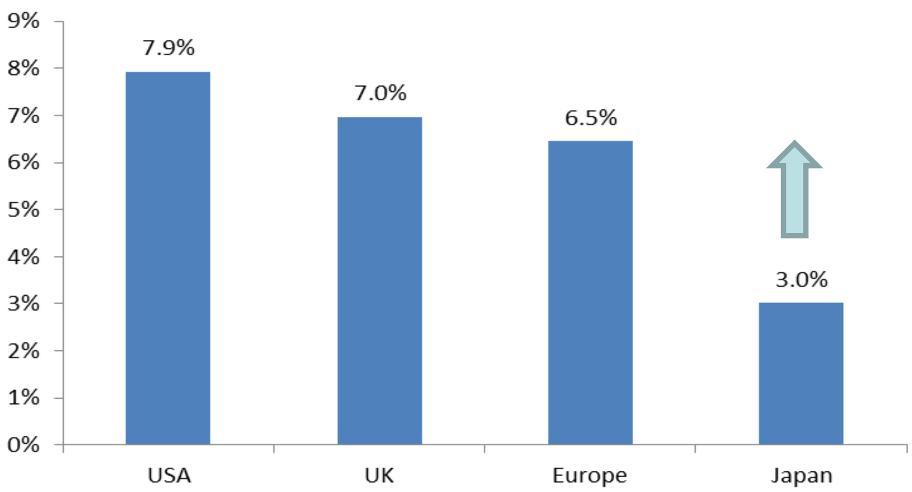
Source: GMO
As at 31/3/2013

Source: GMO
As at 31/12/2012

The securities identified above are for informational purposes only. The specific securities were selected for presentation by GMO based on their underlying characteristics, specifically their valuation and quality characteristics. The securities were not selected based on their investment performance. Securities identified are not necessarily representative of the securities purchased, sold or recommended for advisory clients, and it should not be assumed that an investment in the securities identified will be profitable.

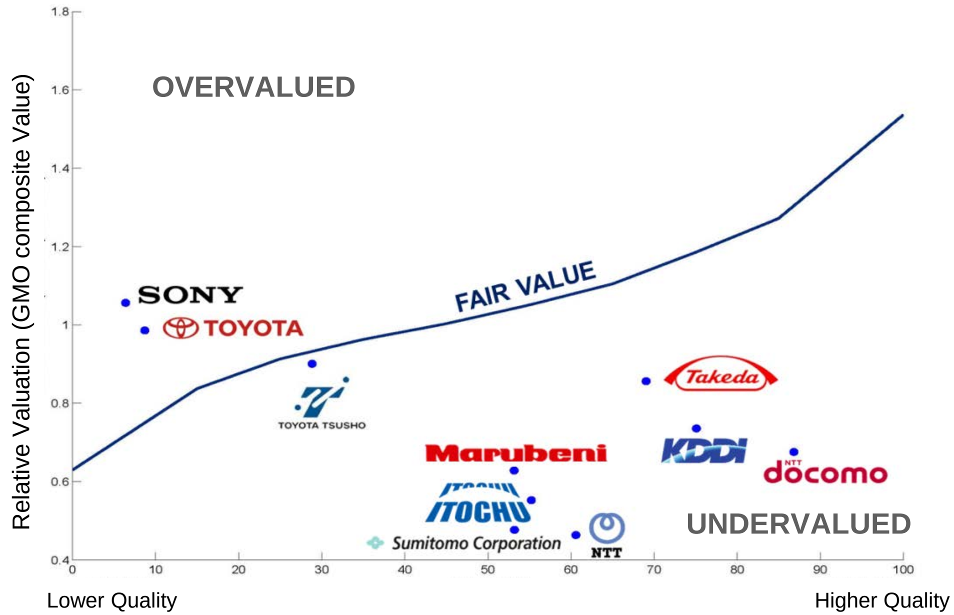
Japanese Profitability Has Room To Improve

Average Return on Assets* at end 2012, GMO Investable Universe.



* Return on assets = net income / assets.

Source: GMO
As at 31/12/2012



GMO Quality Measure

Source: GMO
As at 31/3/2013

The securities identified above are for informational purposes only. The specific securities were selected for presentation by GMO based on their underlying characteristics, specifically their valuation and quality characteristics. The securities were not selected based on their investment performance. Securities identified are not necessarily representative of the securities purchased, sold or recommended for advisory clients, and it should not be assumed that an investment in the securities identified will be profitable.

Outlook / Opportunity

	Change in Valuation		Relative Growth		Income Advantage		3 Year Forecast Relative Returns to MSCI
Japan Value*	+8.8%	+	-7.2%	+	-0.1%	=	+1.4%
Europe Ex-UK Value*	+10.6%	+	-4.9%	+	+2.2%	=	+7.9%
U.S. High Quality	+0.4%	+	+3.3%	+	-0.1%	=	+3.5%

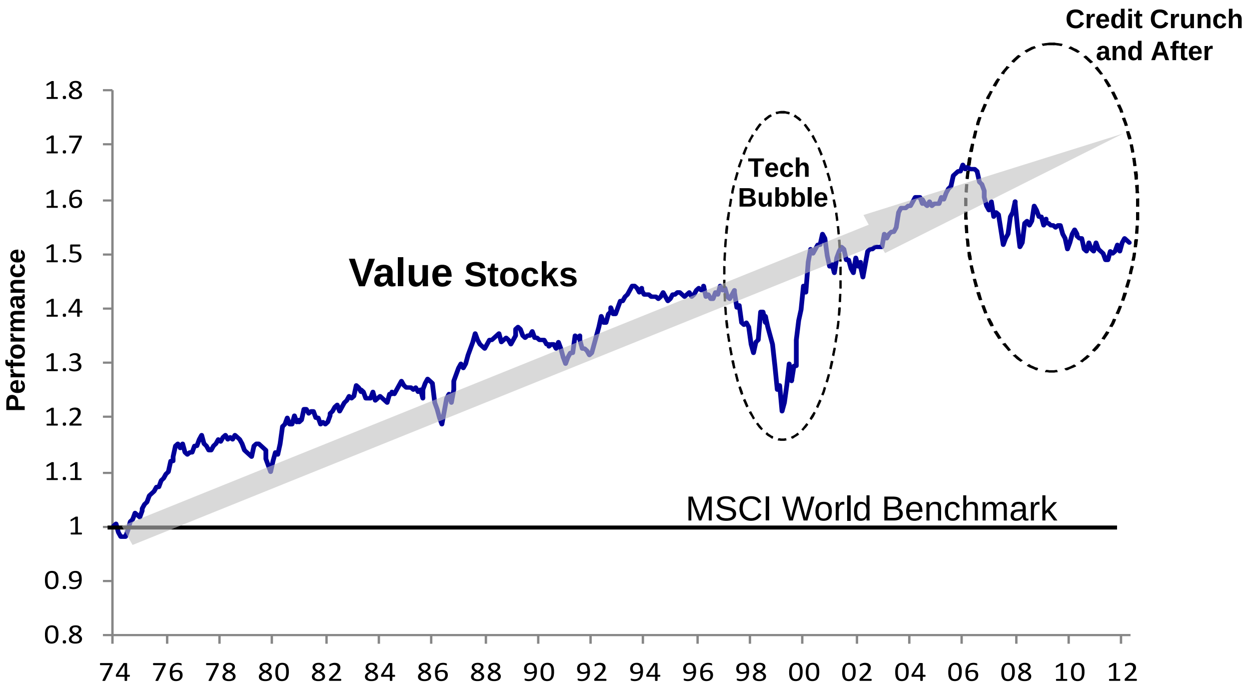
***Ex-financials**

*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements.

Source: GMO
As at 31/3/2013

Summary

Long-Term Relative Performance Of MSCI's Value Index



- The MSCI World Value Index has provided a return of 1.1% *p.a.* above the MSCI World Index since 1974.
- The recent period has been amongst the most challenging.
- Historically, periods of underperformance have been followed by the best relative returns for value investors.

Performance data quoted represents past performance and is not predictive of future performance.

Source: MSCI, GMO As of 31/3/13

UK Core Equity

UK Equity Core Summary

- UK Core uses a similar investment approach to World ex-UK with an added emphasis on distinguishing good and bad business practices; e.g. unusual accounting practices.

- Over the last year an underweight to Resources (due to the slowdown in China) and overweight to Consumer Goods was beneficial.

UK Equity Core Strategy

Implementation

Universe of 1,000 stocks

Intrinsic Value
40%

Tactical
0-20%

Momentum
30%

Signals
(within growth)
30%

Portfolio Construction & Risk Control

Industries
Sectors
Capitalisation
Penalise Rights Issuers

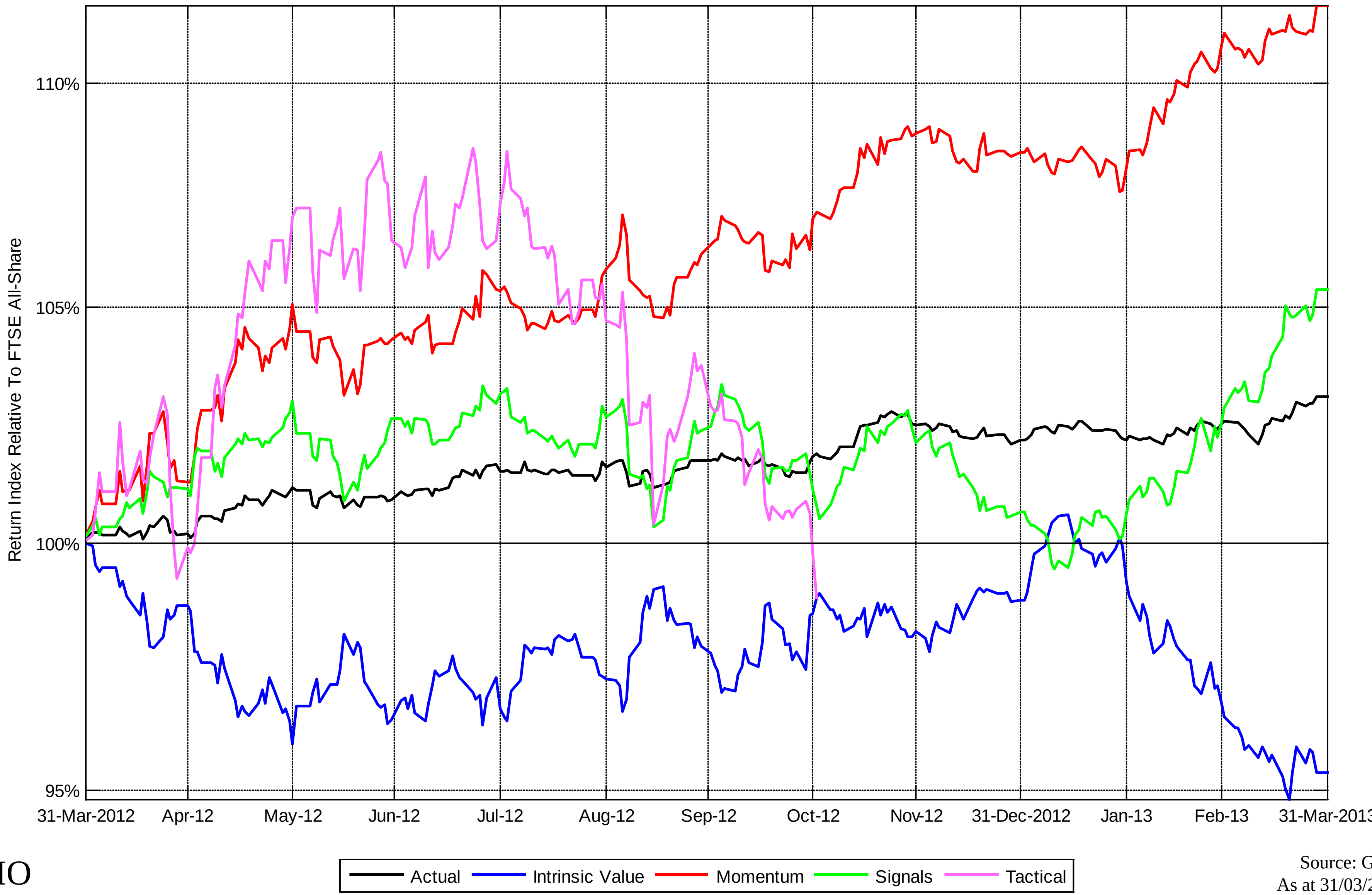
Client Guidelines
Position Sizes
Transaction costs
Liquidity

UK Equity Core portfolio
100–150 stocks
2-5% pa tracking error
2% pa target value added (gross)

The strategy is designed to be style neutral over time although it does take opportunistic tactical positions where appropriate

The only long-term bias that the strategy has is towards higher quality stocks

Performance Of UK Core Streams



Source: GMO
As at 31/03/2013

UK Core Sector Attribution - 1 Year To 31 March 2013

	Portfolio		*FTSE All-Share*		*Attribution Analysis*		
FTSE Industries:	**Average Weight (%)**	**Total Return (%)**	**Average Weight (%)**	**Total Return (%)**	**Allocation Effect (%)**	**Selection Effect (%)**	**Total Effect (%)**
Basic Materials	7.2	-3.4	10.2	-7.8	0.7	0.3	1.0
Consumer Goods	18.3	31.1	13.9	28.0	0.4	0.4	0.9
Consumer Services	10.8	31.3	9.5	27.6	0.1	0.3	0.5
Financials	15.6	29.4	21.6	26.9	-0.6	0.3	-0.4
Health Care	10.7	20.3	7.4	18.1	0.0	0.2	0.2
Industrials	10.7	31.7	8.9	26.3	0.1	0.4	0.5
Oil & Gas	18.7	1.2	16.9	-1.7	-0.4	0.5	0.1
Technology	1.5	12.9	1.5	35.6	-0.0	-0.3	-0.3
Telecommunications	4.1	23.1	6.2	19.0	0.1	0.1	0.2
Utilities	2.4	20.7	3.9	22.3	-0.1	-0.0	-0.1
TOTAL	**100.0**	**19.4**	**100.0**	**16.8**	**0.4**	**2.2**	**2.6**

Best And Worst Stock Positions – 1 Year To 31 March 2013

UK Core Stock selection reflected the broader themes

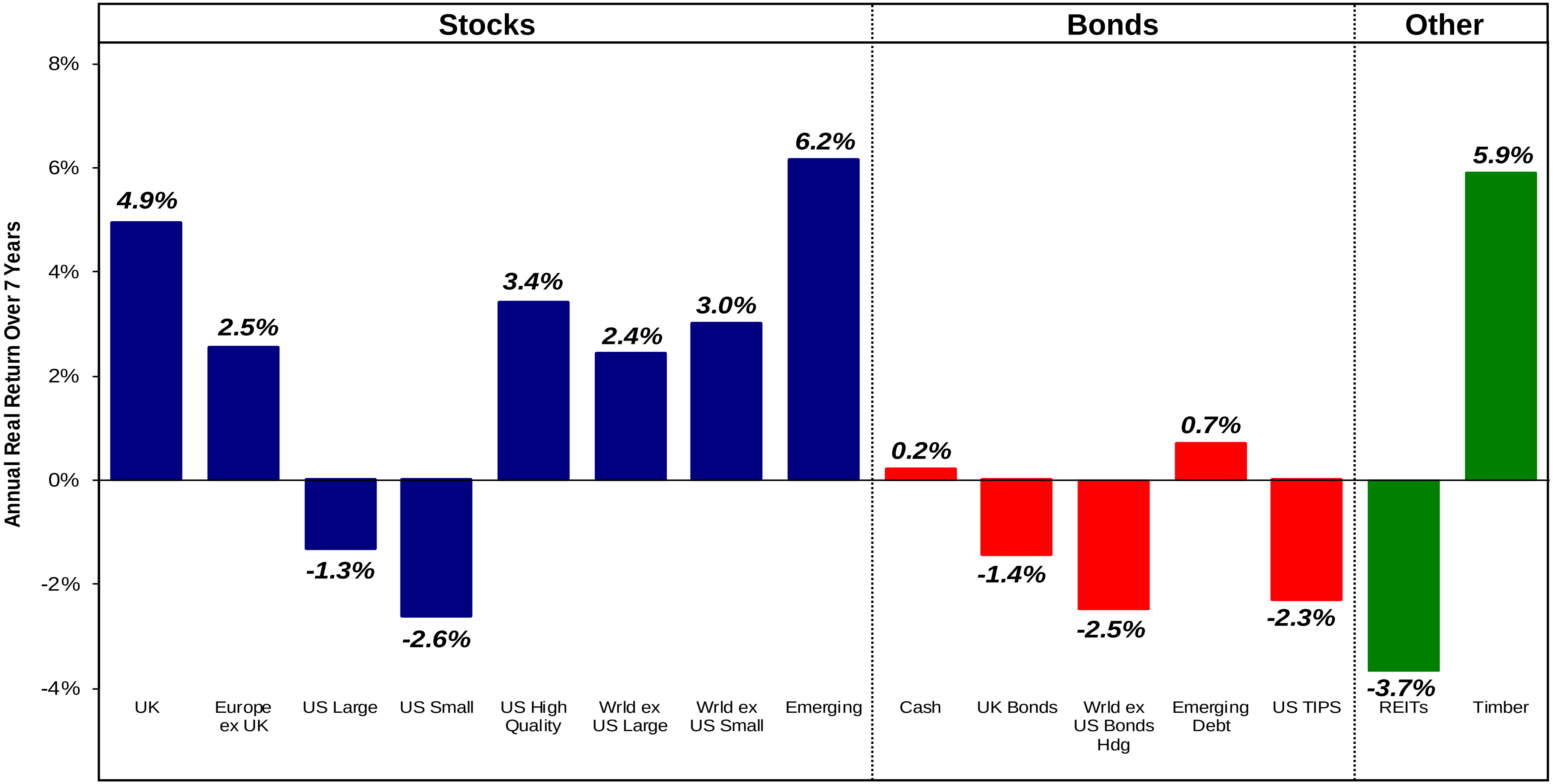
Best 5 Stock Positions		*Portfolio* Average Weight (%)	*FTSE All-Share* Average Weight (%)	*Attribution* Relative Impact (%)
Diageo	MOM	5.6	2.5	0.57
BG Group	MOM	1.4	2.3	0.43
Rio Tinto	VAL	1.1	2.3	0.36
Barclays	VAL	3.3	1.6	0.26
Anglo American	VAL	0.9	1.5	0.25

Worst 5 Stock Positions		*Portfolio* Average Weight (%)	*FTSE All-Share* Average Weight (%)	*Attribution* Relative Impact (%)
HSBC Holdings	MOM	3.0	6.3	-0.58
BP	VAL	9.4	4.7	-0.54
Eurasian Natural Resources	VAL	0.3	0.1	-0.22
Kazakhmys	VAL	0.3	0.1	-0.19
ARM Holdings	MOM	0.1	0.5	-0.19

Appendix

GMO 7-Year Asset Class Return Forecasts*

As of 30 April, 2013



*The chart represents real return forecasts[1] for several asset classes. GMO Forecasts for asset classes are forward looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over timer. Actual results may differ materially from those anticipated in forward-looking statements. No forecast relates to a GMO fund or strategy.

GMO

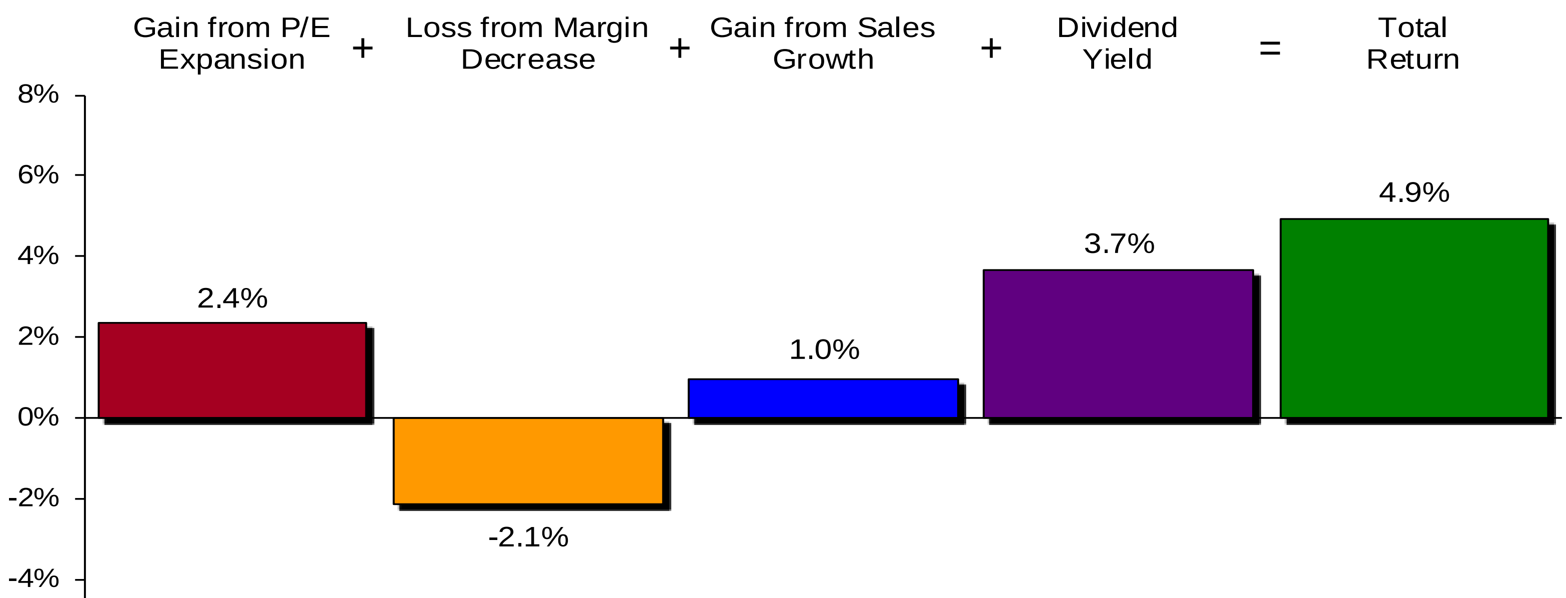
[1] U.K. inflation is assumed to mean-revert to long-term inflation of 2.2% over 15 years.

Source: GMO

FTSE 350: Building A 7-Year Forecast

Components of annual return of FTSE 350, with regression over 7 years

	P/E	Profit Margin	Real Sales per Share Growth	Dividend Yield
Starting Levels	**12.7**	**7.6%**	**1.9%**	**3.6%**
Assumption for Next 7 Years	**15.0** (Terminal Value)	**6.5%** (Terminal Value)	**1.0%**	**3.7%**

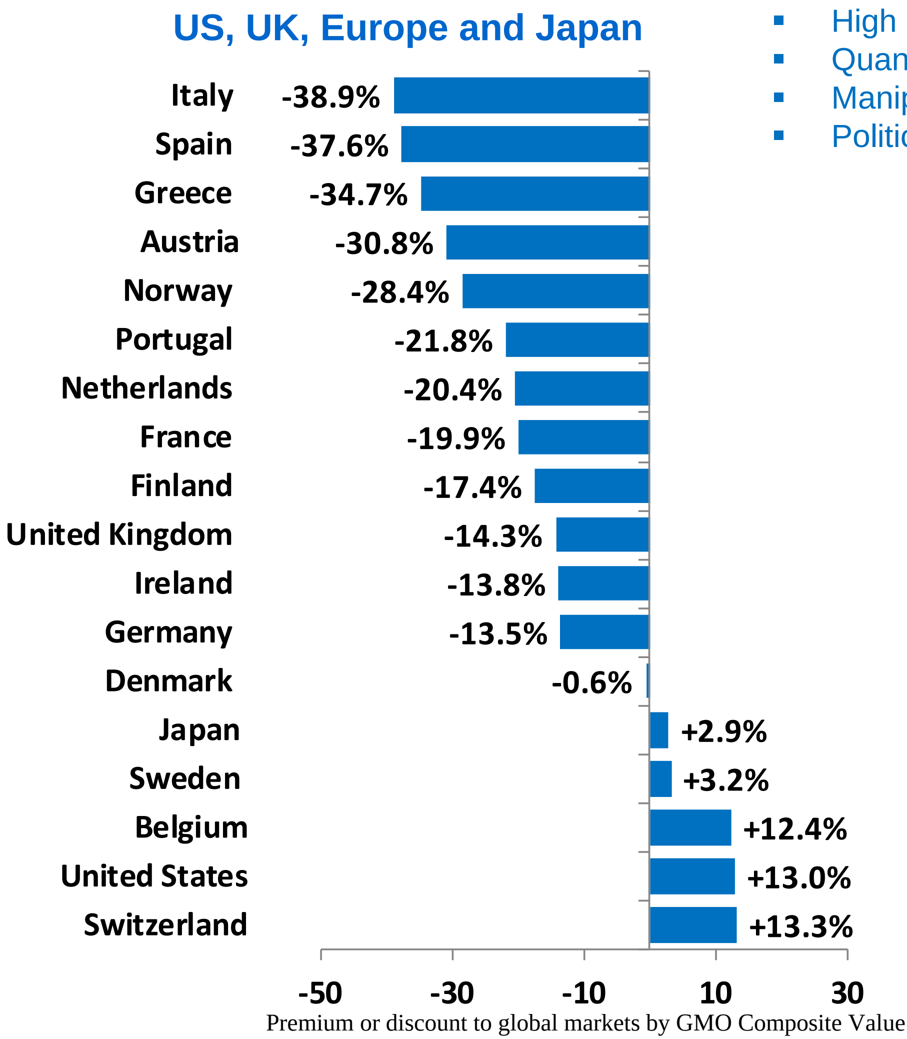


The chart represents a real return forecast for the above named asset class and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from the forecasts above.

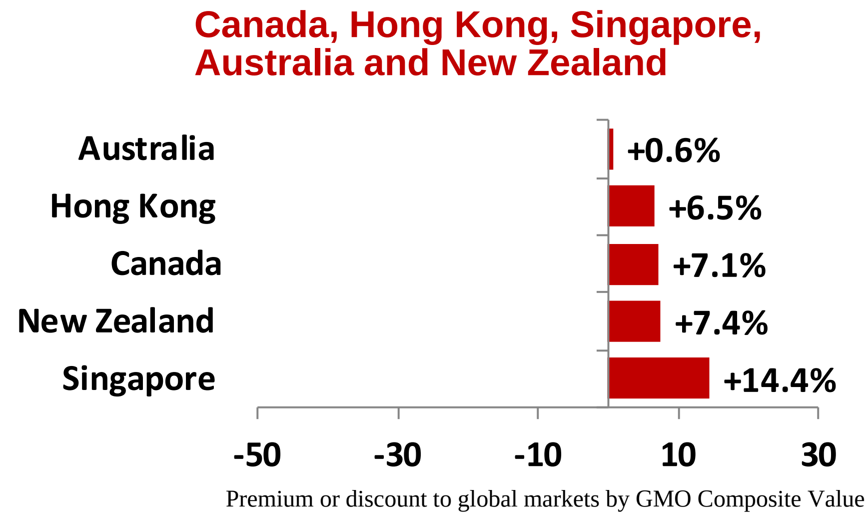
GMO

Source: GMO As of 30/4/13

Global Equity Valuations By Country



- High Govt Debt to GDP
- Quantitative Easing
- Manipulated Interest Rates
- Political Dysfunction



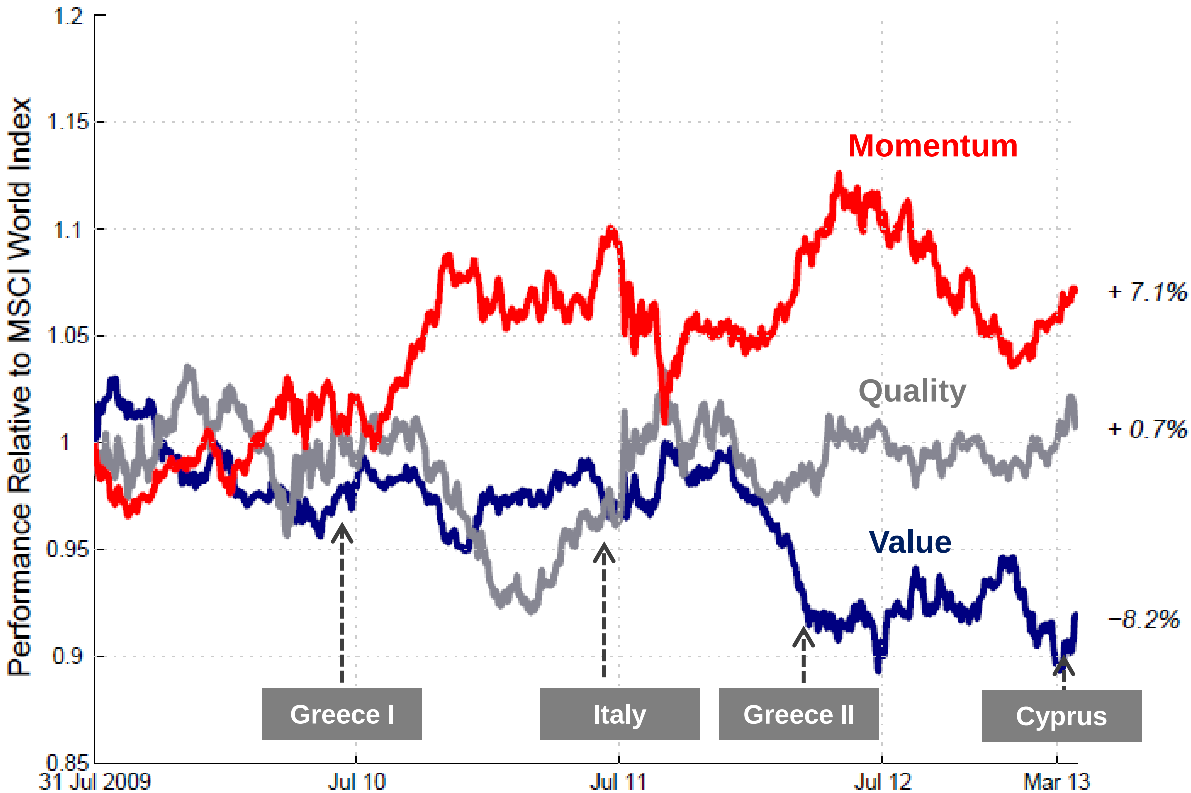
- Chinese exposure
- Residential property bubbles
- Generally more expensive equities

Source: GMO
Data as at end March 2013

GMO Composite Value" is an aggregate measure of several valuation methodologies - using a variety of multiples based on earnings, assets, sales, dividends and cash flow.

How The Stock Selection Disciplines Performed

Diversification into momentum and quality has been helpful over the last few years



Momentum has benefitted from exposure to Asian consumption and US technology themes.

High quality has kept up with a resurgent US market.

Value has struggled whenever the Eurozone crisis has intensified.

GMO World ex-UK Fund- Approximated performance of sub-portfolios
Approximated performance is calculated assuming instantaneous trading without transaction costs, fees or cash flows.

Performance data quoted represents past performance and is not predictive of future performance. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.

GMO

Source: GMO As of 26/4/13

How The Stock Selection Disciplines Performed

Falling Apples obscured Draghi-inspired value rally

Momentum was hampered by a substantial allocation to Apple (now largely sold).

High quality stocks held up well during Q2 2012 as markets fell.

Value stocks disappointed with Eurozone continuing to cheapen.

GMO World ex-UK Equity Fund- Approximated performance of sub-portfolios
Approximated performance is calculated assuming instantaneous trading without transaction costs, fees or cash flows.

GMO

Performance data quoted represents past performance and is not predictive of future performance. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.

Source: GMO As of 31/3/13

Country Portfolio Attribution - 1 Year To 31 March 2013

Country	Portfolio		Benchmark		Attribution			
	Average Weight (%)	Total Return (%)	Average Weight (%)	Total Return (%)	Country Allocation (%)	Stock Selection (%)	Currency (%)	Total (%)
Australia	0.1	27.7	3.8	27.7	-0.3	0.2	-0.1	-0.2
Austria	0.3	22.3	0.1	11.7	-0.0	0.0	-	0.0
Belgium	0.5	-13.3	0.5	34.4	-0.0	0.0	-	-0.0
Canada	0.1	8.5	4.4	8.5	0.3	0.0	-0.0	0.3
Denmark	0.1	7.1	0.5	21.2	-0.1	-0.0	0.0	-0.1
Emerging	8.6	8.6	7.8	6.7	-0.9	0.5	0.2	-0.2
Euro	-	-	-	-	-	-	0.0	0.0
Finland	0.2	-33.6	0.3	4.8	0.0	-0.1	-	-0.1
France	6.7	6.0	4.2	14.0	-0.1	-0.5	-	-0.6
Germany	3.8	15.4	3.5	13.5	0.0	0.1	-	0.1
Greece	-	-	0.0	15.9	-0.0	-	-	-0.0
Hong Kong	0.0	-5.3	1.7	24.0	-0.1	-0.0	0.1	-0.0
Ireland	0.3	17.8	0.1	15.9	0.0	-0.0	-	0.0
Israel	0.0	-19.2	0.3	1.1	0.1	-0.0	-0.0	0.0
Italy	4.6	-1.7	1.0	-0.7	-0.7	-0.0	-	-0.7
Japan	12.2	12.8	8.3	13.9	-0.1	-0.1	0.1	-0.1
Korea	3.4	16.0	2.5	7.6	-0.2	0.3	0.0	0.2
Netherlands	0.4	-1.1	1.0	17.4	-0.0	-0.0	-	-0.1
New Zealand	-	-	0.1	27.5	-0.0	-	-0.0	-0.0
Norway	0.4	-2.8	0.4	9.0	0.0	-0.0	-0.0	-0.0
Portugal	0.1	20.8	0.1	13.2	0.0	-0.0	-	-0.0
Singapore	1.6	16.0	0.8	19.4	-0.0	-0.1	0.1	0.1
Spain	3.6	5.5	1.2	7.3	-0.3	-0.0	-	-0.3
Sweden	0.0	19.7	1.3	24.6	-0.0	0.0	-0.0	-0.1
Switzerland	0.6	25.1	3.6	28.1	-0.4	-0.0	0.1	-0.4
United Kingdom	-	-	-	-	-	-	-0.0	-0.0
United States	51.1	18.7	52.4	19.2	0.1	-0.3	0.1	-0.2
[Cash]	1.3	-	-	-	-0.2	-	-	-0.2
TOTAL	**100.0**	**14.9**	**100.0**	**17.6**	**-2.9**	**-0.2**	**0.5**	**-2.7**

Data as at 31/3/13

Performance data quoted represents past performance and is not predictive of future performance. Returns are presented gross of management fees, net of transaction costs, and include the reinvestment of dividends and other income. If management fees were deducted performance would be lower. For example, if the strategy were to achieve a 10% annual rate of return each year for ten years and an annual advisory fee of 0.75% were charged during that period, the resulting average annual net return (after the deduction of management fees) would be 9.25%. A GIPS® compliant presentation of composite performance has preceded this report in the past 12 months or accompanies this presentation, and is also available at www.gmo.com. Actual fees are disclosed in Part II of GMO's Form ADV and are also available in each strategy's compliant presentation.

Sector Portfolio Attribution – 1 Year To 31 March 2013

Sector	Portfolio Average Weight (%)	Portfolio Total Return (%)	Benchmark Average Weight (%)	Benchmark Total Return (%)	Attribution Sector Allocation (%)	Attribution Stock Selection (%)	Attribution Total (%)
Consumer Discretionary	10.9	13.9	11.2	20.6	-0.0	-0.9	-0.9
Consumer Staples	9.7	22.6	10.5	24.9	-0.0	-0.2	-0.2
Energy	9.6	12.4	9.2	8.4	-0.1	0.4	0.3
Financials	15.8	17.3	19.9	23.0	-0.2	-1.0	-1.1
Health Care	10.5	30.4	9.7	32.9	0.2	-0.3	-0.1
Industrials	8.7	13.2	11.1	17.1	-0.0	-0.4	-0.4
Information Technology	15.2	4.3	14.0	5.4	-0.2	-0.2	-0.3
Materials	4.7	13.2	7.0	2.1	0.3	0.5	0.8
Telecommunication Services	6.9	12.4	3.9	16.2	0.1	-0.4	-0.3
Utilities	4.2	-4.0	3.4	8.7	-0.1	-0.5	-0.6
Total Equities	**96.1**	**14.7**	**100.0**	**17.6**	**-0.0**	**-2.9**	**-2.9**
Cash + Non-equities	3.9	-	-	-	0.2	-	0.2
TOTAL	**100.0**	**14.9**	**100.0**	**17.6**	**0.2**	**-2.9**	**-2.7**

Performance data quoted represents past performance and is not predictive of future performance. Returns are presented gross of management fees, net of transaction costs, and include the reinvestment of dividends and other income. If management fees were deducted performance would be lower. For example, if the strategy were to achieve a 10% annual rate of return each year for ten years and an annual advisory fee of 0.75% were charged during that period, the resulting average annual net return (after the deduction of management fees) would be 9.25%. A GIPS® compliant presentation of composite performance has preceded this report in the past 12 months or accompanies this presentation, and is also available at www.gmo.com. Actual fees are disclosed in Part II of GMO's Form ADV and are also available in each strategy's compliant presentation.

Data as at 31/3/13

Best And Worst Stock Positions – 1 Year To 31 March 2013

Stock selection reflected the broader themes

Best 5 Stock Positions		*Portfolio* Average Weight (%)	*Benchmark* Average Weight (%)	*Attribution* Relative Impact (%)
Wal-Mart	QUAL MOM	1.2	0.7	0.18
Telstra	VAL MOM	0.5	0.1	0.17
Petrobras Petroleo Brasileiro	VAL	0.1	0.4	0.16
Valero Energy	VAL MOM	0.3	0.1	0.15
Johnson & Johnson	VAL QUAL	1.7	0.7	0.15

Worst 5 Stock Positions		*Portfolio* Average Weight (%)	*Benchmark* Average Weight (%)	*Attribution* Relative Impact (%)
Apple	MOM	3.1	2.0	-0.46
Telecom Italia	VAL	0.5	0.1	-0.26
Gazprom	VAL	0.5	-	-0.24
Microsoft	VAL QUAL	1.9	0.9	-0.21
Total	VAL	2.0	0.4	-0.19

Performance data quoted represents past performance and is not predictive of future performance. Returns are presented gross of management fees, net of transaction costs, and include the reinvestment of dividends and other income. If management fees were deducted performance would be lower. For example, if the strategy were to achieve a 10% annual rate of return each year for ten years and an annual advisory fee of 0.75% were charged during that period, the resulting average annual net return (after the deduction of management fees) would be 9.25%. A GIPS® compliant presentation of composite performance has preceded this report in the past 12 months or accompanies this presentation, and is also available at www.gmo.com. Actual fees are disclosed in Part II of GMO's Form ADV and are also available in each strategy's compliant presentation.

Data as at 31/3/13

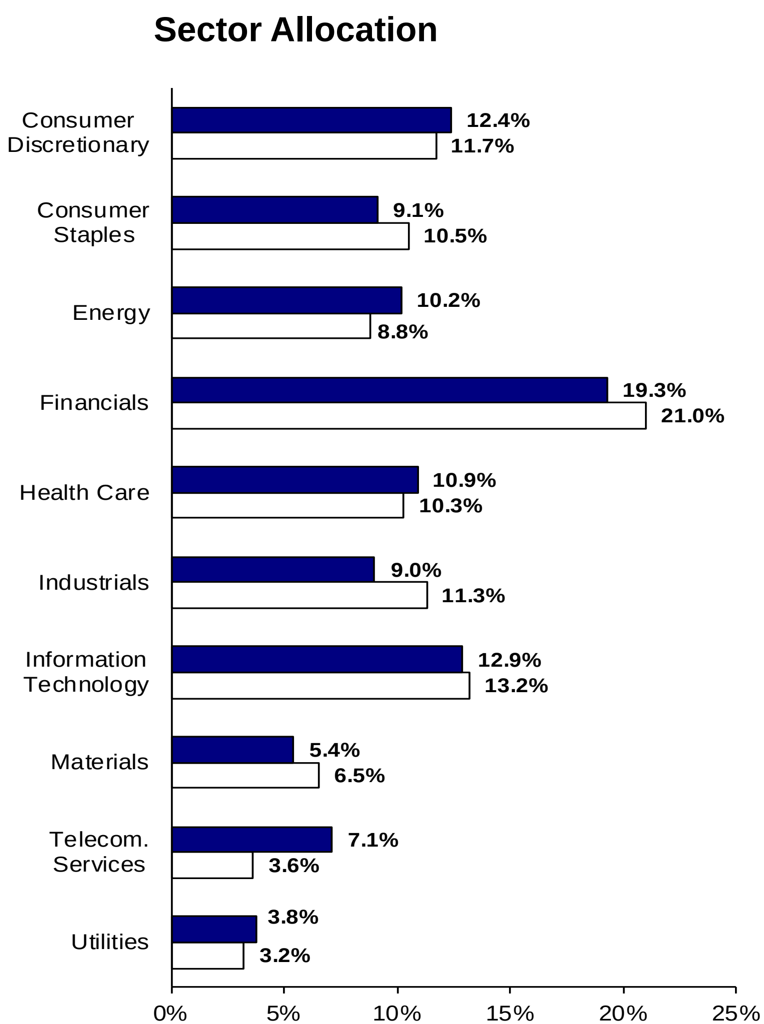
GMO World Ex-UK Equity Fund

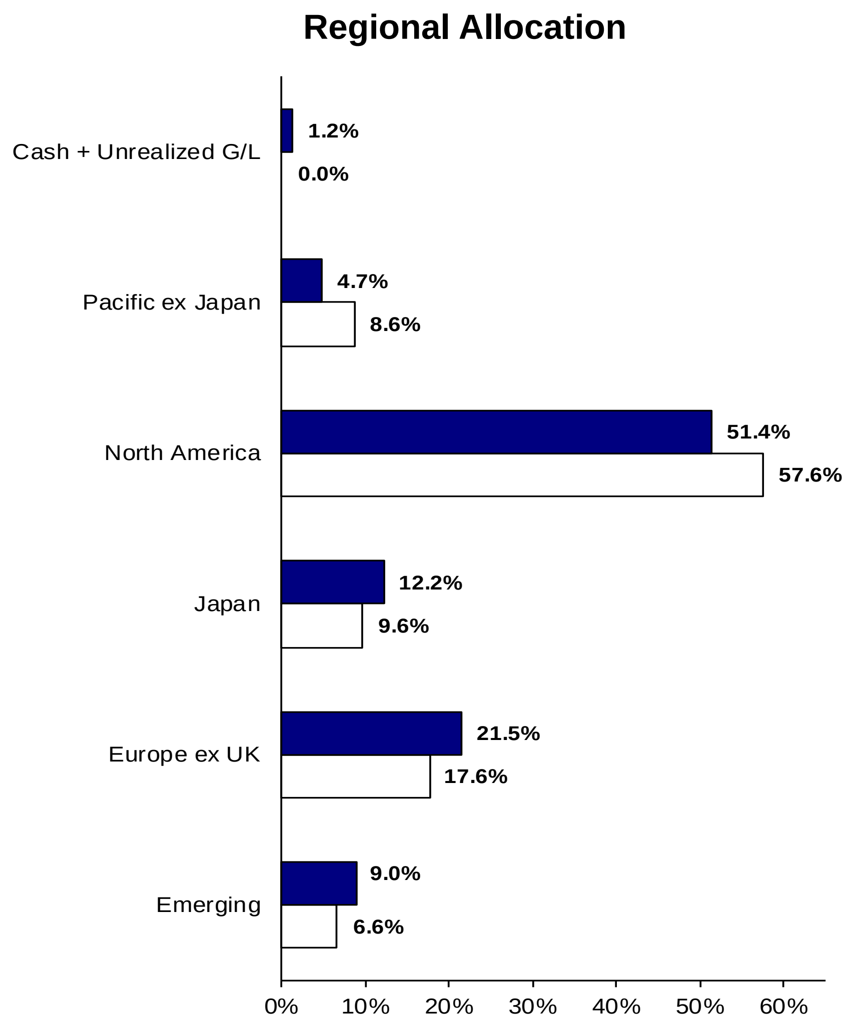
Top 15 holdings as of 31 March 2013

	Country	Sector	% of Equity
Total S.A.	France	Energy	1.8 %
Microsoft Corp.	United States	Information Technology	1.7
Johnson & Johnson	United States	Health Care	1.4
ENI S.p.A.	Italy	Energy	1.3
Pfizer Inc.	United States	Health Care	1.2
Procter & Gamble Co.	United States	Consumer Staples	1.1
Enel S.p.A.	Italy	Utilities	1.1
Google Inc. (Cl A)	United States	Information Technology	1.1
IBM	United States	Information Technology	1.0
Wal-Mart Stores Inc.	United States	Consumer Staples	1.0
Home Depot Inc.	United States	Consumer Discretionary	1.0
Chevron Corp.	United States	Energy	0.9
Nippon Telegraph & Telephone Corp.	Japan	Telecommunication Services	0.9
International Business Machines Corp.	United States	Information Technology	0.9
AT&T Inc.	United States	Telecommunication Services	0.8
		Total	**17.2 %**

GMO World Ex-UK Equity Fund

Sectors and regions as of 31 March 2013



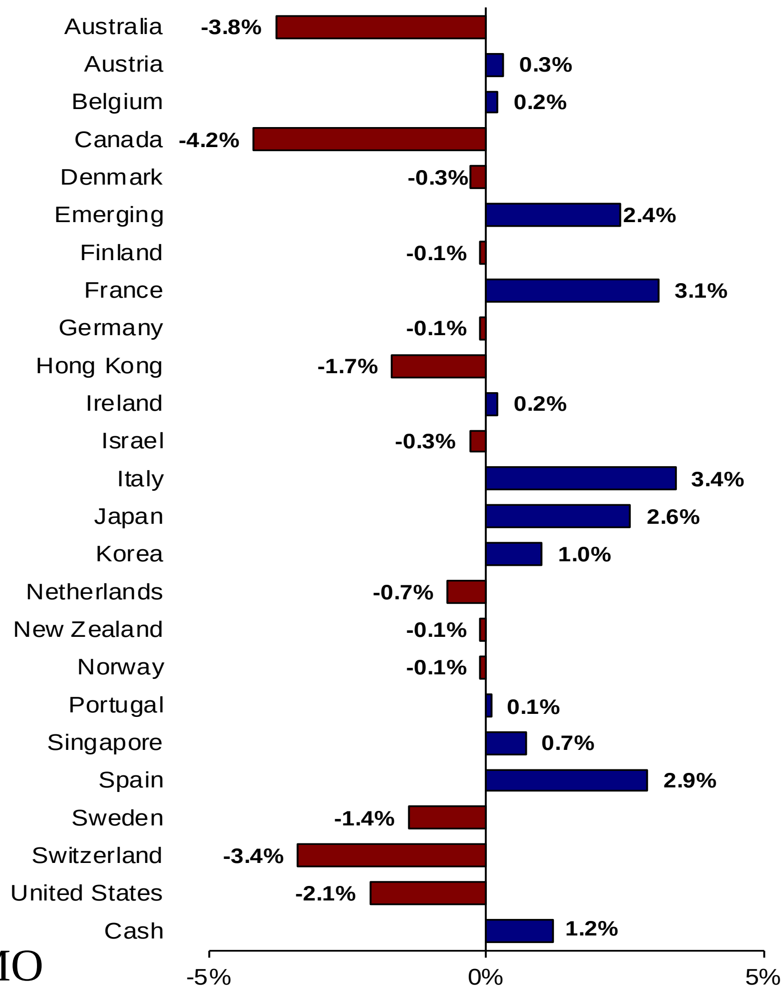


Source: GMO

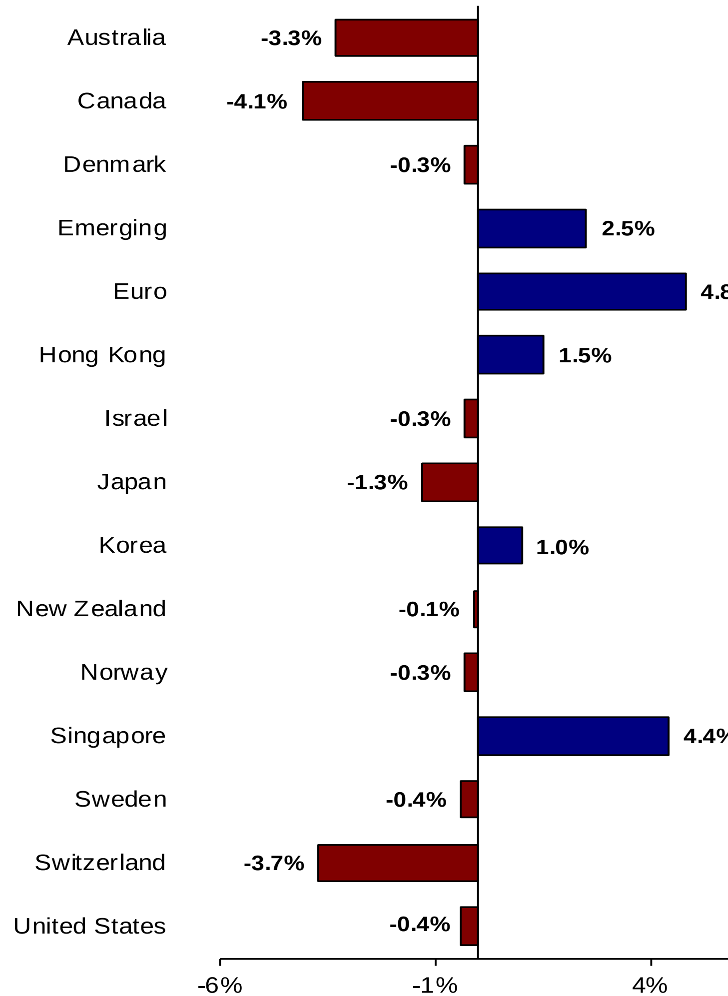
GMO World Ex-UK Equity Fund

Countries and currencies relative to the FTSE World ex-UK Index as of 31 March 2013

Country Allocation vs. FTSE World ex-UK



Currency Allocation vs. FTSE World ex-UK

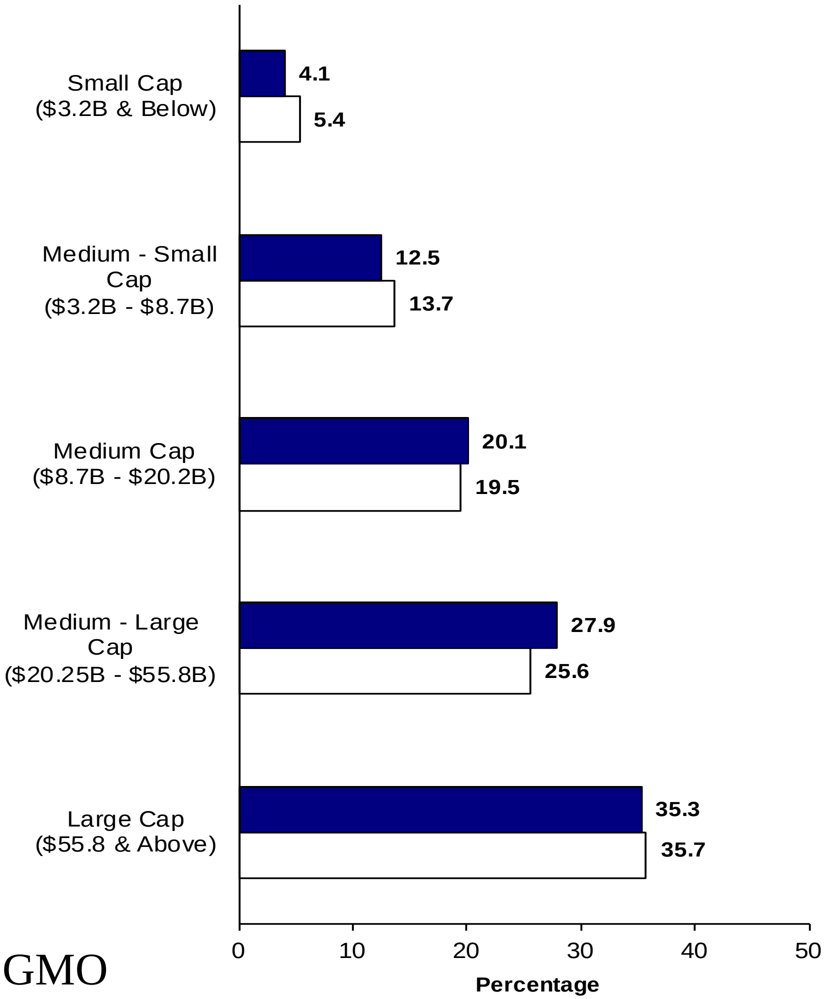


Source: GMO

GMO World Ex-UK Equity Fund

Cap size and valuation measures as of 31 March 2013

Cap Size Allocation



Valuation Measures

	GMO World Ex-UK Equity Fund	FTSE World ex-UK Index
Price/Earnings (wtd median)	14.7 x	17.5 x
Price/Cash Earnings (wtd median)	9.6 x	11.2 x
Price/Book Value (1 yr wtd avg)	1.4 x	1.9 x
Dividend Yield (1 yr wtd avg)	3.1 %	2.5 %
Return on Equity (1 yr median)	12.7 %	13.6 %
Market Cap (wtd median US $ billions)	$30.5	$31.8

Source: GMO

GMO UK Equity Core (UT) Fund

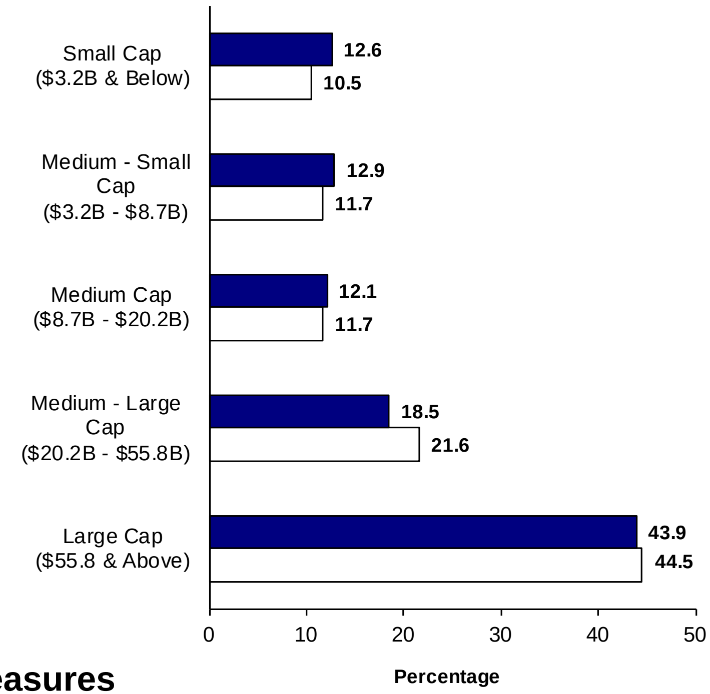
Top 15 holdings as of 31 March 2013

	Sector	% of Equity
BP PLC	Energy	9.5 %
Royal Dutch Shell PLC	Energy	6.5
Diageo PLC	Consumer Staples	6.3
AstraZeneca PLC	Health Care	5.0
HSBC Holdings PLC	Financials	4.9
Barclays PLC	Financials	4.9
GlaxoSmithKline PLC	Health Care	3.2
British American Tobacco PLC	Consumer Staples	2.6
Vodafone Group PLC	Telecommunication Services	2.5
Prudential PLC	Financials	2.2
Lloyds Banking Group PLC	Financials	1.4
Compass Group PLC	Consumer Discretionary	1.3
Aviva PLC	Financials	1.3
Anglo American PLC	Materials	1.2
BHP Billiton PLC	Materials	1.2
	Total	**54.0** %

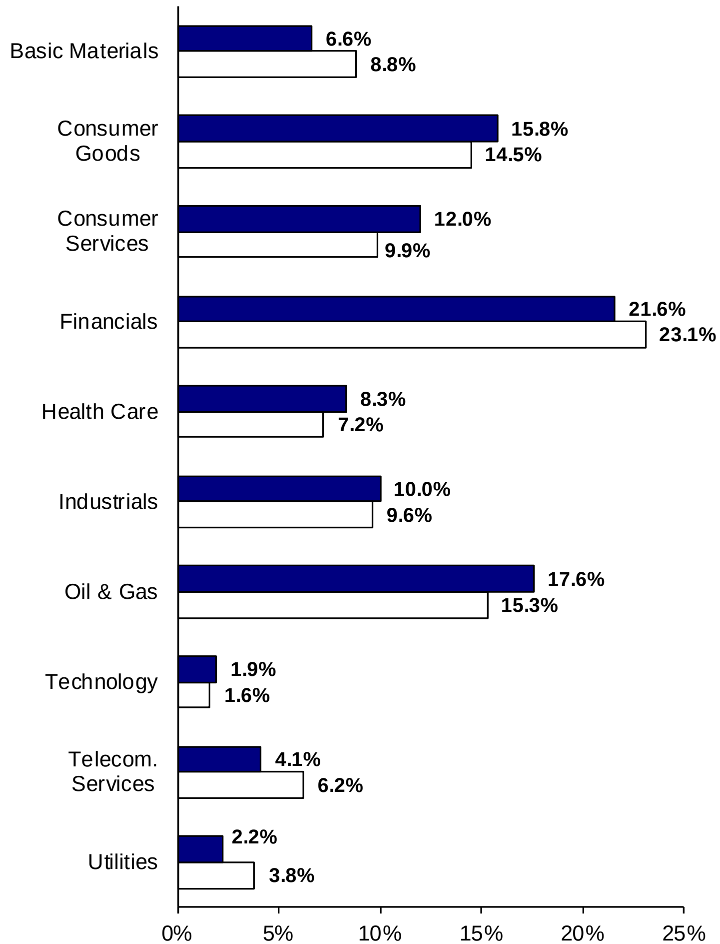
GMO UK Equity Core (UT) Fund

GMO UK Equity Core (UT) Fund
FTSE All-Share Index

Cap Size Allocation



Sector Allocation



Valuation Measures

	GMO UK Equity Core (UT) Fund	FTSE All-Share
Price/Earnings (wtd median)	11.7 x	12.1 x
Price/Cash Earnings (wtd median)	3.3 x	3.4 x
Price/Book Value (1 yr wtd avg)	3.1 x	3.3 x
Dividend Yield (1 yr wtd avg)	1.5 %	0.0 %
Return on Equity (1 yr median)	1.0 %	1.0 %
Market Cap (wtd median US $ billions)	$1.0	$1.0

GMO

Data as at 31/3/13 Source: GMO

Performance data quoted represents past performance and is not predictive of future performance. The foregoing does not constitute an offer of any securities for sale. Returns are presented gross of management fees, net of transaction costs and include the reinvestment of dividends and other income. If these expenses were deducted performance would be lower. For example, if the strategy were to achieve a 10% annual rate of return each year for ten years and an annual advisory fee of 0.75% were charged during that period, the resulting average annual net return (after the deduction of advisory fees) would be 9.25%. A GIPS compliant presentation of composite performance has preceded this report in the past 12 months or accompanies this presentation, or is also available at www.gmo.com. Actual fees are disclosed in the Prospectus for each fund and are also available in each strategies compliant presentation.
Performance is shown compared to broad-based securities market indices. Broad-based indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly into an index.

GMO

North America | Europe | Asia-Pacific

GMO UK Limited
One Angel Court Throgmorton Street London EC2R 7HJ
Tel: +44 20 7814 7600 **Fax:** +44 20 7814 7605
Company Number: 04658801

Shetland Islands Council Miscellaneous Funds Portfolio

June 2013

➤ A BNY MELLON COMPANY℠

Insight INVESTMENT

Insight team

April LaRusse
Senior Product Specialist, Fixed Income

Steve Lewis
Client Director

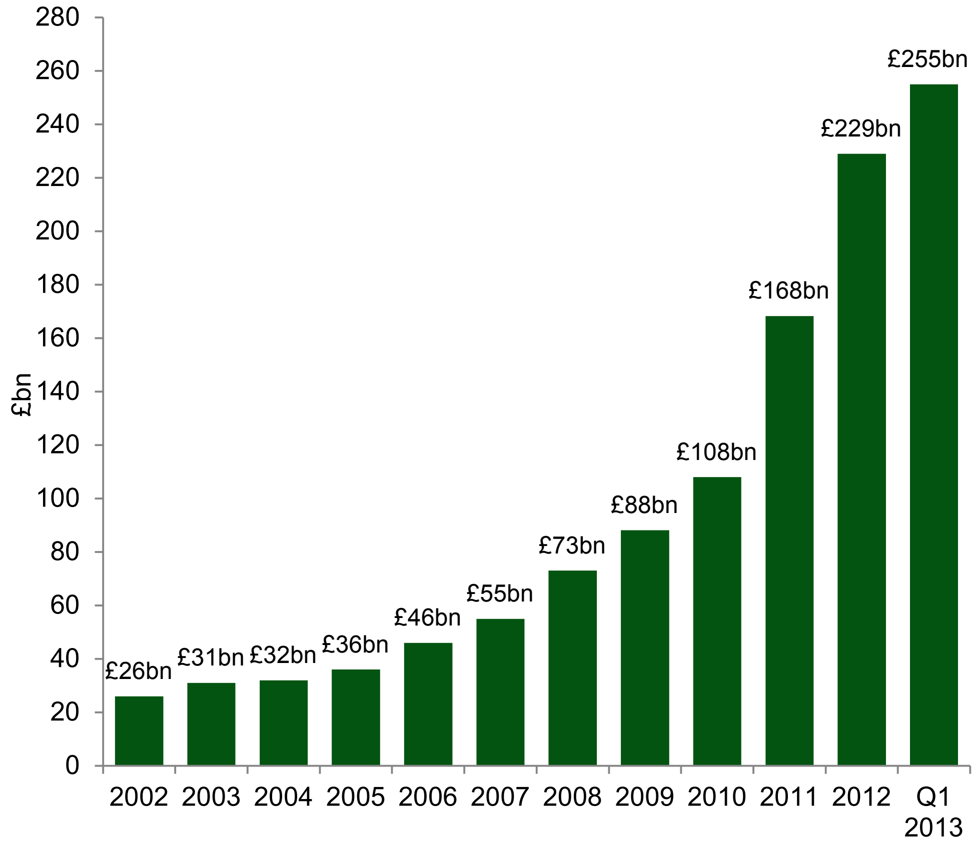
Agenda

- Corporate update
- Your mandate
  - Performance summary
- Portfolio review
- Investment analysis and market outlook
- Appendix

Insight Investment
Our credentials

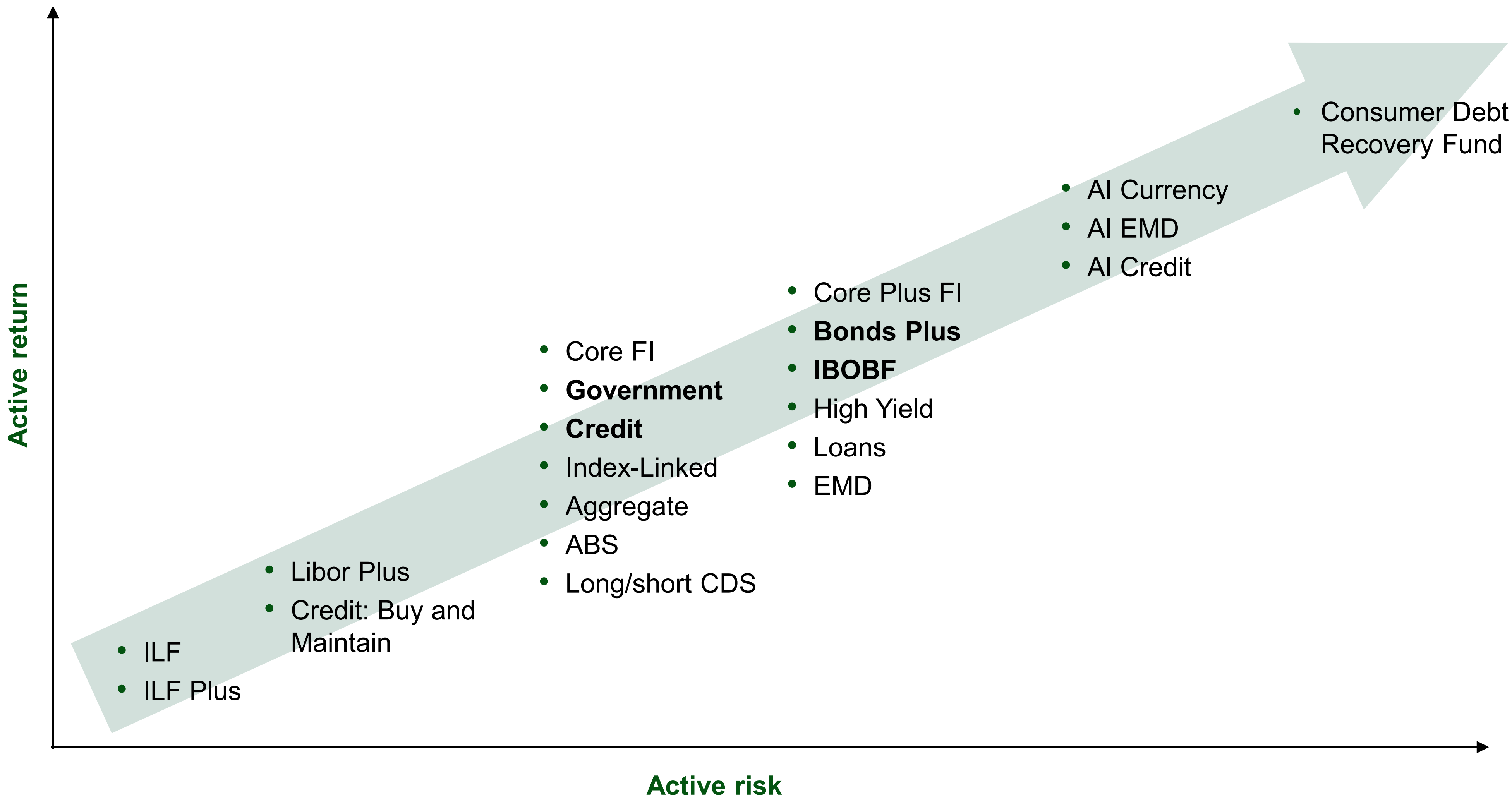
- Autonomous asset manager owned by BNY Mellon
- Locations in London, New York, Sydney and Tokyo
- Reputation for excellence in:
  - liability risk management
  - active fixed income
  - currency risk management
  - multi-asset and absolute return
- Highly-rated capability:
  - one of the world's most experienced currency specialists
  - ranked number one for LDI with UK consultants in the Greenwich Associates Survey for 3rd consecutive year
  - UK Pensions Awards investment manager and LDI manager of the year 2013
  - Financial News LDI manager of the year 2010, 2011 and 2012 and Fixed Income Manager of the Year 2012

Insight Investment assets under management[1]



As at 31 March 2013. Assets under management are represented by the value of cash securities and other economic exposure managed for clients.
[1] Excludes previous parent introduced assets prior to 2009.

Fixed income product range



Insight INVESTMENT

Adrian Grey
HEAD OF FIXED INCOME AND CURRENCY

Peter Bentley
UK AND GLOBAL CREDIT
Adam Mossakowski
Adam Whiteley
Tim Whitehead

PRODUCT MANAGEMENT
April LaRusse
Emma du Haney
Alison Arthurs
Monique Carter

Andrew Wickham
UK AND GLOBAL
Isobel Lee
Harvey Bradley

INFLATION LINKED
David Hooker

IMPLEMENTATION AND OPERATIONS
Rory Anderson
Peter Joslin
Carl Burdett
Alison Dowding

Lucy Speake
EUROPE
Gareth Colesmith
Bonnie Abdul Aziz
Damien Hill

RESPONSIBLE INVESTMENT
Andy Evans

Alex Veroude
HEAD OF CREDIT
Praveen Telang

STRUCTURED CREDIT
Shaheer Guirguis
Jeremy Deacon
Tristan Teoh

HIGH YIELD
Uli Gerhard

LOANS
Ranbir Singh Lakhpuri
Lorraine Specketer
Seema Sopal

David Averre
CREDIT ANALYSIS
Alex Moss
Eleanor Price
Lionel Trigalou
Cathy Braganza
Anna Stevens
Sunil Patel
Charles-Henri Boivin
Simon Cooke
Robert Sawbridge

Colm McDonagh
EMD
Rodica Glavan
Robert Simpson
Oliver Williams

Paul Lambert
CURRENCY
Richard Nibloe
Max Wahl

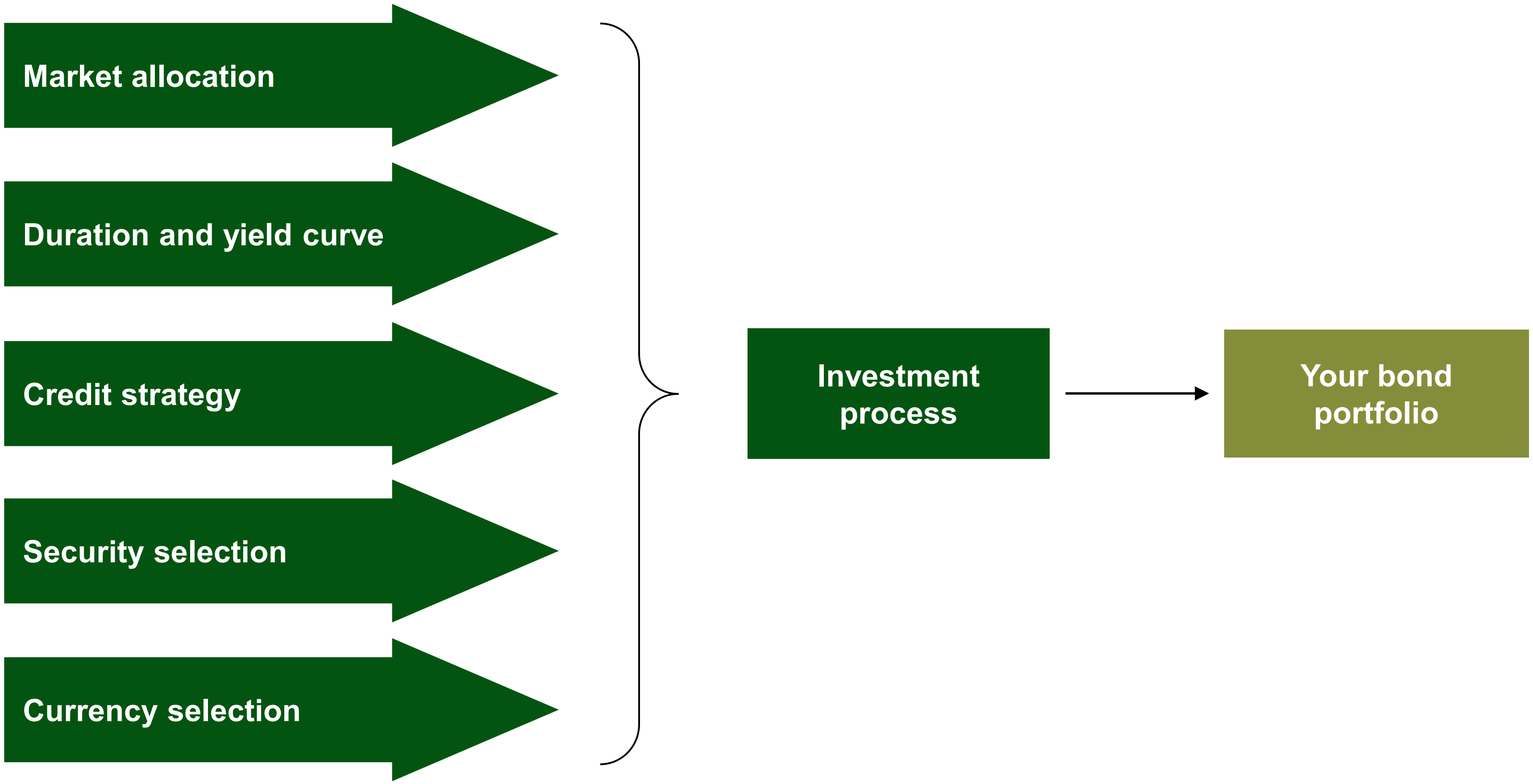
Colin Cave
MONEY MARKETS
Chris Brown
Kevin Coney
Patrick Goodall

Paul Rochester
DEALING
Paul Sharp
Angie Hart
Joe Hazelwood

As at May 2013.

Investment philosophy
Diversification

A global opportunity set



Your mandate

A BNY MELLON COMPANY[SM]

Mandate summary and investment guidelines
Shetland Islands Council

Funds	Index	Benchmark Weight* (%)	Investment Ranges (%)
Broad Opportunities Bond Fund	50% FTSE-A All Stocks Gilts Index 50% iBoxx Sterling Non-Gilts Index	40 40	70-90
Bonds Plus	3 month GBP LIBOR	20	10-30
Cash	Sterling 7 Day LIBID		0-10

Portfolio objective

- To outperform the benchmark by 1.50% per annum after the deduction of annual management fees and expenses over rolling three year periods

* As at 1 April 2011

Summary of performance
Shetland Islands Council

Performance summary as at 30 April 2013 (%)

	3 months (%)	YTD (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)	Since inception* (%)
Portfolio	4.08	3.18	12.13	**10.49**	9.14	8.19	6.51
Benchmark	3.68	2.51	8.48	**8.17**	7.51	7.12	6.00
Relative	**0.40**	**0.67**	**3.65**	**2.32**	**1.63**	**1.07**	**0.51**

	1 April 2011 - 30 April 2013 %
Bonds Plus	4.01
Benchmark	0.81
Relative Return	**3.21**
Broad Opportunities Bond Fund	13.51
Benchmark	12.89
Relative Return	**0.62**

Fund values

- Net asset value as at 30 April 2013: £54,279,102

Source: Insight Investment
All figures are gross of fees
Returns for periods greater than one year are annualised
Inception date 31 March 2001

Portfolio Review

Portfolio analysis
Shetland Islands Council

Insight Broad Opportunities Bond Fund

	Fund	Benchmark
Government	28.08	50.00
Supranational	8.00	10.81
Financials	13.63	12.68
Corporate - Cyclical	7.83	5.41
Corporate - Non-cyclical	14.35	15.33
Securitised	11.43	5.77
Interest Rate Swaps	0.82	0.00
Insight EMD Fund	7.84	0.00
Insight High Yield Fund	4.45	0.00
Insight Loan Fund	1.93	0.00
Cash*	1.63	0.00
	100.00	100.00

Yield

	Total	Benchmark
Total	3.45	2.28

Duration

	Total	Benchmark
Total	9.97	8.48

Bonds Plus

	Fund
Government	33.53
Financials	0.67
Corporate - Cyclical	0.95
Corporate - Non-cyclical	0.59
Securitised	29.56
Interest Rate Swaps	-0.29
Insight EMD Fund	4.80
Insight High Yield Fund	2.83
Insight Loan Fund	2.91
Cash*	24.45
	100.00

Yield

	Total
Total	2.01

Duration

	Total
Total	0.73

Data as at 30 April 2013
Excludes Futures
* Includes Cash, Forward FX, Insight Liquidity Fund, Contra & Unsettled trades

Performance attribution
Shetland Islands Council

Bonds Plus
Q1 2013

	in bp
Market allocation	25
Duration	-10
Yield Curve	-8
IG Credit	9
Asset backed securities	36
High yield	7
Loans	6
EMD	2
FX	8
	75

Broad Opportunities Bond Fund
Q1 2013

	in bp
Market allocation	20
Duration	-26
Yield Curve	-13
IG Credit	11
Asset backed securities	22
High yield	7
Loans	5
EMD	2
FX	8
	36

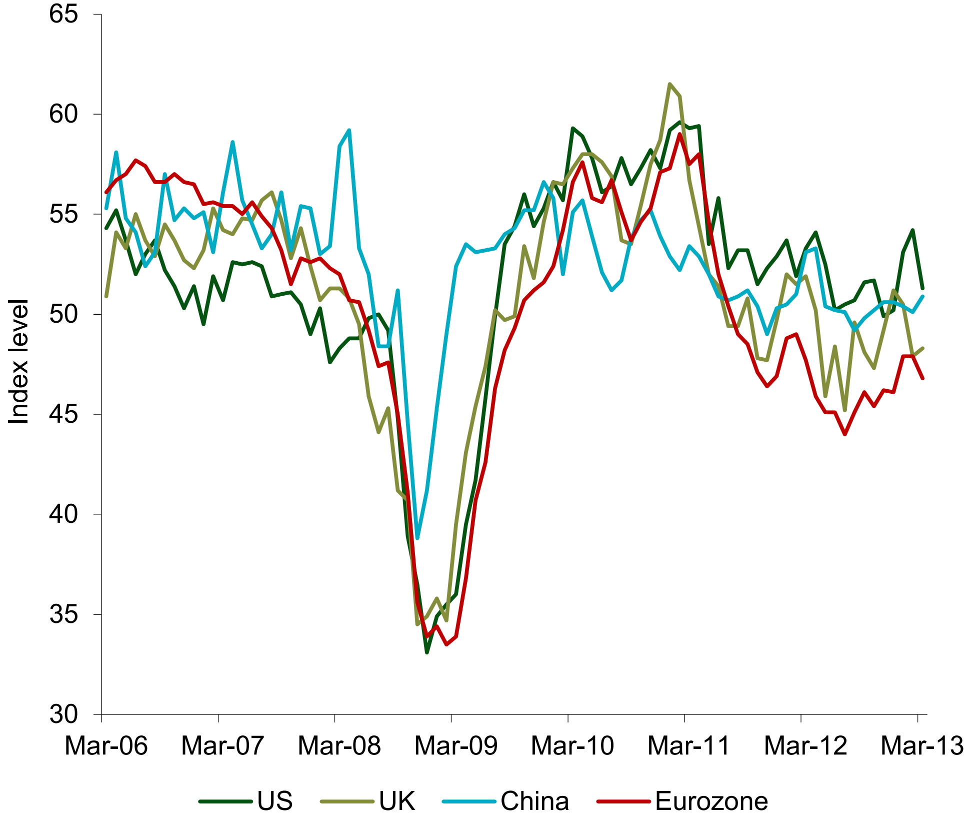
Investment analysis

Economic and investment themes

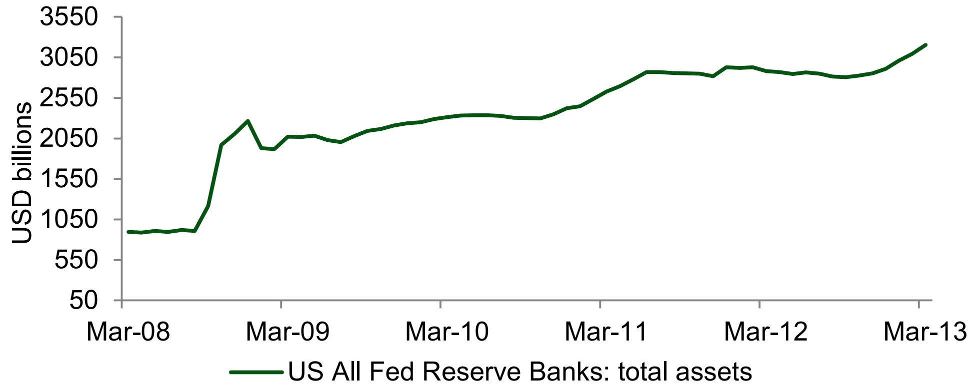
- Slow global growth expected, with the US outperforming Europe and the UK
- Core inflation pressures muted in the US and Europe – UK CPI has seen the bulk of any falls from higher levels
- Interest rates expected to remain on hold in the UK, US, and Europe
- Alternative monetary policy measures such as QE and FLS expected to continue in the US and UK
- Our central case remains that the Eurozone survives despite periods of volatility, e.g. Cyprus
- Investment grade credit fundamentals remain strong, but wary of renewed CAPEX, M&A and share buy-back activity
- A global 'search for yield' is a positive background for selected risk assets
- Within credit, stock selection and relative value likely to be a key source of added value

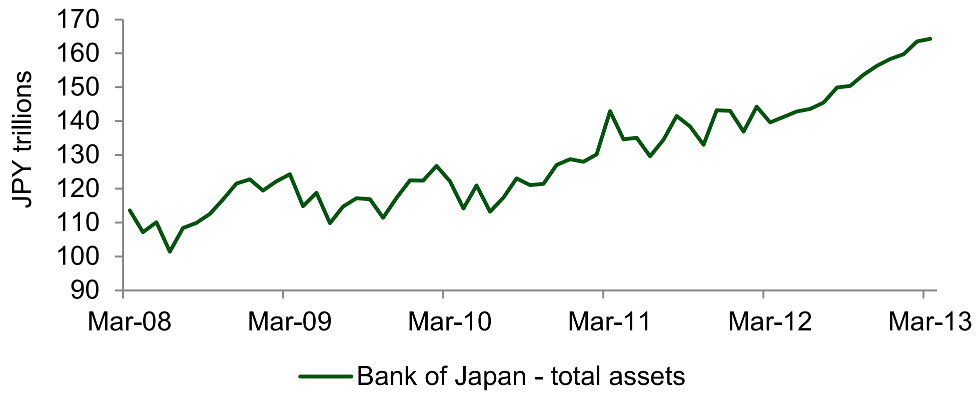
Economic and investment themes
Global

Survey measures of global output growth: PMIs



Central bank balance sheets: US and Japan





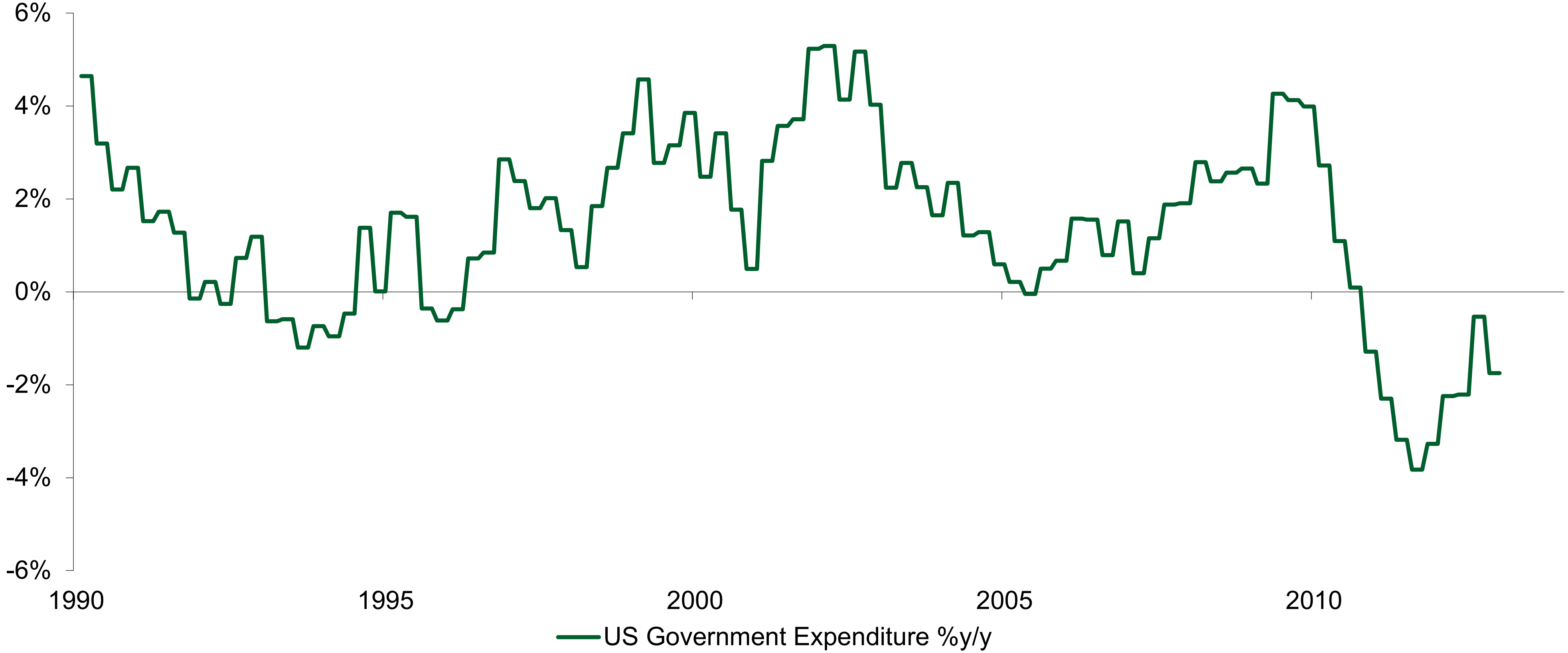
Global growth remains weak despite on-going policy measures from central banks

Source: Bloomberg, as at 31 March 2013.

Source: Bloomberg, as at 31 March 2013.

Economic and investment themes
US

US Government Expenditure % y/y

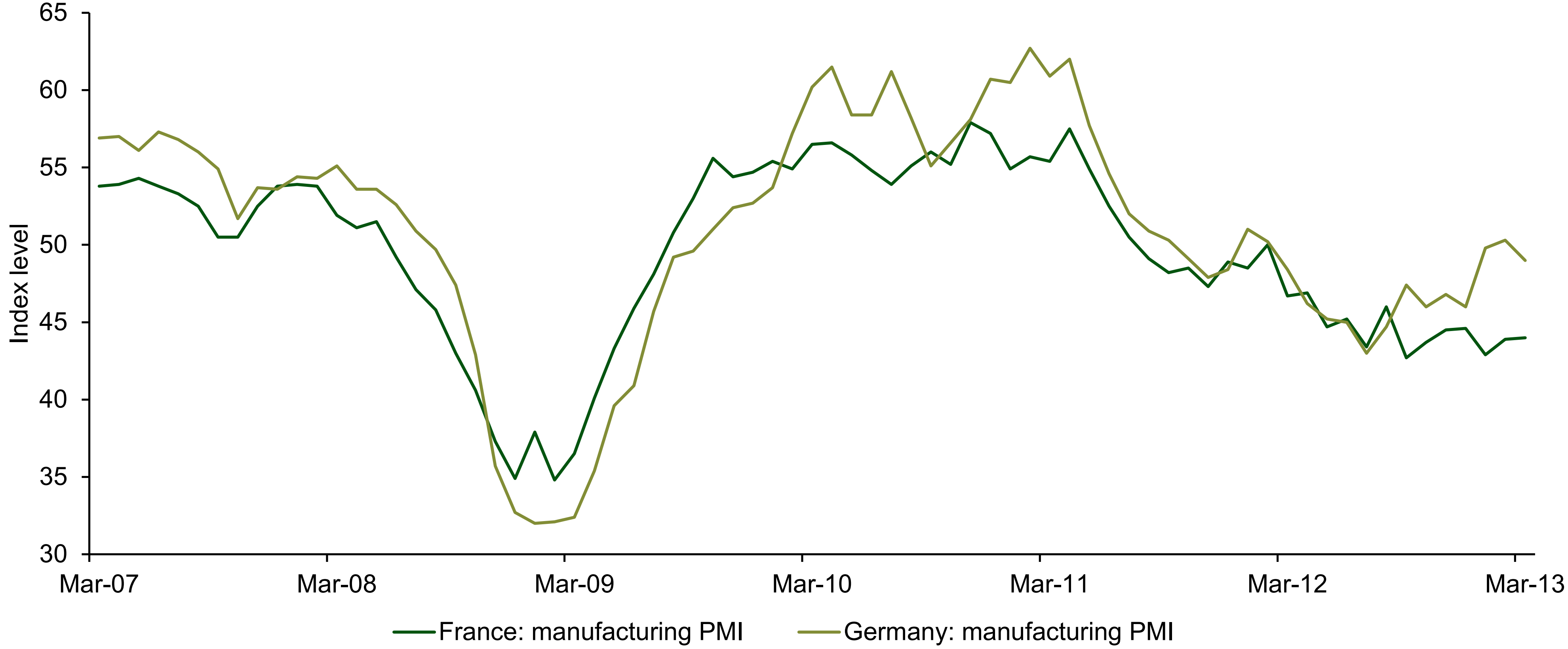


Downside growth risks from fiscal tightening remain, but this is not a new phenomenon

Source: Datastream, 31 January 2013.

Economic and investment themes
Europe

Germany versus France: manufacturing PMIs

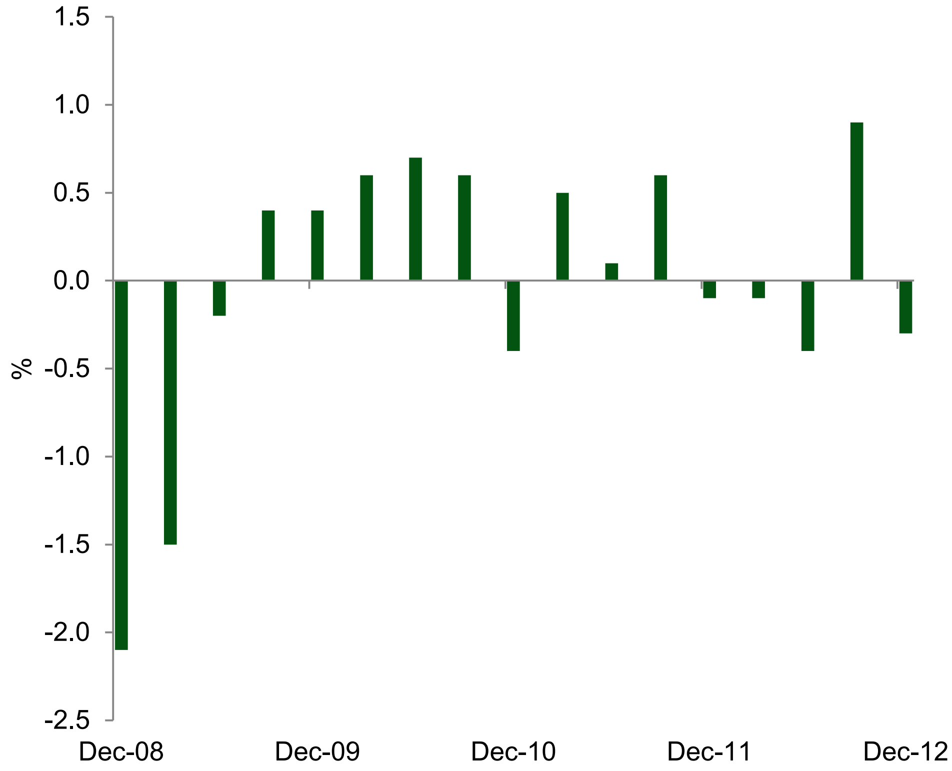


Divergence in core European economic growth is starting to appear

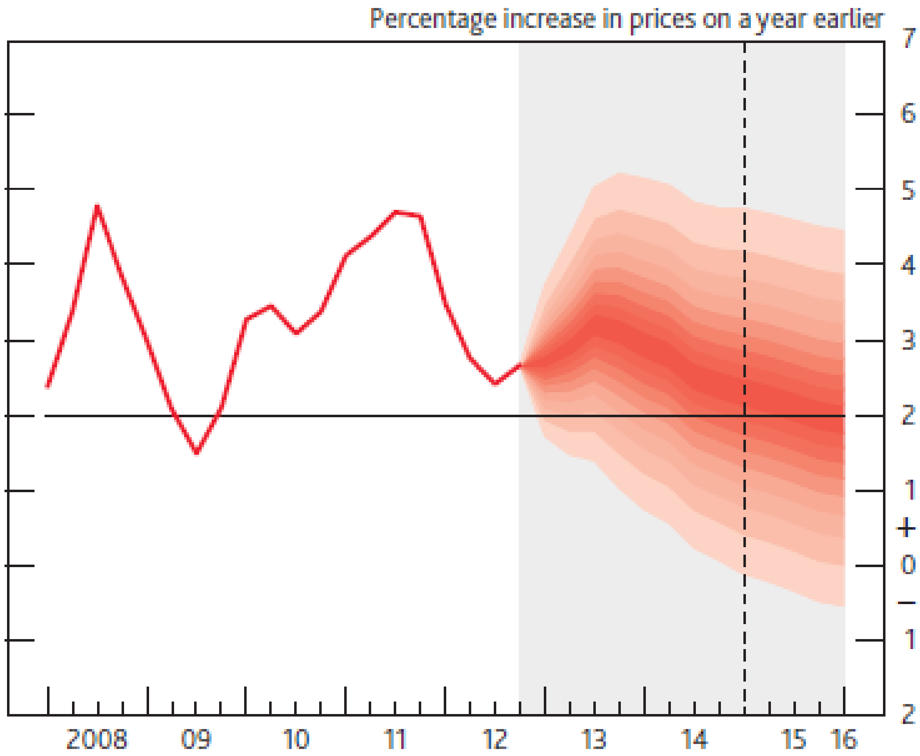
Source: Bloomberg, as at 31 March 2013.

Economic and investment themes
UK

UK GDP: qoq % change



CPI inflation projection: Bank of England



Despite continued uncertainty over inflation, bias is for further BOE easing given threat of 'triple-dip' recession

Source: Bloomberg to 31 March 2013.

Source: Bank of England, February 2013 Inflation Report

Market allocation
Emerging market debt

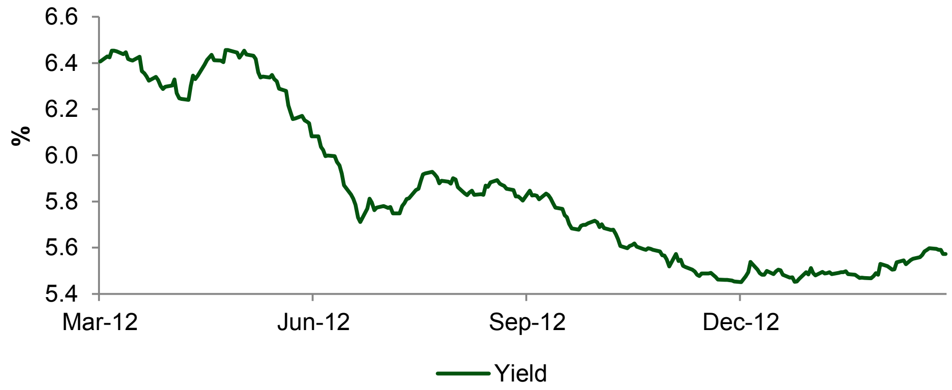
Research: Positive view on emerging market debt economies (relative to developed markets) given a pick up in global growth, continued reduction in tail risks and low inflation. Some caution warranted given risks from potential volatility in US treasuries and oversupply.

Market: Softer quarter for emerging market assets with EM corporate bonds delivering the best returns and external sovereign debt the laggard. Wide divergence in returns across local debt.

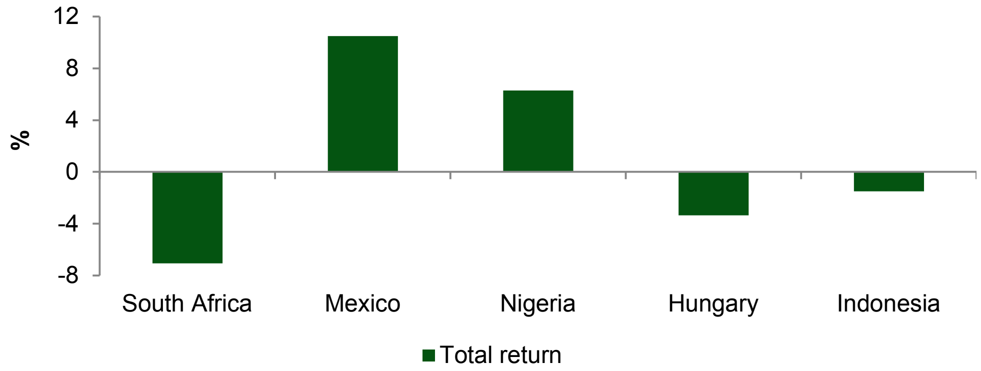
Technicals showing signs of differentiation between sub-asset classes with the biggest share of flows going into local funds while external funds starting to see outflows.

Outlook: External debt looking expensive and most vulnerable to asset class outflows. Local debt remains most attractive asset class in EM debt. Starting to see a theme of domestic factors playing an increasing role in valuations. This supports a more idiosyncratic environment and reduction in cross-asset correlations.

Yield on local EM government debt (unhedged)



YTD returns in select local EM government debt markets (unhedged, in USD)



Source: top graph – JP Morgan, GBI-EM YTM, Bloomberg, as at 31 March 2013, bottom graph – JP Morgan, GBI-EM, Bloomberg, as at 31 March 2013.

Market allocation
Prime RMBS versus gilts

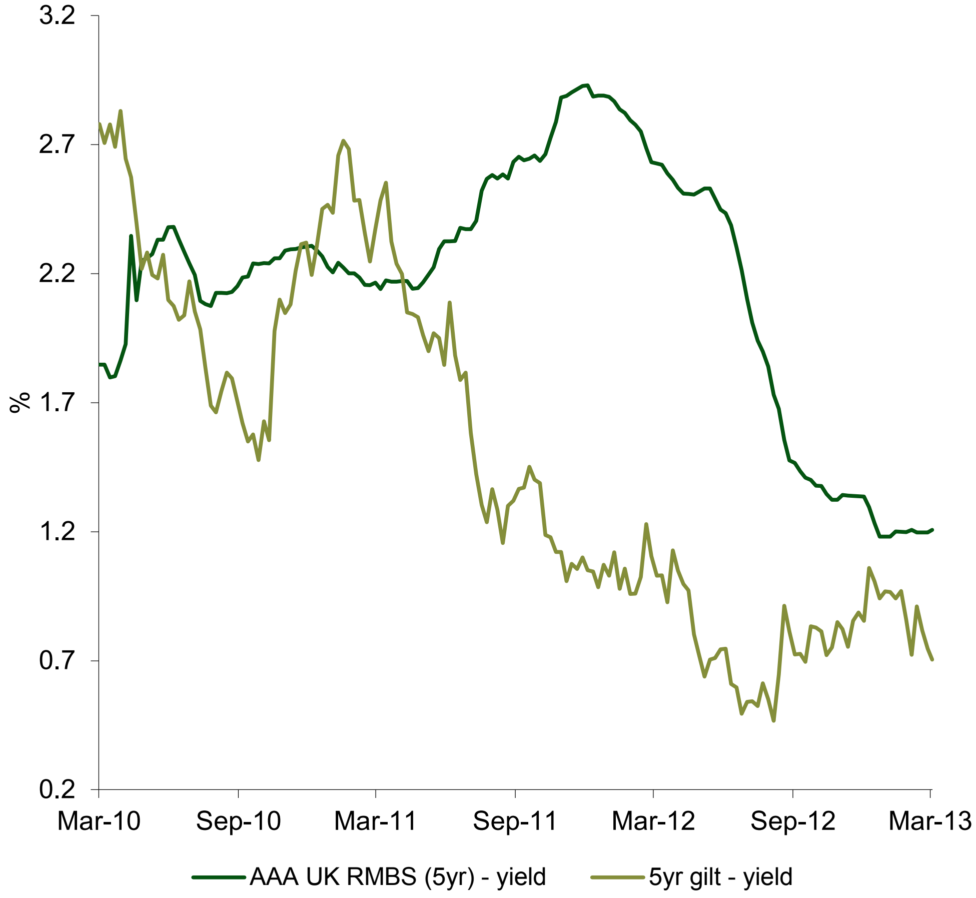
Research: Prime AAA-rated UK and Dutch RMBS with solid fundamentals offer a premium over short maturity gilts.

Market: After having rallied strong in the second half of 2012, prime ABS yields held steady during 2013. These assets continue to be supported by the backing of real assets and a mismatch of supply and demand as a result of the BOE's Funding for Lending Scheme (FLS).

Outlook: The prime ABS market is expected to remain relatively range bound from here. The current rally has prompted some investors to take profits, but a lack of issuance in UK prime RMBS should prevent any reversal in yield spreads.

Issuance expected to continue to come from Australian and Dutch prime ABS market, with fundamentals remaining robust.

Prime AAA-rated RMBS versus gilts: overall yield



Source: Bloomberg, JP Morgan, as at 31 March 2013.

Market allocation
UK inflation linked versus conventional government bonds

Research: The near-term outlook for breakeven inflation will be determined by the outcome of the CPAC consultation.

Market: The National Statistician concluded that there was significant value to users in maintaining the continuity of the existing RPI series and that it should continue to be used for index-linked gilts. The outcome was a surprise and it prompted a significant re-rating of the inflation linked market. Additionally, inflation expectations were supported by speculation over possible changes to the Bank of England's monetary policy framework.

Outlook: Breakeven inflation is fairly priced given the inflation outlook and uncertainties surrounding the monetary policy framework ahead of a new BoE Governor in July.

UK breakeven inflation*

Source: Bloomberg, as at 31 March 2013.
* Breakeven inflation = conventional government yield – inflation linked government yield.

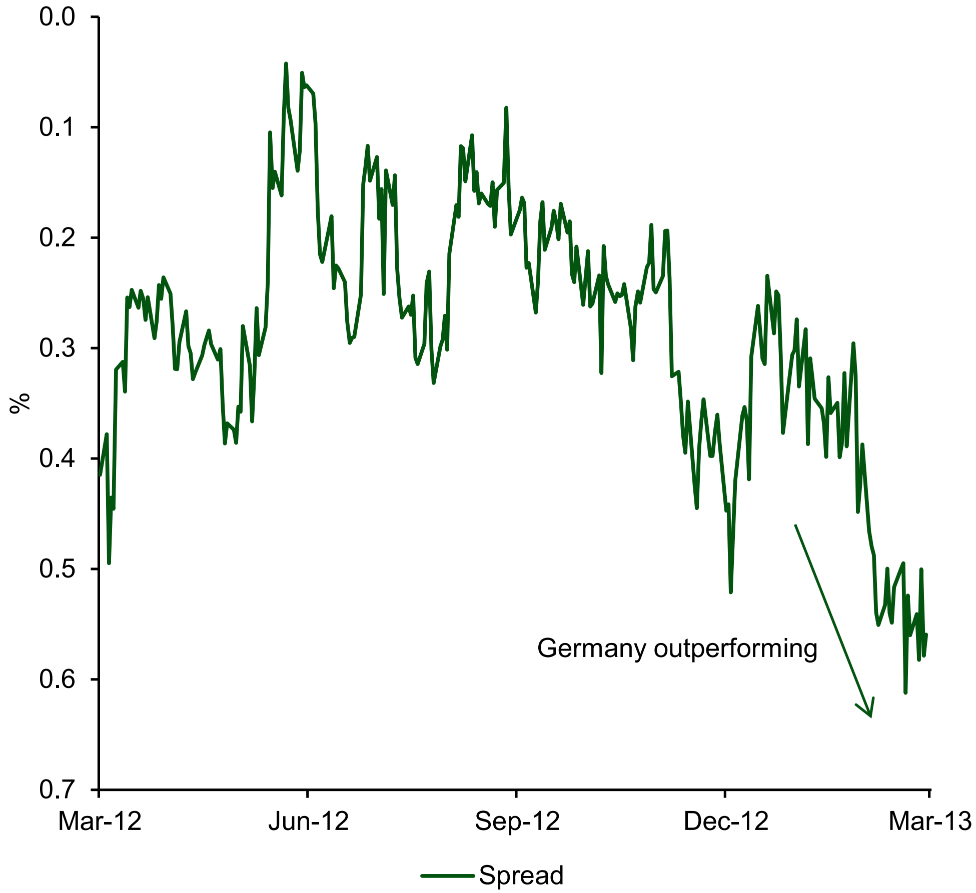
Market allocation
US versus Germany

Research: Improving US economic data coupled with talk of a winding down of quantitative easing may lead to a rise in yields. Growth expectations remain weak in Eurozone and dovish comments from ECB support a slower recovery in yields.

Market: German bunds outperformed US treasuries as events in Italy and Cyprus sent bunds rallying while better US data kept US treasury yields in a range.

Outlook: Expect continued differentiation across developed government bond markets. US yields look most likely to rise steadily, albeit slowly, from here.

US treasury versus Germany bund yields



Source: Bloomberg, as at 31 March 2013.

Insight INVESTMENT

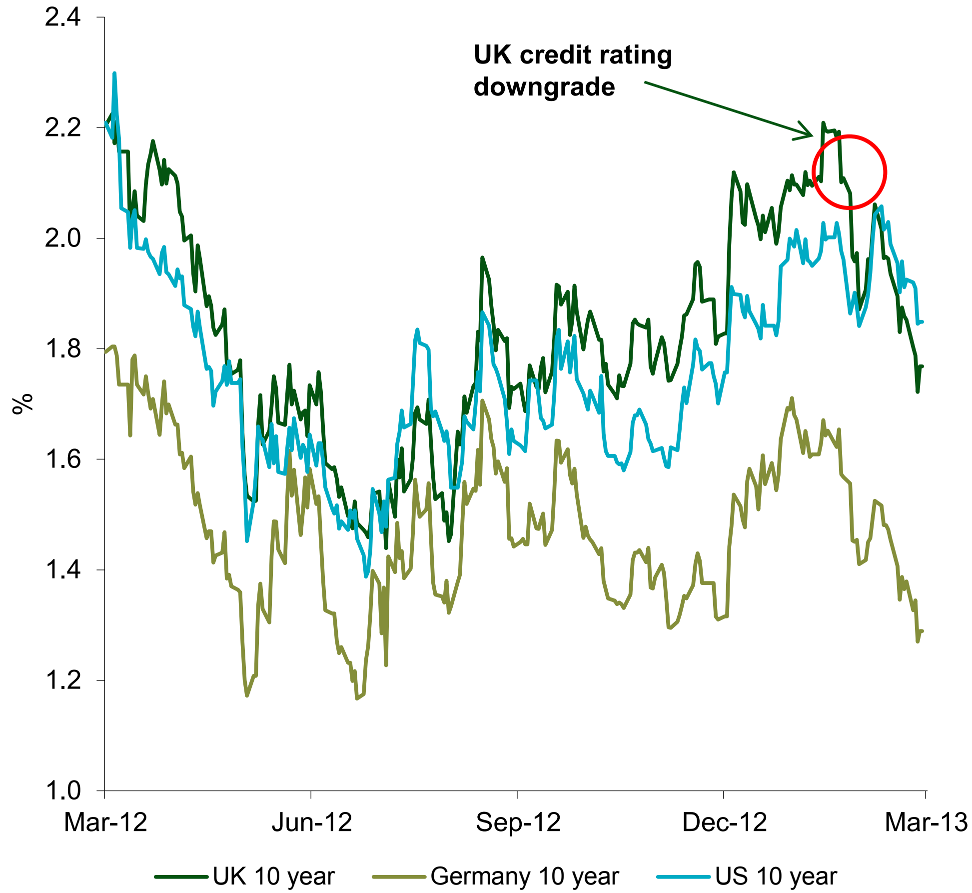
Research: UK, US and German government bond yields at near record low levels offer little fundamental value.

Market: UK, US and German bond yields rose initially in the quarter and then fell sharply on the back of renewed Eurozone fears. Yields ended the quarter lower in the UK and Germany but in the US, yields ended higher. The UK was the best performing market overall.

Outlook: Interest rates very unlikely to rise in 2013.

The combination of QE and similar accommodative policy with a reduction in 'safe haven' premium for high quality assets will likely keep yields in a narrow range.

10 year government bond yields



Source: Bloomberg, as at 31 March 2013.

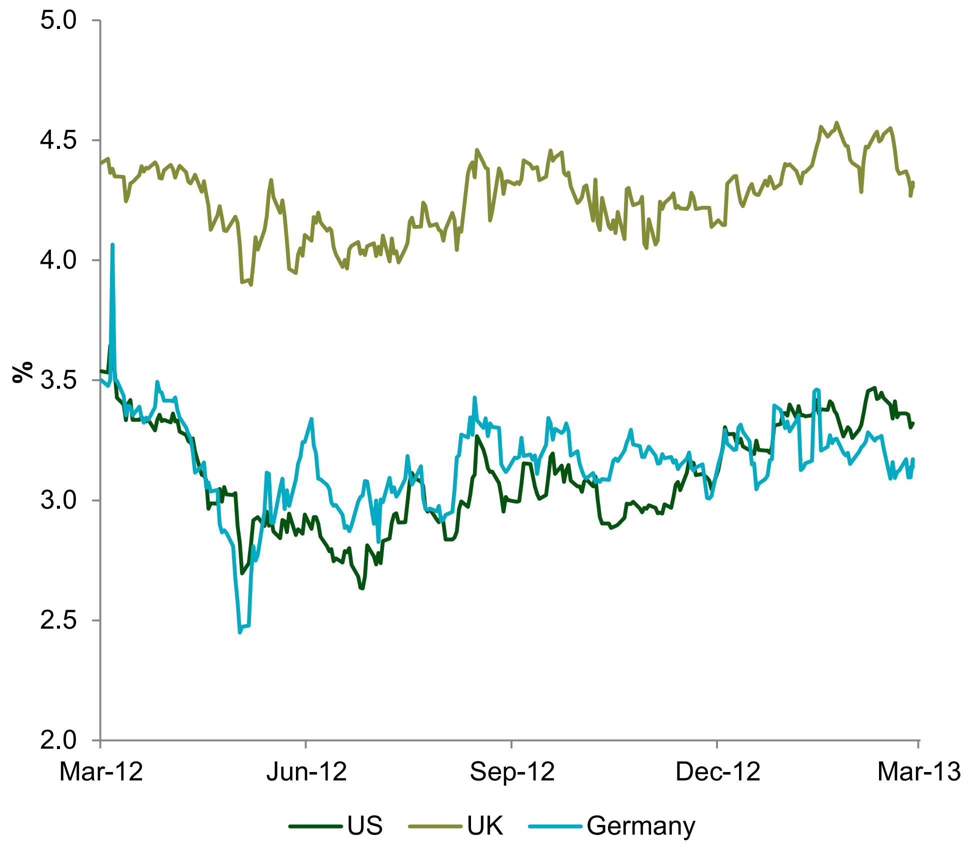
Yield curve
Global government bonds

Research: A historically steep yield curve in UK should flatten as investors seek higher yields from longer dated bonds. Compared to conventional bond yields rates, forward interest rates are already considerably higher than other markets.

Market: The UK yield curve remained steep. Forward bond yields (the yield priced in for the future) rose to the highest level for a year.

Outlook: In the UK, with the steepest yield curve among the major markets, we expect demand to gradually shift longer – which is likely to flatten the gilt curve.

US, UK and Germany government bonds: 10 year yields, 10 years forward



Source: Bloomberg, as at 31 March 2013.

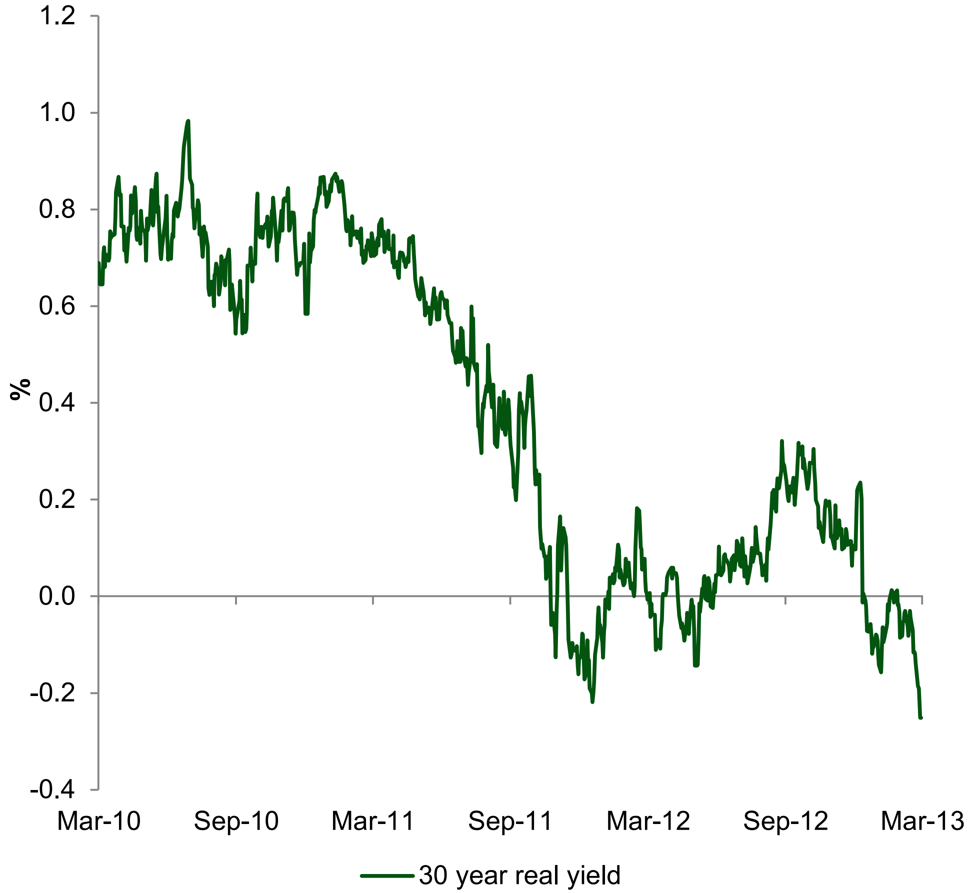
Duration
UK index-linked gilts

Research: Long dated yields were expected to rise gradually over the year as the market adjusts to a non QE environment.

Market: Yields initially rose, but then fell back and ended the quarter lower. The two drivers to lower yields were the reaction to the surprise outcome from the CPAC consultation and attempts by EU countries to arrange a bailout for Cyprus which reminded investors of the on-going Eurozone sovereign debt crisis.

Outlook: Continued progress to some form of an EU fiscal union and a domestic market adjusting to a non-QE environment should lead to a gradual rise in yields during the next twelve months.

UK real yields: long history



Source: Bloomberg, as at 31 March 2013.

Yield curve
UK index-linked gilts

Research: The steepness of the curve will encourage investors to switch longer.

Market: The real yield curve continued to steepen as investors were attracted by the inflation protection offered by shorter dated bonds. The yield curve ended the quarter at the steepest ever levels.

Outlook: The real yield curve is expected to flatten, driven by investors switching longer attracted by the historic steepness of the curve, and more issuance from the DMO in shorter maturities in response to the increase in demand in this sector.

Real yield spread between 2022 and 2042 index-linked gilts

Source: Bloomberg, as at 31 March 2013.

Research: Despite the move tighter in yield premia, investment grade credit still overcompensates for the likelihood of defaults and the asset class still has strategic value.

Market: Spreads narrowed through January and then held in a tight range for the rest of the quarter. Despite a resurgence of Eurozone crisis, credit markets largely remained resilient. The Sterling market outperformed the USD and Euro.

New issuance remained plentiful and well sought after.

Outlook: Low interest rates on cash and government bonds has resulted in a search for yield that should continue to benefit the corporate bond market. Fundamentals remain sound due to defensive corporate balance sheets and access to funding, however, monitoring for pickup in LBO and M&A risks. Relative return opportunities within credit are most compelling.

Sterling credit spreads look attractive relative to other currencies.

Credit spreads

Source: Merrill Lynch, Bloomberg, as at 31 March 2013.

Credit strategy
Asset-backed securities (ABS)

Research: Select areas of the asset-backed securities market continue to offer some of the best opportunities in terms of risk/reward versus similarly rated corporate bonds.

Market: ABS market held in well over the quarter, with spreads narrowing across most areas of the market.

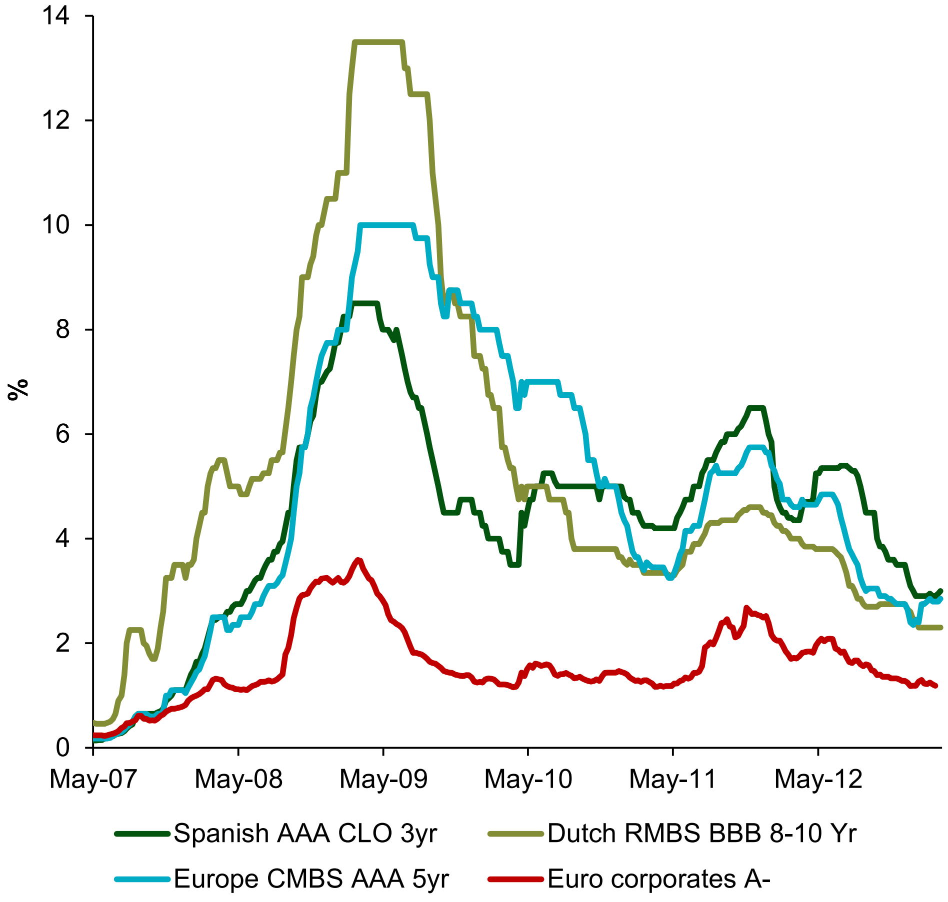
The primary market continued to be relatively quiet, further exacerbating the demand/supply imbalance.

Outlook: CMBS remains a favoured subsector given diversified collateral, stable cash flows and very low LTVs.

RMBS yield spreads to remain range bound with factors of supply and demand in balance. See most attractive opportunities in Dutch and Australian RMBS.

Short maturity peripheral ABS is expected to rally as investors seek yield and government spreads stabilise.

ABS and corporate bonds: yield spread



Source: JP Morgan, as at 31 March 2013.

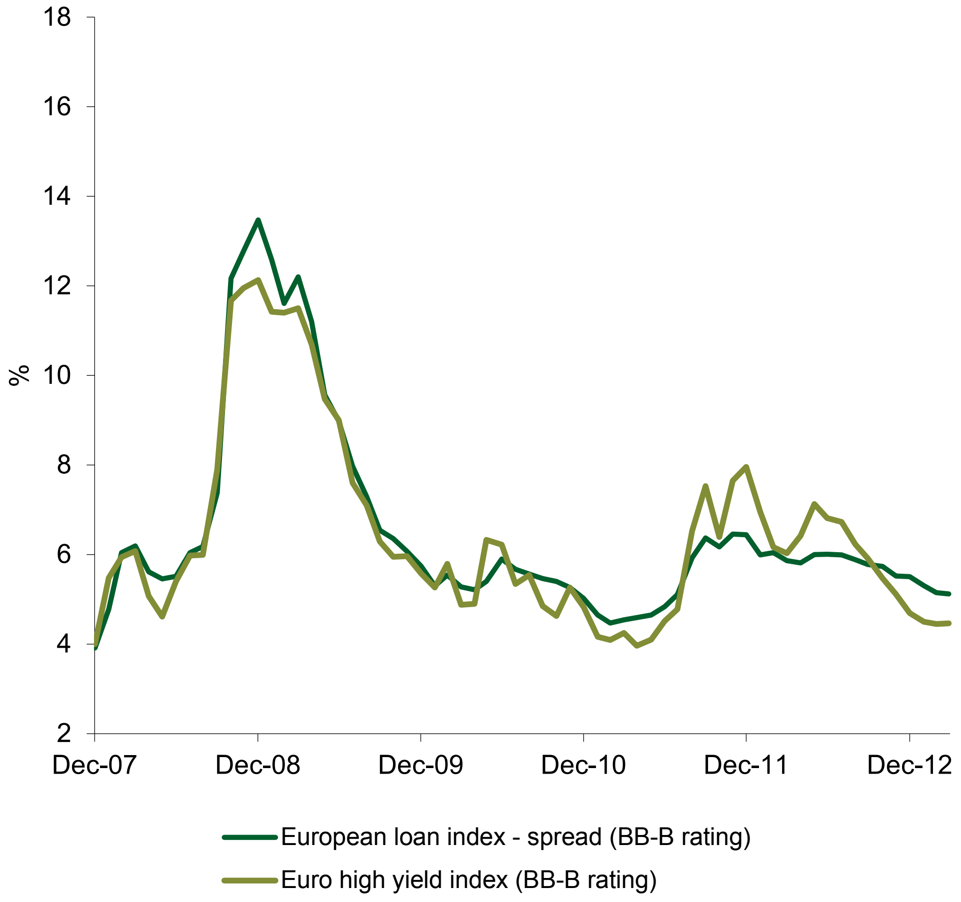
Credit strategy
Loans

Research: The strong fundamentals in combination with relatively attractive spreads make the loan market particularly attractive.

Market: Continued strong performance from the loan market due to high demand for yield. Strong market technicals meant that the loans market shrugged off the wider macro events. Issuers have been taking advantage of this to reprice some loans but the good value remains. New issues were absorbed well.

Outlook: Although yields in the loan market have begun to come under pressure from re-pricings, they still remain attractive compared to their fair value and to other asset classes such as unsecured high yield bonds

European loans versus high yield: yield spread



Source: Credit Suisse Western European Leveraged Loan index, Merrill Lynch BB-B Fixed & floating rate high yield constrained index ,as at 31 March 2013.

Credit strategy
Sector allocation: telecoms

Research: Sector operating performance and outlook has worsened significantly in the past 3 months.

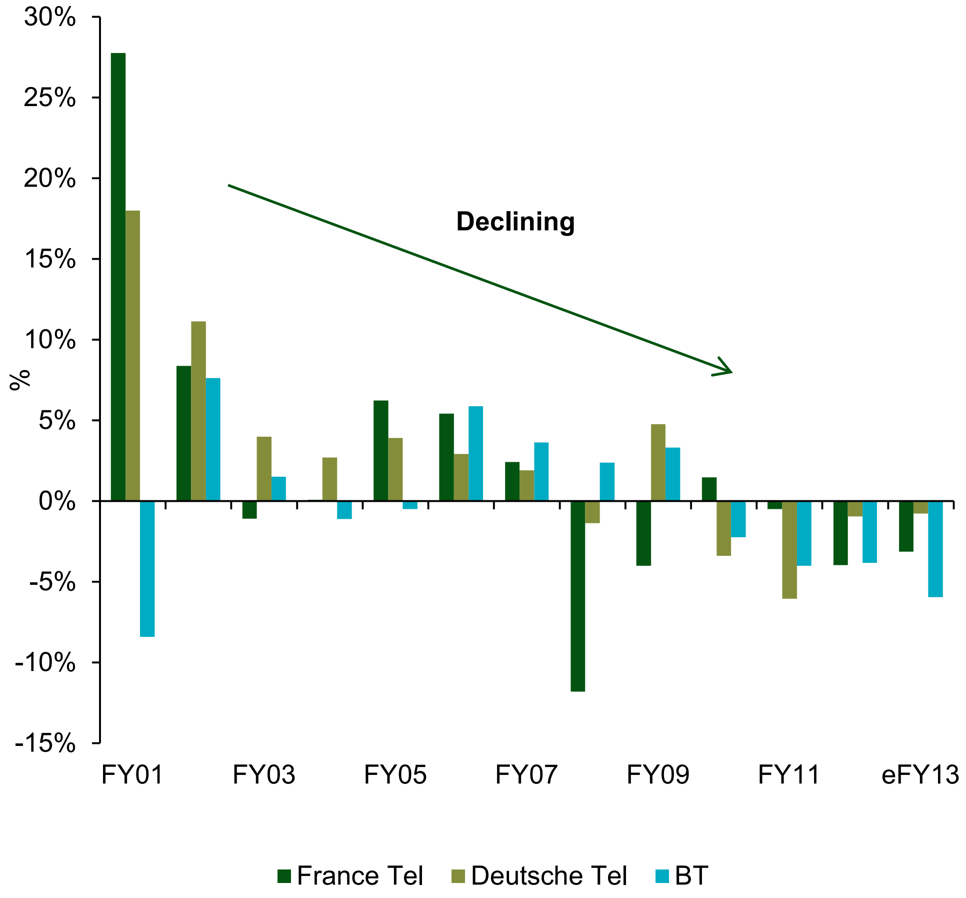
Alternative operators continue to undercut incumbents, pressurising margins.

Simultaneously incumbents must increase capex, e.g. fibre/4G.

Market: Spreads in non-peripheral names driven tight by safe-haven buying.

Outlook: Telecoms to underperform as market begins to price in increased capex/leverage.

Telecoms: revenues (yoy, change)



Source: Insight as at 31 March 2013.

Credit strategy
Sector allocation: banks into insurance

Research: Majority of old-form bank capital has been tendered/exchanged.

Much of what is left is from weaker institutions and future regulation creates uncertainty.

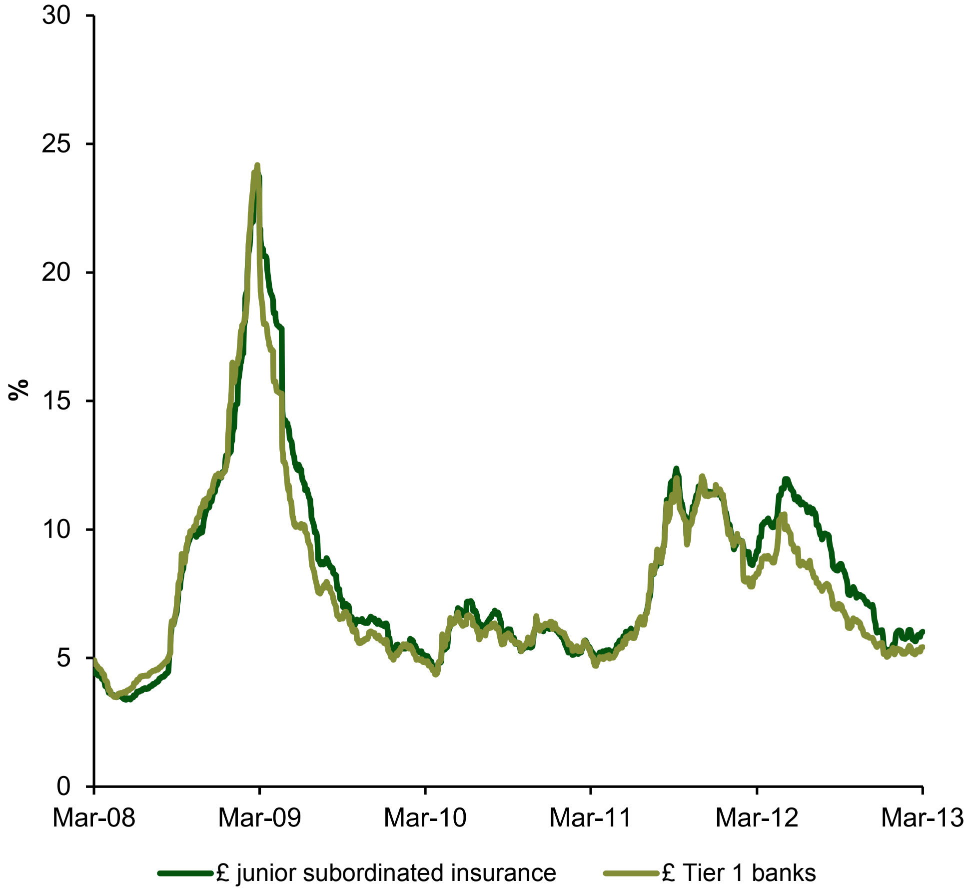
Market: Bank and insurance valuations have traded in tandem but insurers have treated bond holders more favourably and we continue to expect them to do so.

Outlook: Outlook for insurance capital more certain – Solvency II has a longer implementation.

Insurers fundamentally look stronger than many banks, but have similar valuations.

Overweight sub insurance bonds versus underweight bank perpetual bonds.

Sub-ordinated banks and insurance spreads



Source: Merrill Lynch, Bloomberg, as at 31 March 2013.

Security selection
Corporate securitisations

Research: Properly structured corporate securitisations have performed well over the crisis years.

Exposure to banks is minimal and is usually restricted to undrawn liquidity facilities – many of which are no longer needed.

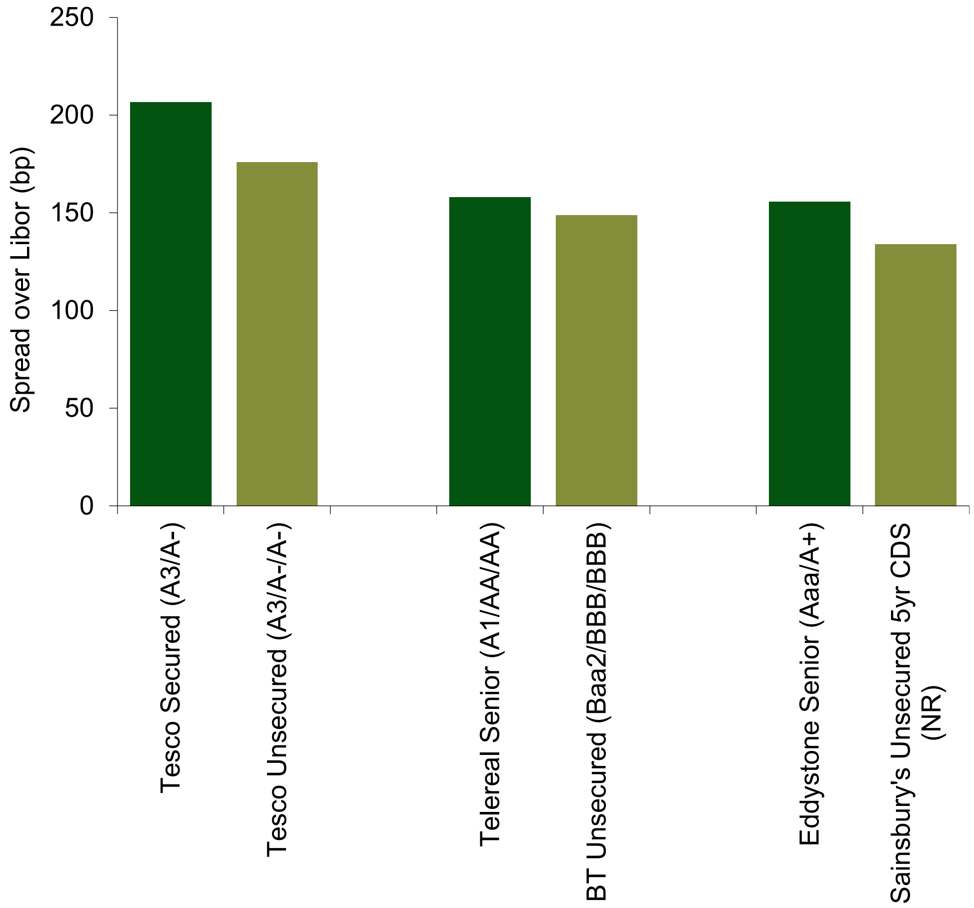
In a worst-case scenario, security over a superior pool of assets gives for far greater recovery value than at the parent entity.

Market: Despite stronger credit metrics and better recovery values many corporate securitisations are trading at discounts to their respective parents' debt.

Outlook: Longer term, companies may look to refinance their securitisations, either to release assets or reducing funding costs.

This would need to be done on attractive terms to gain the consent of secured bond holders.

Examples of yield spreads: secured versus unsecured



Source: Bloomberg, as at 9 April 2013.

Currency selection
Main themes

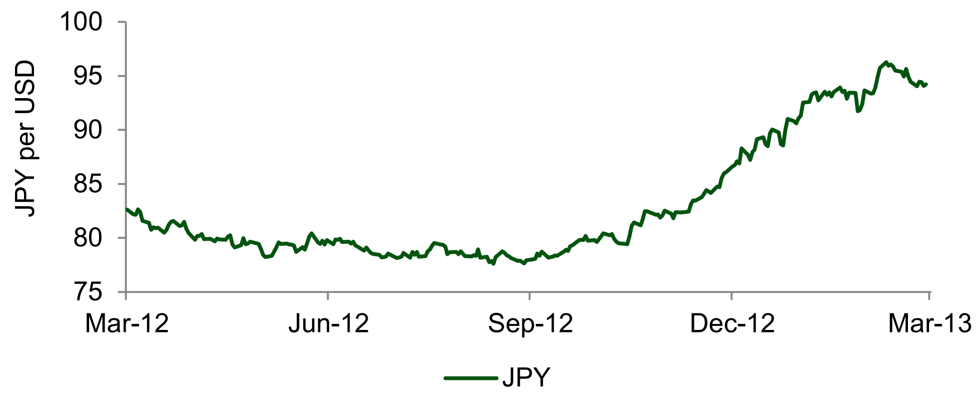
Research: Central bank policies remain the focus for the foreign exchange (FX) market. The clearest example of this is the Bank of Japan's adoption of a radical easing policy. Debate around the Fed's exit policy from monetary easing, the Bank of England's change in mandate and the ECB's response to crisis in Cyprus and weakness in Southern Europe have also been key in determining movements in the FX market.

Market: The yen led the FX markets break-out from its range trading environment. Other currencies such as the pound and the US dollar threatened to also start trending, but so far moves have been focused on the yen.

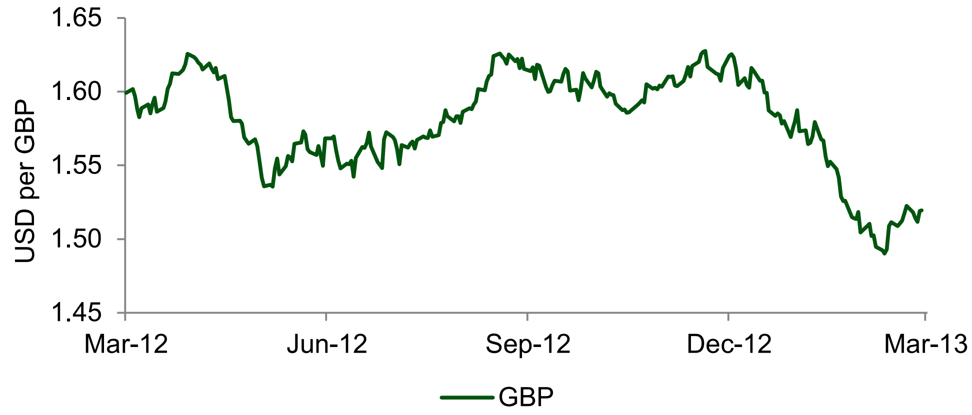
Outlook: The yen appears to be at the beginning of a multi-quarter depreciation as it responds to the Japanese authorities radical pursuit of an exit from more than a decade of deflation.

The USD appears data dependent over the next quarter. If the economy can break out of its mini cycles then the USD is well placed to appreciate. However, fiscal drag in the US makes acceleration of activity to above trend difficult.

Japanese yen



Sterling



Source: Bloomberg,, as at 31 March 2013.

UK fixed income
Q1 2013 Performance attribution

	What we did…	What happened?	Impact
Market allocation	• Underweight US versus overweight Germany • Maintained exposure to local EMD • Maintained mortgage backed securities (MBS) exposure out of short dated gilts	• US treasuries sold off on improving economy and German bunds rallied on renewed Eurozone stresses • EMD underperformed • MBS outperformed short-dated gilts strongly	• US versus Germany trade was positive • EMD exposure was a small negative • MBS exposure was a positive
Duration and curve	• Tactical long duration position in Gilts • Tactical short position in US where permitted • Positioned for yield curve flattening in the UK, focused on 20yr versus 5yr and 10yr • Overweight 15-25yr ILGs versus short and longer maturities	• Global developed market bond yields remained in a tight range. Gilt yields ended the quarter lower and US treasuries higher. • UK yield curve steepened • ILG real yields fell sharply with short maturity ILGs out performing	• Duration positioning in Gilts was positive • Short position in the US a small positive • Yield curve positions within Gilts and interest rate swaps were negative • Real yield curve positions were negative
Credit strategy	• Small overall long credit risk given tight spreads • Focused on sectors with strong and transparent cash flows • Neutral Financials overall but overweight subordinated insurance relative to subordinated banks • Reduced the underweight in Pubs (overhauled business models). Increased underweight telecoms with earnings under pressure and increased competition from cable operators • Maintained short dated high yield and loan exposure • Continue to prefer cheaper GBP and USD denominated issues over more expensive EUR	• Credit spreads traded in a tight range after rally in first few days of January • Financials were marginally the best performing sector • Basic industrials, capital goods and property sectors also out performed • Sectors which lagged were utilities, telecoms, supranationals and consumer cyclicals.	• Credit strategy was a small positive overall • Overweight in property and underweight in telecoms were positive • Exposure to high yield bonds and loans were a small positive for performance
Security selection	• Took profits on some strongly performing new issues • Added to securitised holdings i.e. Tesco property • Overweight US banks relative to European bank bonds • Bought some attractively priced new issues in utilities and pubs • Reduced selective telecom issuers	• New issues continued to come at attractive levels. Increasing number of esoteric new issues i.e. hybrids, co-co's and PIKs • Securitised bonds performed in line with the market, but remain undervalued	• Selected new issues and securitised bonds marginally positive
Currency selection	• Underweight JPY versus USD • Underweight GBP versus USD	• JPY weakened on more aggressive central bank actions • GBP weakened on poor external accounts	• Overall currency positions were positive for funds notably JPY

Forecast summary

A BNY MELLON COMPANY℠

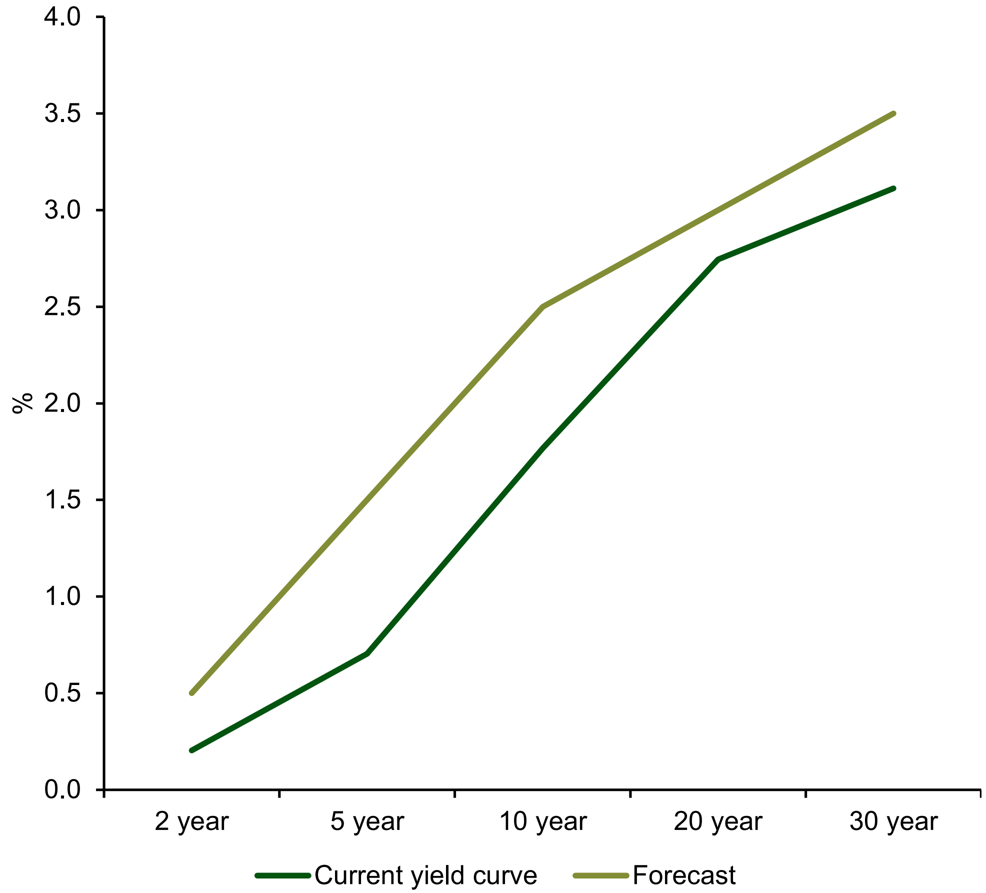
UK fixed income
Q2 2013 Investment outlook

	Investment themes	Portfolio strategy
Market allocation	• MBS continue to offer value versus short dated government bonds • EM local currency government debt remains attractive with many countries continuing to benefit from falling interest rate • Cross market volatility should offer opportunities	• Overweight MBS vs. short-dated gilts • Overweight local currency EMD • Opportunities to take cross market positions between UK, US and Germany
Duration and curve	• Core government bond yields to trade in a range given poor growth, falling inflation, continued low interest rates and high central bank ownership • UK yield curve remains steep relative to history and other markets • Index-linked gilt yield curve remains mispriced	• Tactical duration positioning in global bond markets • Yield curve position biased towards higher yielding, longer-dated assets relative to short and medium maturities • Overweight 15-25 year index-linked gilts
Credit strategy	• Credit spreads should narrow further, albeit with volatility, as investors search for yield • We expect outperformance from lower-rated investment grade credits and high yield and loan names • Preferred sectors are securitised, insurance, property • Further reducing telecoms exposure on deteriorating fundamentals, increased competition and high levels of required capital expenditure	• We are positioned with a small long credit risk position via primarily selective exposure to short dated high yield, loans and asset-backed securities (ABS) • Overall we are neutral financials but prefer subordinated insurance to banks and within banks prefer Lower Tier 2 bank bonds to senior bank bonds • In non-financial sectors, we are overweight transport, property and securitised; underweight telecoms, pharma and tobacco
Security selection	• Focused on businesses with strong cash flow generation or bonds with collateral and strong covenants • Avoid credits dependent on sovereign support for ratings • Actively 'screen' for leveraged buy out and M&A risks • Balance sheet quality likely to deteriorate from here	• Adding to securitised bonds which offer attractive yields relative to risk • Given relative attractiveness of sterling-denominated credit we are continuing to favour sterling versus non-sterling holdings • Rotating into attractively priced new issues
Currency selection	• Japan takes aggressive stance on ending deflation through balance sheet expansion • Eurozone crisis still a source of volatility but this is priced into the weak Euro • Sterling likely to weaken to help improve current account imbalances • BOJ action likely to lead to a continued chance for yield	• Underweight Japanese yen on more aggressive stance from the Bank of Japan • Underweight in Sterling and Korean Won • Overweight Brazilian Real, Mexican Peso and New Zealand Dollar

UK government bonds
Outlook

	Current yield curve	Insight 12 month forecast
2 year	0.20	0.50
5 year	0.70	1.50
10 year	1.77	2.50
20 year	2.75	3.00
30 year	3.11	3.50

UK Gilt yield curve

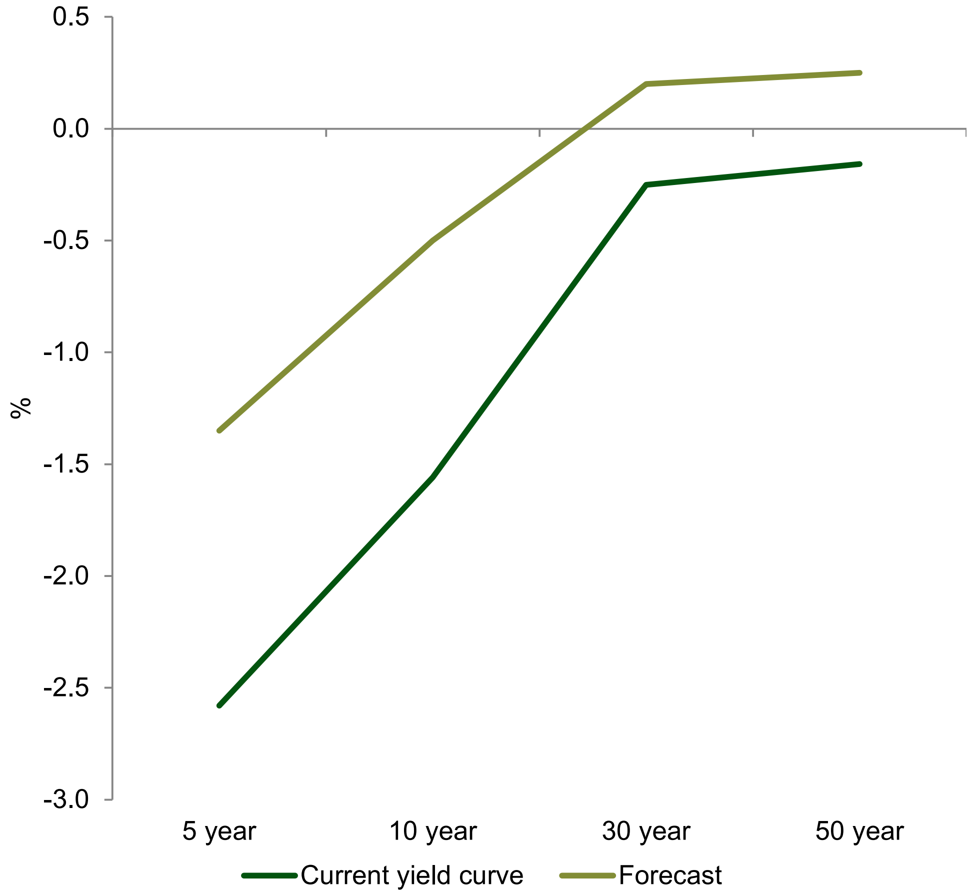


Source: Bloomberg, as at 31 March 2013.

UK index-linked government bonds
Outlook

	Current yield curve	Insight 12 month forecast
5 year	-2.58	-1.35
10 year	-1.56	-0.50
30 year	-0.25	0.20
50 year	-0.16	0.25

UK index-linked real yield curve



Source: Insight, Bloomberg, as at 31 March 2013.

Market forecasts
Outlook

12-month market forecast: bonds (%)

Conventional	Official rates	2 year	5 year	10 year	30 year
UK	0.50	0.50	1.50	2.50	3.50
US	0.25	0.70	1.60	2.50	3.50
Europe	0.75	0.30	0.80	1.70	2.45
Japan	0.10	0.10	0.15	0.85	2.00

Data as at 31 March 2013.

Appendix

Shetlands Island Council Investment Fees

Base Fees

- 0.50% on the first £25m
- 0.45% on the next £25m
- 0.40% on the excess above £50m

Per annum plus VAT of the market value of the portfolio

Biographies

April LaRusse – Senior Product Specialist, Fixed Income

April joined the fixed income team at Insight in September 2008 as a senior fixed income product specialist. April joined Insight from F&C Investments where she was a portfolio manager responsible for managing UK, US and global government bond portfolios. Prior to this she was in government bond and derivative sales at Lehman Brothers. April began her career as a government bond portfolio manager at Newton Investment Management. April graduated with a BA in Economics from Mount Holyoke College, Massachusetts, United States and an MBA from City University Business School in London. She is also is an Associate of the CFA Society of the UK.

Steve Lewis – Client Director

Steve joined Insight (formerly Clerical Medical Investment Management) in 1990 as an investment consultant within their managed fund department. He became a Client Director in 2003, with a particular focus on our pension fund clients that invest in our institutional pooled fund range. He began his industry career in 1985 with Confederation Life as a pension consultant. Steve holds a BA honours degree in Economics from Manchester University.

GIPS® performance
Fixed Income, Cash Plus 2% Combined

Insight INVESTMENT

Calendar year

Year	Total return (%) Composite (weighted average) return	Benchmark return	Arithmetic difference	Median	Highest value	Lowest value	Rolling composite 3yr std. dev.	Rolling benchmark 3yr std. dev.	Number of portfolios (throughout period)	Market value at end of period (m)	Percentage of firm assets	Total firm assets at end of period (m)
2012	5.37	0.83	4.54	5.37	5.37	5.37	1.66	0.06	1(1)	2,139	2.33	91,882
2011	3.94	0.87	3.07	3.94	3.94	3.94	4.20	0.12	1(1)	1,621	2.41	67,259
2010	6.05	0.58	5.48	6.05	6.05	6.05	4.72	0.64	1(1)	1,252	2.38	52,579
2009	9.31	1.09	8.22	9.31	9.31	9.31	4.76	0.65	1(1)	947	2.04	46,504
2008	-0.44	5.51	-5.95	-0.44	-0.44	-0.44	2.72	0.21	1(1)	953	1.13	83,969
2007	4.30	6.01	-1.71	4.36	4.36	4.36	-	-	1(1)	921	0.95	97,215
2006	6.03	4.81	1.22	5.94	5.94	5.94	-	-	2(1)	437	0.47	93,614
2005 Apr	4.57	3.49	1.07	4.57	4.57	4.57	-	-	1(0)	96	0.11	88,743

Annualised

Year	Annualised (%) Composite return	Benchmark return	Arithmetic difference
1 year	5.37	0.83	4.54
3 years	5.12	0.76	4.36
5 years	4.80	1.76	3.04

Benchmark: 3 Month GBP Libor
Base currency: GBP (British pound sterling)
Asset weighted gross returns as of 31 Dec 2012

Composite creation date: 31 Mar 2007
Composite inception date: 31 Mar 2005
Data source: Insight Investment

GIPS® performance
Fixed Income, Cash Plus 2% Pooled

Calendar year

Year	Total return (%) Composite (weighted average) return	Benchmark return	Arithmetic difference	Median	Highest value	Lowest value	Rolling composite 3yr std. dev.	Rolling benchmark 3yr std. dev.	Number of portfolios (throughout period)	Market value at end of period (m)	Percentage of firm assets	Total firm assets at end of period (m)
2012	5.37	0.83	4.54	5.37	5.37	5.37	1.66	0.06	1(1)	2,139	2.33	91,882
2011	3.94	0.87	3.07	3.94	3.94	3.94	4.20	0.12	1(1)	1,621	2.41	67,259
2010	6.05	0.58	5.48	6.05	6.05	6.05	4.72	0.64	1(1)	1,252	2.38	52,579
2009	9.31	1.09	8.22	9.31	9.31	9.31	4.76	0.65	1(1)	947	2.04	46,504
2008	-0.44	5.51	-5.95	-0.44	-0.44	-0.44	-	-	1(1)	953	1.13	83,969
2007	4.36	6.01	-1.65	4.36	4.36	4.36	-	-	1(1)	921	0.95	97,215
2006 Sep	2.30	1.69	0.62	2.30	2.30	2.30	-	-	1(0)	336	0.36	93,614

Annualised

Year	Annualised (%) Composite return	Benchmark return	Arithmetic difference
1 year	5.37	0.83	4.54
3 years	5.12	0.76	4.36
5 years	4.80	1.76	3.04

Benchmark: 3 Month GBP Libor
Base currency: GBP (British pound sterling)
Asset weighted gross returns as of 31 Dec 2012

Composite creation date: 31 Aug 2006
Composite inception date: 31 Aug 2006
Data source: Insight Investment

GIPS® performance

Fixed Income, Broad Market Bonds Plus OEIC

Calendar year

Year	Total return (%) Composite (weighted average) return	Benchmark return	Arithmetic difference	Median	Highest value	Lowest value	Rolling composite 3yr std. dev.	Rolling benchmark 3yr std. dev.	Number of portfolios (throughout period)	Market value at end of period (m)	Percentage of firm assets	Total firm assets at end of period (m)
2012	12.17	7.78	4.40	12.17	12.17	12.17	4.40	4.36	1(1)	203	0.22	91,882
2011	12.69	11.21	1.48	12.69	12.69	12.69	6.59	5.20	1(1)	193	0.29	67,259
2010	9.09	7.81	1.28	9.09	9.09	9.09	8.03	5.95	1(1)	81	0.15	52,579
2009	11.42	3.96	7.46	11.42	11.42	11.42	-	-	1(1)	77	0.17	46,504
2008	5.62	3.65	1.97	5.62	5.62	5.62	-	-	1(1)	77	0.09	83,969
2007 Aug	7.47	4.61	2.86	7.47	7.47	7.47	-	-	1(0)	78	0.08	97,215

Annualised

Year	Annualised (%) Composite return	Benchmark return	Arithmetic difference
1 year	12.17	7.78	4.40
3 years	11.31	8.92	2.39
5 years	0.10	0.07	0.03

Benchmark: 50% FTSE A British Govt All Stocks, 50% iBoxx GBP Non-Gilts
Base currency: GBP (British pound sterling)
Asset weighted gross returns as of 31 Dec 2012

Composite creation date: 05 Jul 2007
Composite inception date: 31 Jul 2007
Data source: Insight Investment

GIPS® performance

Firm-wide disclosures

- The GIPS® firm is defined as all assets managed or advised by Insight Investment Management (Global) Limited ("Insight Investment"), including those assets originally managed by Insight Investment Management Limited ("Insight Investment Management"), which are now managed by Insight Investment.
- In early 2005, all client agreements entered into with Insight Investment Management Limited were novated to Insight Investment Management (Global) Limited.
- The sale of the third party investment management business of Insight from the Lloyds Banking Group to the Bank of New York Mellon Corporation was completed on 2 November 2009. Approximately £40bn of internal Lloyds Banking Group assets were transferred to Scottish Widows Investment Partnership for ongoing management, and as a result Insight's assets under management decreased by approximately £40bn. Further details are available on request.
- The Assets Under Management figure is the most up-to-date available, and is subject to change.
- A complete list of composites and their descriptions is available on request.
- Accounts below £10m are excluded from composites, as they are not considered able to be fully invested in the Insight Investment style. To avoid frequent changes to composite membership, existing accounts need to fall below £9m in value before being excluded and excluded accounts need to rise above £11m before being included, except for the GIPS Fixed, US (ML 1-3yrs) and GIPS Equities, UK FTSE Smaller Companies ex IT composites where the new account threshold is £5m and existing account thresholds are £4m and £6m respectively. Membership of composite groups will be reviewed at the end of each quarter.
- All composite returns are presented gross of all fees for segregated accounts, gross of annual management charges for unitised funds (except where specified), but net of all dealing expenses.
- All composite returns are net of withholding taxes on income and capital gains taxes.
- Additional information regarding the policies for calculating and reporting returns is available upon request.
- The measure of dispersion is represented by the lowest and highest annual returns of accounts that have been included within the composite for a full calendar year.
- Insight Investment claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Insight Investment has been independently verified for the periods 1st January 1998 to 31st December 2010. The verification reports are available upon request.
- Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

C0040: GIPS®-Fixed, Cash Plus 2% Combined

- This composite comprises actively managed pooled and segregated funds, which are invested in short-dated UK cash and fixed income assets. The investment objective of the funds within this composite is to seek to deliver a target of absolute returns of two per cent per annum above a cash benchmark
- It is benchmarked against the 3 Month GBP Libor index
- Funds within this composite must be benchmarked against cash in order to meet the criteria of this composite
- Insight also manages significant short-dated UK fixed income and cash assets as part of multi-asset segregated pension funds, but these have not been included within this GIPS® composite group
- Portfolios within this composite are permitted to use leverage and/or derivative instruments for efficient portfolio management. The extent to which derivatives may be used for investment purposes may vary over time and may be material. More detail on the degree of leverage/derivative usage within this composite is available upon request
- Prior to 31/1/2011, the benchmark for this composite was 3 month Libid
- The standard annual management fee for this type of mandate is 0.50% per annum. Fees are variable and depend on the asset class or Fund being invested in and the value of the investment

GIPS® performance

C0041: GIPS®-Fixed, Cash Plus 2% Pooled

- This composite solely comprises the actively managed Insight Bonds Plus fund, which is invested in short-dated UK cash and fixed income assets. The investment objective of the fund within this composite is to seek to deliver the target of absolute returns of two per cent per annum above a cash benchmark.
- This fund has discretion to invest in non-sterling fixed income assets and derivative instruments.
- This composite is benchmarked against the 3 Month Sterling LIBOR Index.
- Prior to 31/1/2011, the benchmark for this composite was 3 month LIBID.
- Insight Investment also manages significant short-dated UK fixed income and cash assets as part of balanced segregated pension funds, but these have not been included within this GIPS® composite group.
- The standard annual management fee for this type of mandate is 0.50% per annum. Fees are variable and depend on the asset class or fund being invested in and the value of the investment.

C0305: GIPS®-Fixed, Broad Opportunities Bond OEIC

- This composite group comprises an actively managed institutional fund invested in a range of interest rate, inflation, credit and currency derivatives, fixed income securities and index-linked government and non-government securities, liquid/near-cash assets, collective investment schemes, high yield and emerging market debt and currencies, with the aim of outperforming the benchmark.
- This fund has discretion to take non-sterling exposure.
- This composite is benchmarked against the 50% FTSE A All Stocks, 50% iBoxx Sterling Non-Gilts Index.
- The composite's benchmark changed from iBoxx £ Overall to 50% FTSE-A All Stocks Gilts Index, 50% iBoxx Sterling Non Gilts Index on 31/12/2009. This was in line with corresponding changes in account benchmarks held by the composite.
- Insight Investment also manages significant UK bond assets as part of balanced segregated pension funds, but these have not been included within this GIPS® composite group.
- The standard annual management fee for this type of mandate is 0.50% per annum. Fees are variable and depend on the asset class or fund being invested in and the value of the investment.

Notes

Unless otherwise stated, the source of information is Insight Investment. Any forecasts or opinions are Insight Investment's own at the date of this document and may change. They should not be regarded as a guarantee of future performance. The value of investments and any income from them will fluctuate and is not guaranteed (this may partly be due to exchange rate fluctuations). Investors may not get back the amount invested. **Past performance is not a guide to future performance.**

This document is intended for professional clients only and should not be relied upon by retail clients.

This document should not be amended or forwarded to a third party without consent from Insight Investment.

Telephone calls may be recorded.

For clients and prospects of Insight Investment Management (Global) Limited:

Issued by Insight Investment Management (Global) Limited. Registered in England and Wales. Registered office 160 Queen Victoria Street, London EC4V 4LA; registered number 00827982. Authorised and regulated by the Financial Conduct Authority.

For clients and prospects of Insight Investment Funds Management Limited:

Issued by Insight Investment Funds Management Limited. Registered in England and Wales. Registered office 160 Queen Victoria Street, London EC4V 4LA; registered number 1835691. Authorised and regulated by the Financial Conduct Authority.

Disclaimer

This document is for information purposes only. No party shall have any right of action against Insight in relation to the accuracy or completeness of the information contained in it, or any other written or oral information made available in connection with it. Any investment advice that we provide to you is based solely on the limited initial information which you have provided to us. Notwithstanding that Insight may have reviewed the Statement of Investment Principles of any relevant trust, no part of any document or presentation provided by us prior to our formal appointment as discretionary investment manager by way of written agreement shall be deemed to constitute 'proper advice' for the purposes of the Pensions Act 1995 (as amended). Any limited initial advice given will be further discussed and negotiated in order to agree formal investment guidelines which will form part of a written investment management agreement between the parties.

BNY MELLON

BAILLIE GIFFORD

Shetland Islands Council Miscellaneous Fund

5 June 2013

Tom Wright and Tim Gooding

Investment Backdrop

We remain focused on the long term prospects for companies

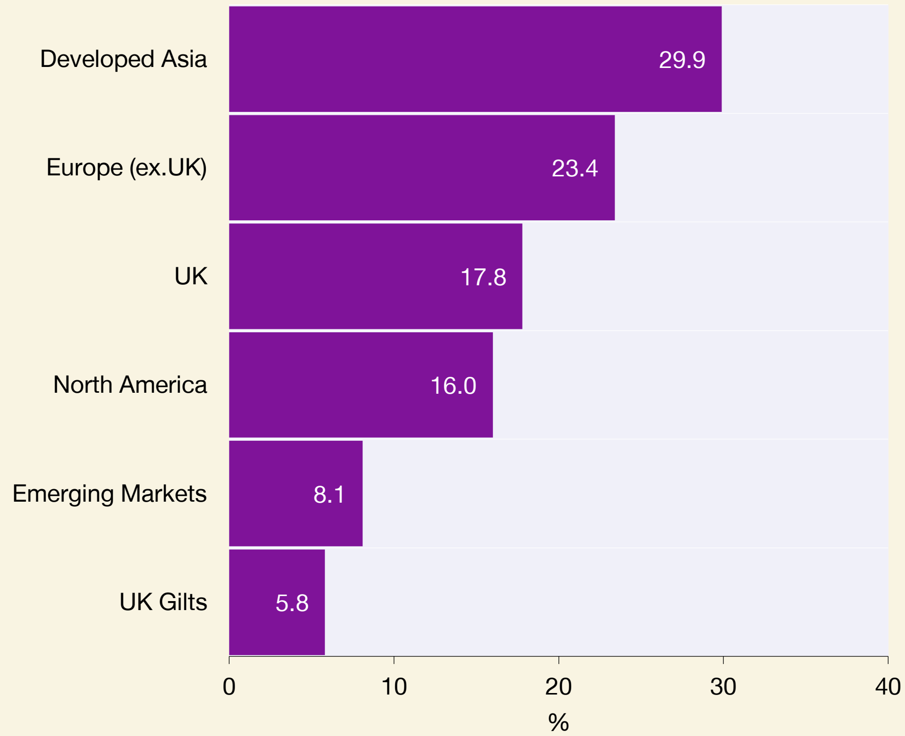
Problems and challenges persist: continued volatility likely

Some positive signs:

— Technology and innovation driving growth
— US rebound driven by shale gas
— Continued growth of emerging markets consumer

Market Background

Returns – 12 Months to 30th April 2013



Source: Datastream. All returns in sterling

MSCI AC World – 5 Years to 30th April 2013

Source: Datastream, rebased to 100

Fund Performance – Miscellaneous Fund

	Fund %	Benchmark %
Since Inception* to 31st March 2013 (p.a.)	7.5	5.7
5 Years to 31st March 2013 (p.a.)	9.6	7.1
12 Months to 31st March 2013	18.4	17.0

Source: Baillie Gifford, gross of fees
* 22nd March 2001

Contributors to returns:

— UK internet retailer ASOS continues to grow rapidly

— Svenska Handelsbanken is capitalising on the weakness of UK banks

— Mohawk and Keller benefit from US recovery

— Not holding Apple helped as the shares fell back after a strong run

UK Growth Opportunities

A broad array of companies exposed to global growth:

- Industrial Groups:
  - Johnson Matthey, Spectris, Renishaw
- Service Companies:
  - Experian, Aveva
- Resources
  - BG Group, BHP Billiton
- Miners:
  - Lonmin, Rio Tinto

And some domestic opportunities:

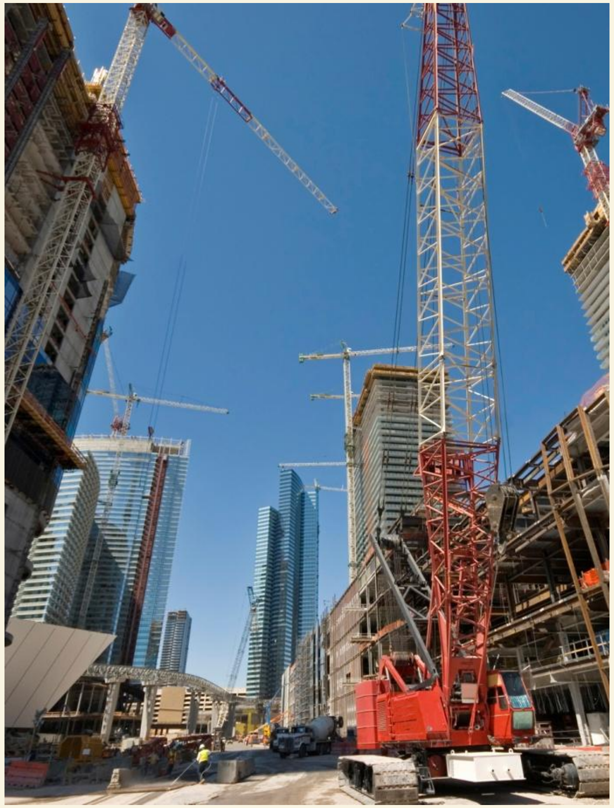
  - Rightmove, ASOS, Hargreaves Lansdown

Global Positioning

Continuing to increase our exposure to technology

Focus on Emerging Markets shifted from infrastructure build-out to consumer-orientated companies

New opportunities presented by a revival of US manufacturing

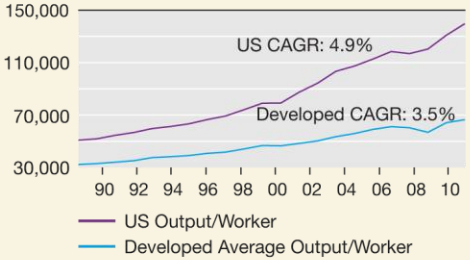


US Manufacturing Renaissance?

STOCK RESEARCH

Productivity → Raw Materials → Production → Lateral Ideas

US vs Developed Manufacturing Productivity



Source: Citi Research, Bureau of Labour Statistics.

Research Trips 2013

Research trips to Mexico and the US conducted this quarter

Image: © iStockphoto.com.

Raw Materials

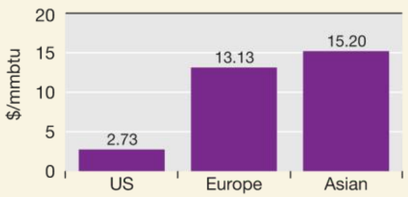
EOG

- An oil and gas E&P with huge acreage
- First to adopt fracking technology into shale rock
- Locked in low land costs in the Haynesville and Marcellus basins in the US

Ultra Petroleum

- Gas focused E&P with low cost structure, excellent capital discipline and large proven reserves
- Demand upside from switching of US power generation from coal over to gas

Gas Prices 2012



Source: Wood Mackenzie.

Production

Praxair

- A global leader in the production and sale of industrial gases
- Loyal customer base with long-term supply contracts

National Oilwell Varco

- Global oil services company that manufacturers drilling kits for oil platforms
- Growing after-sales service revenue stream

Work in Progress

- Niche industries
- Engineering and construction
- Chemicals

Lateral Ideas

Essential Inputs

- A higher level of manufacturing output in the US is likely to require a higher level of input
- Potential beneficiaries include providers of consumables and materials

Automation

- Automation has given the US its productivity edge for many years
- We are investigating what the next generation of automation might look like (additive manufacturing, flexible robots)

Distributors

- We are searching for potential beneficiaries in rail roads, trucking and elsewhere
- We took a position in Volvo last year

Mexican Manufacturers

- The team has just returned from a research trip to Mexico
- Unit labour costs are low, the strength of institutions is improving and we are looking for companies positioned to benefit

Our Activity

Baillie Gifford International Fund

New Buys*

Facebook	Online social network
TD Ameritrade	Online brokerage firm
Teradyne	Semiconductor testing equipment
Tesla Motors	Electronic vehicles
Trip Advisor	Online travel review site
Visa	Global transaction processing
Weight Watchers	Subscription slimming club
China Resources	Chinese conglomerate
Tsingtao Brewery	Chinese brewer
Sberbank	Russian bank

Complete Sales*

Julius Baer Gruppe	Private Swiss bank
Vistaprint	Online printing
HSBC	International Bank
DBS Group	International Bank
OGX	Brazilian oil producer
Vale	Diversified metal miner
Shanda Interactive	Chinese internet
SINA	Chinese website and social blog

Baillie Gifford UK Equity Alpha

New Buys*

Imagination Technologies	Graphics chip designer
Renishaw	Measurement and calibration tools

Complete Sales*

Reed Elsevier	Professional information publisher

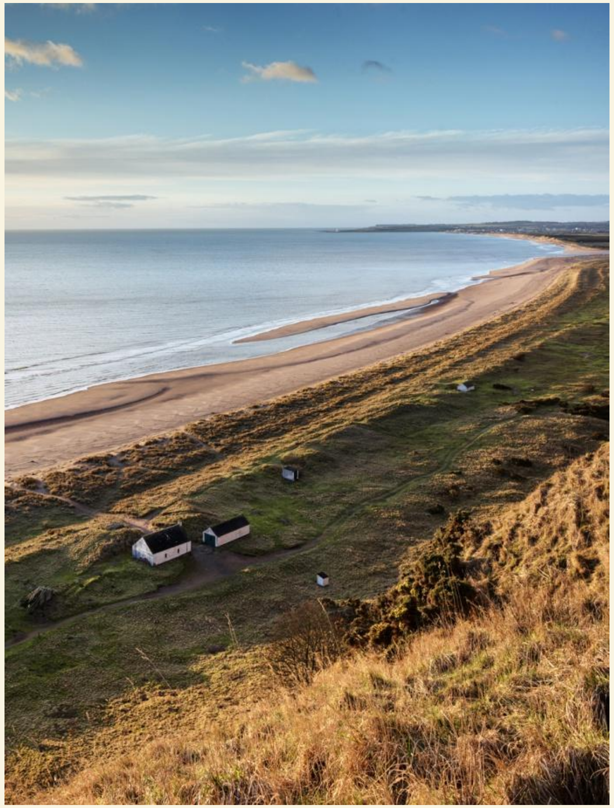
* 6 months to 31st March 2013

Outlook

Global markets will continue to oscillate

Our optimism is driven by increasingly strong corporate and sovereign fundamentals

A US manufacturing renaissance excites us and presents opportunities across a wide range of industries



Valuation

	31st March 2012	31st March 2013
UK Equities (%)	38.0	36.5
Overseas Equities (%)	62.0	63.5
Total (%)	100.0	100.0
Total Value	£83,233,380	£86,726,193

Baillie Gifford Update

	31st March 2012	31st March 2013
Number of Staff	710	761
Number of Investment Professionals	181	191
Number of Clients	342	355
Funds Under Management	£78.4bn	£93.3bn

Source: Baillie Gifford. Client count comprises segregated clients and North American pooled clients

Continued stability of staff and strategy

— 3 new partners, 1 retirement as of May 2013

— 10 new investment graduates hired September 2012

Steady organic growth

UK Portfolio – List of Holdings

	%
Industrials	18.4
Spectris	3.5
Experian	2.4
Intertek	2.3
Keller	2.3
Weir Group	2.1
Aggreko	1.9
Renishaw	1.8
Hays	1.3
Vesuvius	0.8
Consumer Services	16.5
Rightmove	6.2
ASOS	3.3
Pearson	2.6
Mitchells & Butlers	2.5
Ocado	1.9

	%
Basic Materials	12.9
Johnson Matthey	4.7
BHP Billiton	4.2
Rio Tinto	2.7
Alent	0.9
Kazakhmys	0.4
Consumer Goods	10.3
Imperial Tobacco	4.5
Diageo	3.5
Sabmiller	2.3
Oil & Gas	10.1
BG Group	5.4
Wood Group	2.1
Amec	2.0
Cairn Energy	0.6

	%
Financials	15.1
Standard Chartered	4.9
Schroders	3.6
Hargreaves Lansdown	2.7
Intermediate Capital	2.3
Amlin	1.6
Health Care	4.5
Abcam	2.8
Genus	1.7
Technology	9.5
Aveva	2.7
ARM Holdings	2.6
Imagination Technologies	1.5
Spirent	1.5
Wolfson Microelectronics	1.2

	%
Telecommunications	2.7
Vodafone	2.5
Cash	0.2
Total	100.0

Source: Baillie Gifford, as at 31st March 2013

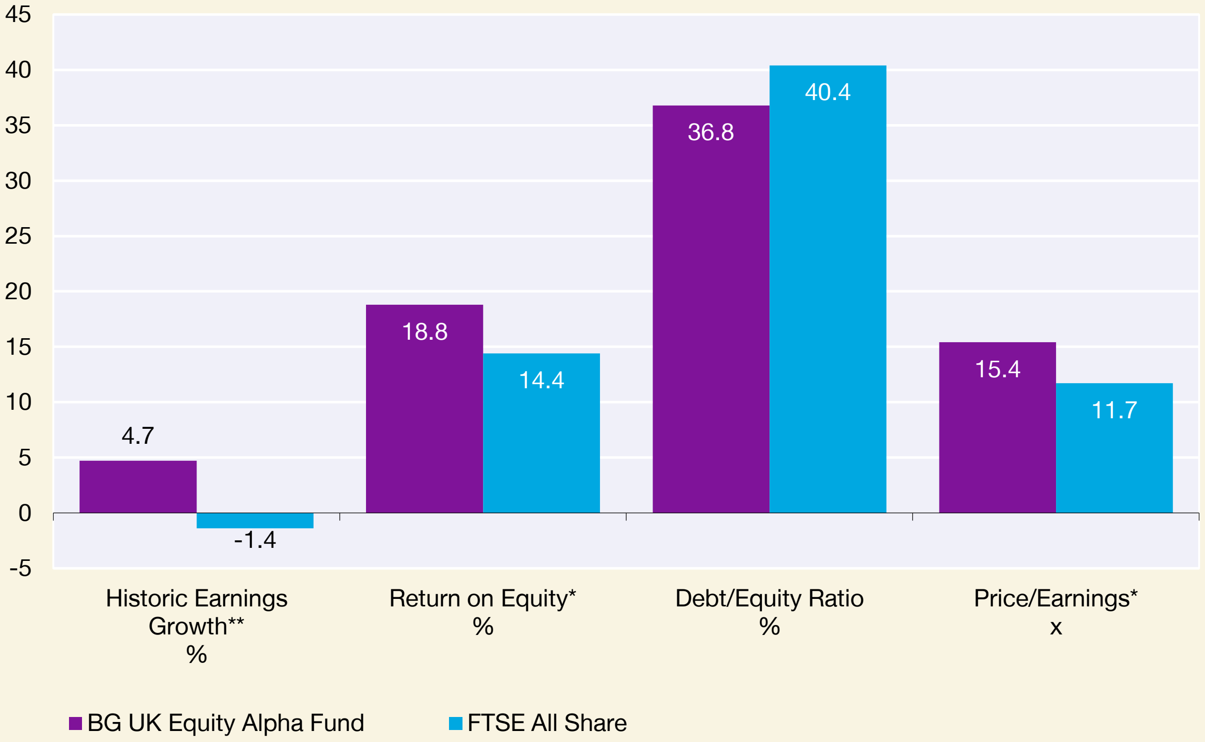
Global Alpha Portfolio

	Growth Stalwarts		Rapid Growth		Cyclical Growth		Latent Growth		
Highest Conviction Holdings ≥ 1.5%	Roche	2.4	eBay	2.5	Svenska Handelsbanken	3.3			
	Omnicom	2.4	Amazon	2.5	Richemont	2.4			
	Nestlé	2.3	Naspers	2.1	Samsung Electronics	1.8			
	Mastercard	2.0	Google	1.9	Markel	1.7			
	Hellenic Bottling	1.9	Ryanair	1.8	TSMC	1.6			
	Schindler	1.6	Mindray	1.6	Atlas Copco	1.5			
	PepsiCo	1.6							
	Moody's Corp	1.6							**40.5**
Mid-sized holdings: ~1%	Waters	1.2	BM&F Bovespa	1.2	EOG Resources	1.4	Life Technologies	1.3	
	Philip Morris International	1.2	Xilinx	1.0	Fairfax Financial	1.4	Carlsberg	1.3	
	Visa	1.2	Clicks	1.0	CarMax	1.4	FLIR	1.3	
	Praxair	0.9	Baidu	0.9	Mohawk Industries	1.4	Yamaha Motor	1.2	
	China Mobile	0.9	BIM Birlesik Magazalar	0.9	Walt Disney	1.4	Royal Caribbean Cruises	1.2	
	America Movil	0.9	TripAdvisor	0.8	Brambles	1.2	Inpex	1.2	
	Wellpoint	0.8			Harley-Davidson	1.2	Ultra Petroleum	0.9	
	Waters	1.2			Jardine Matheson	1.2	Namco Bandai	0.9	
	Philip Morris International	1.2			New York Community Bancorp	1.2	China Resources Enterprise	0.8	
					Investor	1.1			
					Volvo	1.0			
					Deere	0.9			
					First Republic Bank	0.8			**38.6**
Incubator Holdings ~ 0.5%	Tsingtao Brewery	0.6	Qiagen	0.7	Deutsche Börse	0.7	Olympus	0.7	
	Express Scripts	0.3	Altera	0.7	National Oilwell Varco	0.7	Progressive	0.6	
			Seattle Genetics	0.7	Bed Bath & Beyond	0.7	Rohm	0.6	
			Garanti Bankasi	0.7	Ritchie Bros Auctioneers	0.7	Dolby Laboratories	0.6	
			Schibsted	0.7	Petrobras	0.6	Jyske Bank	0.5	
			Illumina	0.6	Teradyne	0.6	CRH	0.4	
			Dragon Oil	0.6	Tokyo Electron	0.5	Weight Watchers International	0.4	
			Arcos Dorados	0.6	Sberbank	0.5			
			Tesla Motors	0.6	Norsk Hydro	0.5			
			Odontoprev	0.5	TD Ameritrade	0.3			
			Shandong Weigao	0.5					
			Bank Negara Indonesia	0.5					
			Facebook	0.5					
			Intuitive Surgical	0.4					
			Teradata	0.4					
			Cochlear	0.4					**19.6**
		23.8		**27.3**		**33.7**		**13.9**	

Source: Baillie Gifford, as at 31st March 2013. Cash: 1.3%

UK Portfolio – Portfolio Characteristics

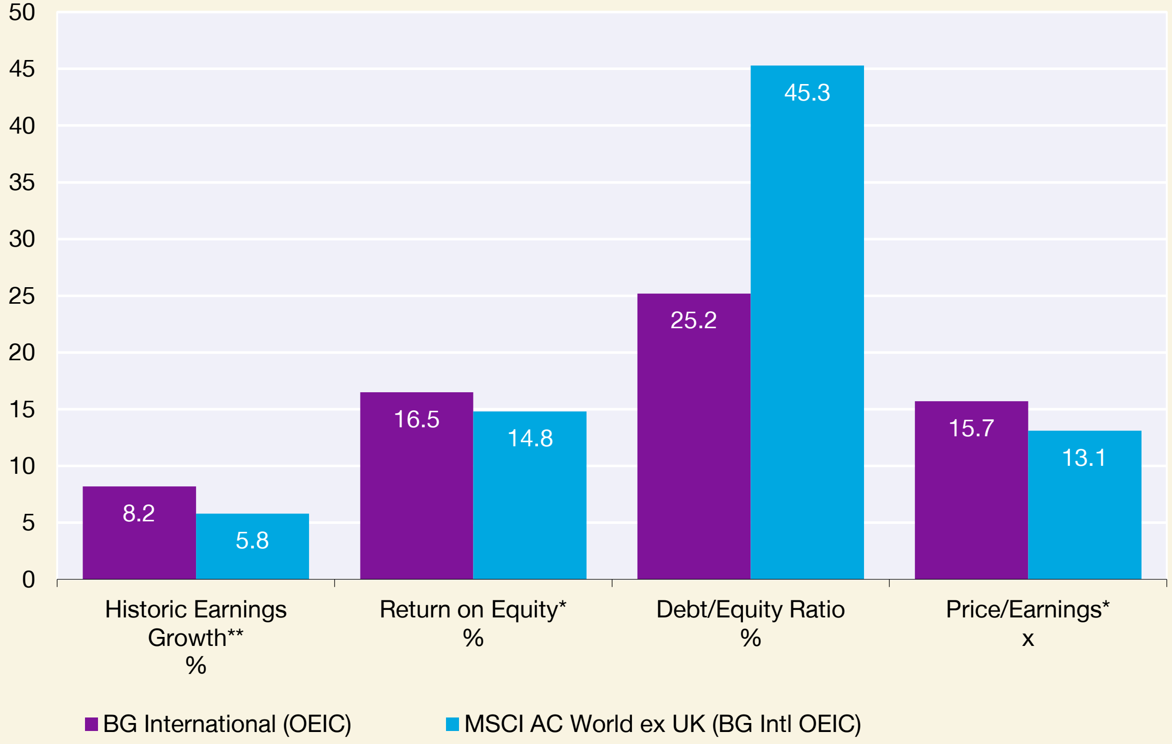
31st March 2013



Source: UBS
* 12 Month forward estimate
** 5 years historic
In sterling

Global Alpha Portfolio – Portfolio Characteristics

31st March 2013



Source: UBS
* 12 Month forward estimate
** 5 years historic
In sterling

Governance

Engagement

- Remuneration (Deere, Dolby Laboratories, Naspers, PepsiCo, Ultra Petroleum, Wolfson)
- Regulation (Standard Chartered)
- Health, safety and environmental (Bank Negara Indonesia, Garanti Bankasi, Rio Tinto)

Voting

- Remuneration (Deere, Mitchells & Butlers, Visa, Walt Disney)
- Dividend policy (Yamaha Motor)

Research

- Trips to Brazil, Chile, China and Japan

Head Office
Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000