Agenda Item
1

Shetland Islands Council

Shetland Islands Council **20 May 2015**

Pension Fund Management Annual Review 2014/15	
F-018-F	
Report Presented by Executive Manager - Finance	**Corporate 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 2014/15.

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 2014/15. 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 dissatisfaction the performance of Schroders (property fund) in 2014/15; and
- note with dissatisfaction the performance of BlackRock (equity) in 2014/15.

3.0 Detail

3.1 The Pension Fund has five Fund Managers, with total investments under management at the end of March 2015 of £367 million.

3.2 A new investment strategy was approved by the Council on 26 March 2014 (Min. Ref. 17/14). The strategy's focus is on achieving a 100% funding level over a period of time, which is before the Pension Fund's contributions equal benefits payable. The new strategy resulted in three additional mandates being added to the two original mandates with Schroders and BlackRock.

3.3 During 2014/15 a tender processes for the new mandates was conducted by Hymans Robertson in conjunction with Finance Services. The final selection for each mandate was made by the Council on November 2014 (Min. Ref. 86/14). Three new Pension Fund Managers were awarded mandates; Kleinwort Benson (equity mandate), M&G (alternative credit mandate) and Newton (diversified growth mandate).

3.4 The three new mandates were funded with investments from BlackRock. They all received their fund allocation by the end of December 2014 with performance monitoring on the three new mandates commencing on the 1st January 2015.

3.5 As per the new investment strategy the Pension Fund is invested with five Fund Managers. The investment split is as follows:

Funds under Management at 31 March 2015

Manager	Fund	% of Reserves
Kleinwort Benson	Equity	20
M&G	Alternative Credit	9
Newton	Diversified Growth	19
Schroders	Property	11
BlackRock	Equity	41

3.6 All five Fund Managers will give presentations at this Council meeting although only Schroders and BlackRock will review their investment performance over the year to end March 2015. Kleinwort Benson, M&G and Newton have only managed their mandates for around three months, which is too short of a period to review but they will reintroduce their companies, mandates and how they invest.

3.7 Karen Thrumble will attend the meeting from State Street Global Services. State Street Services independently monitor, review and report on a quarterly basis the performance of each Fund Manager. At this meeting Ms Thrumble will present her analysis of the performance of Schroders and BlackRock relative to the markets they invest in, before they give their presentation to the Council.

3.8 Along with this report are presentational documents from each of the Fund Managers, plus a performance analysis report from State Street.

3.9 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.

3.10 On an annual basis each Fund Manager makes available their internal controls report. These reports are produced by their respective external auditors, and review all aspects of the Fund Manager’s operating controls, with any concerns and weaknesses reported. The reports are reviewed by Treasury within Finance annually, with any concerns or issues identified that may impact on the Pension Fund reported accordingly. No issues were found that required to be reported.

3.11 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 43% over the last 5 years.

3.12 At the last actuarial review in 2014 the Pension Fund was 91% funded. Employer contributions were set at 18.7% for Council employees in 2014/15.

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

Manager	Market Value £ million 2014	Market Value £ million 2013
Kleinwort Benson	72	0
M&G	34	0
Newton	71	0
Schroders	40	23
BlackRock	150	310
	367	333

3.14 During 2014/15 the market value of the Pension Fund increased by £34 million, an increase of 10.2%.

3.15 This report presents a review and comparison of the performance of Schroders and BlackRock in 2014/15 against the relevant market performance where they were asked to invest, and also against any additional out performance target they were asked to achieve.

3.16 Due to the nature of the investments these managers are investing into, a long term investment view is required, generally a five year period. The report therefore looks not only at each manager's performance over 2014/15 but also at their performance over a five year period, or from inception of the mandate if that is shorter.

3.17 This report concentrates on manager performance relative to the markets but there is a 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.

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

	Pension Fund £ million
As at 31.03.14	333
(Withdrawals)/Additions	4
Investment Return	30
As at 31.03.15	367

3.19 The figures show an overall investment return of £30 million for the financial year 2014/15. This equates to an investment return of 8.8%. The £4 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.

3.20 The 2014/15 market performance by asset class is set out below:

		%
Equities:	UK	6.6
	North America	25.1
	Europe (Ex UK)	7.5
	Japan	27.1
	Pacific	12.7
	Emerging	19.9
Bonds:	UK Index Linked Gilts	18.5
	UK Corporate	13.9
Property		18.3
Cash		0.3

3.21 All asset classes produced positive returns during 2014/15. Equity market returns varied considerably, from the UK at 6.6%, to very impressive figures from Japan and North America with 27.1% and 25.1%. The bond and property sectors had a good year with both sectors returning double digit figures.

3.22 The main constituent of a fund’s performance is the market return, i.e. where the fund is invested. Each Fund Manager is asked to outperform the market return, i.e. a UK equity scenario in 2014/15 where a Fund Manager is asked to outperform the market by 2% would equate to an 8.6% target return.

3.23 While this report reviews performance in 2014/15; a brief update for the start of the financial year sees continued uncertainty surrounding Ukraine with sanctions against Russia. There are still real economic problems in Europe with Greece remaining in the headlines. The US and UK have seen some improved economic figures with speculation about when interest rates may start to move upwards.

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.

Kleinwort Benson - Equity Fund

4.4 Kleinwort Benson was awarded a £68 million global equity mandate in November 2014 as part of the Pension Fund’s investment strategy review. They received the funds in December 2014 with performance monitoring commencing January 2015.

4.5 Kleinwort Benson Investors was originally formed in 1980. Their headquarters is in Dublin, Ireland. They were founded in 1980 and are part of the Kleinwort Benson Group.

4.6 Kleinwort Benson invests via a set systematic investment process, which uses the belief that financially robust higher dividend paying stocks will outperform over the long term.

4.7 As requested by the Council at the final of the Tender process in November, Kleinwort Benson will give a presentation at the Annual Performance Review Meeting on their Emerging Market product, which follows a similar investment philosophy to their global equity mandate.

4.8 The addition of the Emerging Market fund along with their Global Equity fund would give a greater coverage of all major and emerging investable stock markets, improving the global nature of the mandate.

4.9 Currently emerging markets make up approximately 11% of global equity markets. To have a balanced equity investment an allocation of around this percentage would be required. This would equate to about £8 million of the Pension Fund's investment with Kleinwort Benson being reallocated to their emerging market product.

M&G – Alternative Credit Fund

4.10 M&G was awarded a £34 million global equity mandate in November 2014 as part of the Pension Fund's investment strategy review. They received the funds in November 2014 with performance monitoring commencing January 2015.

4.11 M&G investment management is a wholly owned subsidiary of the listed financial services group, Prudential.

4.12 The Pension Fund mandate with M&G is an alternative credit mandate invested in M&G's Alpha Opportunities Fund. This fund is an actively managed multi-asset fund that will move in and out of different credit markets to generate returns. The fund can invest in investment grade bonds, loans, high yield bonds and asset backed securities. The fund's performance target is LIBOR plus 3-5%.

Newton – Diversified Growth Fund

4.13 Newton was awarded a £68 million global equity mandate in November 2014 as part of the Pension Fund's investment strategy review. They received the funds in December 2014 with performance monitoring commencing January 2015.

4.14 Newton is a wholly owned but autonomous subsidiary of Bank of New York Mellon. Bank of New York Mellon has various investment businesses throughout the world but generally leave the companies alone to continue with their specialist services.

4.15 The Pension Fund mandate with Newton is a diversified growth fund mandate and is invested in Newton's Real Return Fund, which is an unconstrained multi asset strategy seeking to return LIBOR +3-4% per annum. The Real Return Fund uses a wide range of different investments which they categorise into return seeking assets (infrastructure, equities, debt), stabilising assets (commodities, index-linked bonds, government debt) and hedging positions to provide downside protection (currency, equity and bond options).

Schroders - Property Fund

4.16 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 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.

4.17 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.

4.18 Schroders have used the flexibility in the mandate to invest in their European property fund. This investment is currently about 4% 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.

4.19 As part of the Pension Fund strategy review in 2014 Schroders mandate was increased from 10% to 12% of the Pension Fund's assets. Schroders are investing the additional funds in UK property. They have already received and invested around £14million in 2014/15 with a further £3 million still due when good investment opportunities arise. Investing in property is costly and this has impacted on their performance figures during 2014/15.

4.20 The following table sets out in summary the performance of Schroders versus the benchmark and the performance target in 2014/15, on a cumulative basis over a five-year investment period and since inception of the mandate in July 2007.

Fund Performance versus Benchmark and Target

	Fund Return (%)	Performance v Benchmark (%)	Performance v Target (%)
2014/15	14.2	-2.1	-3.1
Five years 10/11 to 14/15	37.2	-8.5	-12.9
Since Inception July 2007	23.1	15.9	7.3

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 The Property Fund with Schroders in 2014/15 increased in value by 14.2%, which was 2.1% below the benchmark return and 3.1% below the target. The UK property market investment outperformed but the European investment struggled and dragged down the overall return.

4.22 On a cumulative basis over the five year rolling monitoring period Schroders are below the benchmark return by 8.5%. Over this period the UK property investments have outperformed the benchmark but it is the European investment, due to the economic climate, that has pulled down the five year return figure.

4.23 The fund's cumulative performance from inception (July 2007) is above the benchmark by 15.9%. This performance is due to initial cash holdings and the European property investment returns.

4.24 Over the first couple of years The European property investment produced very good returns but due to the economic climate in Europe over the last 6 years this investment has struggled and pulled overall returns down. Property is a long term investment and fits well into a Pension strategy.

BlackRock - Equity

4.25 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.

4.26 BlackRock's mandate was reorganised in line with the Pension Fund strategy review in December 2014. Before this reorganisation BlackRock held funds on a temporary basis but they were awarded a passive equity mandate as part of the new Pension Fund strategy.

4.27 BlackRock's benchmark during the year from April 2014 until December 2014 was 45% UK equities, 45% overseas equities and 10% bonds. After the Pension Fund reorganisation BlackRock's fund now has a benchmark of 50% UK equities and 50% global ex UK equities.

4.28 The fund is passively invested therefore 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 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 risk.

4.29 The following table sets out in summary the performance of BlackRock versus the benchmark return for 2014/15 and also on a cumulative basis over a five-year investment period.

Fund Performance versus Benchmark

	Fund Return (%)	Performance v Benchmark (%)
2014/2015	10.3	-0.2
Five years 10/11 to 14/15	46.8	0.0

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

4.30 The equity and bond fund with BlackRock increased in value by 10.3% in 2014/15, which is 0.2% below the benchmark return. This shows the fund has mirrored the high market return very closely.

4.31 On a cumulative basis over the five year rolling monitoring period the fund is equal to the benchmark return, which is exactly the fund's investment aim. During this five year period the fund has increased in value by 46.8%, which equates to a return of 8.0% per annum.

5.0 Future Annual Investment Review Meetings

5.1 At its meeting on 27 May, the Council will be required to fulfil its statutory requirement to establish a new Pension Committee. This Pension Committee will improve governance procedures in relation to the Council's monitoring of the Pension Fund's investments, as it will receive a new quarterly investment performance report covering all of the Pension Fund's investment managers.

5.2 The future Pension Committee on reviewing the quarterly report can if they believe it would be beneficial request a presentation from a Fund Manager, to find out more about a specific mandate or question that manager about their performance.

5.3 A review of the arrangement will be reported as part of the first quarterly report.

6.0 Implications

Strategic

6.1 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.

6.2 Community /Stakeholder Issues – None.

6.3 Policy And/Or Delegated Authority – In accordance with Section 2.2 of the Council's Scheme of Administration and Delegations, the Policy and Resources 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.

6.4 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..

6.5 Equalities, Health And Human Rights – None.

6.6 Environmental – None.

Resources

6.7 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.

Fund Manager fees are calculated based on a percentage of the value of the fund managed. Fees will fluctuate as funds increase or decrease in value.

6.8 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.

6.9 Human Resources – None.

6.10 Assets And Property – None.

7.0 Conclusions

7.1 Schroders underperformed their benchmark by 2.1% in 2014/15, during a positive returning UK property market. Over the five year period Schroders are below the benchmark but since inception of the mandate in July 2007 they are above the benchmark. These returns are reflective of the volatility of the European investment.

7.2 BlackRock is 0.2% below their benchmark for 2014/15, and over the five year period they are equal to their benchmark. An index tracking fund tries to replicate the market performance and this performance is very close to that aim over 2014/15 and over the five year period.

7.3 Returns from equity, bond and property markets were all positive in 2014/15. This along with the Fund Managers' management of the funds helped to contribute £30 million in value to the Pension Fund during 2014/15.

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END

Shetland Islands Council

Shetland Islands Council Pension Fund
Shetland Islands Council Miscellaneous Funds
Investment Performance Review

20th May 2015
Karen Thrumble

Limited Access

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Pension Fund Performance

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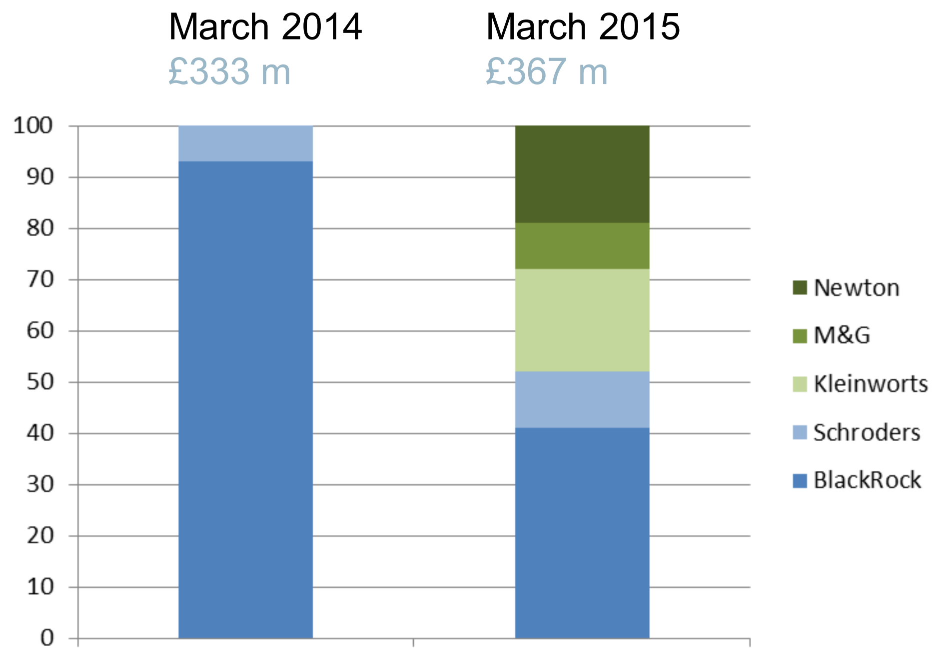
Fund Structure and Value



Fund undertook a major restructure in 2014, moving from two to five managers.

Half of the assets moved from passive to active management.

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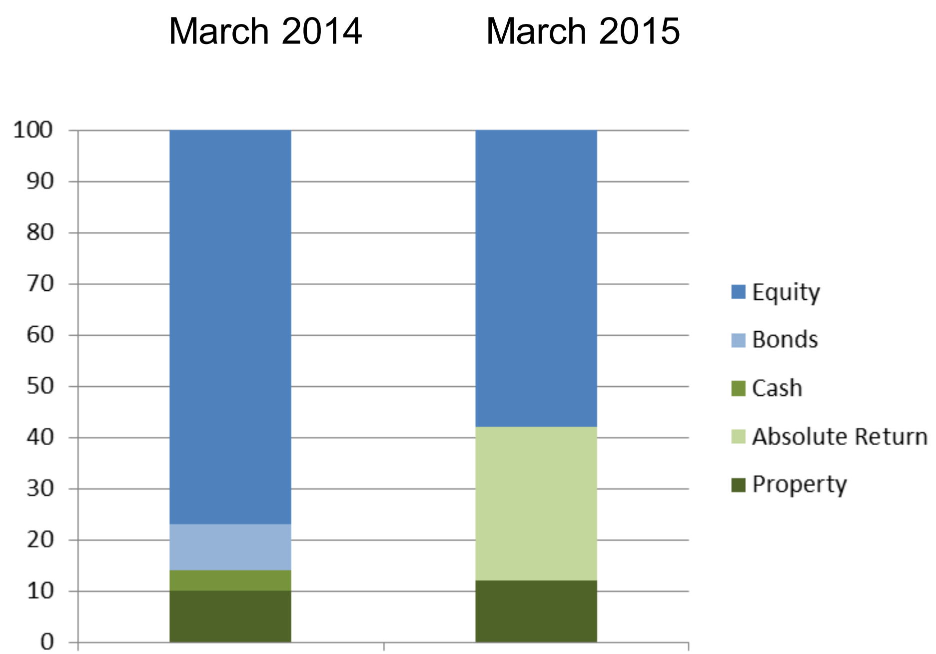
Fund Benchmark



The primary purpose of the Fund is to meet all current and future liabilities.

The Fund has reduced its exposure to equities to reduce the volatility of future performance.

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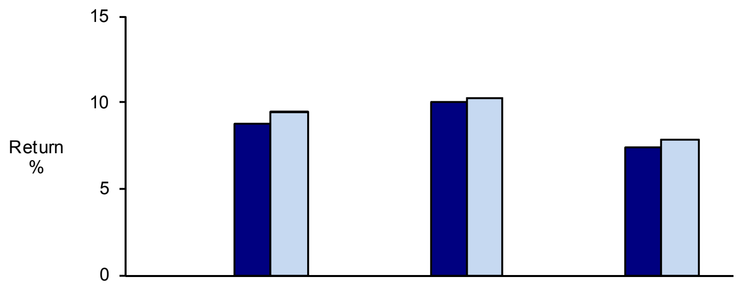
Total Fund Performance



	1 Year	3 Years % pa	5 Years % pa
Fund	8.8	10.0	7.4
Benchmark	9.5	10.2	7.8
Relative Return	-0.7	-0.2	-0.3

Fund has produced a strong level of return but trails the Benchmark over all periods.

Schroder Investment Management - Property

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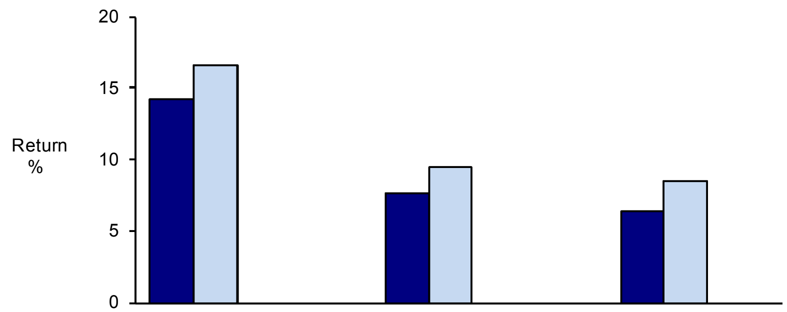
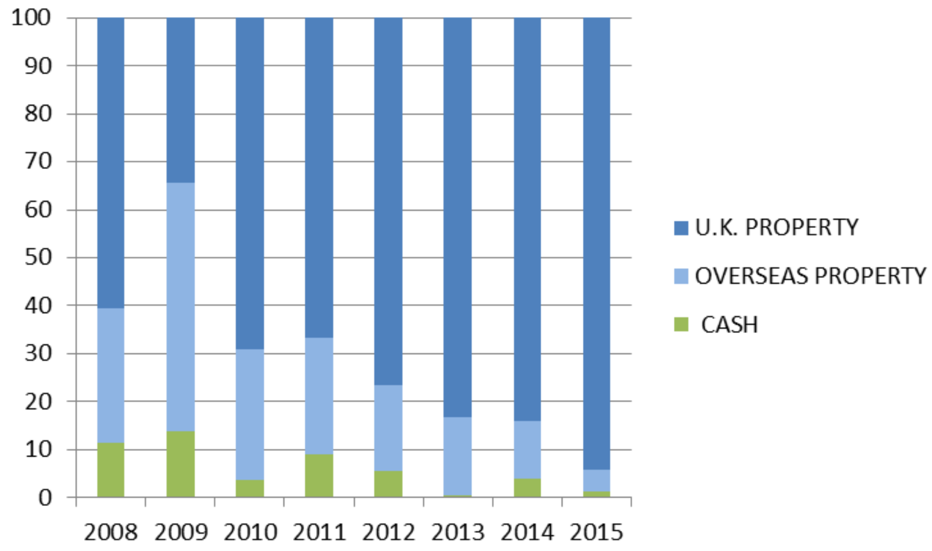
Portfolio Performance

		1 Year	3 Years % pa	5 Years % pa
Fund		14.2	7.6	6.3
Benchmark		16.6	9.4	8.4
Relative Return		-2.1	-1.6	-1.9



After a strong start the Portfolio has been below benchmark.

Detailed Performance



The portfolio is now almost wholly invested in UK property.

	1 Year	3 Years	5 Years	From 31/07/07
UK Property	17.6	10.7	9.5	
Overseas Property	-8.3	-9.7	-7.8	-3.7
Cash	-0.8	-0.4	-0.4	1.3
Total Portfolio	14.2	7.6	6.3	2.6
Benchmark	16.6	9.4	8.4	0.8

UK has performed well over all periods.

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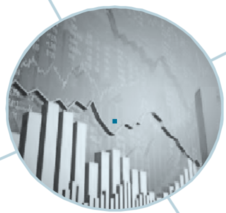
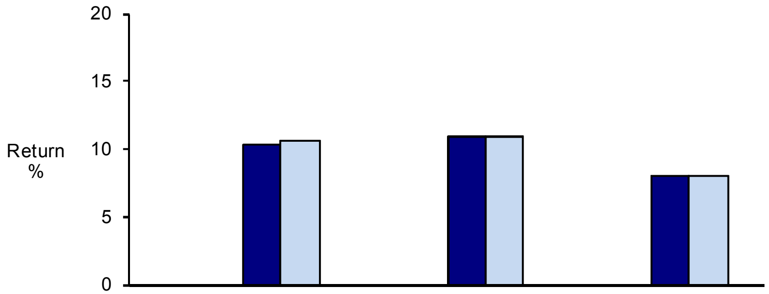
BlackRock Investment Management – Multi Asset



Portfolio Performance

	1 Year	3 Years % pa	5 Years % pa
Portfolio	10.3	10.9	8.0
Benchmark	10.6	10.9	8.0
Relative Return	-0.2	0.0	0.0



Portfolio has tracked the index over all periods.

BlackRock moved from managing a mixture of bonds, equities and cash to an equity only portfolio.

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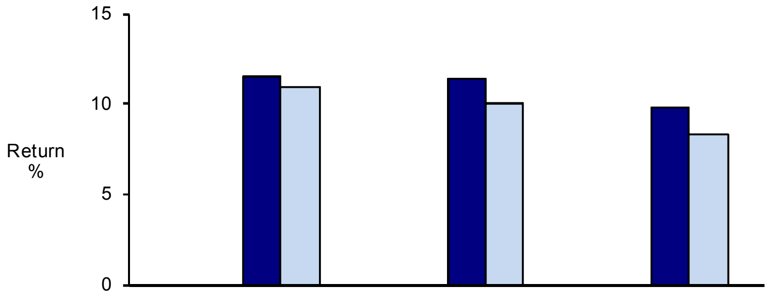
Council Funds' Performance

Total Fund Performance

The investment fund has produced a strong level of return well ahead of benchmark.



	1 Year	3 Years % pa	5 Years % pa
Fund	11.5	11.4	9.8
Benchmark	10.9	10.0	8.3
Relative Return	0.5	1.3	1.4

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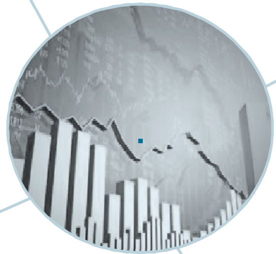
Baillie Gifford



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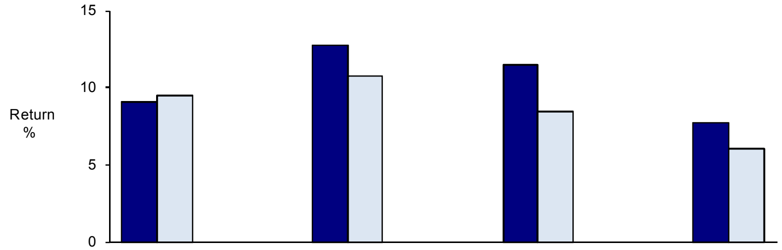
Portfolio Performance



	1 Year	3 Years % pa	5 Years % pa	From 30/3/01 % pa
Fund	9.1	12.7	11.5	7.7
Benchmark	9.5	10.8	8.4	6.0
Relative Return	-0.4	1.8	2.9	1.6

Portfolio is now invested: 60% equities, 40% diversified growth assets.

Portfolio has outperformed target of 2.5% pa over five years.

Detailed Performance

	1 yr	3 yrs % pa	5 yrs % pa	10 Yrs % pa
UK Equities	0.9	10.3	11.2	8.6
Benchmark	6.6	10.6	8.3	7.7
Relative	*-5.3*	*-0.3*	*2.7*	*0.8*
Overseas Equities	19.6	16.6	12.4	12.8
Benchmark	20.1	14.5	10.2	10.4
Relative	*-0.4*	*1.8*	*2.0*	*2.2*
Diversified Growth	8.6			
Benchmark	4.0			
Relative	*4.4*			

Latest year equity performance has been below index.

Longer term equity results remain strong.

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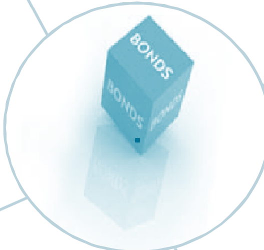
Insight Investments – Bonds and Liquidity



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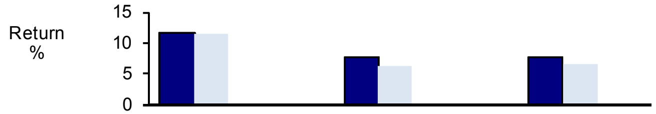
Portfolio Performance



	1 Year	3 Years % pa	5 Years % pa
Bonds			
Portfolio	11.5	7.6	7.7
Benchmark	11.3	6.0	6.5
Relative Return	0.1	1.4	1.1
Liquidity			
Portfolio	0.9		
Benchmark	0.4		
Relative Return	0.5		

Insight now run a broad bond portfolio and a liquidity portfolio.

Liquidity fund above benchmark but with a low absolute performance.

Detailed Bond Portfolio Performance

	1 yr	3 yrs % pa	5 yrs % pa	10 Yrs % pa
UK Bonds	13.3	8.2	8.2	7.5
Benchmark	13.1	7.2	7.8	6.9
Relative	*0.2*	*0.9*	*0.4*	*0.6*
Index Linked	21.1			
Benchmark	21.0			
Relative	*0.1*			
Bond Plus	1.5			
Benchmark	0.6			
Relative	*0.9*			

UK bond performance consistently adds value

Bond plus performance above benchmark but low in absolute terms.

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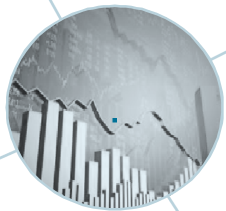
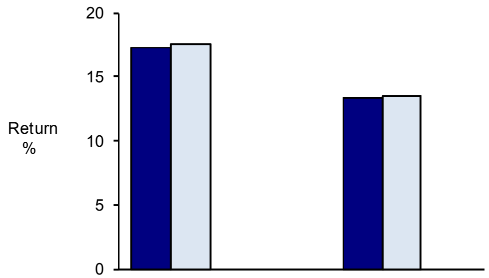
BlackRock Investment Management – Multi Asset



Portfolio Performance

Fund Returns



	1 Year	From 4/10/13
Fund	17.2	13.3
Benchmark	17.5	13.5
Relative Return	-0.3	-0.2

BlackRock manage an equity portfolio on an index tracking basis.

Portfolio has tracked the index since inception.

Kleinwort Benson Investors

Shetland Islands Council

Kleinwort Benson Investors Equity Strategies

WORLD FINANCE INVESTMENT MANAGEMENT AWARDS 2012

Investment Manager of The Year (Ireland)

PRI

Signatory: UN Principles For Responsible Investment

WORLD FINANCE INVESTMENT MANAGEMENT AWARDS 2013

Investment Manager of The Year (Ireland)

Presenters

Kleinwort Benson Investors

John Griffith

Senior Business Development Manager

Gareth Maher

Head of Portfolio Management– Global Equity Strategies

Michael Keane

Client Servicing Manager

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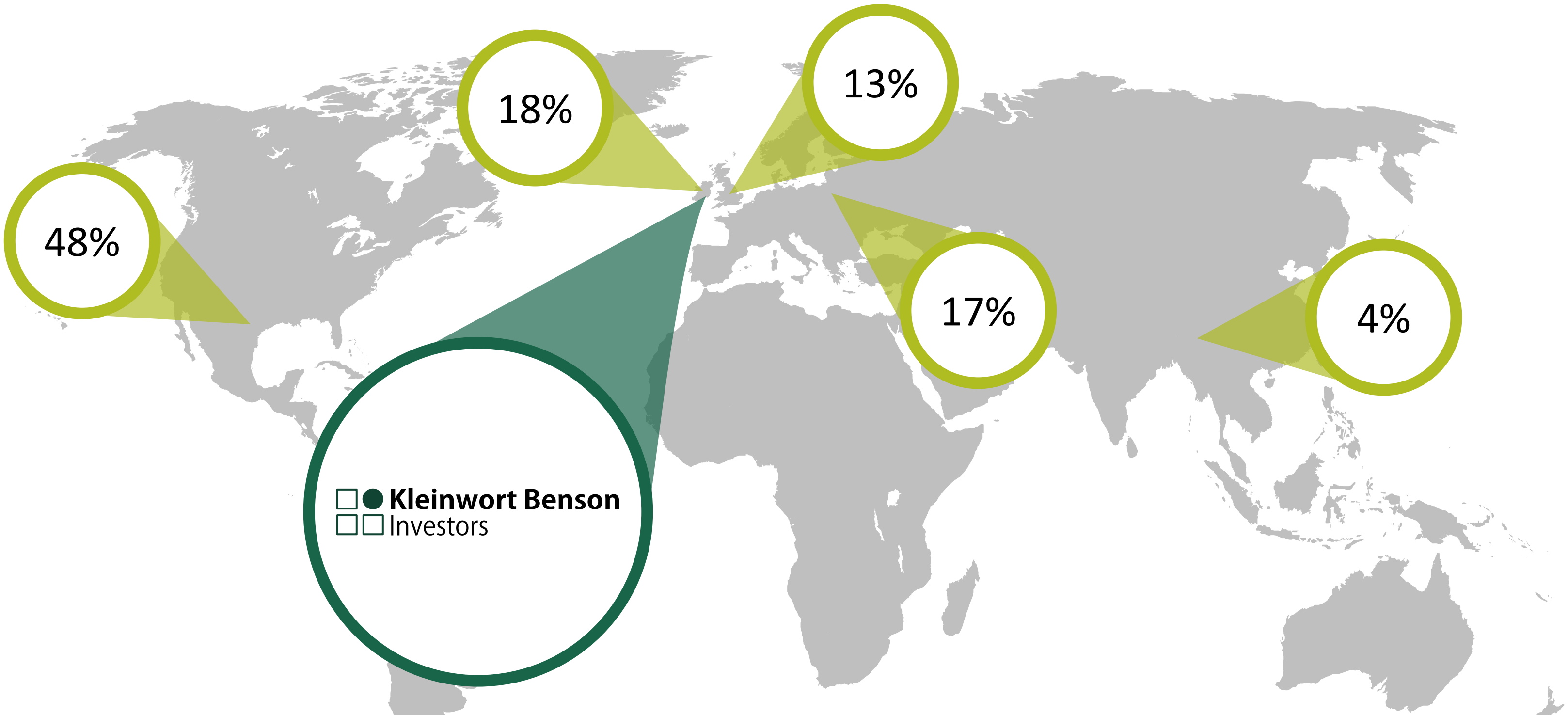
Agenda

Kleinwort Benson Investors

	Business Overview	Team & Philosophy	Investment Process
Performance	Portfolio	Emerging Markets	Client Servicing & Fees

Who we are

Kleinwort Benson Investors



- Established in 1980 part of the Kleinwort Benson Group
- Headquartered in Dublin, Ireland. Offices in New York, Boston and San Francisco (58 staff)
- Well resourced specialist equity portfolios managed by experienced teams
- Meeting highest international regulatory risk & operational standards
- Dedicated client servicing personnel

Managing assets

£5.4bn | €7.5bn | $8.0bn

4

**Global AUM as at 31st March, 2015. This is the combined AuM of Kleinwort Benson Investors Dublin Ltd and Kleinwort Benson Investors International Ltd as at 31st March, 2015.*

Specialist teams managing specialist products

Kleinwort Benson Investors

CIO: Noel O'Halloran

Global Equity Strategies (£3.7bn)	Environmental equities (£1.1bn)	Multi asset strategies (£0.6n)
Emerging Markets	Water	Diversified Solutions
Global	Agribusiness	Innovator
Global ACWI	Energy Solutions	Managed Funds
North America	Global Resource Solutions	
EAFE	Multi Theme Solutions	
ESG		
Small Cap		

Chief Economist, Investment Strategist: Eoin Fahy

5

Source: Kleinwort Benson Investors. This is the combined AuM of Kleinwort Benson Investors Dublin Ltd and Kleinwort Benson Investors International Ltd as at 31st March, 2015.

Representative clients

Kleinwort Benson Investors

Norfolk County Retirement System

Painters and Allied Trades Union

Louisiana Firefighters

Louisiana Municipal Employees Retirement System

Austin Police

Public Employees Retirement Association of New Mexico

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This is a partial list of KBII's clients who have consented to the use of their name in client lists. The clients were selected based on the nature and character of the business conducted by the client and client name recognition. No performance data was used to determine which clients to include or exclude from the list. Inclusion in this list does not indicate any client's stated approval or disapproval of KBII or the advisory services it provides.

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Investment team (table)

Kleinwort Benson Investors

Key People	Title	Experience	Tenure
Noel O’Halloran	Chief Investment Officer	27	23
Gareth Maher	Head of Portfolio Management	27	14
David Hogarty	Head of Strategy Development	23	20
Ian Madden	Portfolio Manager	14	14
James Collery	Portfolio Manager	14	14
John Looby	Portfolio Manager	24	New
Massimiliano Tondi	Portfolio Manager	11	New
Ultan O’Kane	Trader	9	7

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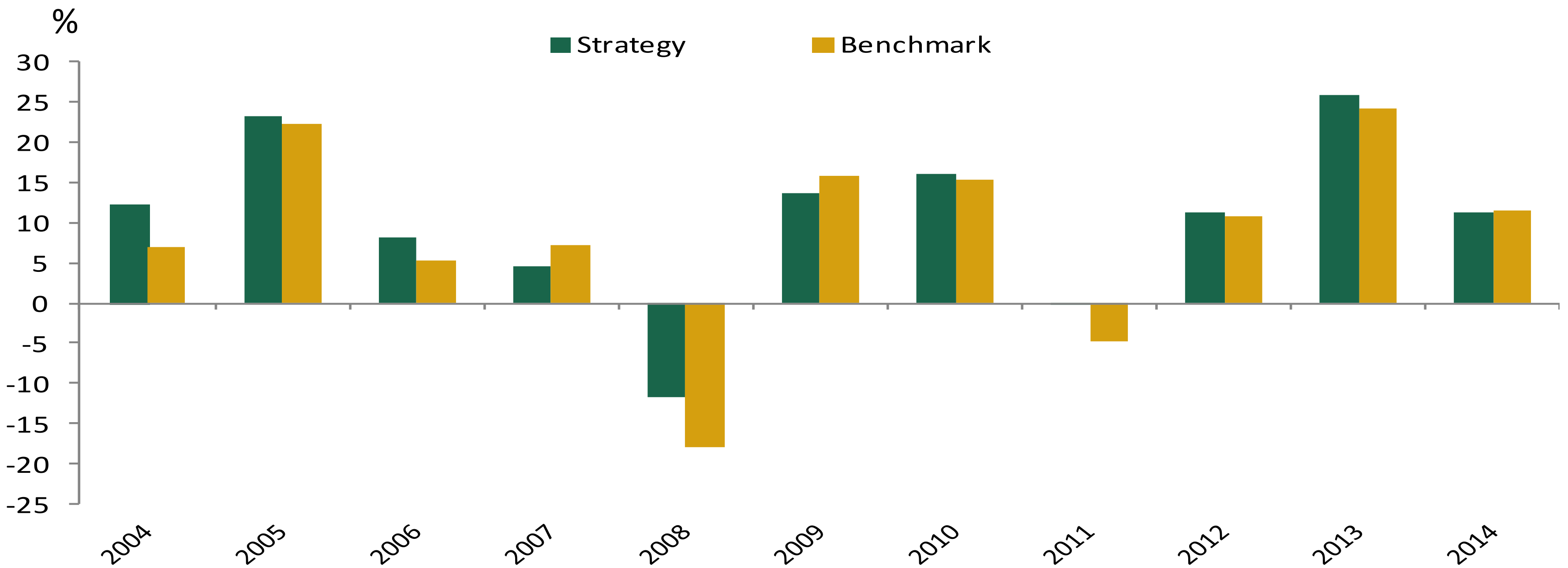
What we have delivered:

Kleinwort Benson Investors

Consistency

Downside Protection

Less Risk



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Source: Kleinwort Benson Investors, data relates to Developed strategy, in GBP, relative to MSCI World index. MSCI benchmark returns assume the reinvestment of dividends after the deduction of withholding taxes. Downside protection: Based on Up market capture ratio vs Down market capture ratio. See Disclaimers for further information.

We achieve this because we look at things differently

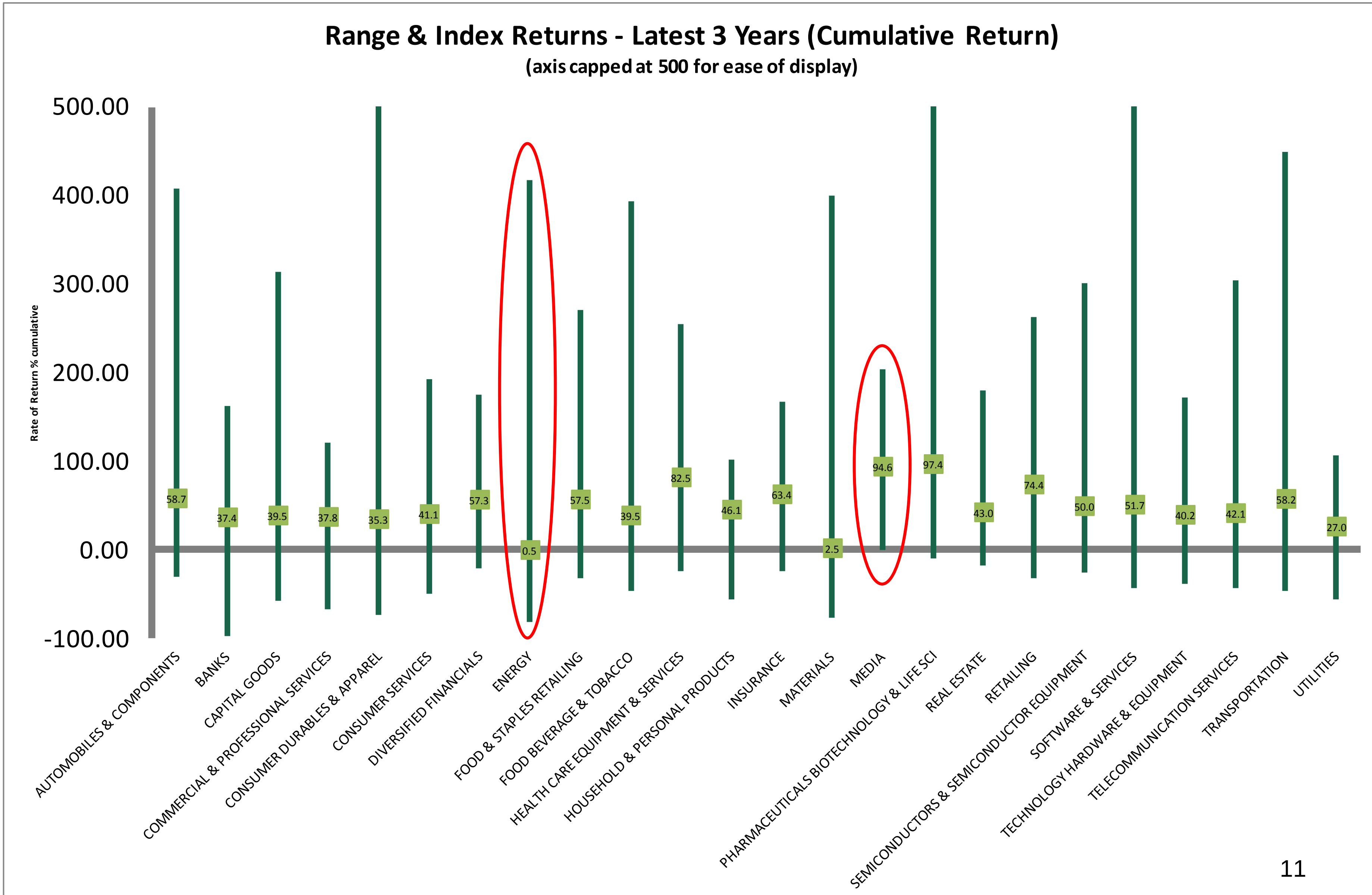
Kleinwort Benson Investors

Contrary to conventional wisdom

- Dividends and profits are highly correlated over time.
- Economic growth and equity returns are not the same thing
- Stocks returns are highly varied within Industries and regions

Dispersion of Returns (MSCI World)

Kleinwort Benson Investors



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Source: Thomson Reuters Datastream, Kleinwort Benson Investors, as at 31st March 2015

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RIG example: NAM Technology Hardware

Kleinwort Benson Investors

RIG (MSCI) weight — **Number of stocks: 22**

RIG average dividend — **9 stocks fail**

Sustainability, quality & growth hurdles

Payout ratio	**0 stocks fail**	
Free cash flow	**1 stock fails**	Avnet, Inc
Dividend growth	**0 stocks fail**	
Total payout	**0 stocks fail**	

Peer group rankings based on broader criteria — **12 stocks remain**

Stocks selected

Seagate

13

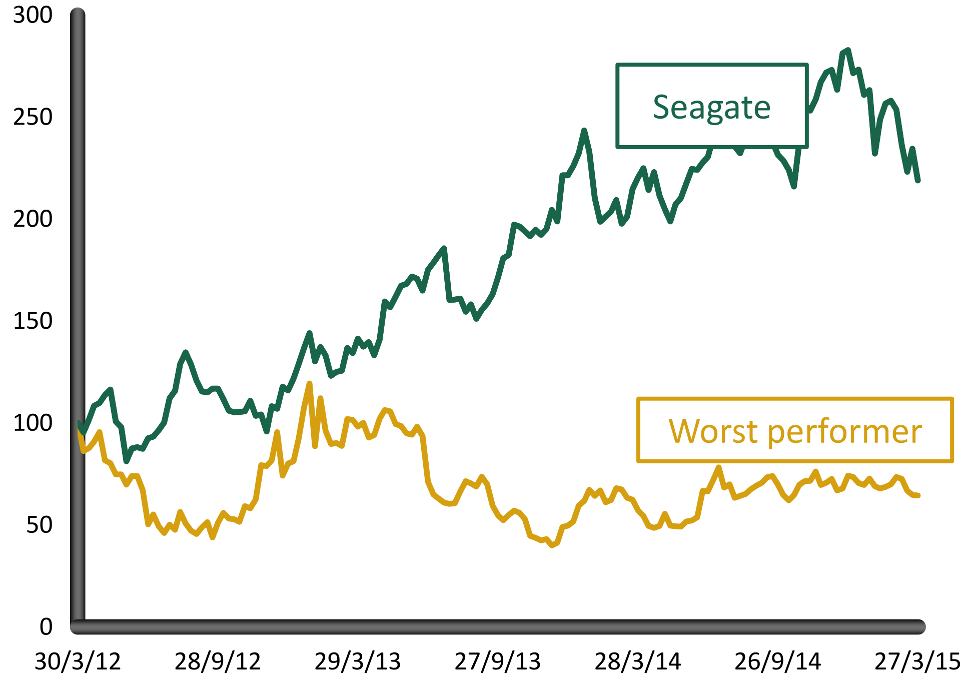
This is an illustration only and results are subject to change. The listed stocks are a representative sample of stocks that may or may not be in the strategy. Size or profitability have not been used in determining the selection of stocks and their inclusion should not be construed as a stock recommendation. Failing stock examples represent stocks which do not meet KBI's screening criteria at a point in time. It should not be construed a recommendation to sell.

Stock and segment example: Seagate

Kleinwort Benson Investors

Sector: North America Technology

Relative performance
(3 years to 31st March 2015)



Company: Seagate

Characteristic Sample	Seagate	
Dividend Yield (%)	4.2	Better Total Return
Dividend Growth (%)	29.3	
Total Payout Yield (%)	3.4	
P/E (x)	8.6	Better Value
ROE (realised, %)	49.6	Better Quality Management and Balance Sheets
Net Debt/ Equity (%)	0.4	
Free cashflow cover	3.5	

RIG Performance (3yr)	No. of Stocks	Return Dispersion (3yr)
42.0%	23	170.4%

Mkt. Cap $bn	KBI Strategy %	MSCI Global Index %	+/- %
17.1	0.89	0.05	0.84

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Source: Kleinwort Benson Investors, Datastream, 31st March 2015, all characteristics calculated in USD against USD benchmark.

Summary of process

Kleinwort Benson Investors

Monthly systematic component	Judgemental component
	1,600 stocks
Step 1	800 stocks (approx) 96 RIGS
Step 2	500 stocks (approx) 70 RIGS
Step 3	170 stocks (approx) 70 RIGS

Very disciplined, unemotional buy/sell rules

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Developed strategy characteristics

Kleinwort Benson Investors

Characteristics	Financial Statistics	Developed Strategy	MSCI All Country Index
Better Total Return	Dividend Yield (%)	3.7	2.4
	Dividend Payout (%)	62.2	43.7
	Dividend Growth (%)	9.9	9.0
	Total Payout Yield (%)	4.3	1.8
Better Value & Risk	P/E	14.8	19.3
	Price/Book	2.3	2.2
	Price/Cashflow	11.5	13.5
	Weighted Avg. Mkt. Cap $ (bn)	79.4	88.1
	Beta (3yrs)	1.01	-
Better Quality Management & Balance Sheets	ROE (realised, %)	19.2	16.8
	ROIC (realised, %)	11.4	11.2
	Net Debt/ Equity (%)	35.9	36.3
	Accruals (%)	0.4	2.4
	Profit Surprises (%)	-1.1	-5.5

Source: Kleinwort Benson Investors, 31st March, 2015.

Total Return approach

Kleinwort Benson Investors

Our Philosophy	Our Holdings
Dividend Yield plus Dividend Growth plus Valuation Change = **Total Return**	High quality companies
Very disciplined buy/sell rules	Strong balance sheets & capital management
Large number of small positions **not** small number of large positions	Well governed & shareholder oriented

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Kleinwort Benson Investors

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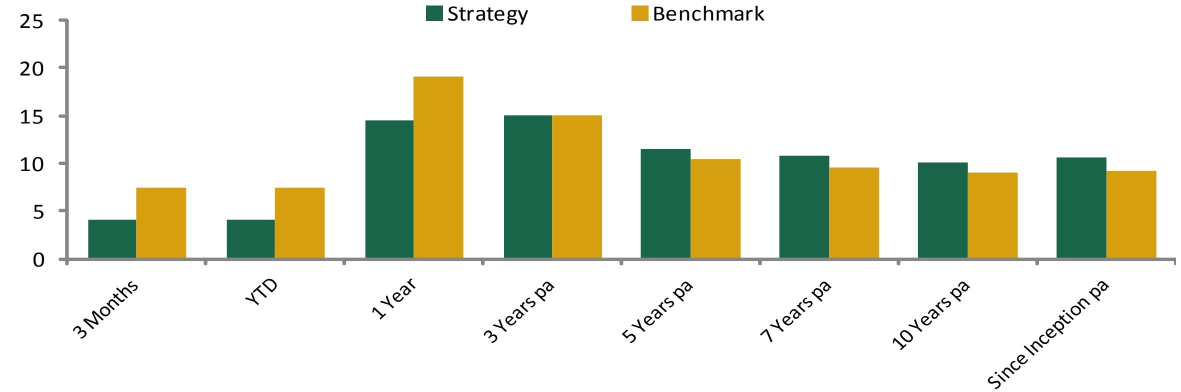
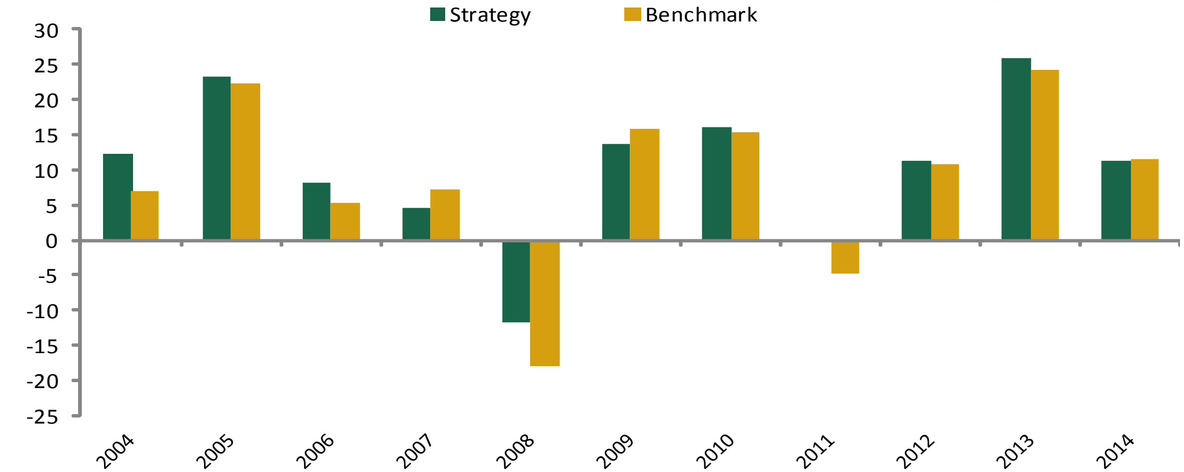
Strategy Performance Report

Strategy:	Developed Equity	Reporting Date:	31 March 2015
Benchmark:	MSCI World (NR) Index	Term of Strategy (Yrs):	11.8
Strategy Inception:	31 May 2003	Return Type:	Gross
Base Currency:	Euro	Reporting Currency:	GBP

Performance (%)			
Period	Strategy	Benchmark	Excess
3 Months	4.1	7.5	-3.3
YTD	4.1	7.5	-3.3
1 Year	14.4	19.1	-4.6
3 Years pa	15.0	15.0	0.0
5 Years pa	11.4	10.5	1.0
7 Years pa	10.8	9.5	1.3
10 Years pa	10.0	9.0	1.1
Since Inception pa	10.7	9.2	1.5



Calendar Year Performance (%)			
Year	Strategy	Benchmark	Excess
2004	12.3	7.0	5.3
2005	23.4	22.4	0.9
2006	8.2	5.3	2.9
2007	4.6	7.2	-2.6
2008	-11.7	-17.9	6.2
2009	13.8	15.7	-2.0
2010	16.2	15.3	0.9
2011	-0.1	-4.8	4.7
2012	11.3	10.7	0.6
2013	25.9	24.3	1.6
2014	11.3	11.5	-0.2



Risk Adjusted Measures:	Volatility (%)		Tracking	Information
Period	Strategy	Benchmark	Error	Ratio
3 Years pa	9.2	8.9	2.1	0.0
5 Years pa	10.4	10.6	2.3	0.4
7 Years pa	14.4	15.1	2.5	0.5
10 Years pa	13.5	13.9	2.5	0.4
Since Inception pa	12.6	13.1	2.5	0.5

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Source: KBI, Datastream, Bloomberg. Returns are gross of fees in GBP to 31/03/15. See disclaimers for further information

MSCI World Net Return benchmark returns assume the reinvestment of dividends after the deduction of withholding taxes.

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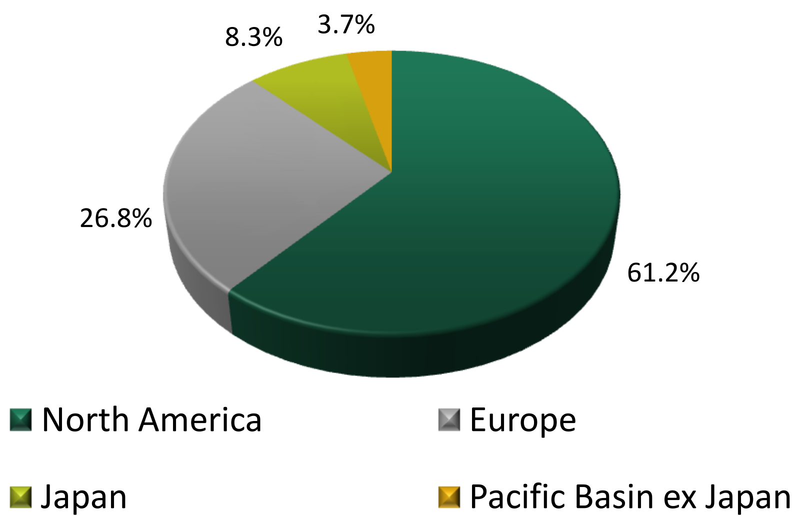
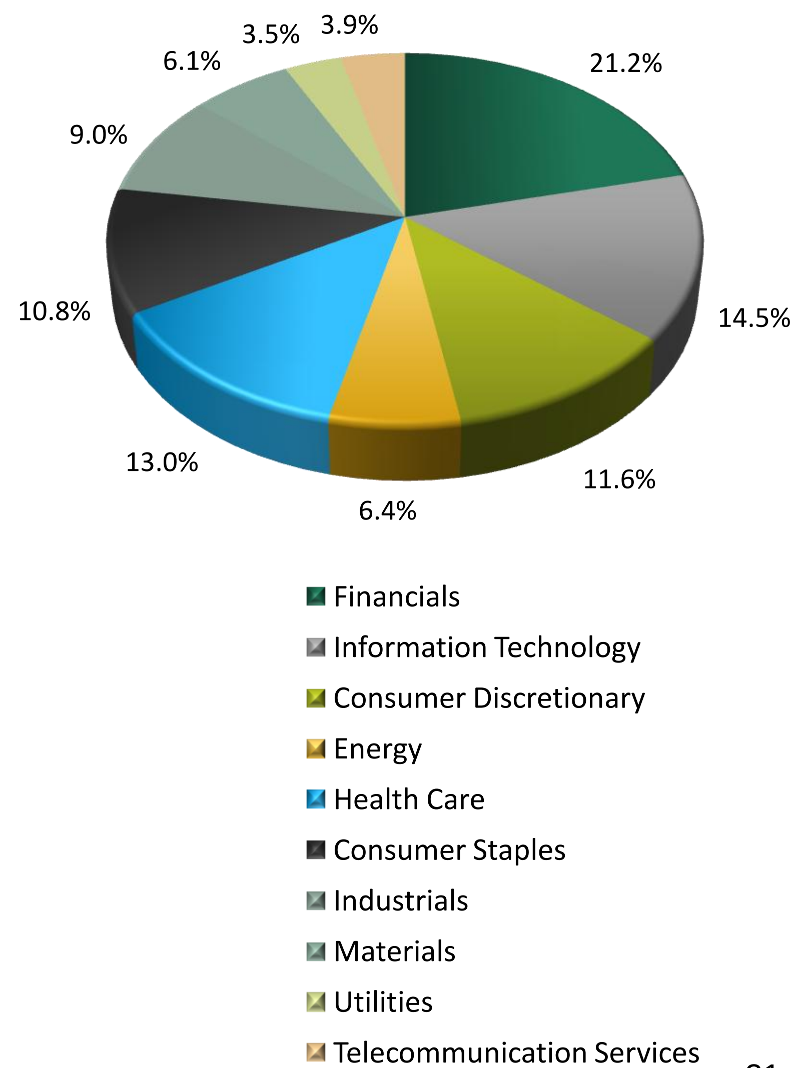
Global Developed sector and regional composition

Kleinwort Benson Investors

Geographical Breakdown



Sector Breakdown



Top 10 holdings

Name	Country	Weight%
CA Inc	US	2.5
Microsoft Corporation	US	2.3
General Electric Company	US	2.2
Exxon Mobile Corporation	US	1.9
National Oilwell Varco Ince	US	1.7
Apple Inc	US	1.5
Zurich Insurance Group AG	Switzerland	1.4
Eli Lilly & Company	US	1.4
AbbVie Inc	US	1.4
Intel Corporaton	US	1.4

Source for all data: Kleinwort Benson Investors, 31st March 2015

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Kleinwort Benson Investors

	Business Overview	Team & Philosophy	Investment Process
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Time to rethink your assumptions

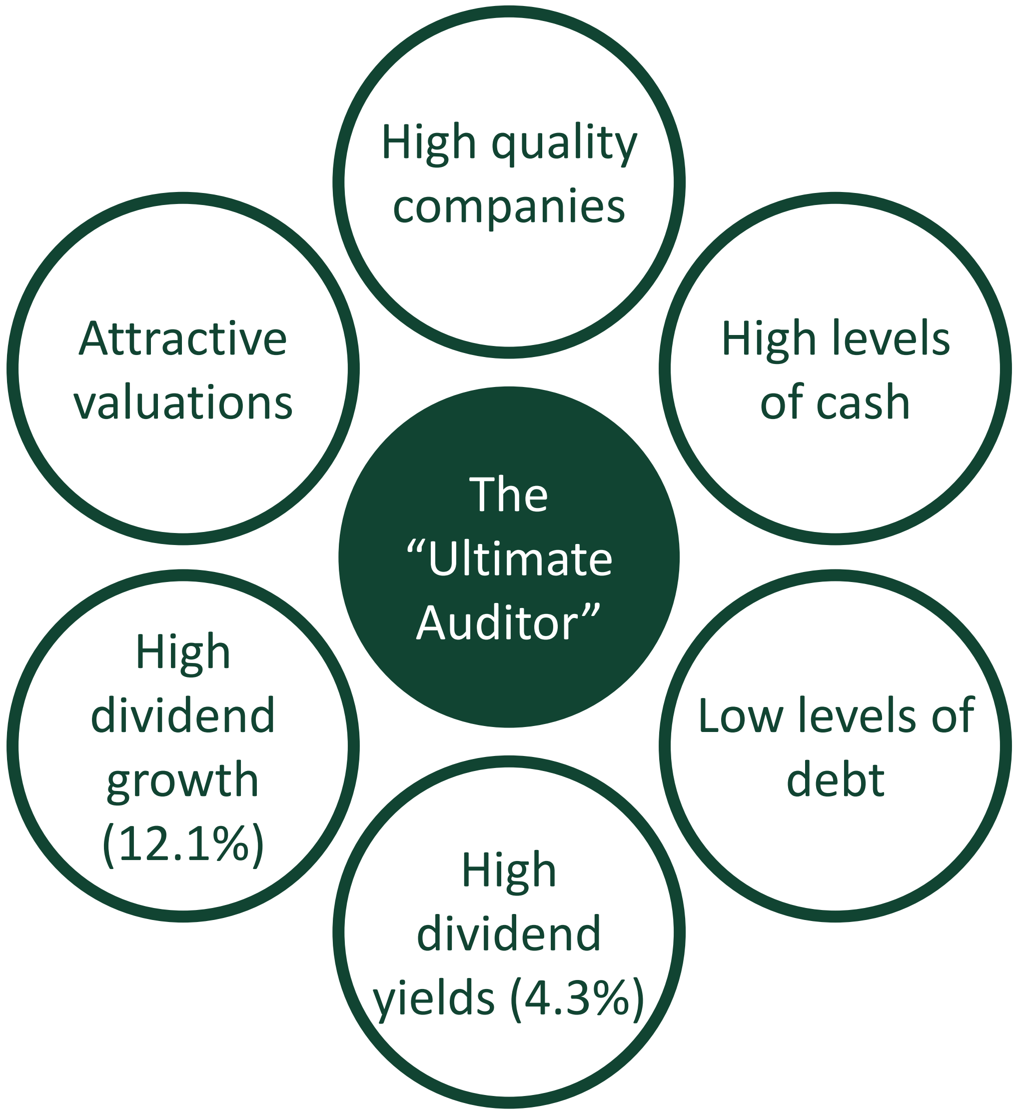
Kleinwort Benson Investors

	North America	Europe	Pacific Basin	Emerging Markets	Total
No. of Dividend Payers	563	415	441	756	2,175
No. of Stocks	723	450	460	836	2,469
Dividend Yield	1.8%	2.8%	2.1%	2.7%	2.3%
Dividend Payout	33%	46%	35%	35%	37%
Dividend Growth	5.5%	5.9%	5.7%	6.6%	6.0%

Source: Kleinwort Benson Investors, Datastream, 31st March, 2015. MSCI All Countries index data

More than just income

Kleinwort Benson Investors



Very disciplined buy/sell rules: total return

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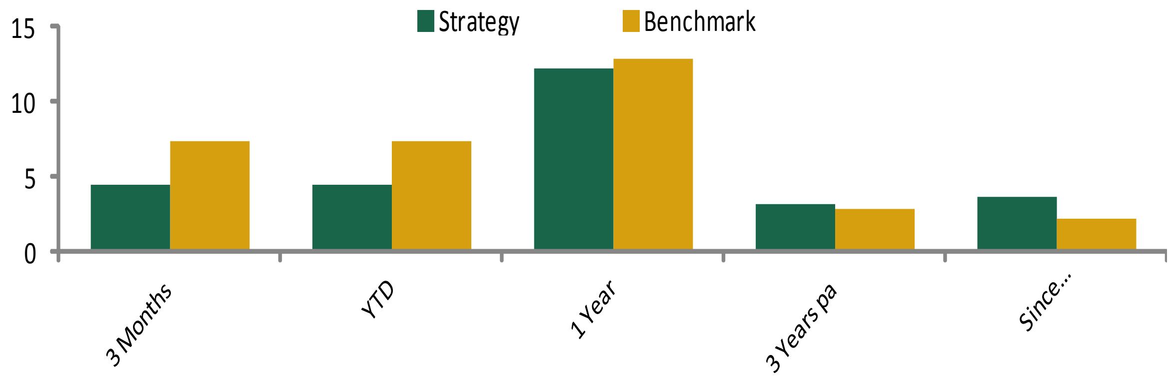
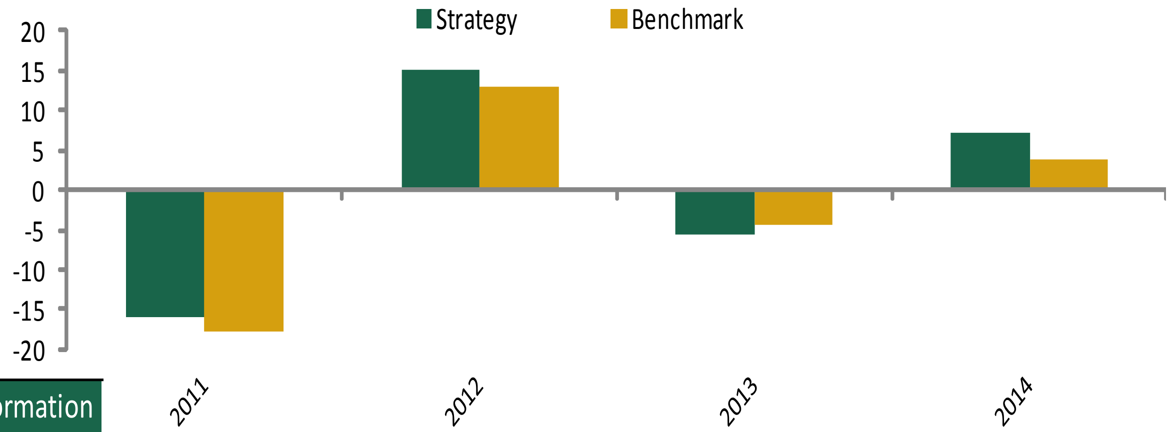
Strategy Performance Report

Strategy:	Emerging Markets Equity	Reporting Date:	31 March 2015
Benchmark:	MSCI Emerging Markets (NR) Index	Term of Strategy (Yrs):	4.9
Strategy Inception:	30 April 2010	Return Type:	Gross
Base Currency:	Euro	Reporting Currency:	GBP

Performance (%)			
Period	Strategy	Benchmark	Excess
3 Months	4.5	7.4	-2.8
YTD	4.5	7.4	-2.8
1 Year	12.2	12.8	-0.6
3 Years pa	3.3	2.8	0.5
Since Inception pa	3.7	2.2	1.5



Calendar Year Performance (%)			
Year	Strategy	Benchmark	Excess
2011	-15.7	-17.8	2.1
2012	15.1	13.0	2.0
2013	-5.5	-4.4	-1.1
2014	7.2	3.9	3.3



Risk Adjusted Measures:	Volatility (%)		Tracking	Information
Period	Strategy	Benchmark	Error	Ratio
3 Years pa	10.1	11.6	2.8	0.2
Since Inception pa	13.5	14.7	3.0	0.5

Source: KBI, Datastream, Bloomberg. Returns are gross of fees in GBP to 31/03/15. See disclaimers for further information

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MSCI Emerging Markets Net Return benchmark returns assume the reinvestment of dividends after the deduction of withholding taxes.

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Client Servicing

Kleinwort Benson Investors

- Dedicated Client Servicing Manager – John Griffith
    - Responsible for all ongoing communication
    - Liaison with investment personnel
    - Participation in review meetings with portfolio manager(s)
    - Oversight of investment implementation
- Online reporting facility
- Strong focus on superb client servicing across the business

Fees

- Developed Strategy
  - Management Fee 0.5%
  - Additional Expenses 0.15% (Independent custodian, administrator)
  - Total expenses ratio 0.65%

Product overview

Kleinwort Benson Investors

	Global equity	Emerging Markets equity
Inception:	May 2003	April 2010
Global AUM:	£558.6m	£116.5m
Investment type:	Value tilt. All-Cap	
Investment vehicle:	UCITS IV (Undertakings for Collective Investment in Transferable Securities)	
Pricing/liquidity	Daily: GBP/EUR/USD	
Fees:	Institutional 0.50%	Institutional 0.60%

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Source: Kleinwort Benson Investors 28th February 2015.

Legal Structure

Kleinwort Benson Investors

UCITS (Undertakings for Collective Investment in Transferable Securities) offer investors:

- Product confidence: robust and consistent level of investor protection and regulatory compliance.
  - Focus on risk management and investor protection
  - Transparent, tried and tested regulation
- Global reach: established global offering sold in over 70 countries
- Cost: economy of scale benefits to investor

Biographies of Global Equity Strategies team

Kleinwort Benson Investors

Gareth Maher B.Comm, M.Econ. Sc.
Head of Portfolio Management – Global Equity Strategies
14 years with firm, 27 years industry experience

Gareth joined the firm as Senior Portfolio Manager in 2000. Gareth is a very experienced equity manager having worked for Irish Life Investment Managers for 10 years from 1987 during which time he managed their US, Irish and Far Eastern equity portfolios. In 1997, Gareth joined Eagle Star (Zurich) with responsibility for the Irish, Japanese and Far Eastern equities. Gareth graduated from University College Dublin (UCD) with a first class honours Commerce degree in 1986 followed by a first class honours Masters of Economic Science (UCD) in 1987. Gareth joined the Global Equity Strategies team in 2008, having managed U.S., Irish and Far Eastern equities between 2000 and 2009.

David Hogarty BA Econ. & Politics. I.M.C.
Head of Strategy Development – Global Equity Strategies
20 years with firm; 23 years industry experience

David joined the firm in 1994. David has held a number of senior management roles in our business including; responsibility for Product Development, Business Development & Consultant Relationships. David is also a former member of the Irish Association of Pension Funds (IAPF) Investment Committee. David was instrumental in developing the Global Equity Strategies back in 2003 and has been a member of the investment team since launch. David graduated from University College Dublin with a B.A. in Economics and Politics in 1989 and holds the Investment Management Certificate.

Biographies of Global Equity Strategies team

Ian Madden BBS in Finance & Accounting; IMC
Portfolio Manager – Global Equity Strategies
14 years with firm; 14 years industry experience

Ian joined the firm in November 2000 as a Portfolio Assistant. Prior to joining Kleinwort Benson Investors Dublin Ltd, Ian worked for the international division of National Irish Bank. In 2002, Ian was appointed Manager of the Institutional Business Support unit, responsible for unit trust dealing, client cashflow, audit reporting and client queries. Ian graduated from Trinity College Dublin in 2000 with a Bachelor of Business Studies specialising in Finance & Accounting and holds the Investment Management Certificate. Ian joined the Global Equity Strategies team in 2004.

James Collery BA; IMC
Portfolio Manager – Global Equity Strategies
14 years with firm; 14 years industry experience

James joined the firm in January 2001 as a Performance & Risk Analyst. In December 2003 James was appointed as a Portfolio Manager on the Hedge Fund Team. During this time, James worked on our Fund of Funds where he was responsible for manager due diligence as well as portfolio construction, and latterly on a direct Equity Long Short Fund which was quantitatively managed. James graduated from Trinity College, Dublin in 1999 with a BA Honours degree in Science. He joined the Global Equity Strategies team in 2007.

John Looby BA Econ., MA, Dip Stats
Portfolio Manager – Global Equity Strategies
New to the firm; 24 years industry experience

John Looby joined the firm in September 2014. He is a very experienced investment professional having worked in Financial Markets since 1990 in roles spanning Fixed Income, Absolute Return and Equities. For seven years prior to joining KBI, he was a Senior Investment Manager at Setanta Asset Management in Dublin, where he was the Lead Portfolio Manager of the flagship Global Equity Fund. An economics graduate of UCD, he also holds a Post Graduate Diploma in Statistics from TCD and an MA in International Relations from DCU. A regular contributor of opinion pieces to the national press on investment and economic themes, he is also a founder and contributor to the Value Investment Institute.

Massimiliano Tondi CFA, FRM
Portfolio Manager – Global Equity Strategies
New to the firm; 11 years industry experience

Massimiliano Tondi joined the firm in September 2014. He has worked in the financial sector since 2004. From 2011, he was a Quantitative Portfolio Manager at Fideuram Asset Management Ireland and prior to that worked as a Risk Manager for the same company. Massimiliano completed his Master Degree in Economics from "L. Bocconi" University, Milan, Italy. In 2005, he was awarded with the Financial Risk Manager (FRM) certificate from the Global Association of Risk Professionals (GARP) and he is a CFA charterholder since 2009.

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Level 7, 257 Collins Street, Melbourne VIC 3000, Australia. Ph: 61 3 9975 7887. Fax: 61 3 9975 7889

www.ambassadorfms.com

Environmental Strategies Australia:

Energy Solutions Performance disclaimer: Returns up to 30/04/08 are based on a Belgian Fund which followed the Energy Solutions Strategy and was managed by KBI. Returns from 01/05/08 are based on the KBI **Energy Solutions** strategy. **Water Performance Disclaimer:** Returns up to 30/09/07 are based on a Belgian Fund which followed the same strategy as the Kleinwort Benson Investors Water Strategy and was managed by KBI. Returns from 01/10/07 are actual returns from the Kleinwort Benson Investors Water Strategy. ‘The S-Network Global Water Indexes℠ are calculated, distributed and marketed by S-Network Global Indexes, LLC which have been licensed for use. All content of the S-Network Global Water Indexes℠ © 2011 are the intellectual property of S-Network Global Indexes, LLC.’ **AGRI Performance Disclaimer:** Returns since inception are based on the KBI Agri Strategy. **GESS Performance Disclaimer:** Returns since inception are based on the KBI Global Environmental Solutions Strategy. Blended Environmental Index is made up of: Ardour Global Alternative Energy Index (25%), S-Network Global Water Index (25%), DAXglobal Agribusiness Index (25%), HSBC Climate Change Index (25%). ‘The S-Network Global Water Indexes℠ are calculated, distributed and marketed by S-Network Global Indexes, LLC which have been licensed for use. All content of the S-Network Global Water Indexes℠ © 2011 are the intellectual property of S-Network Global Indexes, LLC.’

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Environmental Strategies Asia:

Energy Solutions Strategy Performance disclaimer: Returns up to 30/04/08 are based on a Belgian Fund which followed the Energy Solutions Strategy and was managed by KBI. Returns from 01/05/08 are based on the KBI Energy Solutions Strategy. **Water Strategy Performance Disclaimer:** Returns up to 30/09/07 are based on a Belgian Fund which followed the same strategy as the Kleinwort Benson Investors Water Strategy and was managed by KBI. Returns from 01/10/07 are actual returns from the Kleinwort Benson Investors Water Strategy. 'The S-Network Global Water Indexes℠ are calculated, distributed and marketed by S-Network Global Indexes, LLC which have been licensed for use. All content of the S-Network Global Water Indexes℠ © 2011 are the intellectual property of S-Network Global Indexes, LLC.' **AGRI Performance Disclaimer:** Returns since inception are based on the KBI Agri Strategy. **GESS Performance Disclaimer:** Returns since inception are based on the KBI Global Environmental Solutions Strategy. Blended Environmental Index is made up of: Ardour Global Alternative Energy Index (25%), S-Network Global Water Index (25%), DAXglobal Agribusiness Index (25%), HSBC Climate Change Index (25%). 'The S-Network Global Water Indexes℠ are calculated, distributed and marketed by S-Network Global Indexes, LLC which have been licensed for use. All content of the S-Network Global Water Indexes℠ © 2011 are the intellectual property of S-Network Global Indexes, LLC.'

Global Equity Strategies Asia:

KBI Global Equity Strategy Performance Disclaimer: Returns from 01/06/03 to 31/07/04 are based on a Belgian Fund which followed the KBI Global Equity Strategy and was managed by KBI. Returns from 01/08/04 are actual returns from the KBI Global Equity Strategy. **KBI Global Developed Equity Strategy Performance Disclaimer:** Returns from 01/06/03 to 31/07/04 are based on a Belgian Fund which followed the KBI Developed Equity Strategy and was managed by KBI. Returns from 01/08/04 are actual returns from the KBI Developed Equity Strategy. **KBI Emerging Markets Equity Strategy Performance Disclaimer:** Returns from 01/05/10 to 31/07/10 are based on the Emerging Markets component of a segregated account managed by KBI to an identical process applied to all KBI Global Equity Strategies. Returns from 01/08/10 are actual returns from the KBI Emerging Markets Equity Strategy. **KBI North America Equity Strategy:** Returns are based on the North America Developed Equity component of a segregated account (KBI Developed Equity Strategy) managed by KBI to an identical process applied to all KBI Global Equity Strategies. Returns from 06/01/03 to 07/31/2004 are based on a Belgian Fund which followed the KBI Developed Equity Strategy and was managed by KBI. Returns from 08/01/2004 are actual returns from the KBI Developed Equity Strategy.

EUROPE:

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KBI Global Equity Strategy Performance Disclaimer: Returns from 01/06/03 to 31/07/04 are based on a Belgian Fund which followed the KBI Global Equity Strategy and was managed by KBI. Returns from 01/08/04 are actual returns from the KBI Global Equity Strategy. **KBI Global Developed Equity Strategy Performance Disclaimer:** Returns from 01/06/03 to 31/07/04 are based on a Belgian Fund which followed the KBI Developed Equity Strategy and was managed by KBI. Returns from 01/08/04 are actual returns from the KBI Developed Equity Strategy. **KBI Emerging Markets Equity Strategy Performance Disclaimer:** Returns from 01/05/10 to 31/07/10 are based on the Emerging Markets component of a segregated account managed by KBI to an identical process applied to all KBI Global Equity Strategies. Returns from 01/08/10 are actual returns from the KBI Emerging Markets Equity Strategy. **KBI North America Equity Strategy:** Returns are based on the KBI North America Developed Equity component of a segregated account (KBI Developed Equity Strategy) managed by KBI to an identical process applied to all KBI Global Equity Strategies. Returns from 06/01/03 to 07/31/2004 are based on a Belgian Fund which followed the KBI Developed Equity Strategy and was managed by KBI. Returns from 08/01/2004 are actual returns from the KBI Developed Equity Strategy. **KBI ACWI Performance Disclaimer:** KBI All World Equity Strategy Performance Returns from 01/08/11 are actual returns from a KBI segregated portfolio managed in line with the KBI All World Equity Strategy.

Shetland Islands Council Pension Fund

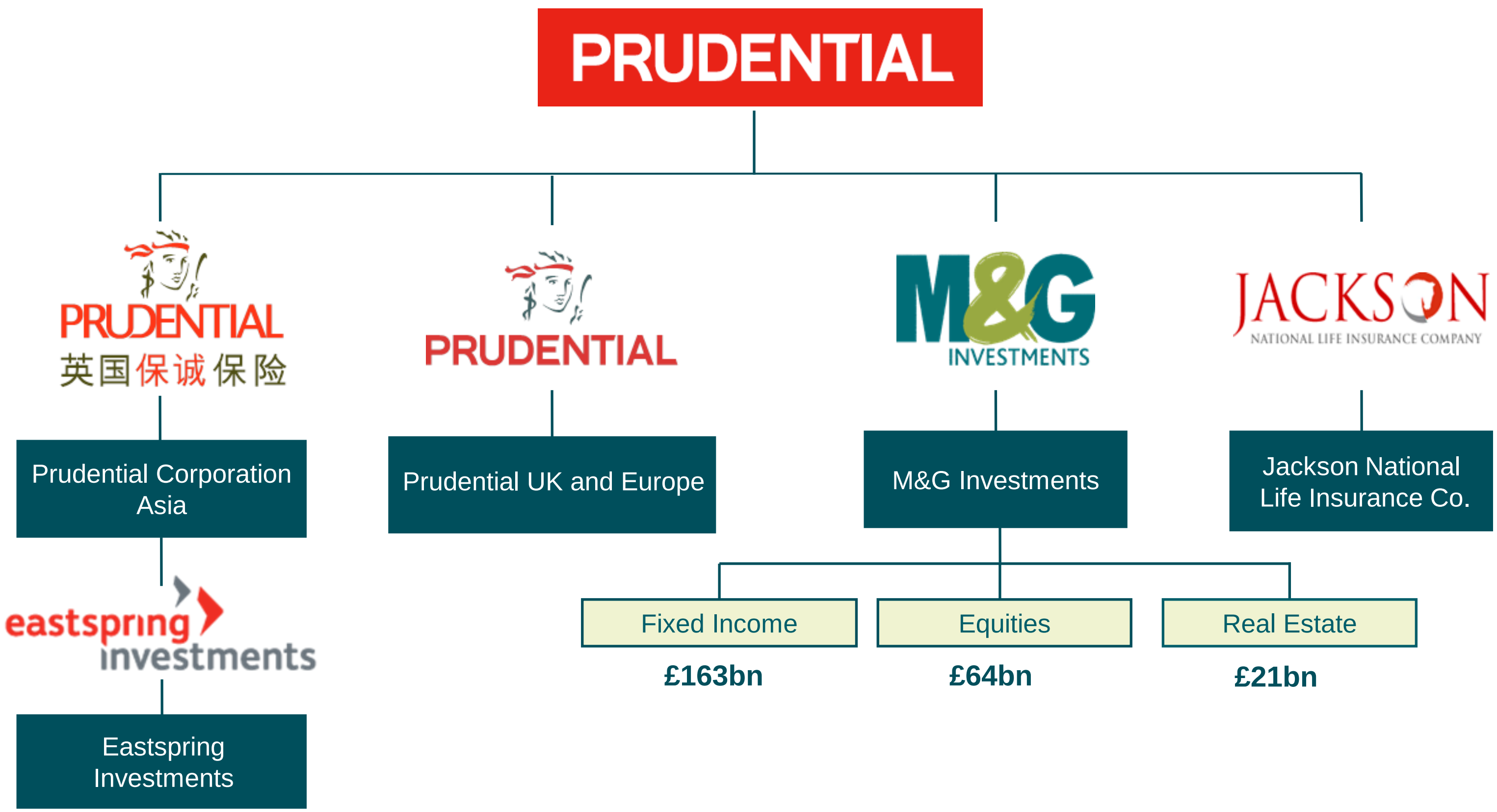
Mark Ellis and Mike Thomas

20 May 2015

A PRUDENTIAL Company

M&G INVESTMENTS

A Strong Sponsor: Prudential plc

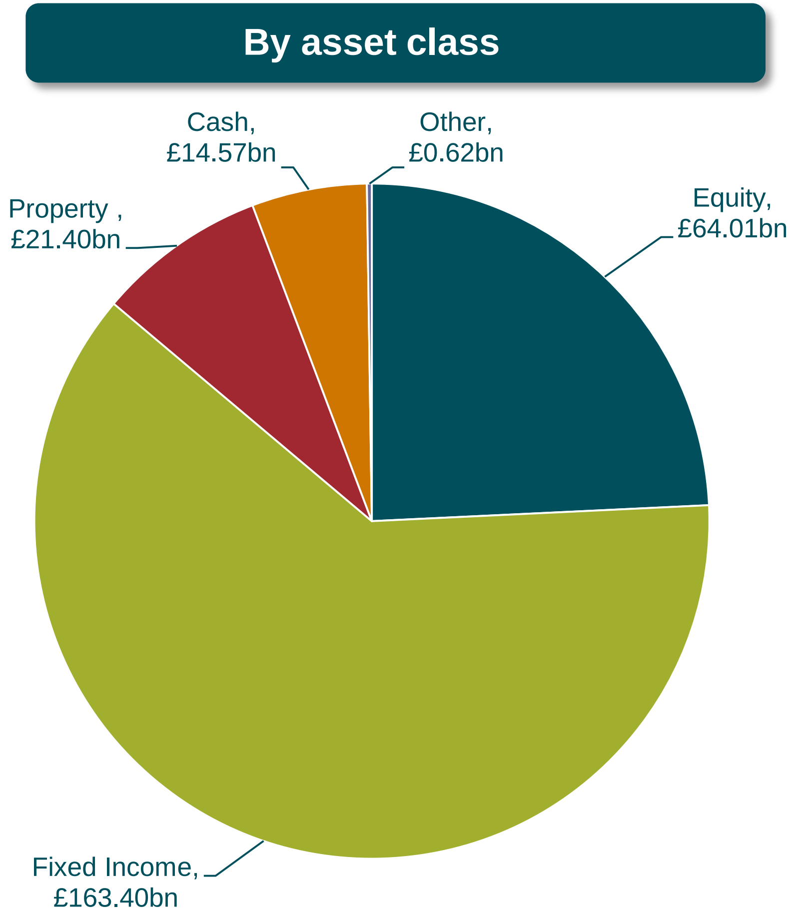


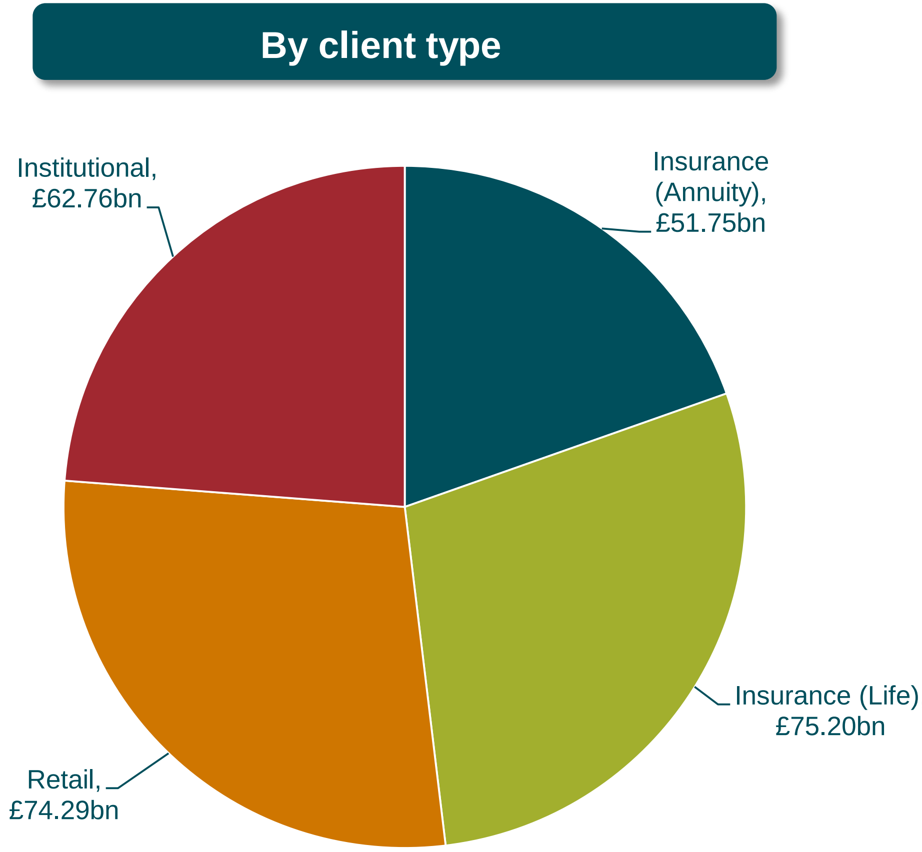
- FTSE 100-listed, UK's largest insurance company*
- 100% of our benchmarked funds have exceeded their benchmarks over 3 years
- 65% of the UK's top 40 pension schemes invest with us

Source: M&G, 31 December 2014. *Largest by market capitalisation

M&G assets under management

Breakdown of M&G total assets: £264bn



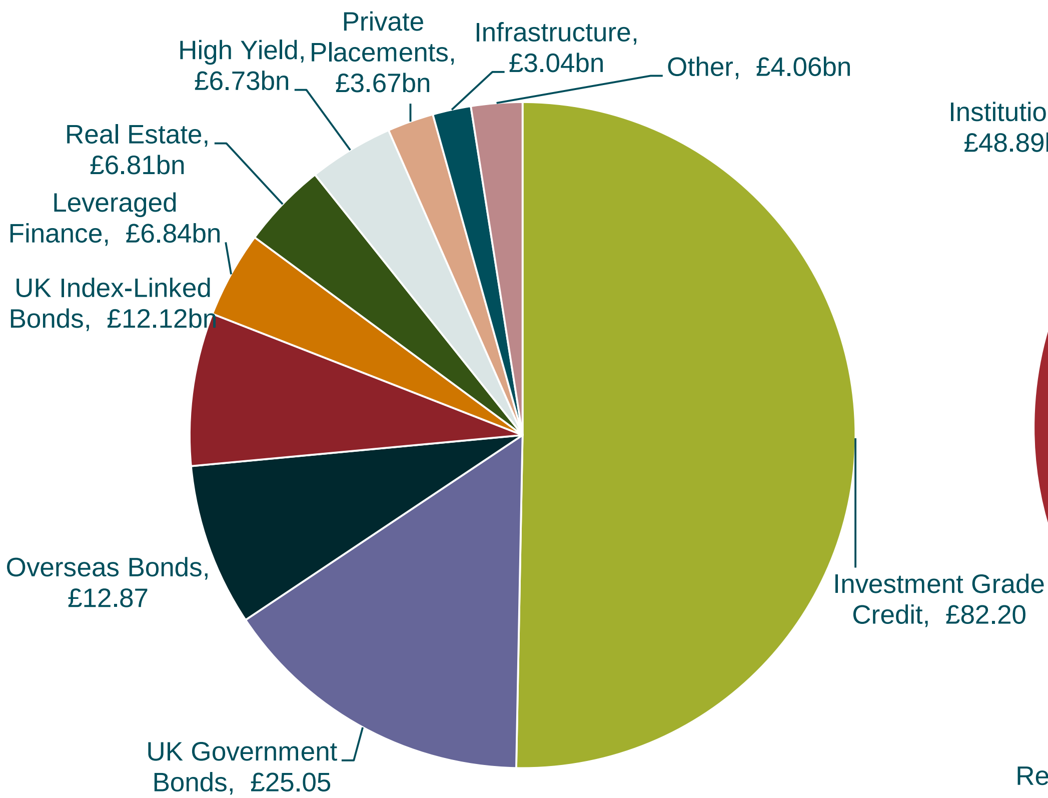


Source: M&G, 31 December 2014

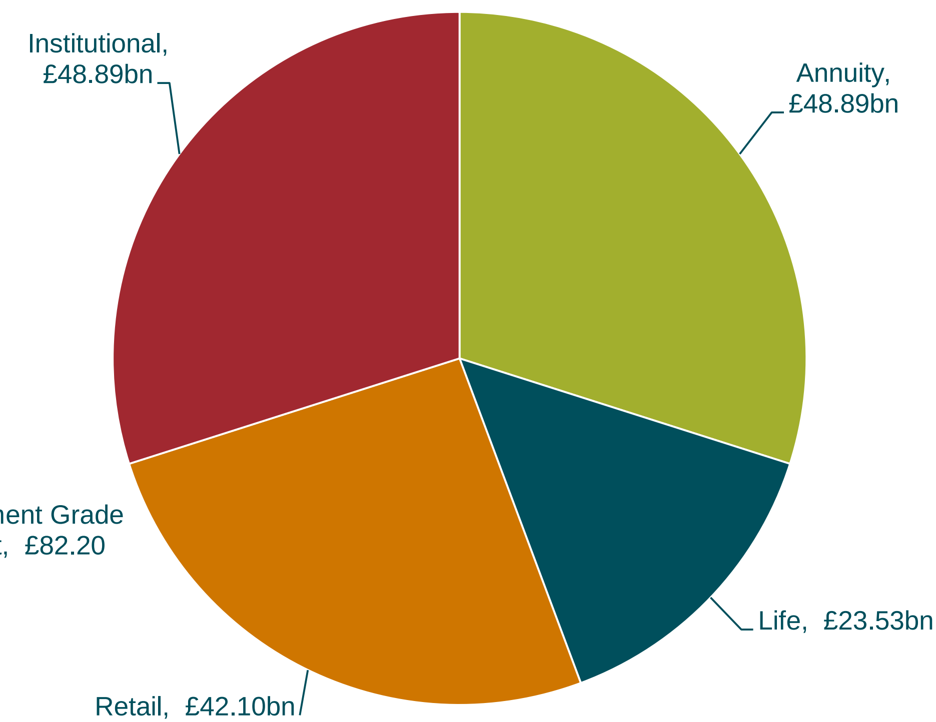
Fixed Income funds under management

Breakdown of Fixed Income assets: £163bn

By asset class



By client type



Source: M&G, 31 December 2014

Fixed Income Investment Resources

185 investment professionals

Simon Pilcher
Chief Executive, Fixed Income

Institutional Clients Fund Management

David Lloyd (36)
Miles Tym (18)
Robert Burrows (11)
Gaurav Chatley (10)
David Fancourt (22)
Claire Bews (14)
Richard Ryan (21)
Jamie Hamilton (19)
Mark Ellis (11)
Clare Daly (8)
Michael Ah-Chung (1)
David Parsons (26)
Jonathan Lahraoui (4)
Anthony Robson (28)

Internal Clients Fund Management

Jeremy Richards (31)
Adam English (23)
Rob Whitten (29)
Chris Shipman (12)
Patrick Schoeb (19)
Morgan Stephens (12)

Retail Clients* Fund Management

Jim Leaviss (22)
Stefan Isaacs (13)
Luke Coha (16)
Ben Lord (12)
Richard Woolnough (29)
Mike Riddell (13)
James Tomlins (12)
Claudia Calich (22)
Gordon Harding (11)
Matthew Russell (11)
Anthony Doyle (11)
James Thompson (11)
Nicolo Carpaneda (11)
Ana Gil (6)
Anjulie Rusius (6)

Fund Directors

Jenny Williams (35)
Andrew Swan (33)
John Atkin (24)
Annabel Gillard (17)
Stefan Cornelissen (18)
Robert Heaney (18)
Billyana Kuncheva (18)
Luuk Veenstra (19)
Marcel De Bruijckere (24)
Christian Haas (15)
Mike Thomas (31)
Georgina Clarke (13)
Maria Stott (16)

ABS Management

James King (19)
Patrick Janssen (16)
Matthew Wardle (8)
Christine Ko (16)
Scott Ellerby (4)

Public Credit Research

Rob Marshall (17)
Edward Felstead (10)
Alex Giles (18)
Mark Robinson (6)
Tolani Benson (5)
Hannah Godwin (4)
Alexander Radon (3)
Elsa Dargent (5)
Jaimin Shah (6)
Anuj Babber (14)
Matthew O'Sullivan (10)
Claire Schoeman (15)
Josephine Meertens (14)
Tim Morris (7)
James O'Prey (11)
Michael Coady (7)
Othman El Iraki (7)
Eoin O'Shaughnessy (7)
Chris Saysell (22)
Simon Duff (17)
Rachita Patel (13)
Orlando Finzi (19)
Vladimir Jovkovich (11)
Stephen Wilson-Smith (23)
Michael Posnansky (13)
Lu Yu (7)
Chris Money (9)
Yin Wu (3)
Dominic Rose (2)
Miriam Hehir (21)
Saul Casadio (7)

Leveraged Finance

John Foy (36)
Fiona Hagdrup (25)
Andrew Boughen (22)
Daniel Gardner (28)
Iain Macdonald (24)
Adam Koller (14)
Catherine Ross (17)
Duncan Sherriffs (16)
Fabian Ansorg (9)
Cameron Low (12)
Catherine Lloyd (8)
Michael George (14)
Yuki Nakagawa (12)
Scarlett De Posson (10)
Nicola Poulloura (9)
Aditi Rao (3)
Alex Gee (1)
Thomas Lane (1)

Project & Infrastructure Finance

John Mayhew (22)
Tim Huband (32)
Ian Bigwood (24)
Andrew McCormick (7)
David Kemp (12)

PPM Managers

Simon Faure (15)
John Euers (16)
Scott Penwell (16)
Vivian Liu (12)
Ajay Patel (8)

Infrastructure Equity

Martin Lennon (21)
Mark Chladek (17)
Ed Clarke (27)
Stephen Nelson (24)
Mathieu Lief (15)
Joanne Horridge (20)
Bernd Schumacher (13)
Milton Fernandes (16)
Kenton Bradbury (19)
Max Helmore (8)
Georgina Dellacha (10)
Alberto Signori (14)
Ameer Hamza Khan (9)
Carolyn Pearce (12)
Ella Simmonds (7)
James Harraway (12)
Mohit Varma (2)

Real Estate Finance

John Barakat (30)
Peter Foldvari (12)
Jamil Farooqi (17)
Dan Riches (15)
Paul Dittmann (25)
Lynn Gilbert (27)
Adam Willis (4)
Lexie Elliott (12)
Michael Dey (8)
Duncan Batty (7)
Andreas Schaefer (3)
Rosa Brand (2)
Ida Yazchidi (1)
Fiona Voon (9)
Michael Lee (1)
Stefano Tomaselli (1)

Alternative Credit Management

Mark Hutchinson (33)
William Nicoll (19)
Mike Nicholson (19)
Gary Parker (19)
Richard Sherry (17)
Joakim Sarnstedt (10)
Stephen Coghill (8)
Jo Waldron (13)
Jon Dawson (8)
James Newbery (1)

Private Placements and Direct Lending

Calum Macphail (21)
James Pearce (14)
Sala Fitt (21)
Dia Savant (17)
Simon Fretwell (23)
Oriane Auzanneau (8)
Luke Staddon (7)
David Sheppard-Burgess (10)

Real Estate Income

Ben Jones (22)
Stephen Chamberlain (28)
Peter Manners-Smith (7)
Lee McDowell (11)
Holly Johnstone (3)
Will Shadbolt (4)
Charlotte Thompson (1)

Social Housing

Mark Davie (38)
Taniya Heyn** (14)

Fixed Income Dealers

David Walker (8)
Howard Lacy (27)
Warren Gethen (23)
Alex Dragut (12)
Chris Clemmow (3)

Fixed Income Restructuring

Paul Taylor (17)
Andrew Amos (13)
Mustafa van Hien (7)
Andy Bishop (7)
Rafael Cerezo (13)
Richard Booth (12)
Nick Karelis (13)
Biliana Sourlekova (2)
Daniela Cociorba (1)

Analysts: average years of industry experience – 13 years

Source: M&G, 31 March 2015. *The Retail Fund Management team has a business reporting line into M&G's Retail division. ( ) = Years of experience. **Currently on maternity leave

M&G Alpha Opportunities Fund

Key Characteristics

- Performance target of **LIBOR + 3-5%** pa gross over the medium term
- Accessing the credit risk premium while **minimising interest rate exposure**
- A flexible and **unconstrained approach** free from the ties of a benchmark
- Access to a **broad range of credit assets**
- An extremely **diversified portfolio to reduce downside exposure & volatility**
- **Quarterly distributions**

Key Characteristics	Alpha Opportunities Fund
Current credit rating	A-
Current yield	2.9%
Derivatives	Low usage
Fund size	£3.3bn
Inception date	26 April 2007
Dealing interval	Monthly (QIAIF)

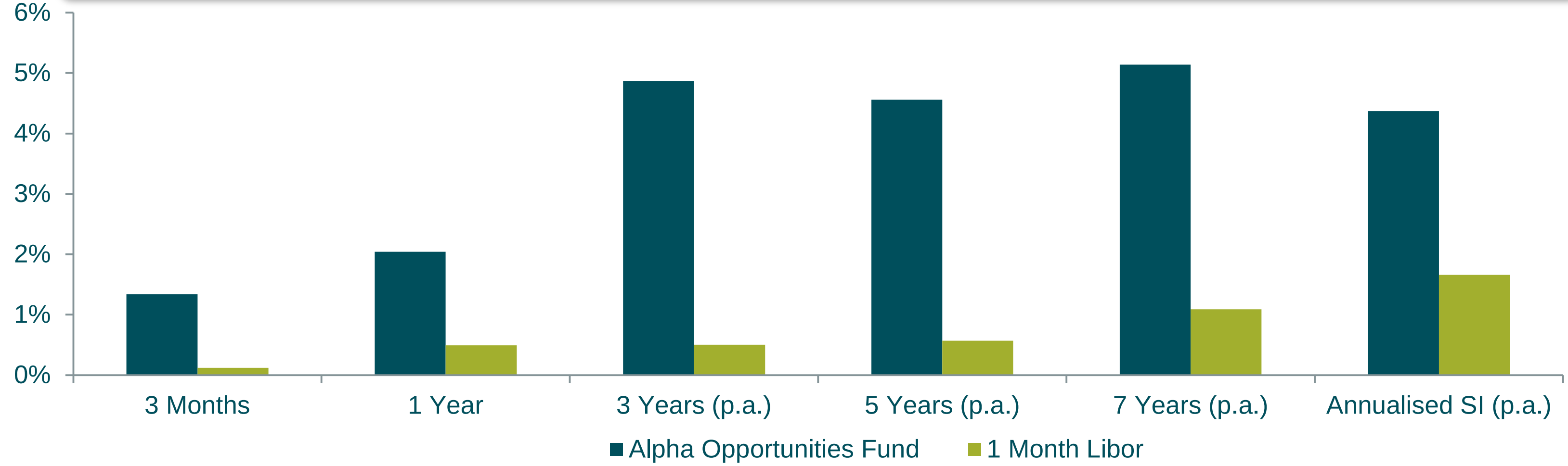
M&G INVESTMENTS

Source: M&G, as at 31 March 2015

M&G Alpha Opportunities Fund

Delivering higher performance with lower volatility

Alpha Opportunities Fund performance (%)



Gross returns to 31 March 2015	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 years (% p.a.)	Since inception (% p.a.)
A Share Class £	1.34	2.04	4.87	4.56	5.14	4.37
1 month Libor	0.12	0.49	0.50	0.57	1.09	1.66
Difference	**+1.22**	**+1.55**	**+4.37**	**+3.99**	**+4.05**	**+2.71**

M&G INVESTMENTS

 Source: M&G, 31 March 2015. Inception 26 April 2007. Past performance is not a guide to future performance.

Your investment in the M&G Alpha Opportunities Fund

- Shetland Islands Council Pension Fund
- Entered the Fund on 1 December 2014:
  - Current Valuation **£ 34,059,136.25**

Gross returns since your initial investment to 31 March 2015	Performance since initial investment
Shetland Islands Council Pension Fund	**1.09%**
Benchmark	**0.16%**
Difference	**+0.93%**

M&G INVESTMENTS

Source: M&G 31 March 2015

M&G Alpha Opportunities Fund

Quarterly attribution

Attribution	Q2 2014 (%)	Q3 2014 (%)	Q4 2014 (%)	Q1 2015 (%)
Corporate bonds	+1.02	-0.62	+0.28	+1.12
Leveraged loans	+0.09	+0.07	+0.19	+0.29
Government Related	+0.02	+0.01	-0.03	-0.01
Active Macro	-0.27	+0.18	-0.51	-0.14
Total	**+0.86**	**-0.37**	**-0.07**	**+1.26**

Attribution based on the absolute performance return of the Euro-denominated A Share Class. Inception 26/04/07.

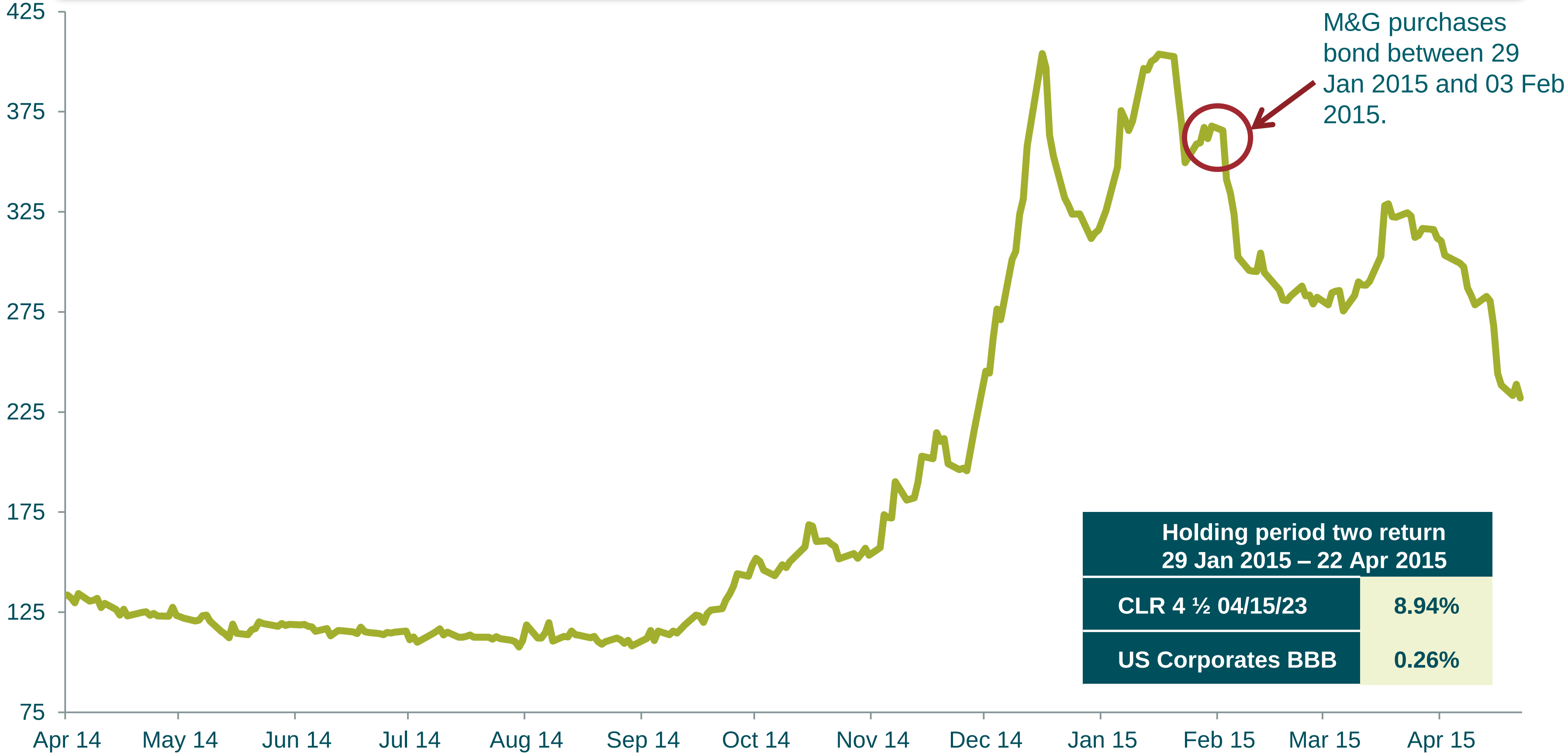
M&G INVESTMENTS

Source: M&G, 31 March 2015. Quarterly figures quoted are based on arithmetic calculations.

Issuer selection example – fundamental value

Where the market price was not reflecting the creditworthiness of the issuer

Continental Resources (bps)



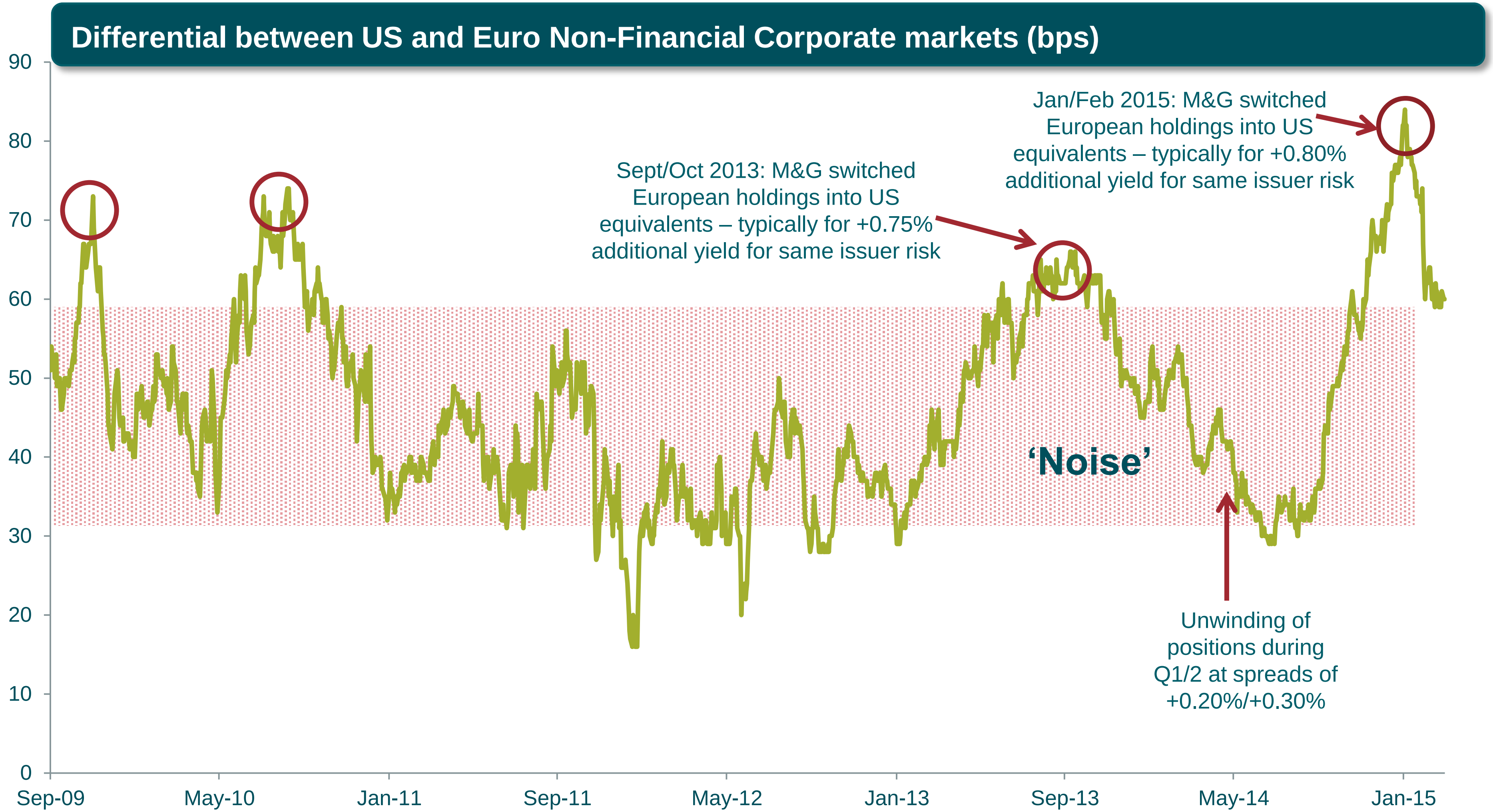
Holding period two return 29 Jan 2015 – 22 Apr 2015	
CLR 4 ½ 04/15/23	8.94%
US Corporates BBB	0.26%

M&G INVESTMENTS

Source: M&G, Bloomberg, CLR 4 ½ 04/15/23, Z Spread as at 22 April 2015. US Corporates BBB Index (C0A4)

Asset Allocation – Cross market opportunities

Stock selections between different markets



Asset allocation opportunities are infrequent

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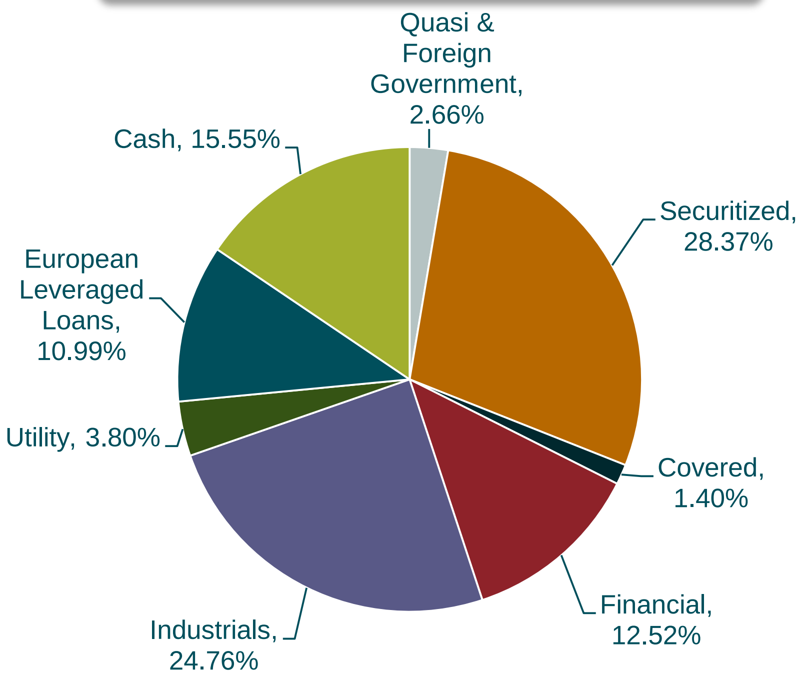
Source: M&G, Bloomberg, BofA Merrill Lynch US 5-7yr Non-Financial Corporates (Ref. CF3X), Euro Non-Financial Corporate Index (Ref. EN00), as at 31 March 2015

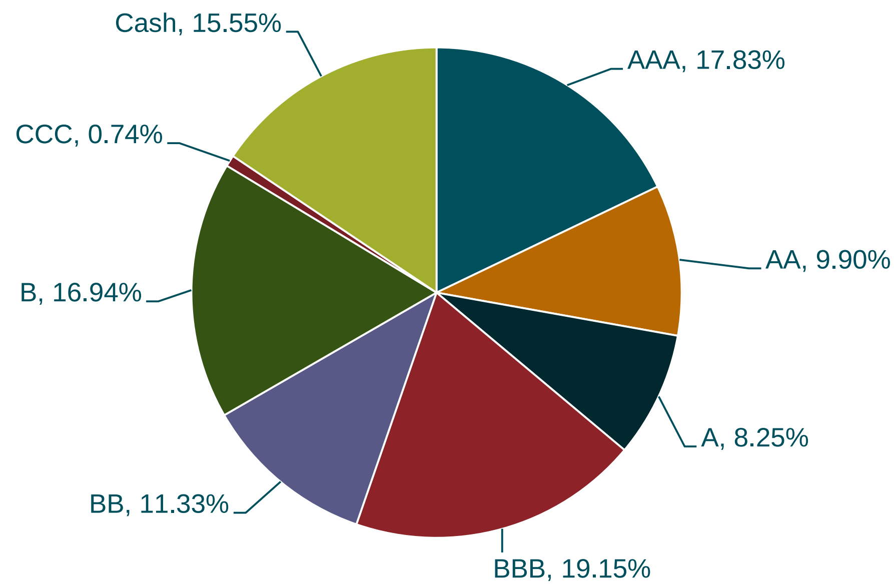
M&G Alpha Opportunities Fund

Current portfolio – 31 March 2015

AOF asset allocation (%)



Rating allocation (%)



M&G Alpha Opportunities Fund	
Size of Fund	£3.3bn
Number of positions	332
Number of issuers	286
Average Credit Rating	A-
Running Yield	2.9%
Duration	-0.65

M&G INVESTMENTS

Source: M&G, 31 March 2015. Ratings based on physical securities, linear average of S&P, Moody's and Fitch, or M&G estimates where unrated.

Multi-Asset Credit strategies

Current themes

- Short dated High Yield – rolling off the portfolio as it matures
  - Naturally reducing exposure to higher risk (lower rated) credit
  - Focus on ‘rising stars’
- Subordinated financial debt and rehabilitating bank bonds remain attractive
  - Selectively exposed to banks with improved/improving balance sheets
- Credit curves are too steep: longer dated bonds look cheap
  - Increasing spread duration
- US Credit attractive relative to UK/Euro Credit
  - Increasing credit exposure into US investment grade

IMPROVING CREDIT QUALITY, INCREASING CREDIT EXPOSURE

M&G INVESTMENTS

Corporate bond market outlook

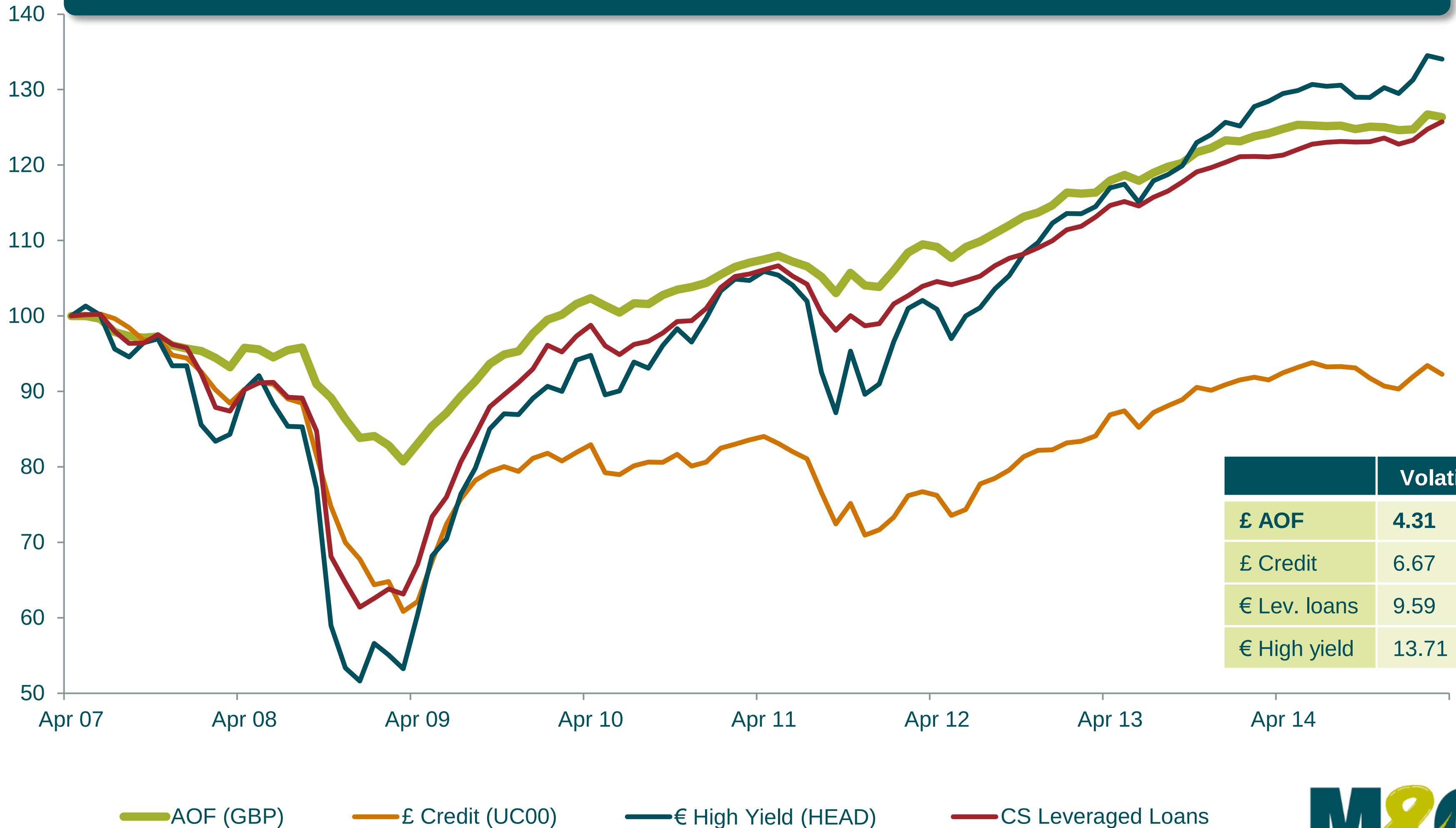
- ECB takes up reins of global monetary easing
- Uncertain reaction of Fed and BoE to stronger economic performance
- Corporate activity rising – little corporate impact… SO FAR
- Focus remains on individual issuers and securities

Source: M&G, as at 30 April 2015

Appendix

M&G Alpha Opportunities Fund

Excess returns to Libor, local currency, normalised (April 2007 =100)



	Volatility*
£ AOF	**4.31**
£ Credit	6.67
€ Lev. loans	9.59
€ High yield	13.71

M&G INVESTMENTS

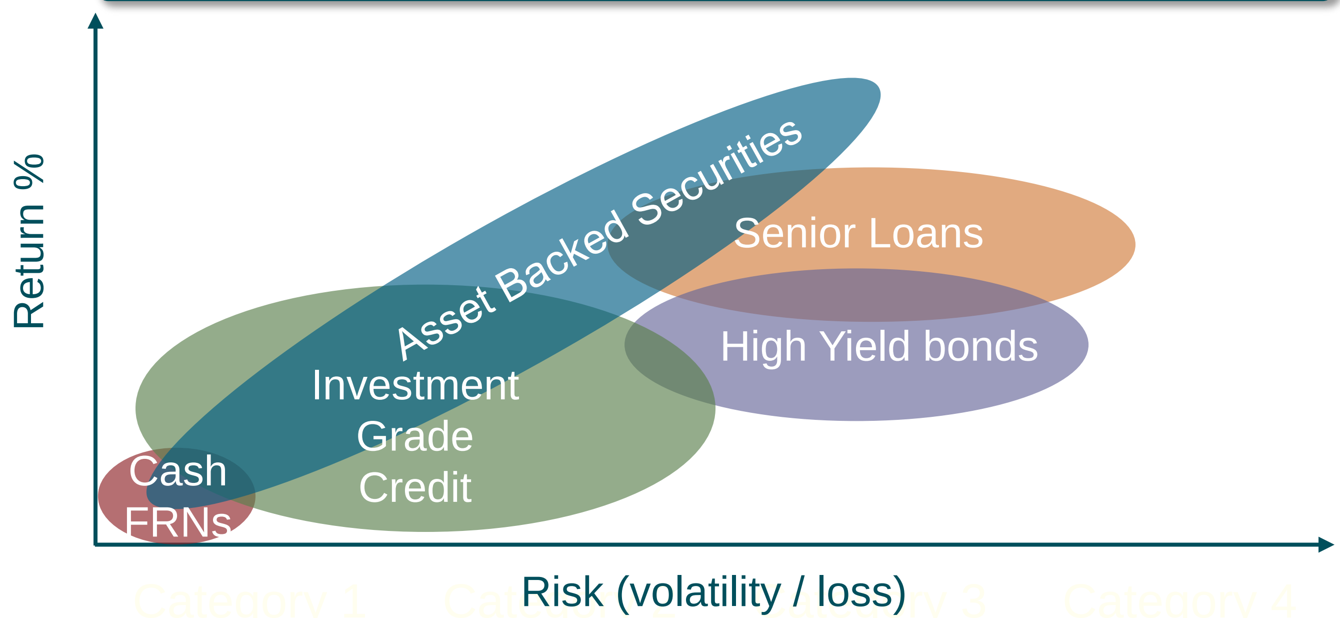
Source: M&G, BofA Merrill Lynch, Credit Suisse as at 31 March 2015. *Standard deviation of excess returns since inception 26 April 2007

Multi-Asset Credit: a broader opportunity set

M&G are market leaders in all of these asset classes & capital structures

- Investment Grade corporate bonds
- Asset Backed Securities (ABS)
- Senior Loans
- Mortgage Backed Securities
- High Yield bonds
- Cash, Floating Rate Notes

Risk versus Return of credit assets



Source: M&G illustrative

M&G Alpha Opportunities Fund

Portfolio guidelines

	Alpha Opportunities Fund
Interest rate risk	+3/-3 years
Currency risk	Gross deviation 25%
Credit risk	Max 50% sub-investment grade Max 40% exposure in aggregate to leveraged loans, property-related debt assets (excluding senior ranking debt assets) and infrastructure-related debt assets (excluding senior ranking debt assets). Single issuer exposure AAA to AA: 5% A+ to BBB: 3% Below BBB: 2%
Asset Backed Securities	Permitted
Private debt	Permitted
Derivatives	Permitted (hedging and efficient portfolio management purposes)

M&G INVESTMENTS

Source: M&G, as at 31 March 2015

Biography

Mike Thomas

Director of Fixed Income

Mike joined M&G Investments in 2009, as a Director of Fixed Income. His primary focus is on managing and servicing our Institutional Fixed Income client relationships.

Prior to joining M&G, Mike was a Client Services Executive with Western Asset Management Ltd where he was responsible for looking after a number of the firms' fixed income corporate pension fund client relationships.

Mike's background is in fixed income whereby he spent over 20 years as a bond salesman, latterly with UBS, before moving over to the investment management side of the business with Western Asset Management.

M&G INVESTMENTS

Biography

Mark Ellis
Fund Manager

Mark joined M&G Investments in 2007 and works as a Fund Manager in the Institutional Portfolio Management team.

Prior to this he worked in Fixed Income for RAB Capital, Cambridge Place Investment Management and Deutsche Bank. Mark graduated from the University of Auckland, New Zealand with a Bachelor of Commerce and Bachelor of Property. Mark is both a CFA charterholder and a chartered management accountant.

M&G INVESTMENTS

GIPS compliant presentation

Composite: **Total Return Composite GBP**
Benchmark: UK Interbank 1 Month Rate (LIBOR)
Base Currency: Pound Sterling
Gross Returns as at: 31 March 2015

Year	Composite Return	Benchmark Return	Number of Portfolios (*throughout period)	Dispersion	Market Value at end of Period	Percentage of Firm Assets	Total Firm GIPS Assets	3yr std dev: Composite	3 yr std dev: Benchmark
2015(Mar)	1.35%	0.12%	5 (3)	0.02%	3,521,791,715	-	-	2.03%	0.02%
2014	1.47%	0.49%	5 (3)	N/A	2,796,997,854	-	-	2.31%	0.03%
2013	7.21%	0.49%	3 (1)	N/A	1,410,962,205	1.33%	105,851,354,323	3.25%	0.03%
2012	9.98%	0.62%	1 (1)	N/A	684,092,320	0.62%	110,541,000,000	3.41%	0.02%
2011	0.21%	0.65%	1 (1)	N/A	243,840,109	0.25%	96,686,648,571	4.45%	0.08%
2010	6.79%	0.56%	1 (1)	N/A	246,773,685	0.29%	84,470,441,044	5.67%	0.65%
2009	15.76%	0.83%	1 (1)	N/A	204,719,149	0.27%	76,139,730,626		
2008	-6.35%	5.35%	1 (1)	N/A	159,682,011	0.26%	61,663,616,805		
2007 (May)	-0.13%	4.22%	1 (1)	N/A	49,246,364	0.08%	61,812,085,471		

A complete listing and description of all composites is available on request.
M&G Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. M&G Investments has been independently verified for the periods 1 January 2000 to 31 December 2012. 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.
Additional information regarding policies for valuing funds and for calculating and reporting returns is available upon request.
Gross performance figures are presented gross of management fees, custodial fees, and withholding taxes but net of all trading expenses and irrecoverable taxes.
Dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. If the composite contains less than 5 portfolios for the full year, a measure of dispersion is not shown.
The three-year annualized ex-post standard deviation of both the composite and the benchmark is calculated using monthly returns. If the composite and benchmark contains less than 36 months performance history, standard deviation will not be shown.
Net performance figures are presented net of management fees, custodial fees, withholding taxes and net of all trading expenses and irrecoverable taxes.
The management fee applicable to this composite is 0.50% p.a.
The creation date for this composite is 27th July 2011.
The inception date of this composite is 30th April 2007.

The benchmark of this composite is the sterling 1 Month LIBOR.

This composite contains all portfolios aiming to seek to maximise total return, consistent with prudent investment management.

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The waste is totally inert, non toxic and does not give off any harmful substances if burnt.
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A PRUDENTIAL Company

M&G INVESTMENTS

Presentation to:

Shetland Islands Council Pension Fund

James Mitchell, ASIP, Investment relationship manager
Rob Forder, Client service executive

20 May 2015

Agenda

A reminder

- Your valuation and team
- Our investment approach

Review

- Market
- Performance and attribution

Current thinking

- Global outlook
- Portfolio positioning

Appendix

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Shetland Islands Council Pension Fund
Your Real Return mandate and team

Strategy: Newton Real Return Fund X Shares (Accumulation)

Inception date: 5 December 2014

Initial funding value: £68m

Current value: £70.6m as at 31 April 2015

Performance since inception to 31 March 2015: Fund +3.4% versus Target +1.4%

Your client service team:

James Mitchell
Investment relationship manager
Tel: 020 7163 2009

Rob Forder
Client service executive
Tel: 020 7163 2787

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Newton Real Return Strategy

Absolute return strategy following a benchmark unconstrained multi-asset approach

Newton Real Return Fund

One-month LIBOR +4% p.a. is the nominal long-term objective (gross of fees)

Seeking to deliver a real return with a volatility level between that of bonds and equities, through:

1) Security selection

2) Asset type flexibility

3) An emphasis on capital preservation

Simple, transparent approach

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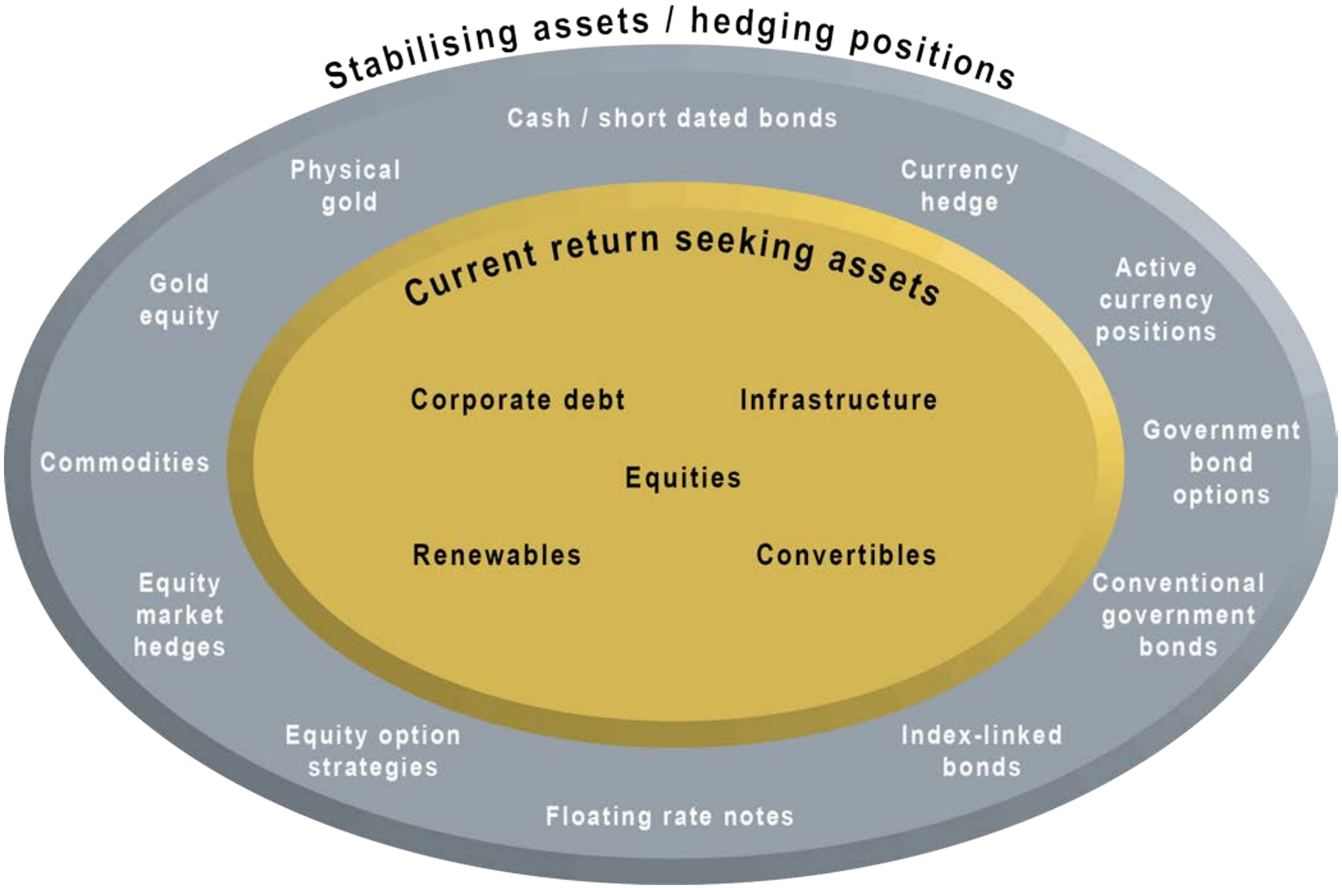
R0090

Building a multi-asset portfolio with asymmetry of return
Conceptual representation



- Emphasis on traditional asset classes
- A return seeking core with particular security characteristics
- Risk offsetting positions aiming to dampen volatility and preserve capital
- Portfolio combines the characteristics of both securities **and** asset classes

Source: Newton

A simple structure balancing participation with capital preservation

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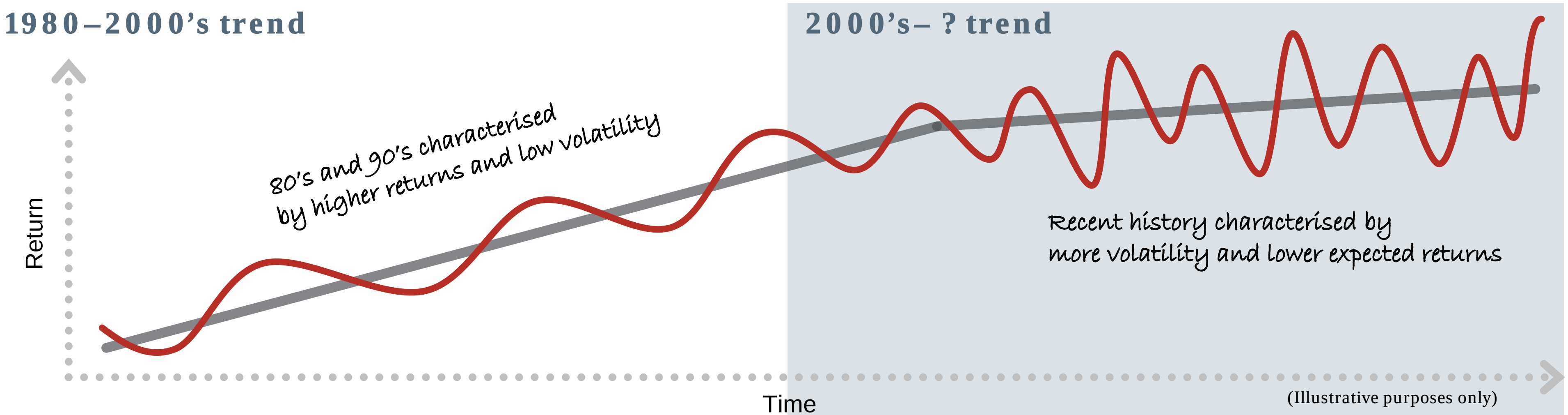
A perspective on investment returns



(Illustrative purposes only)

End 1981	United States	Q1 2015[1]
12%	Fed funds rate	*0.25%*
14%	10-year bond yield	*1.9%*
$149 billion	Monetary base	*$4.0 trillion*
10.7%	Profit margins (national accounts)[2]	*17.5%[4]*
7.8x	S&P cycle adjusted PE[3]	*27.1x*
5.8%	MSCI USA dividend yield	*2.0%*
27	Average age of baby boomer	*59*

[1] March 2015
[2] Calculated by the Bureau of Economic Analysis in the US in calculating the national accounts
[3] Used 10 years of earnings to remove the effect of the economic cycle from the PE calculation
[4] Data as at end Q4 2014
Source: Datastream, Bloomberg, US Census Bureau, Newton

Characteristics for a lower return/ volatile world

- Active, flexible approaches
- Emphasis on income
- Strategies that preserve capital and aim for asymmetry of return
- 'Return based' objectives

Relevant solutions need to reflect a changed environment

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Heading toward normalisation ...

QE has worked in the US, foreign QE should do the same

Interest rates to normalise as cycle begins

buy risk, sell bonds

Goldilocks is back ...

... until inflation becomes a problem

Source: Newton, Shutterstock , 31 January 2015.

The consensus narrative ...

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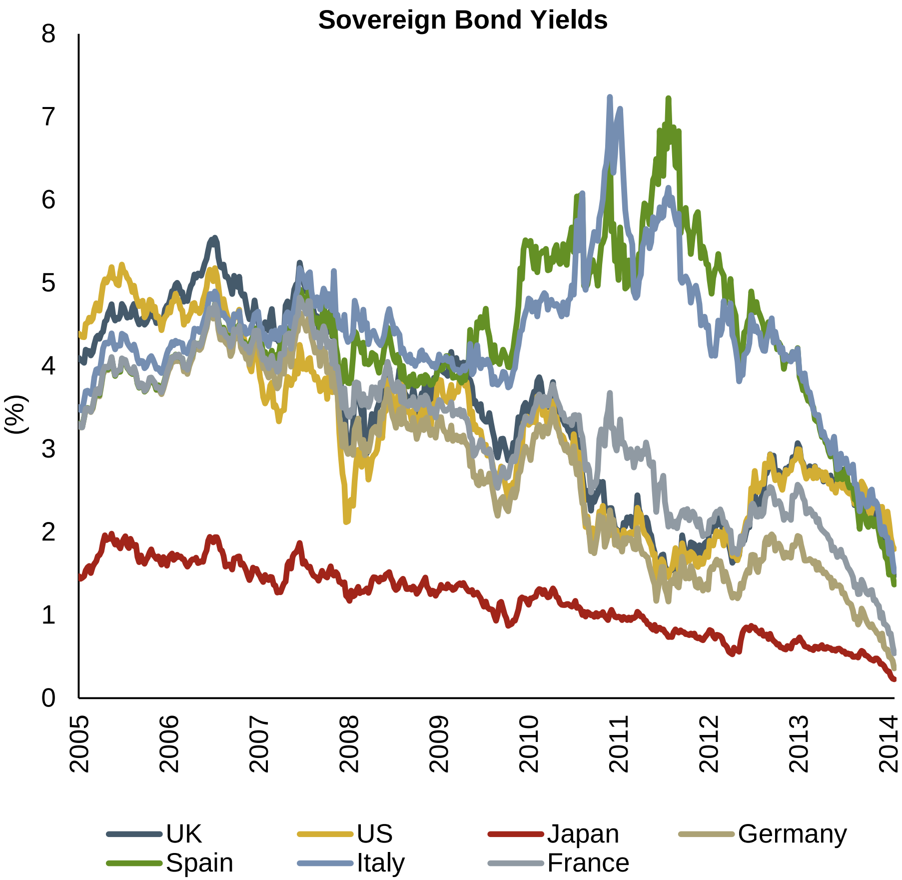
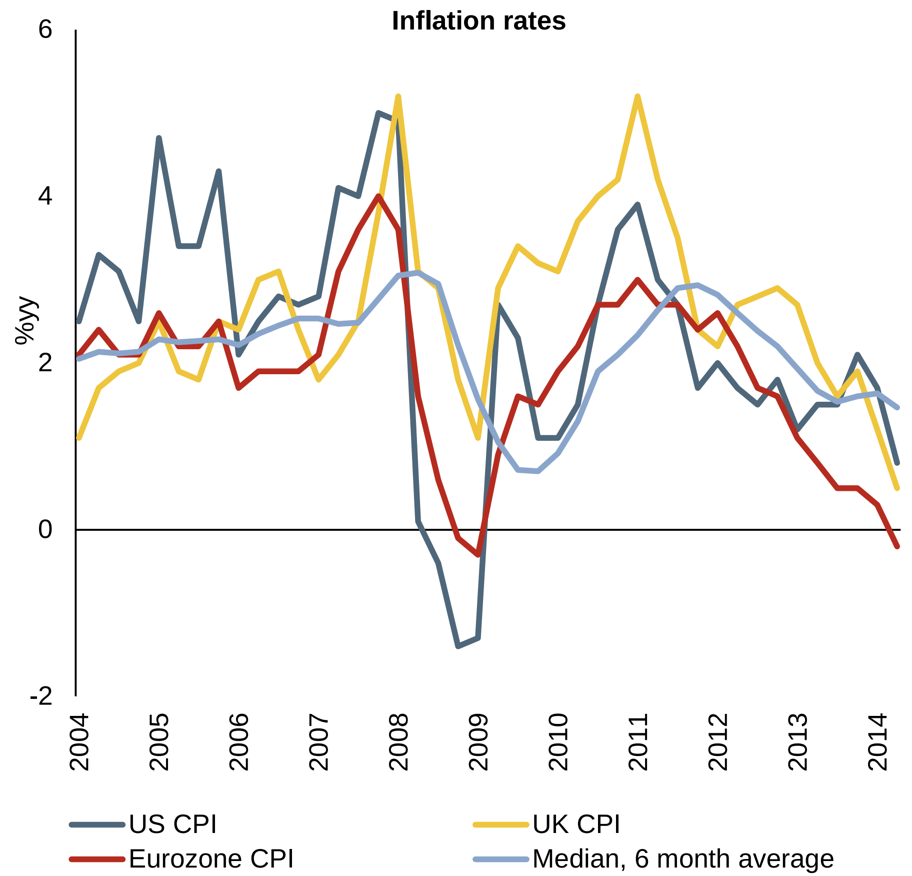
What is actually happening?



Source: Datastream, IMF, Newton, January 2015. For illustrative purposes only.



Source: Bloomberg, December 2014. For illustrative purposes only.

Inflation has been falling …

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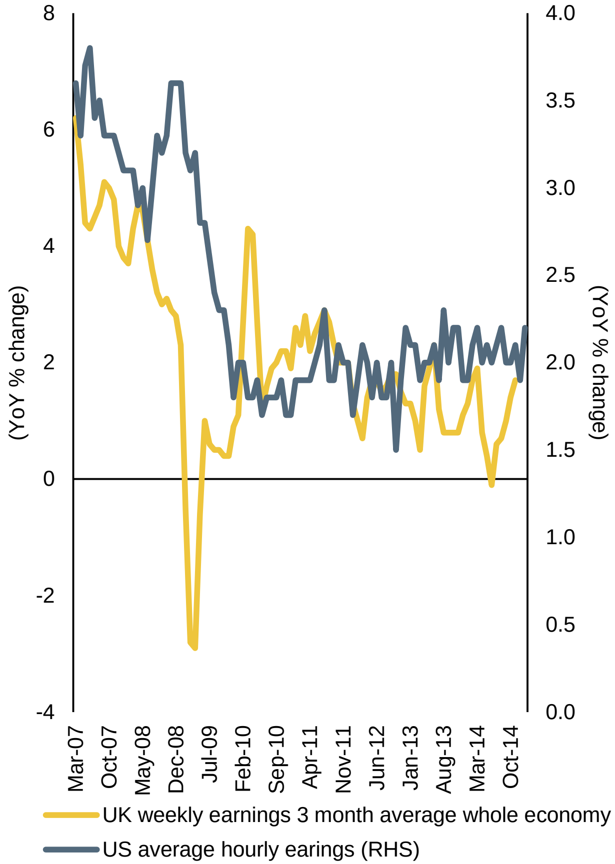
What is actually happening?

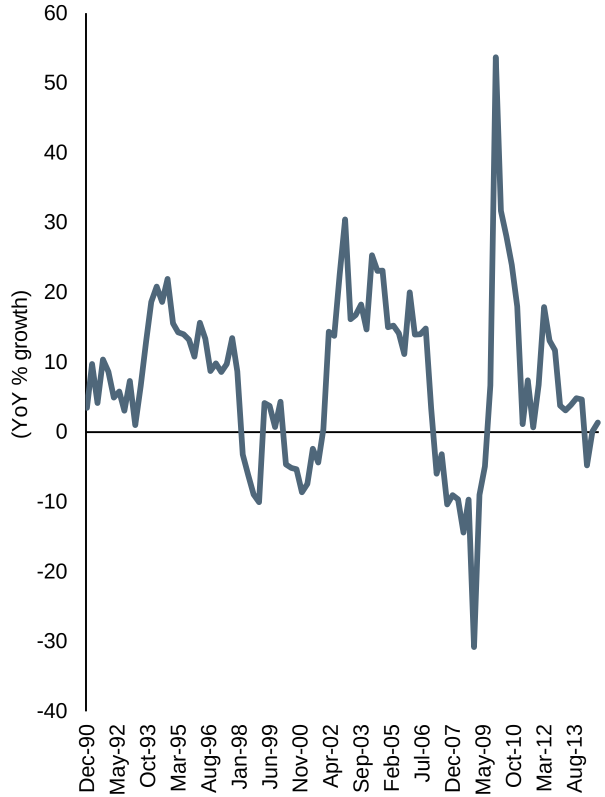
Incomes

US and UK wages



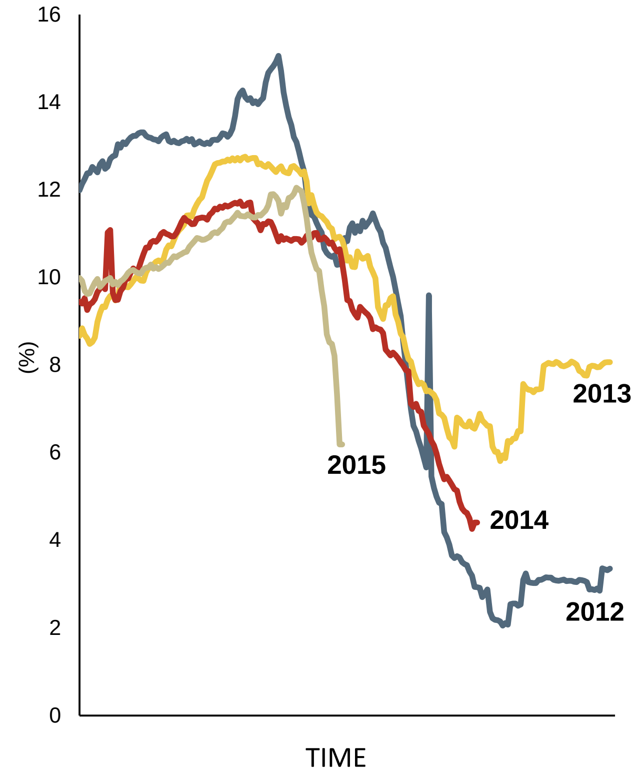
Corporate profits

US corporate profit growth



Expectations

MSCI ACWI earnings forecast trends



Source: BAML, Bloomberg, Newton 31 January 2015. All graphs are for illustrative purposes only.

... growth and profits expectations weak

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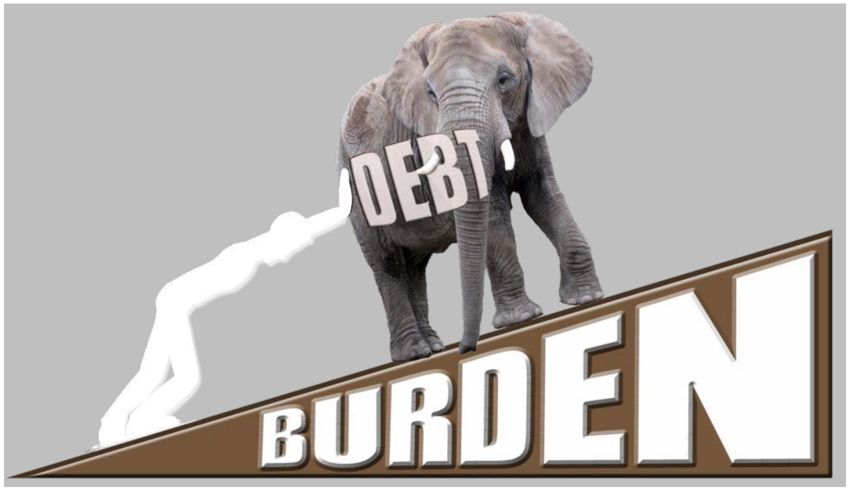
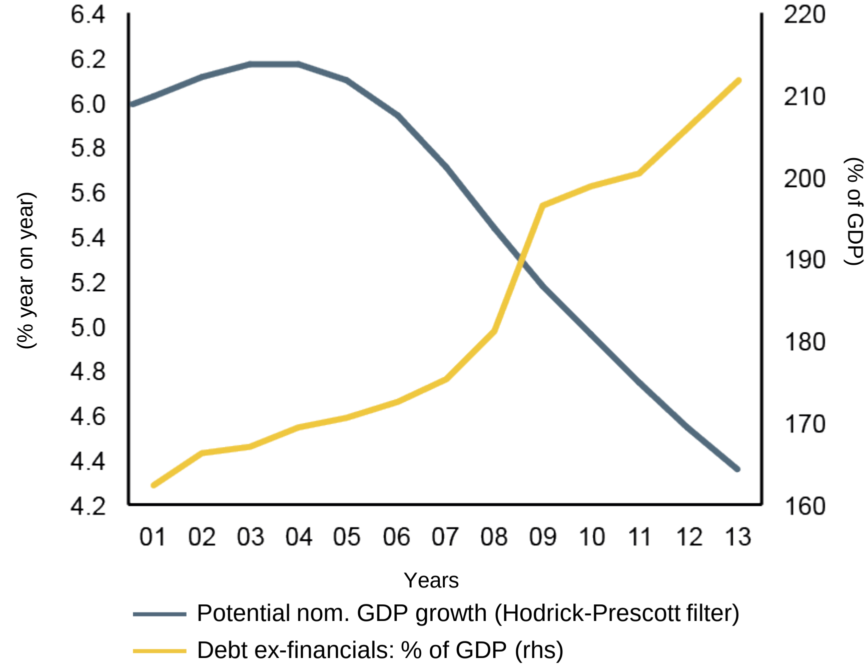
Elephant in the room remains the same



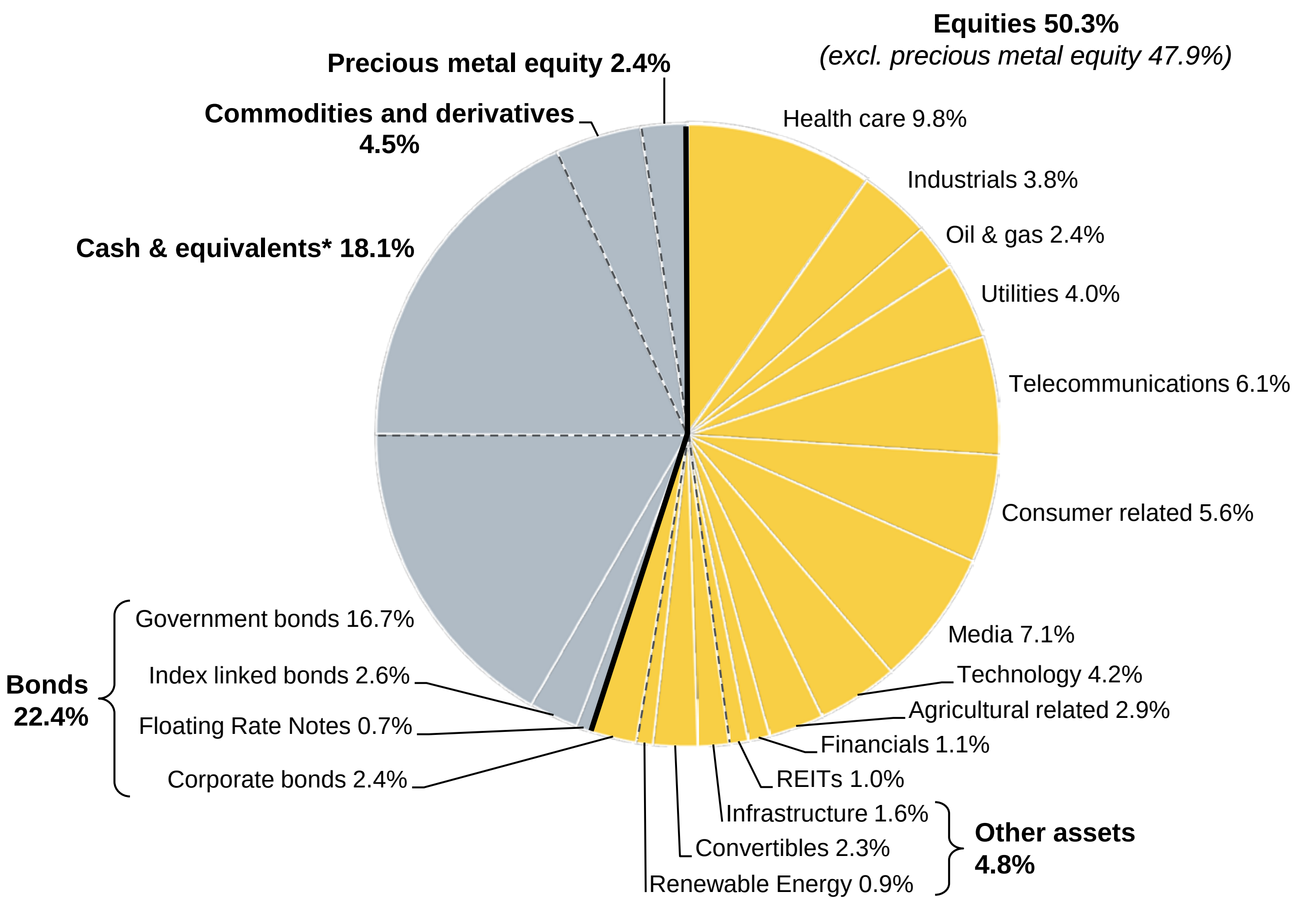
Source: Elephant image ©: Richard Peterson, Shutterstock.com

World



Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested.
Source: Geneva Reports on World Economy "Deleveraging? What Deleveraging?" Authors' calculations based on IMF and Haver data. September 2014.

Newton Real Return Fund (£)
Positioning at 31 March 2015



Return enhancing assets

Equities

- High yielding global equities
- Positions in unloved sectors (healthcare, telecoms) and emerging world growth
- Sustainable franchises and high cash flow generation (media, IT infrastructure and consulting)

Corporate debt

- Limited selective exposure

Risk offsetting positions

Derivatives

- Equity index protection
  providing capital preservation if equity markets sell-off (18% delta adjusted derivative exposure)

Currency

- Significant exposure to overseas currencies
  (19%)

Commodities

- Inflation hedge – precious metals via physical gold ETC and precious metal related securities
  hedge against any inflation from the scale of loose policy and QE

* Cash, cash equivalents and currency hedges
Source: Newton, 31 March 2015

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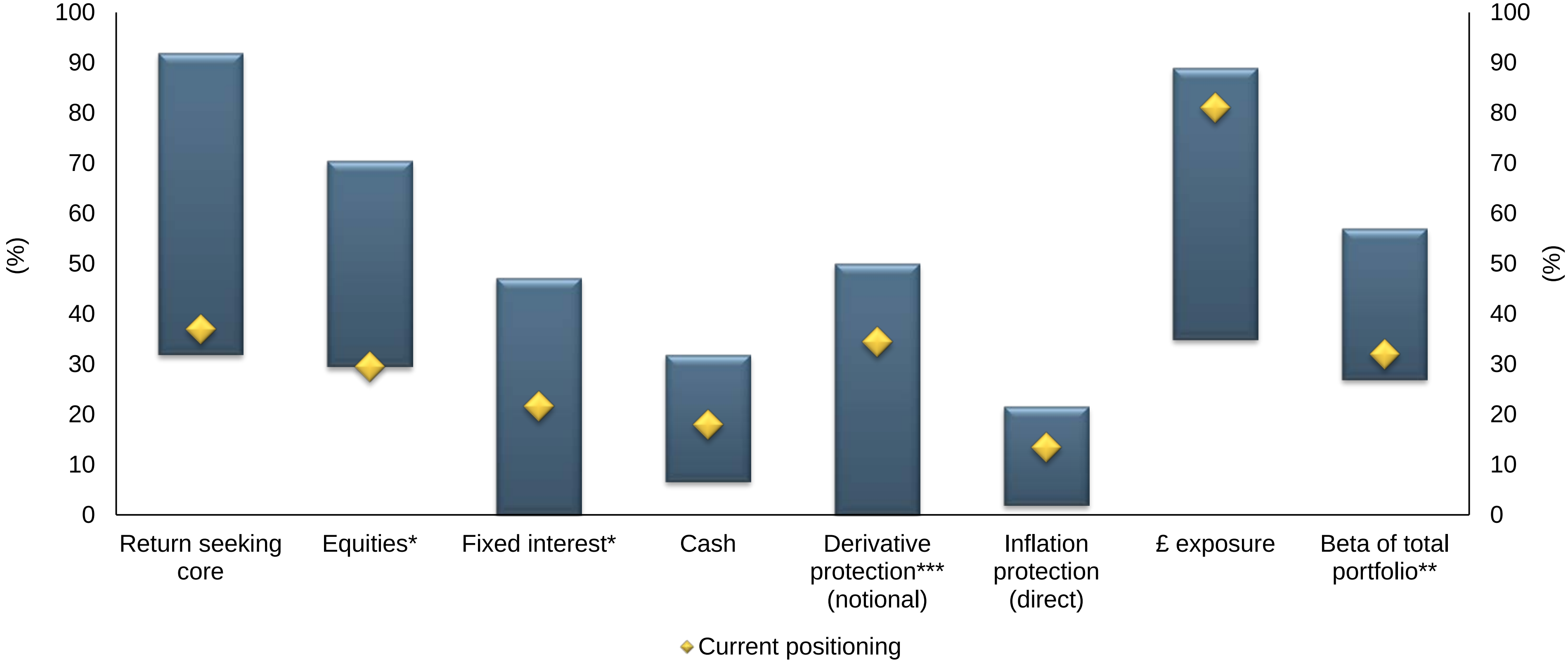
Newton Real Return Fund (£)
Dynamic positioning

Evolution of fund positioning (£RR) since launch showing historical min/max and current exposure



* Net positions, factoring in derivative exposure on a delta adjusted basis
** Factor multiplied x 100, rolling 3 years
*** Excluding currency forwards
Source: Newton, 31 March 2015, using data going back to launch in April 2004

A flexible, committed approach

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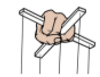
Newton Real Return Strategy
How we see the outlook

View		Evidence/implications
• **Important structural trends* and too much debt** challenge growth in the global economy	→	• Growth expectations continue to fall • Emergency interest rates still prevail • Scale and scope and unsustainability of indebtedness
• Unorthodox monetary policy has been much **more effective at raising financial assets than stimulating sustainable economic growth**	→	• Little evidence of sustained wealth effects on growth • QE borrows demand from the future and overseas • Appears to exacerbate deflationary trends
• Ultra-loose monetary policy is **not** costless. • **The economic and financial market distortions created by such policies present clear risks for investors…** • **..and at the same time lower expected return**	→	• Increasing income disparities, misallocation of capital, skewed incentives, ‘currency wars’. • Policy settings encourage governments to “extend and pretend” • Financial markets increasingly drive economies (*financialisation),* hunt for yield, serial bubbles
• **Unattractive risk reward trade off** for most financial assets • We continue to believe that this environment merits a **cautious approach**	→	• Further state interventions and underlying capital market illiquidity create potential for significant volatility (risk) …



State intervention

Fire risks

*See Newton themes on debt demography, technological change, energy costs and globalisation

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Appendix

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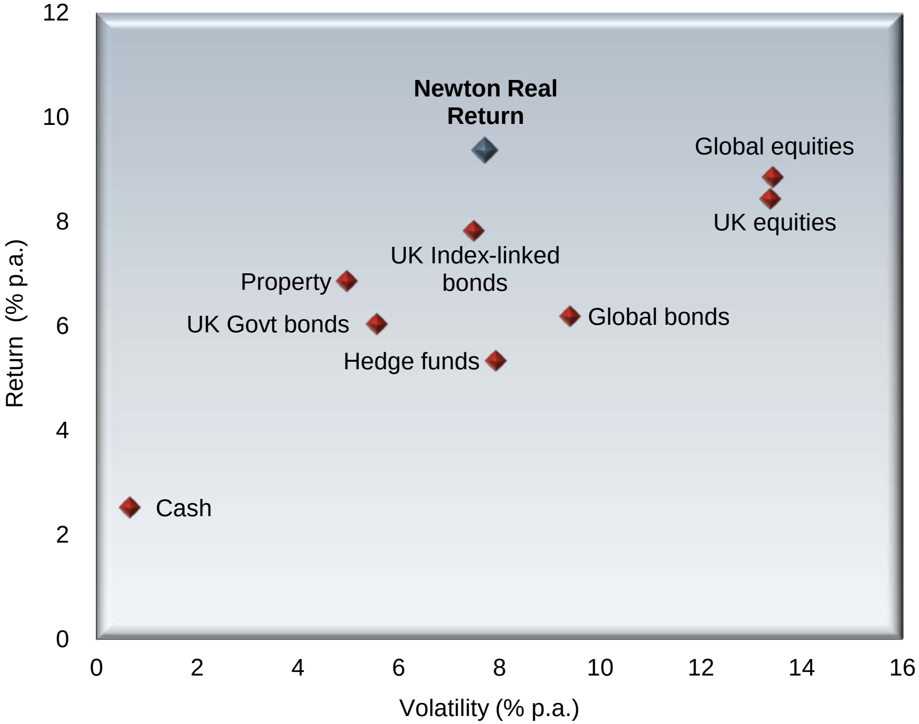
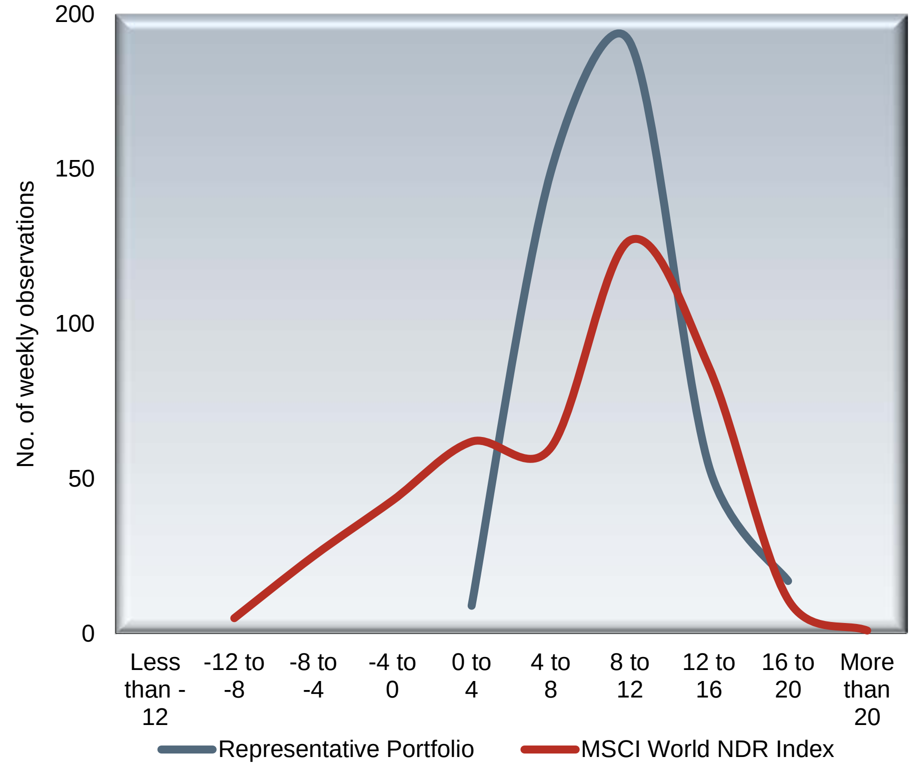
Our absolute return credentials
Newton Real Return Fund

Risk versus return since inception
1 April 2004 to 31 March 2015



Rolling 3 year returns (% p.a.)



Past performance is not a guide to future performance
Asset class statistics relate to the following measures: FTSE All Share, MSCI World, FTSE Brit. Gov't Fixed All Stocks, FTSE Brit. Gov't Index IL All Mats, JPM Global Gov't Bond, HFRI Fund of Funds (net), IPD All Properties, LIBOR 1 Month
Source: Newton, monthly data, total return in sterling, gross of fees and income reinvested

Please remember that the value of shares and the income from them can fall as well as rise and investors may not get back the full amount originally invested
Source: Lipper, gross of fees, midday prices based upon weekly returns in sterling. Rolling 3 year annualised returns on a weekly basis. Periods to 31 March 2015

A positive return in every calendar year

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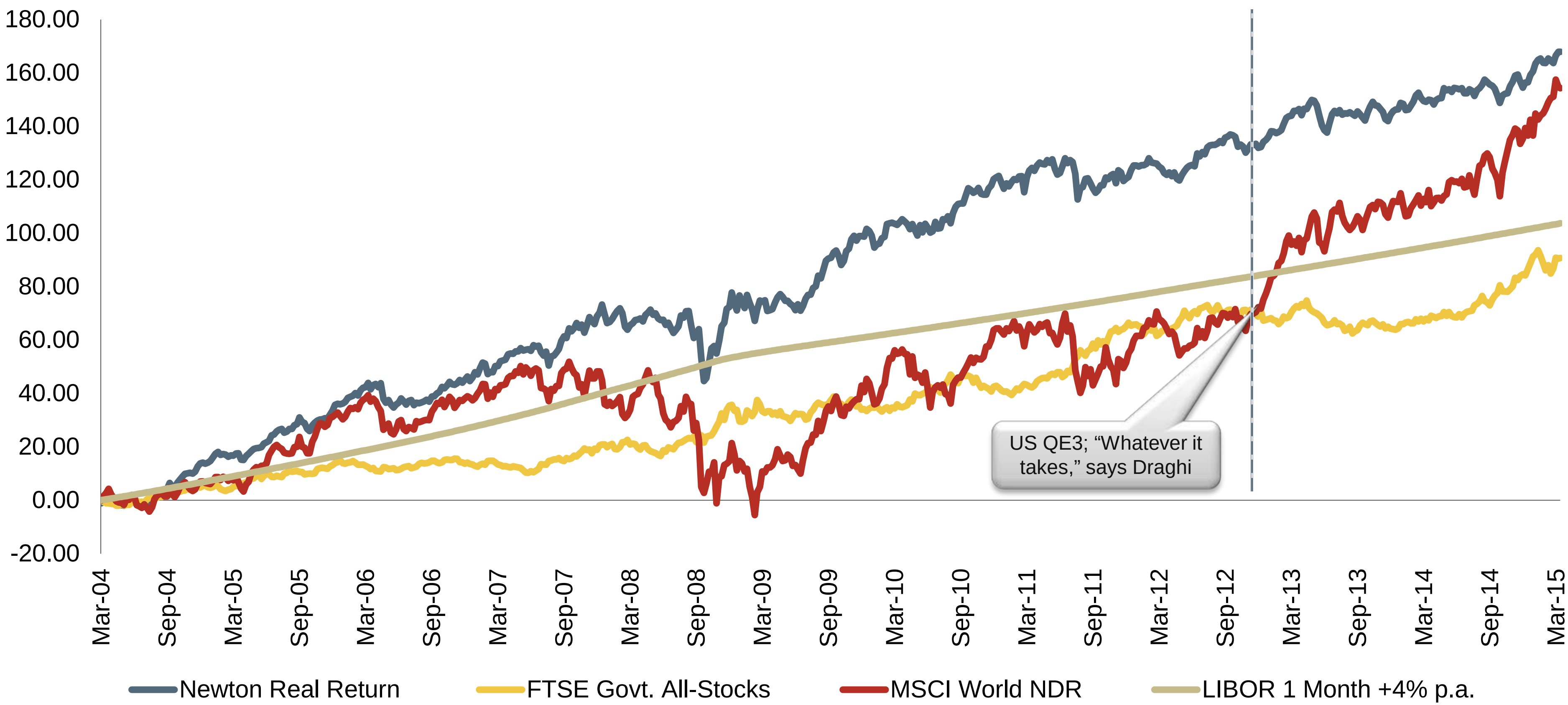
Newton Real Return Fund (£)
Performance since inception† to 31 March 2015

Investment results



Figures are based on sterling returns. Past performance is not a guide to future performance
Please remember that the value of shares and the income from them can fall as well as rise and investors may not get back the full amount originally invested
Source: Lipper, weekly data, total return, gross of management fees, gross income reinvested. † Restyle date April 1, 2004

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Market return highlights to 31 March 2015

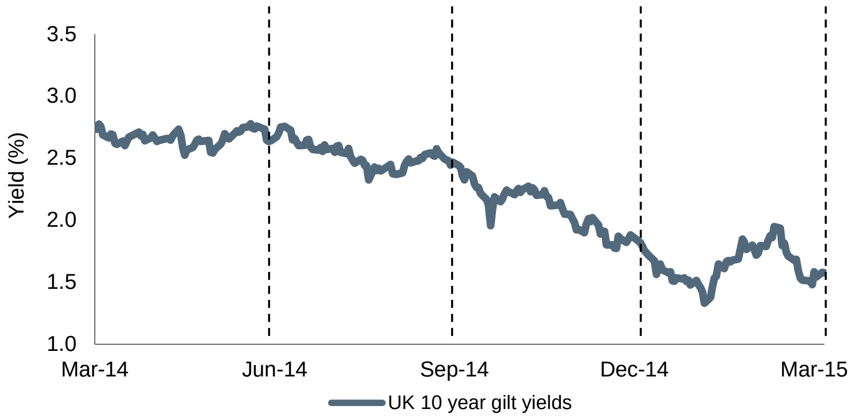
Fixed income

Fixed Income	3 mths (%)	12 mths (%)
FTSE Index Linked	2.9	18.6
FTSE Gilts	2.2	13.9
JP Morgan Global Govt	3.2	8.1
BofA ML >10Yr Inv. Grade	4.7	19.7
BofA ML Corp All Stocks	3.3	13.3
ML High Yield Constrained	5.4	9.5

Equities

	3 mths (%)	12 mths (%)
Total Return		
MSCI World ex US	9.2	11.3
MSCI United Kingdom	4.0	6.2
S&P 500	6.0	26.6
MSCI Europe ex UK	11.0	7.8
MSCI Germany	13.8	10.1
MSCI Greece	-25.8	-59.6
MSCI Japan	15.9	26.2
MSCI Asia Pac. Ex. Japan	9.7	19.7
MSCI All Emerging	7.4	13.2
MSCI China	13.6	39.6
MSCI India	10.7	35.6
MSCI Russia	25.5	-23.6

MSCI World	**7.5**	**19.1**
Best sectors		
Health care	13.9	36.5
Information technology	7.1	31.0
Consumer discretionary	11.3	26.9
Consumer staples	7.6	23.4
Financials	6.0	16.5
Worst sectors		
Industrials	7.4	16.0
Utilities	-0.2	14.2
Telecommunication services	7.0	14.2
Materials	7.2	7.2
Energy	1.0	-5.7



Other assets	3 mths (%)	12 mths (%)
LIBOR 1 Month	0.1	0.5
HFRI Index	7.7	18.3
IPD Property Index	1.7	16.8
LBMA Gold bullion	3.7	2.6
Brent Crude	2.6	-42.9
S&P GSCI	-3.6	-33.0
ML Commodity – Silver	11.5	-6.8
ML Commodity – Wheat	-9.6	-22.9
ML Commodity – Sugar	-15.4	-37.3

Currency returns	3 mths (%)	
EUR to UK £	7.3	£ UP
US$ to UK £	-4.8	£ DOWN
CHF to UK £	-6.9	£ DOWN
Yen to UK £	-4.8	£ DOWN
AUS$ to UK £	2.0	£ UP
	12 mths (%)	
EUR to UK £	14.3	£ UP
US$ to UK £	-11.0	£ DOWN
CHF to UK £	-2.1	£ DOWN
Yen to UK £	3.7	£ UP
AUS$ to UK £	8.0	£ UP

Inflation indicators YoY %	As at 31/03/15	As at 31/03/14
UK RPI	1.3	2.5
UK CPI	0.1	1.6
US Core CPI	-0.0	1.5
Euroland CPI	-0.1	0.5

Source: Newton, Datastream, Sterling as at 31 March 2015

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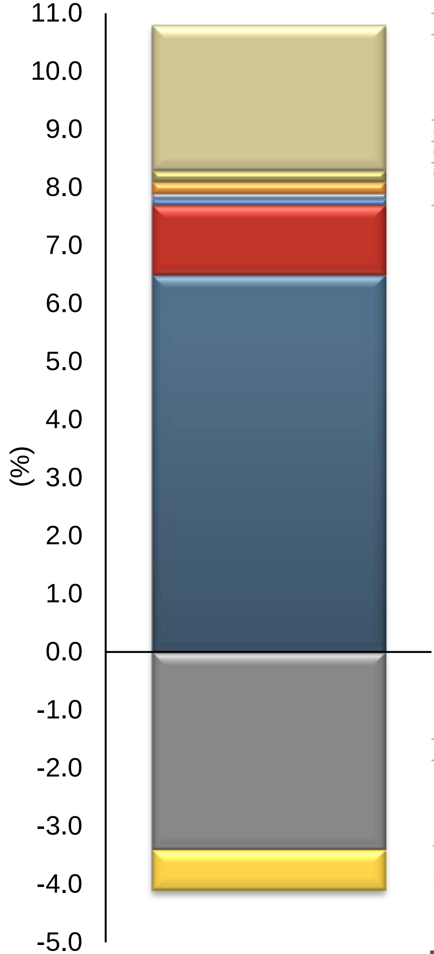
Newton Real Return Fund
Contribution for 12 months to 31 March 2015



Asset class	Fund end weight (%)	Contribution (%)	Contributors	Fund end weight (%)	Contribution (%)
Government bonds (conventional)	16.7	2.5	US, Australian and New Zealand sovereign issues		
Index linked (corporate and government)	2.6	0.2	Government and UK index linked corporate bonds		
Renewable energy	0.9	0.0			
Infrastructure	1.6	0.2	HICL Infrastructure Co Ltd	0.51	0.09
			John Laing Infrastructure Fund	0.50	0.06
			Intl Public Partnership Ltd	0.33	0.03
			BBGI SICAV SA	0.27	0.03
Convertible bonds	2.3	0.1			
Corporate bonds	2.4	0.1	Small allocation to corporate debt, predominantly through Sprint Corp		
Cash, cash equivalents and currency hedges	18.1	1.2	Currency forward contracts into Sterling Positives: EUR/GBP, AUD/GBP, JPY/GBP and SEK/GBP Negatives: USD/GBP & CHF/GBP		
Equities	47.9	6.5	**Consumer services**		
			– Wolters Kluwer	2.44	0.67
			– Reed Elsevier	1.36	0.40
			– Sysco	1.25	0.33
			– Naspers	0.50	0.28
			–**Health care**		
			– Novartis	2.01	0.79
			– Abbott Laboratories	1.09	0.39
			– Merck & Co	1.10	0.27
			– Sanofi	1.74	0.17
			Industrials		
			– Accenture	1.99	0.66
			– BAE Systems	0.86	0.28
			– CRH	0.35	0.20
			Consumer goods		
			– Reynolds American	1.18	0.57
			– Japan Tobacco	1.98	0.26
			Telecommunications		
			– Spark New Zealand	0.86	0.23
			– Vodafone	0.95	0.15
			– Millicom Intl Cellular	0.00	-0.45
			– Sprint	0.79	-0.57
			Oil & gas		
			– Royal Dutch Shell	1.31	-0.10
			– Total	1.09	-0.20
Floating rate notes	0.7	0.0	NB Global Floating Rate Inc Fd		
Derivatives	-0.1	-3.4	FTSE 100 Index		
			Euro Stoxx Index		
			S&P 500 Index		
			Japanese yen call options & US bond futures		
Precious metals (physical and equity exposure to gold and silver)	7.0	-0.7	Newcrest Mining	0.63	0.17
			ETFS Physical Gold	2.65	0.10
			Source Physical Markets	1.95	0.07
			Barrick Gold Corp	0.52	-0.30
			Yamana Gold	0.23	-0.68

Source: Newton/Pace as at 31 March 2015, COB prices, gross of fees

Different investments take the strain in different environments

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Newton Real Return Fund (£)

12 months to March 2015

- Performance broadly in line with our view and defensive positioning

Positive | **Negative**

Return seeking core

Positive

- ✓ Good equity contribution; healthcare, consumer sectors
- ✓ Deliberate decision to hedge overseas euro and yen assets back to base should be added to the equity return contribution
- ✓ High yield corporate bonds added value, timely reduction
- ✓ Meaningful contribution from alternative assets (infrastructure, convertibles, renewable energy)

Negative

- ✗ Stock specific: Sprint, GlaxoSmithKline
- ✗ Overly cautious positioning in line with overview
- ✗ Oil price decline impacted holdings Total, Royal Dutch Shell and Centrica

Risk absorbing layer

Positive

- ✓ Government bonds and long duration assets
- ✓ Index linked government and corporate bonds

Negative

- ✗ Cost of equity derivative insurance was 340bps, as equity indices continued to make gains
- ✗ Exposure to gold miners

The opinions expressed in this document are those of Newton and should not be construed as investment advice.

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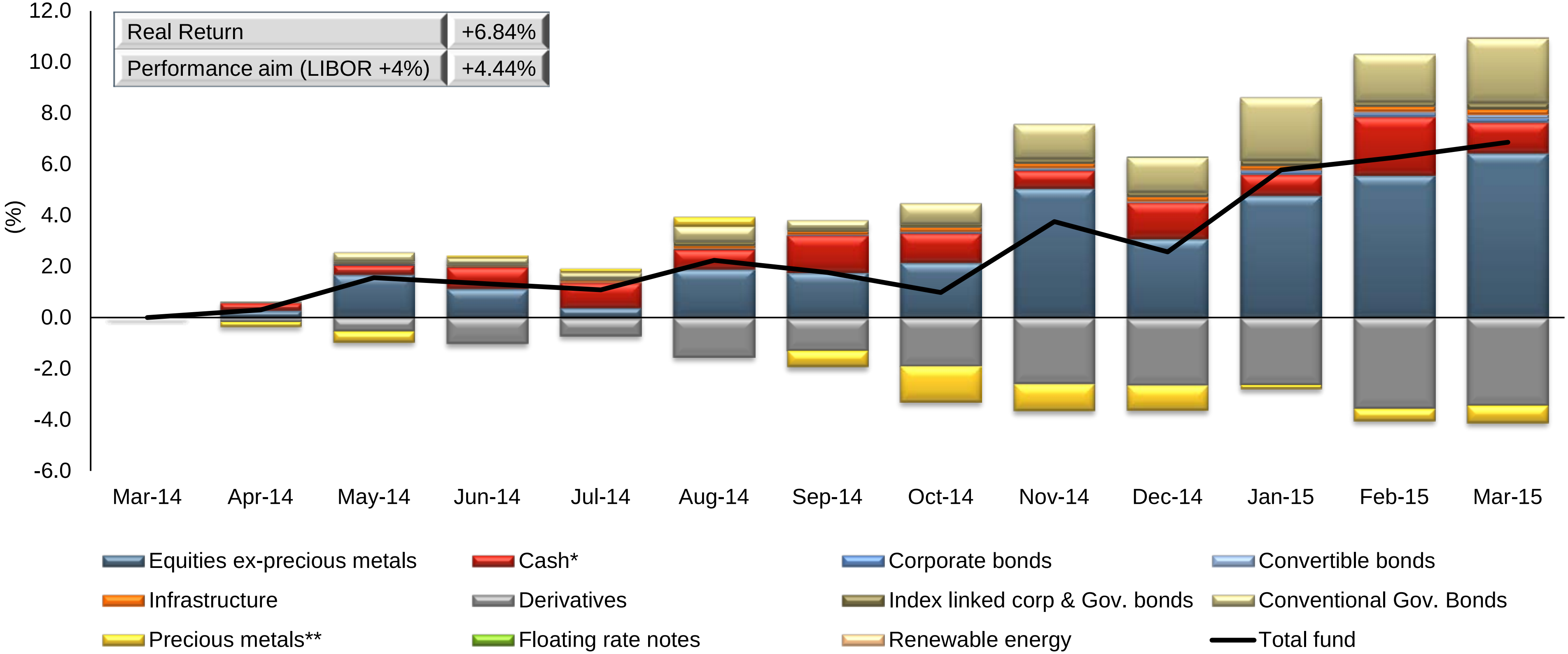
Newton Real Return Fund (£)
12 months to 31 March 2015

Contribution by asset class

Cumulative contribution 12 months to 31 March 2015



* Cash, cash equivalents and currency hedges
** Physical and equity exposure to gold and silver
Source: Newton/Pace as at 31 March 2015, COB prices, gross of fees

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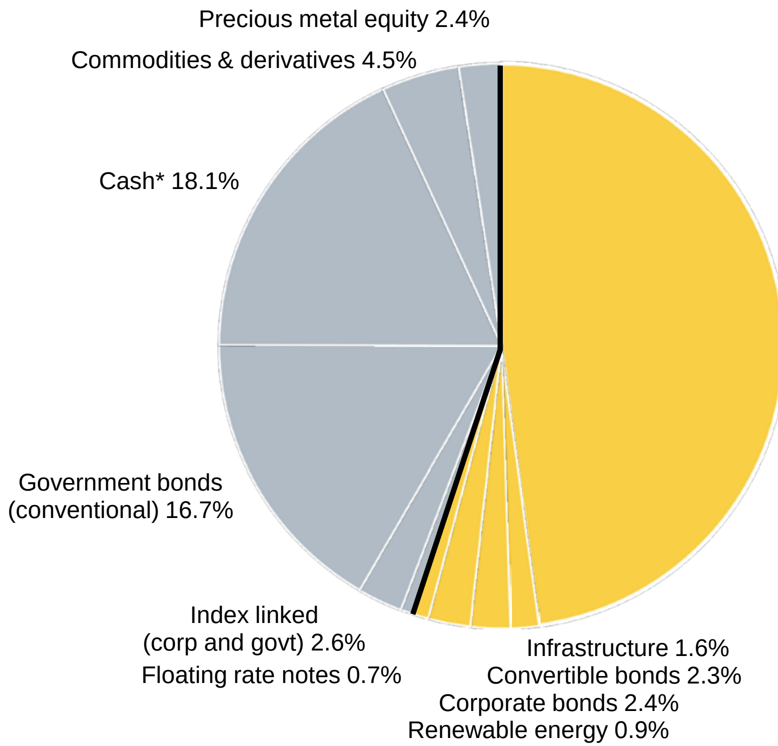
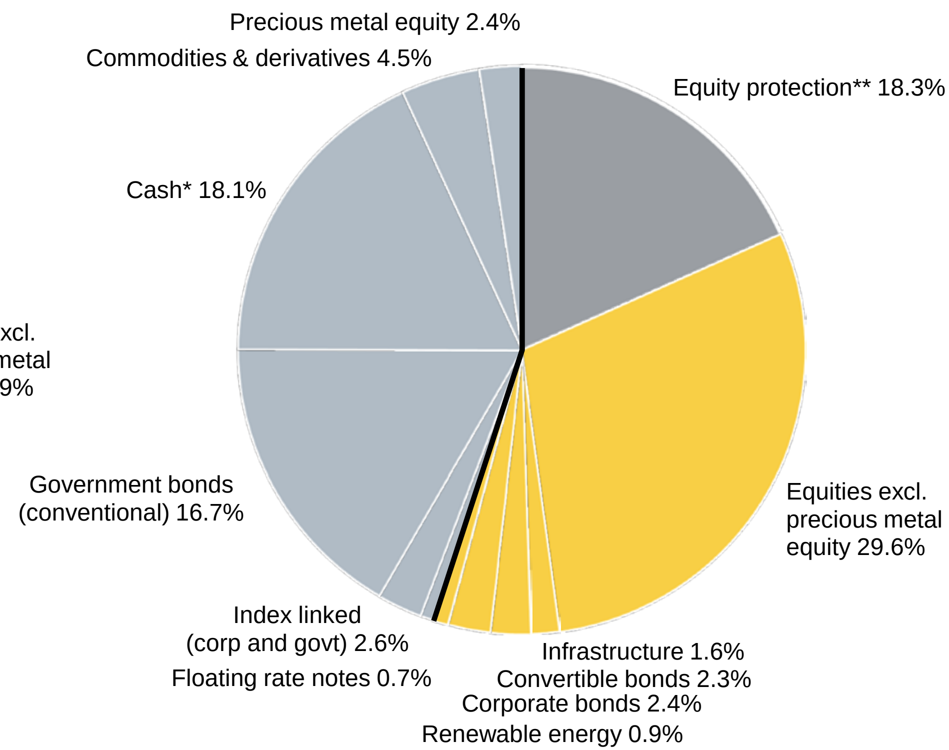
Newton Real Return Fund (£)
Positioning at 31 March 2015

Gross exposure



Net exposure



* Cash, cash equivalents and currency hedges
** Delta adjusted derivative exposure
Source: Newton, 31 March 2015

Balancing participation and capital preservation

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Significant portfolio changes 12 months to 31 March 2015

Reduced return seeking core

- Net return seeking core largely unchanged
- Sold high yield corporate bonds
- Reduced gross equity exposure

Increased liquid assets

- Proceeds from reduced equity and high yield exposure increased cash and equivalents

Exposure to government bonds

- More recently switched shorter dated US Treasury bonds into longer dated issues. Long end of yield curve should be more insulated to rate increases

Exposure to USD

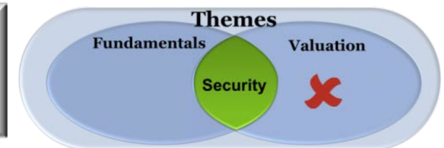
- Kept US dollar assets floating and hedged Euro assets

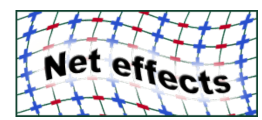
Maintained inflation protection and diversified precious metals

- Bought Silver Wheaton, index-linked corporate bonds

Added selectively to technology and media related securities

- Bought Naspers, Dun & Bradstreet, Softbank, Vivendi, SAP





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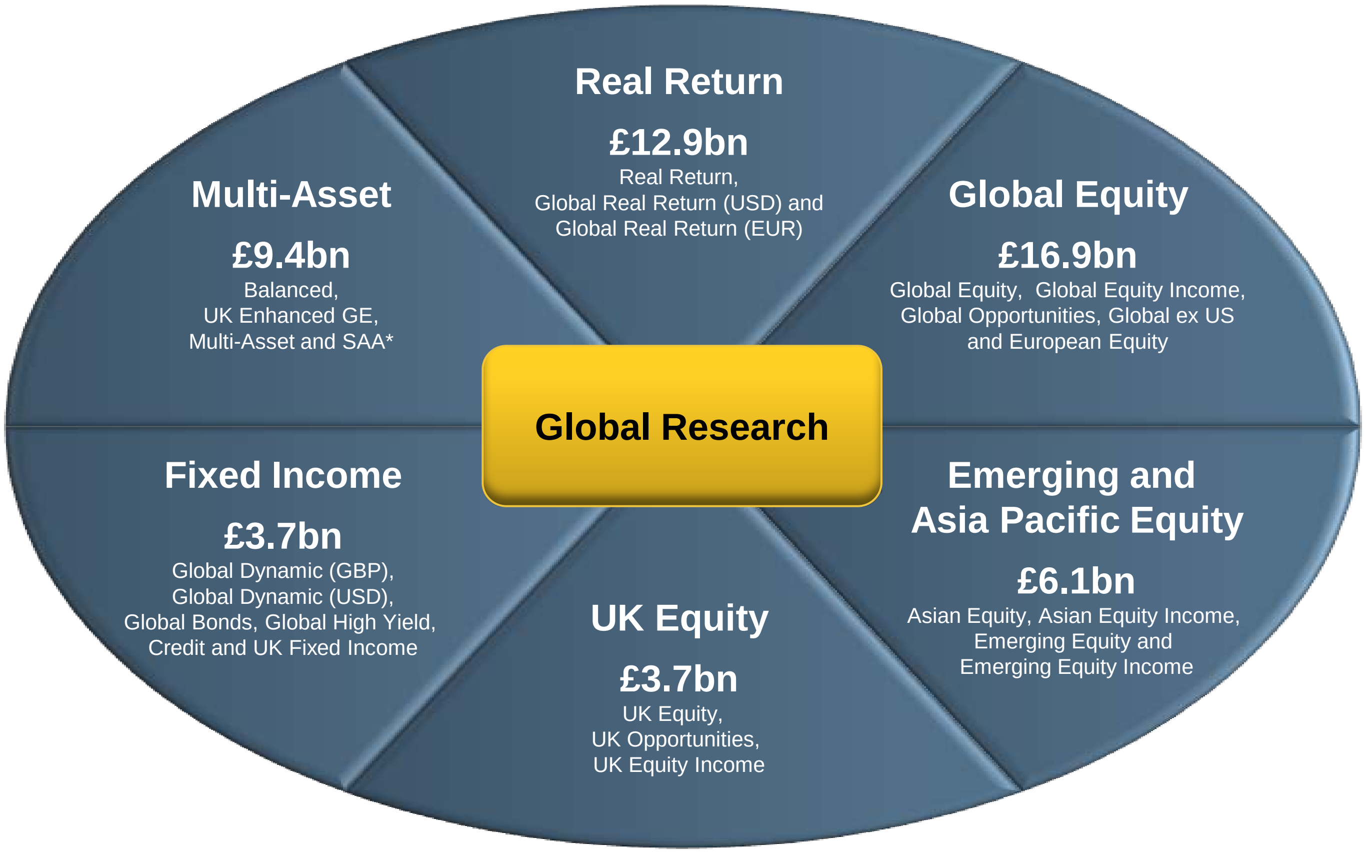
Assets under management
Summary of mandates as at 31 March 2015

Total AUM £52.8bn



- Managing money is our sole business
- Performance culture – concentrates teamwork, communication and resources towards delivering outperformance
- Global multi-asset specialists for over 30 years;
  - Newton Exempt Fund, 2nd longest running multi-asset fund in UK pensions industry
  - Original target to beat wage inflation
  - Market leading 20-year risk adjusted returns
- Dedicated client service

Note: *AUM for SAA included in respective underlying asset class
Source: Newton, 31 March 2015

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Newton's Real Return team
Idea generation and input

Investment Strategy Group

Thematic Focus Groups

Bond / FX Strategy Group

Real Return team
17 years investment experience
14 years at Newton

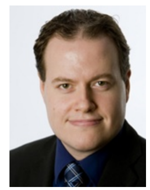
Portfolio Managers

Equity (21)
Multi-Asset (21)
Fixed Income (10)

18 years investment experience
12 years at Newton

James Harries

Iain Stewart



Matthew Brown

Suzanne Hutchins

Aron Pataki

Philip Shucksmith

Ian Clark

Lars Middleton*

Global Research

Industry Analysts (20)
Responsible Investment (4)
Credit (6)
Alternatives (9)

14 years investment experience
7 years at Newton

Real Return Meeting

Total number of investment personnel = 72 (some investors included in more than one category). * Performance and reporting analyst
Source: Newton, March 2015

Single location, interactive and collaborative approach

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Stock Example: Roche Holding AG

Themes

Population dynamics

Healthy demand

Fundamentals

- Continued product pipeline innovation
- Specialist product portfolio
- Low patent risk

Roche

Valuation

- P/E 16.0x 2016
- EV/EBITDA 10.9x 2016
- FCF Yield 4.9%
- Dividend Yield 3.2%

Smart REVOLUTION

" I expect investor confidence in Roche's mid term growth outlook to improve with today's announcement of positive clinical results with TDM-1, one of Roche's leading pipeline drugs in breast cancer.

The Roche investment thesis is very much a pipeline story and todays news supports this view".

Stephen Rowntree
March 2012

Security selection

Recommended Feb 2009

Portfolio

Stephen Rowntree
Global analyst, healthcare

Past performance is not a guide to future performance.

Portfolio holdings are subject to change at any time without notice, are for information purposes only and should not be construed as investment recommendations

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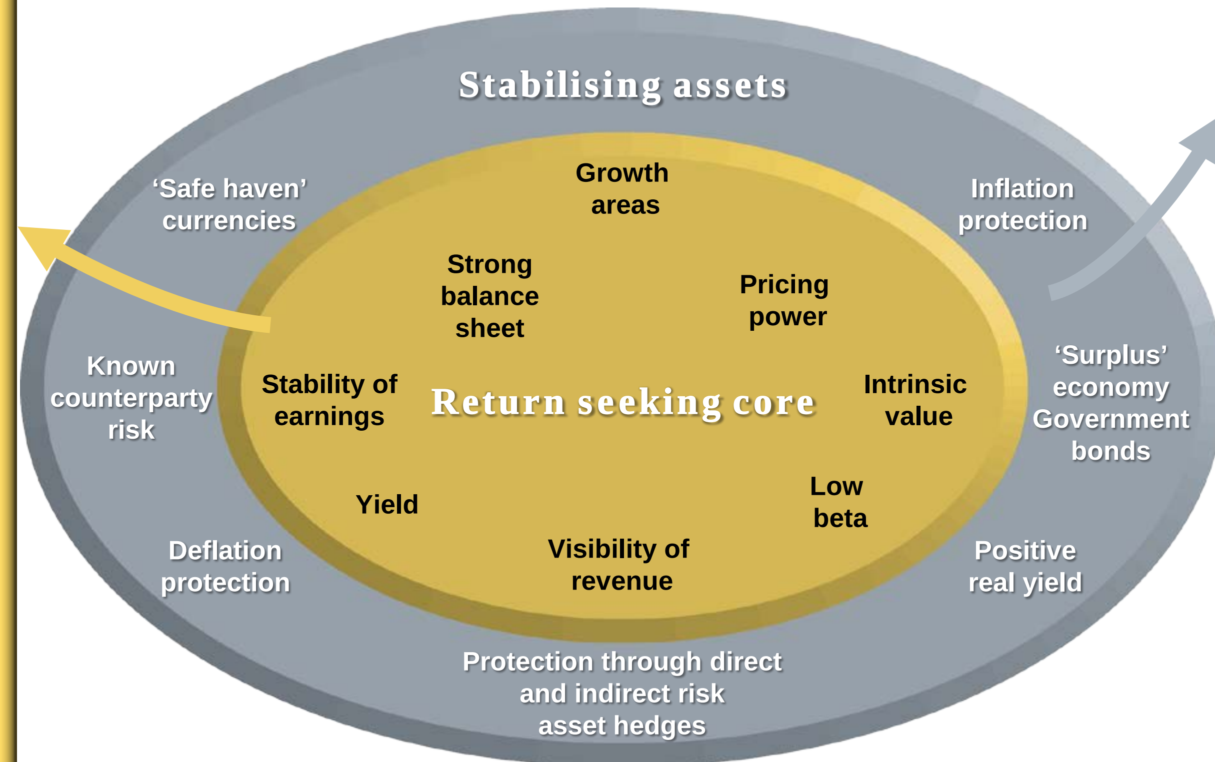
Idea generation
How themes influence investment selection

Characteristics that fit the strategic backdrop:

Return seeking core

- ‘Investment grade’ equity in sectors with relatively stable growth and/or dividend income
- Healthcare, telecom, utilities, tobacco, IT, media
- Growth opportunities in internet data growth, rise in e-commerce, IT infrastructure and evolving content distribution
- Secondary infrastructure vehicles, convertible debt
- Very selective senior sub investment grade debt



Stabilising assets

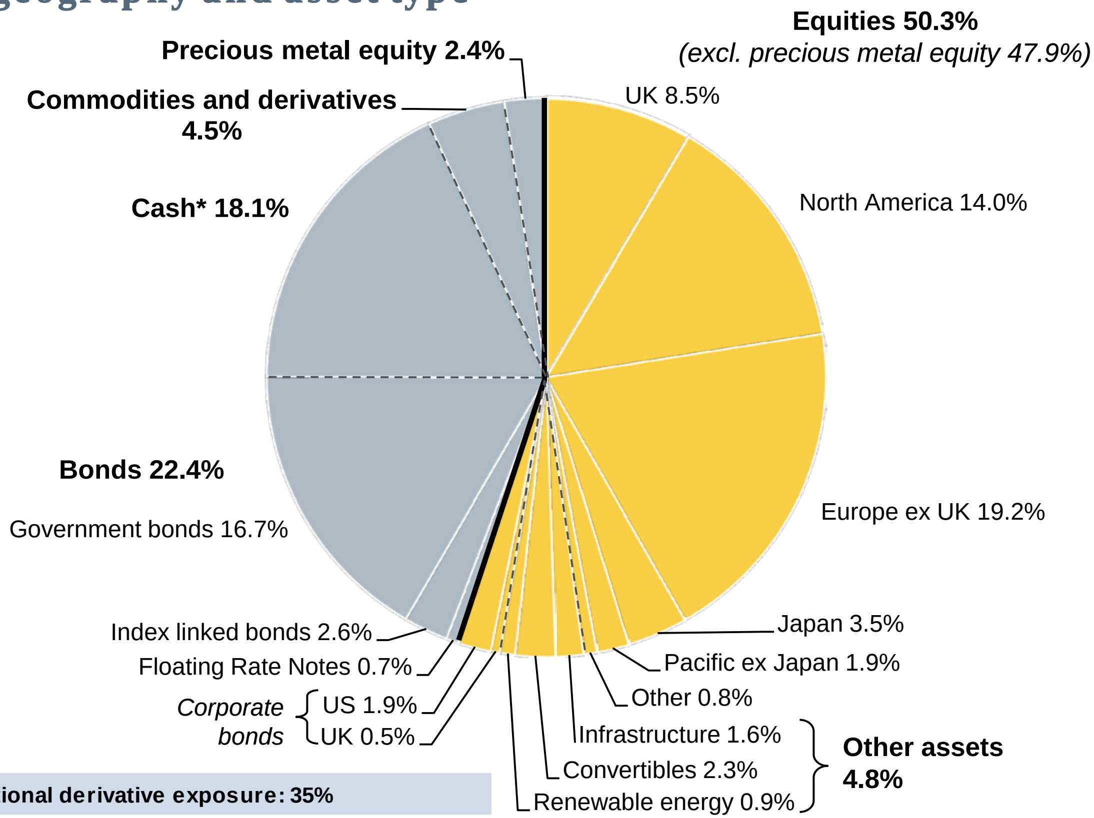
- Direct equity hedges (e.g. short S&P, Eurostoxx and FTSE futures)
- Selective government bond exposure (e.g. US Treasuries, Australasia)
- Liquidity (cash and cash equivalents)
- Exposure to precious metals (equities, ETNs)
- Swiss franc, US dollar and Japanese yen

Source: Newton

Opportunities to shelter from volatility

Newton Real Return Fund (£)
Positioning at 31 March 2015

By geography and asset type

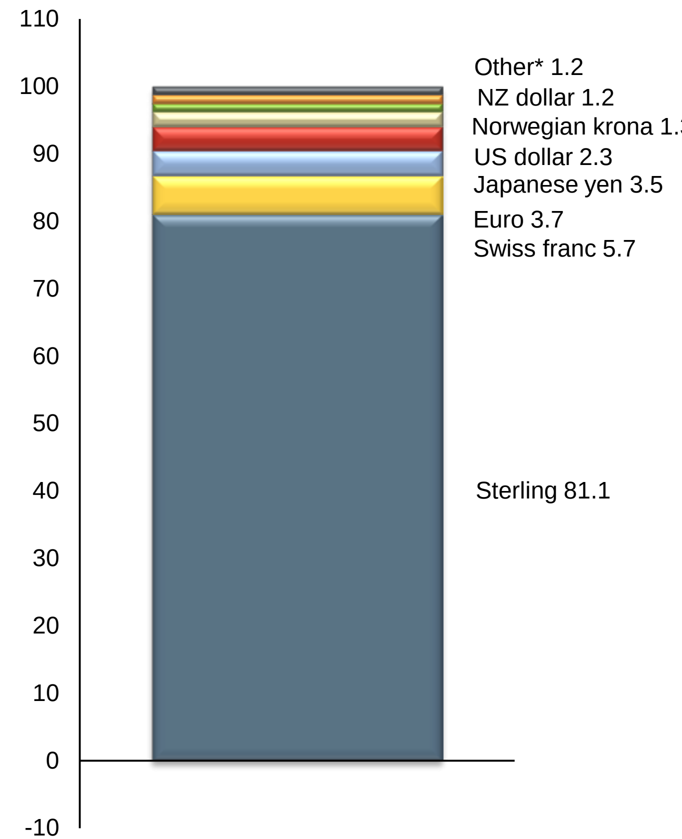


Notional derivative exposure: 35%

Delta adjusted derivative exposure: 18%

Net equity exposure: 30%

By currency



*Other (CAD, ZAR, SEK)

* Cash, cash equivalents and currency hedges
Source: Newton, 31 March 2015

Managing currency risk within a global unconstrained portfolio

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Newton Real Return Fund
Summary statistics

General	
Total fund turnover (12 month, period to 31/03/15)*	54.26%
Equity turnover (12 month, period to 31/03/15)*	35.61%
Beta (fund level) since inception	0.43
Beta (equity portion) since inception	0.79
Number of stocks (equities) as at 31/03/15	48
Volatility (%)	
Including derivatives since inception	7.70
Excluding derivatives since inception	8.13
Fund	
Historical volatility (3 year rolling)	4.64
Historical volatility (1 year rolling)	4.39
Correlation with MSCI World Index since inception	0.75
MSCI World (NDR) Index	
Historical volatility (3 year rolling)	8.89
Historical volatility (1 year rolling)	6.12

Derivative protection – summary

				Total	
	Europe Delta	UK Delta	US Delta	Delta	Notional
Futures		2	12	15	15
Options	1	3	0.2	4	20
Total	1	5	13	19	35

Fixed Interest		% portfolio
Number of holdings (bonds)	30	
Sovereign index linked	2	1.2
Sovereign conventional	11	16.8
Investment grade (conventional and IL)	9	1.4
High yield (conventional)	8	2.3
Total bonds		
Average duration (years)		9.3
Average yield (%)		2.9
Average rating		AA
Sovereign (conventional and IL)		
Average duration (years)		9.5
Average yield (%)		2.3
Average rating		AAA
High yield		
Average duration (years)		7.4
Average yield (%)		7.2
Average rating		B
Investment grade (conventional and IL)		
Average duration (years)		9.7
Average yield (%)		3.5
Average rating		BBB

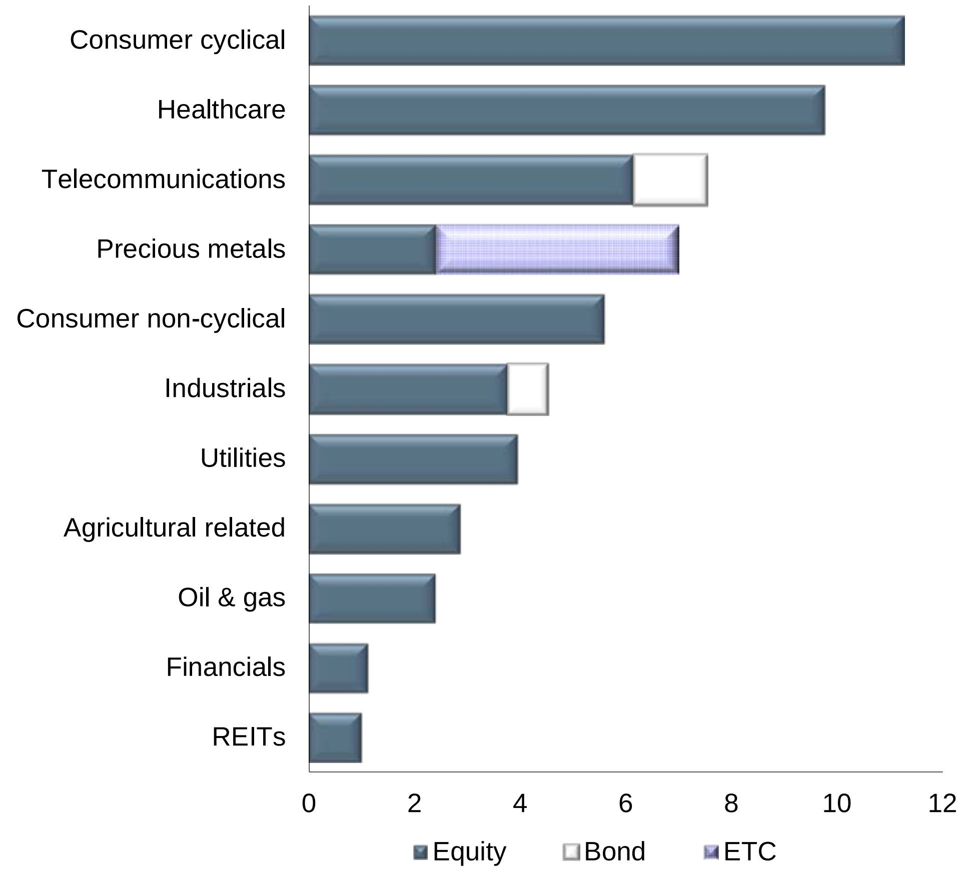
* Representative portfolio; calculated excluding cash, cash equivalents and derivative instruments
Source: Newton, as of 31 March 2015, Algorithmics, ThinkFoli0.
Comparisons are made to demonstrate correlation only and are for illustrative purposes only.

NEWTON
The Power of Ideas

R0107

Newton Real Return Fund (£)
Equity and bond analysis – Current

Global sector breakdown (% weight)



Top ten holdings

Stock	Weighting (%)	
USA Treasury Notes 1.5%	3.60	Debt burden
USA Treasury Notes 2.375%	3.36	Debt burden
ETFS Physical Gold 0% Secured Note	2.65	Fire risks
Wolters Kluwer	2.44	Net effects
Australia (Commonwealth) 4.5%	2.41	Debt burden
Vivendi	2.19	Net effects
Roche	2.14	Healthy demand, Havens
Australia (Commonwealth) 3.75%	2.08	Debt burden
Novartis	2.01	Healthy demand, Havens
Accenture	1.99	Net effects

Portfolio holdings are subject to change at any time without notice
This information should not be construed as a recommendation to purchase or sell any security
Source: Newton, 31 March 2015

Security characteristics that fit our outlook

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P0016

Newton Real Return Fund (£)
Longer term results

	From 1 April 2004† 31 March 2015	Real Return Fund	MSCI World NDR	UK Govt All Stocks	LIBOR +4%	UK RPI +4%
Ex Post	Total return (cumulative)	167.9	154.3	90.7	103.7	114.1
	Total return (annualised)	9.4	8.9	6.0	6.7	7.2
	Observed[2] volatility (annual)	8.0	15.7	5.7	0.3	1.6
	Sharpe ratio[1]	0.9	0.4	0.6		
	Algorithmics to 31 March 2015					
Ex Ante	Predicted volatility[2] (annual)	4.5	7.3	4.8		
	Value at risk[3] – (annual)	5.9	11.6	7.9		
	Value at risk – (monthly)	1.7	3.3	2.3		

Key

1. Return less risk free rate (1 month GBP LIBOR) divided by standard deviation
2. Standard deviation: calculated using an annualised one week investment horizon
3. Value at risk: worst case of 95% confidence, based on a one month investment horizon

Ex ante statistics sourced from Algorithmics, using 2 years of daily observations with a 1% decay factor under Monte Carlo simulation. Figures are based on sterling returns. Past performance is not a guide to the future Please remember that the value of shares and the income from them can fall as well as rise and investors may not get back the full amount originally invested. †Restyle date

Source: Newton, as at 31 March 2015, total return, gross of management fees, gross income reinvested.

Delivering attractive risk adjusted returns

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Newton: Did you know?
www.newton.co.uk

Institutions

Newton manages approximately £42.7bn in institutional fund assets including 23 UK local authority pension mandates. We provide solutions for both DB and DC schemes, with Newton funds represented on many third party DC platforms

Charities

Newton has managed investment portfolios for charities since 1985. We offer our charity clients, the expertise of our charity specialists, dedicated funds for charities and a range of trustee training and investment seminars

SRI

Just over half of the charity assets Newton manages are managed with a defined SRI policy. Newton is a founder member of the UN Responsible Investors Network and complies with the Stewardship code. Newton launched The SRI Fund for Charities in May 2010

Global clients

Newton manages funds for clients in the USA, Canada, Europe, Asia Pacific (including Australia, China, Japan) and the Middle East, including Shariah compliant global equity strategies

Retail

BNY Mellon Investment Management EMEA Limited is the fifth largest manager of retail funds in the UK (97% Newton-managed funds)

Source: Newton, as at 31 March 2015

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Newton client team

James Mitchell
Investment relationship manager

2002 to date	Newton Investment Management – Investment relationship manager
1999 – 2002	Clerical Medical Investment Management – Client director, pension funds
1991 – 1998	Banque Nationale de Paris – Fund manager – Economist
1991 – 1991	Delta Asia Securities – Research analyst

Qualifications

Associate of the CFA Society of the UK

BA (Hons) economics

13 years at Newton

24 years' investment experience

Rob Forder
Client service executive

2006 to date	Newton Investment Management – Client service executive
2004 – 2006	Northern Trust – New business coordinator
2001 – 2004	HSBC Global Investor Services

Qualifications

IMC

IAQ

8 years at Newton

13 years' investment experience

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The Power of Ideas

Important information
For Professional Investors Only

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The opinions expressed in this document are those of Newton and should not be construed as investment advice.

Newton Investment Management Limited
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Registered in England No. 1371973.
www.newton.co.uk

BNY Mellon Fund Managers Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA
Tel: 020 7163 9000

Registered in England No. 1998251

Registered office: as above.
Both firms are authorised and regulated by the Financial Conduct Authority, are members of the IMA and are Bank of New York Mellon Companies[SM]

Shetland Islands Council Pension Fund

Schroder Real Estate Capital Partners

Wednesday 20 May 2015

Representing Schroders:

Geoff Day
Client Director

Jennifer Murray
Real Estate Fund Manager

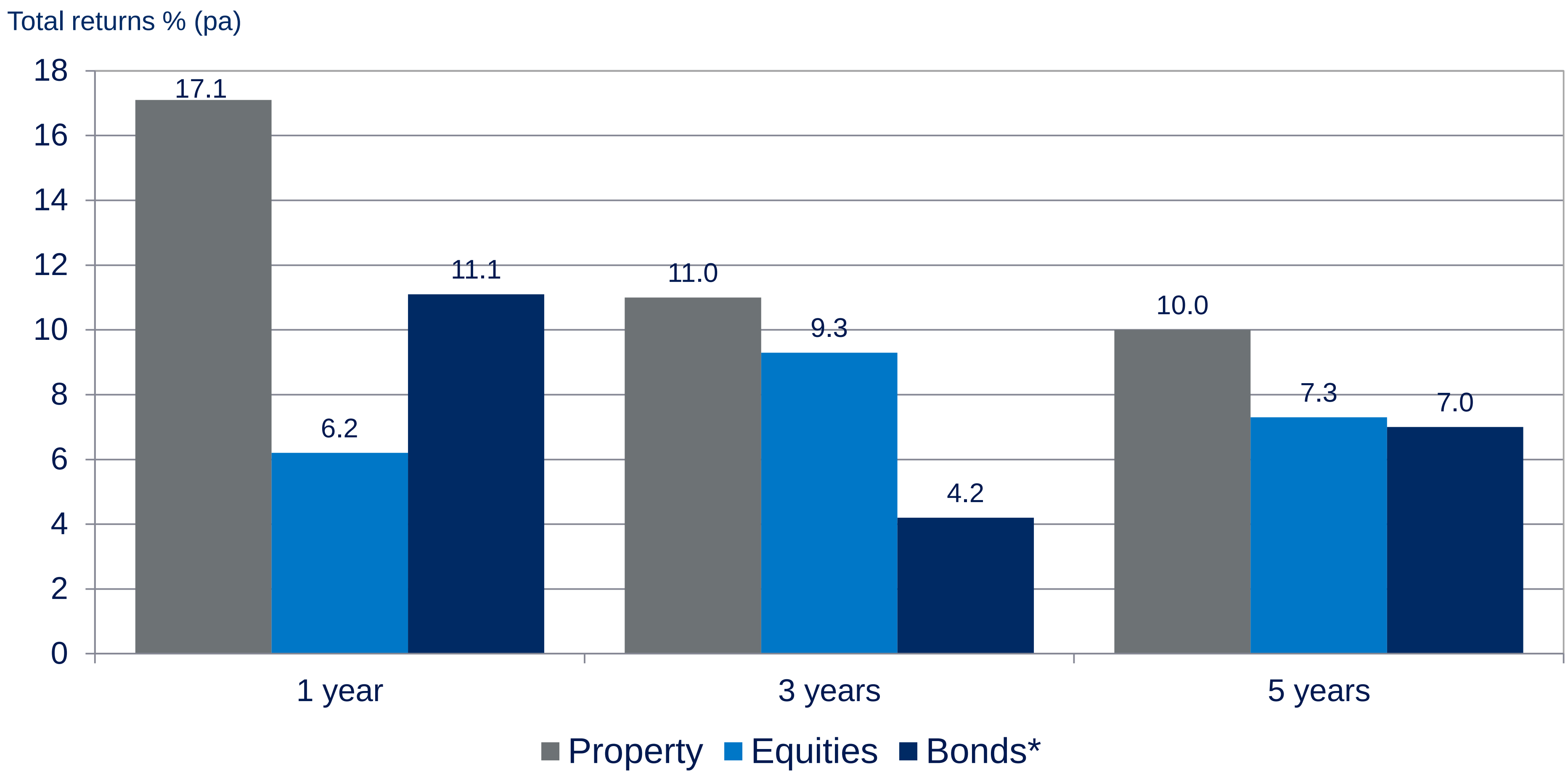
Schroders

Market overview

Schroders

UK market overview

Strong returns from UK commercial property

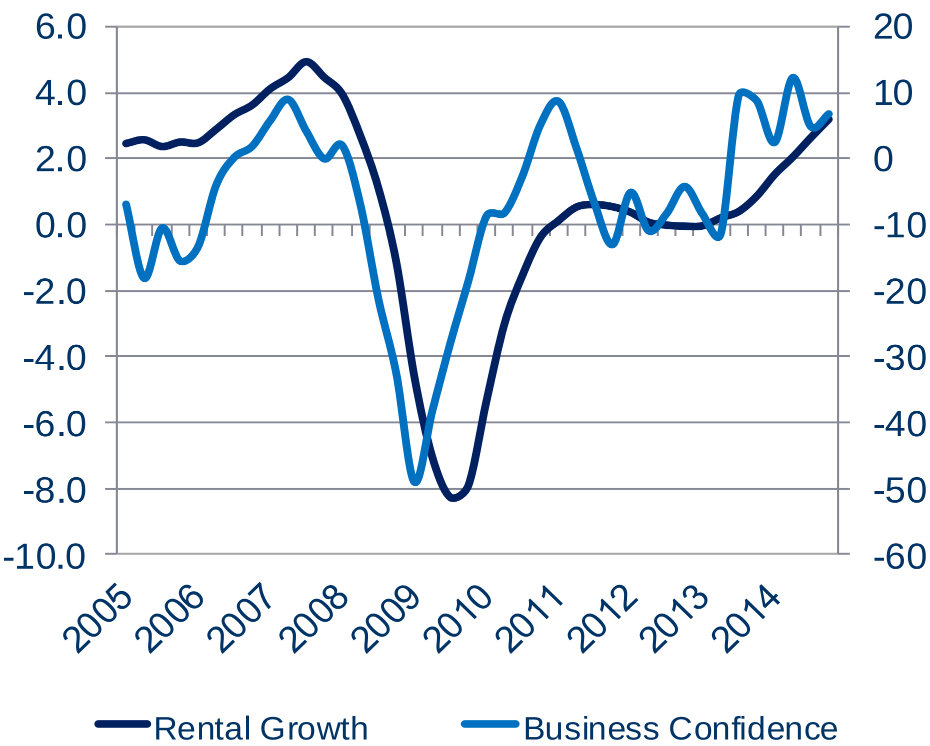


Source: IPD, JPMorgan 31 March 2015 *7-10 yrs

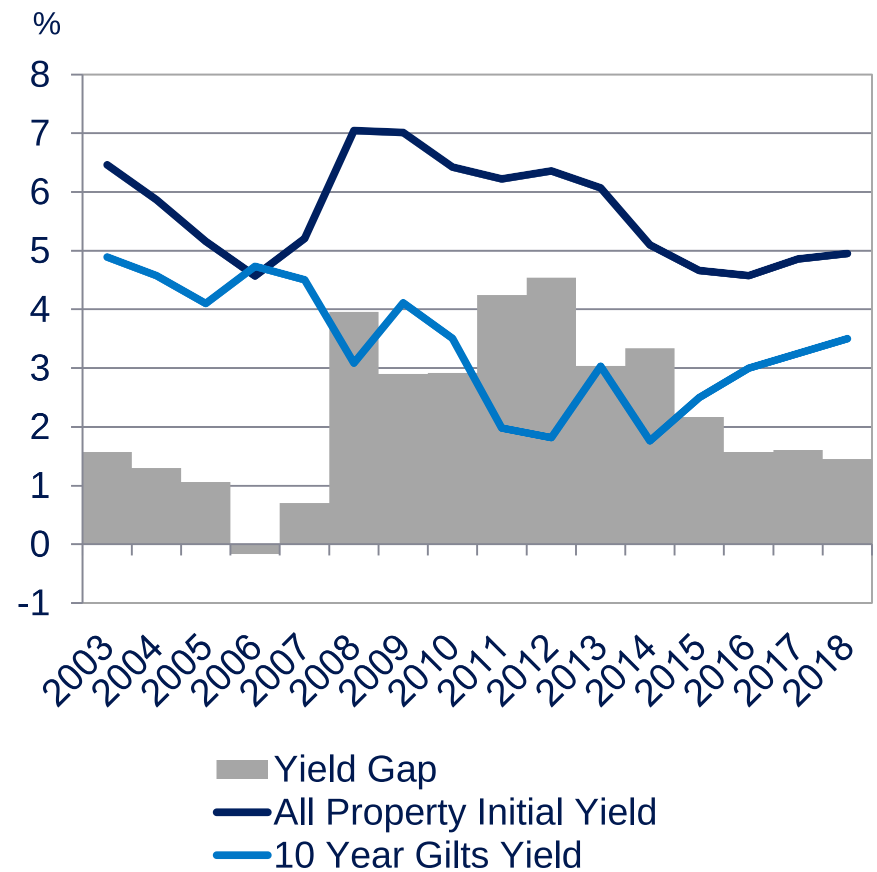
UK market overview

Positive occupier fundamentals and attractive capital pricing

Business confidence and rental growth



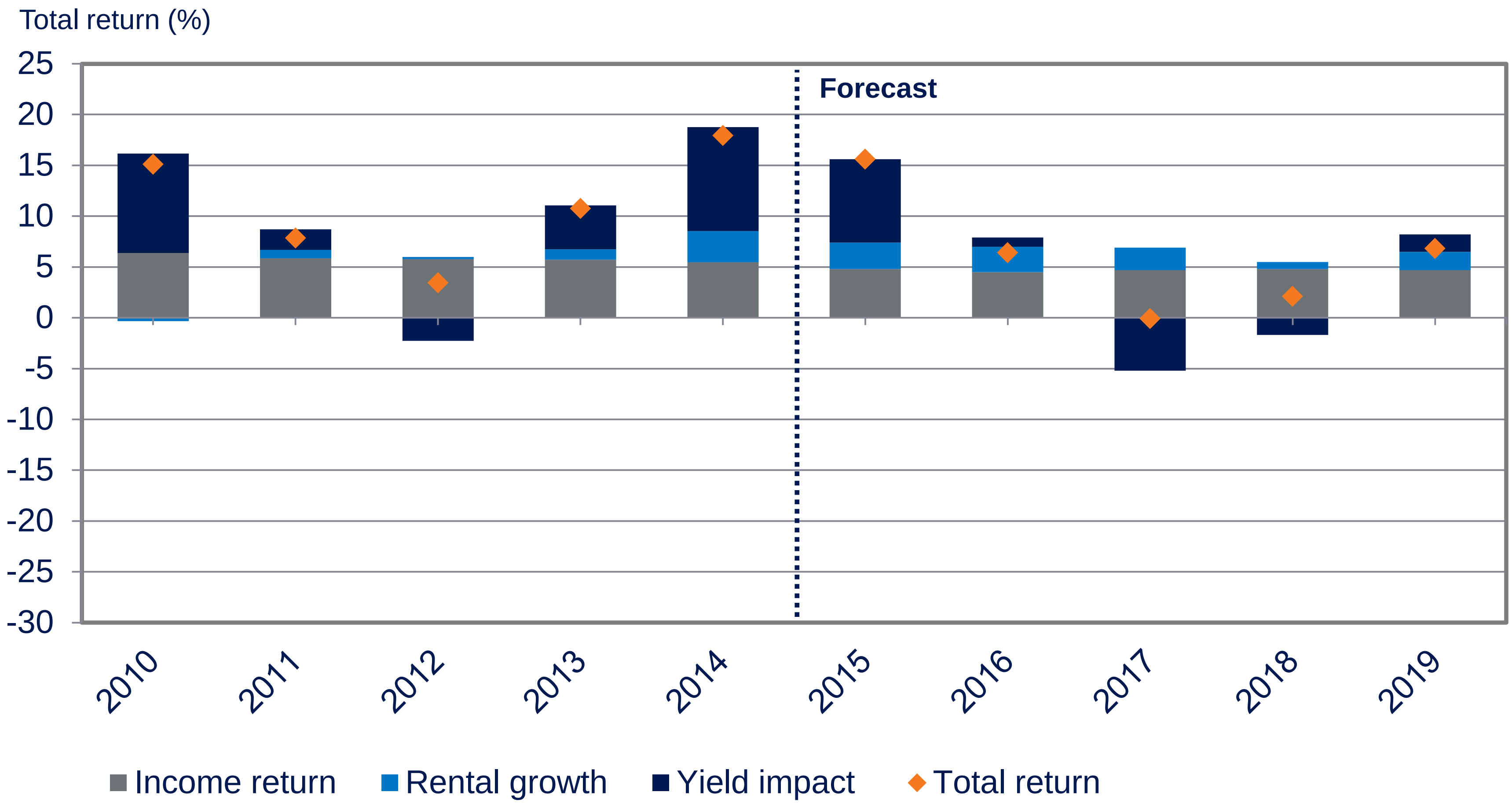
All Property Initial Yield vs 10 Year Gilts



Source: IPD, ONS. December 2014.

UK market overview

Strong 2015, but possibility of a limited correction in values in 2-3 years time



Source: IPD, Schroders. December 2014.
Note. The forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts. Please see Important Information regarding forecasts.

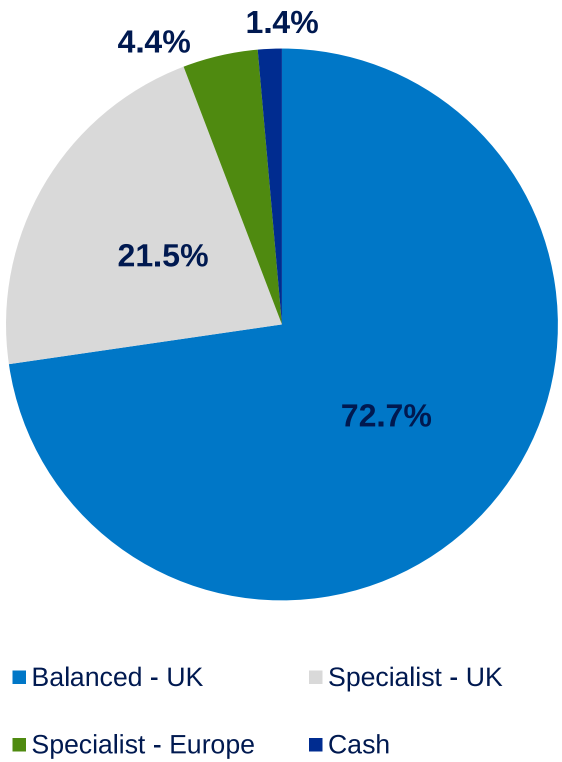
Portfolio

Schroders

Shetland Islands Council Pension Fund

Portfolio, March 2015

Analysis by style and region



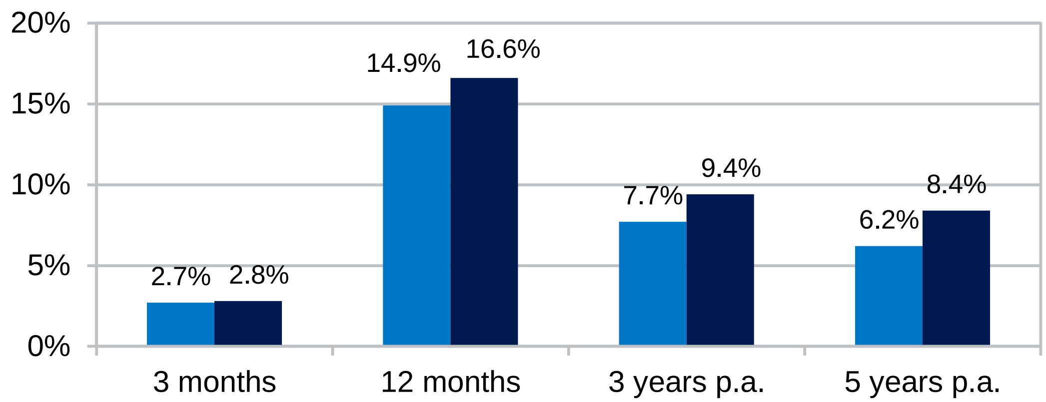
Portfolio statistics	
Portfolio valuation	£39,793,241
Number of investments	14 UK 1 continental Europe
Regional allocation	94.2% UK 4.4% continental Europe 1.4% cash
Portfolio cash	£538,492
Equity remaining to be drawn	£5,500,000
Portfolio undrawn commitments	£2,300,000

Source: Schroders, 31 March 2015

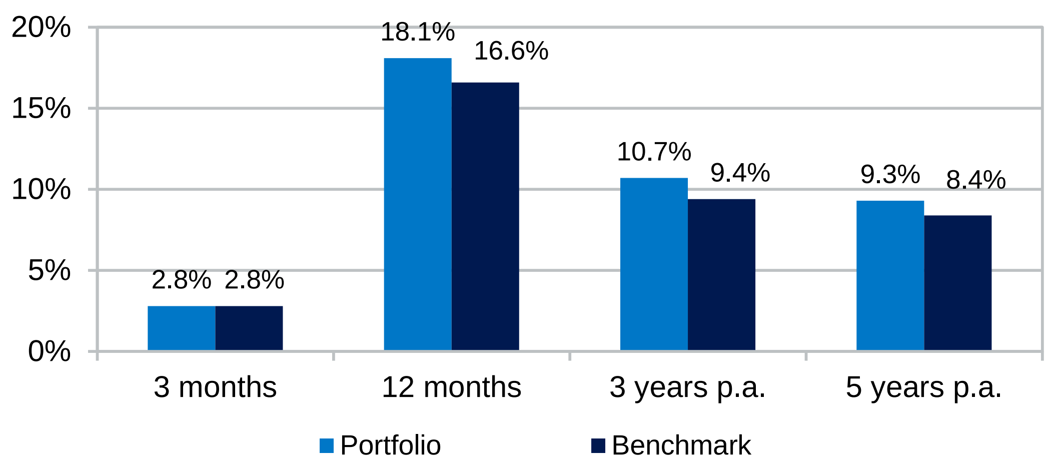
Shetland Islands Council Pension Fund

Performance, 31 March 2015

Total returns



UK only returns



Objective

To outperform the Benchmark[1] by 1.0% net of fees over three year rolling periods

Key messages

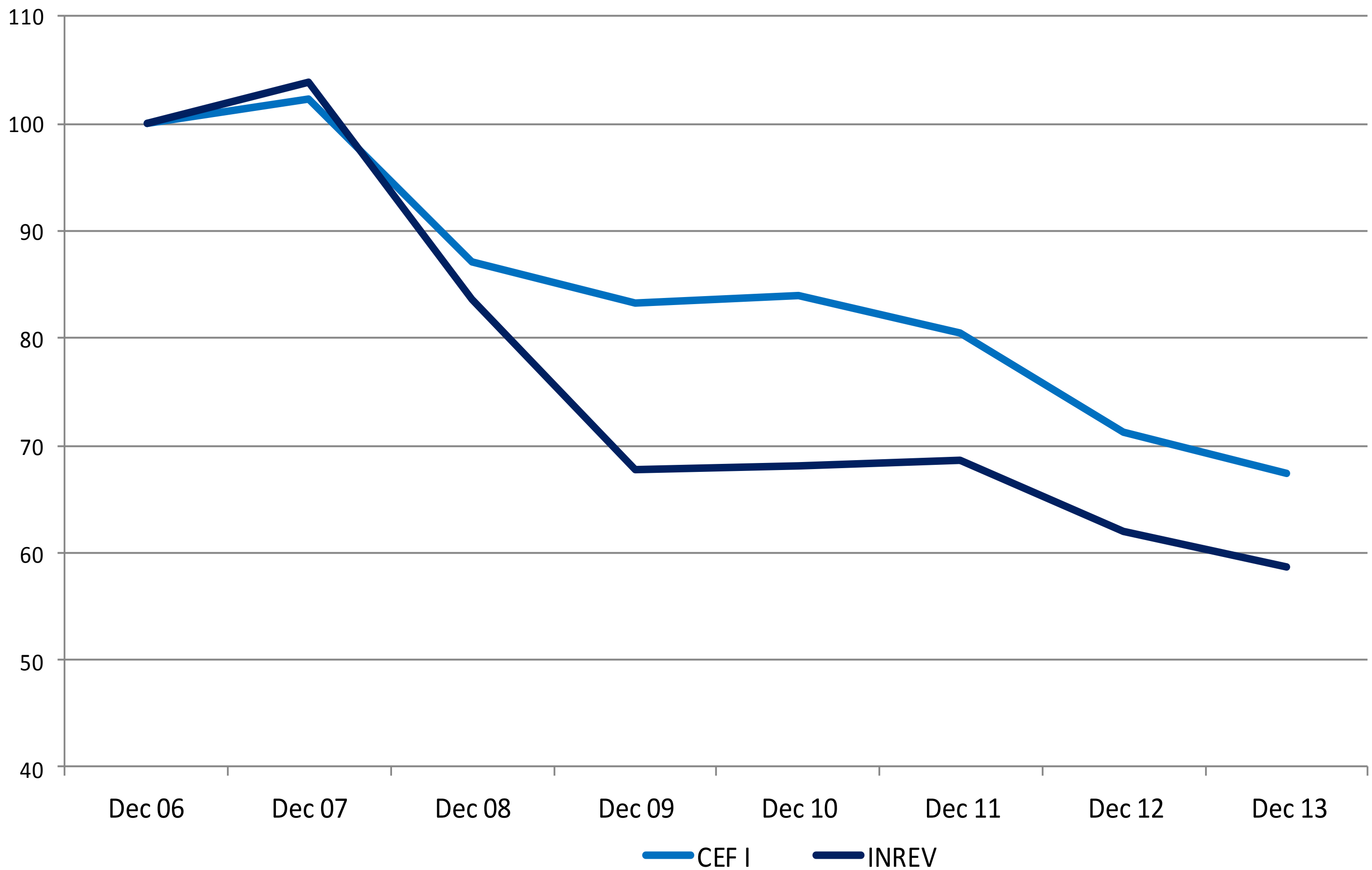
- Absolute returns are strong
- European performance is below the UK-only benchmark
- The proportion invested in Europe has decreased from an average of 16% over five years to 4.1% in Q1
- UK investments (96% of portfolio) are significantly above benchmark

Source: Schroders, 31 March 2015. [1] Benchmark is AREF/IPD Quarterly Property Fund Indices - All Balanced Funds (Weighted Average).
Total 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.

Shetland Islands Council Pension Fund

Continental European Fund I performance comparison with other indices

Total return vs INREV Fund of Funds Index – Europe



Source: Schroders, INREV Quarterly Index, 31 December 2014. All Indices are indexed to 31 December 2006.

Shetland Islands Council Pension Fund

Significant activity over 12 months to March 2015

- Portfolio has grown from £22.7 million to £39.7 million
- £17.3 million allocated – 75% drawn to date
- £1.3 million of income reinvested
- £1.5 million received from funds returning capital and selective sales
- £16.2 million of new investments into ten different funds
- £2.3 million of committed investments

Source: Schroders 31 March 2015
Notes: Roundways, Bournmouth (Multi Let PUT); Sydney West Primary Care Centre, Burgess Hill (BlackRock); Craigleith Retail Park, Edinburgh (Henderson); Barbican Plymouth (Legal & General); Sainsbury's , Warwick (Local Retail Fund); James St, Covent Garden (Lothbury), LandRover, Perth (Motor Retail); Bristol Business Park (Mayfair); Miramar Care Home (MedicX), Brent Cross Shopping Centre (Standard Life); The Heights Student Hall, Birmingham (UNITE); New Cavendish Street (West End of London PUT).

Schroders

Shetland Islands Council Pension Fund

£13.1 million invested to increase core, balanced fund exposure

Threadneedle PUT

- £1.1 billion open ended core, balanced fund
- Stock led investment style
- Highly diversified income stream from over 900 tenancies
- Significant exposure to offices and industrials increasingly outside the south east
- Fund is restricting access to protect performance - we have bought secondary market units

St Albans

Schroder UK Real Estate Fund

- £1.9 billion open ended core, balanced fund
- Research led sector structure
- Exposure to emerging London office locations
- Increasing defensive income streams with RPI linkages
- Long term potential from projects in Croydon and Bracknell

Battersea Studios, London

The examples shown above are for illustrative purposes only and are not to be considered a recommendation to buy/sell.
Source: Schroders, April 2015

Shetland Islands Council Pension Fund

Multi-Let Industrial PUT, July 2014

Process

- Research market opportunity in multi-let industrials
- Select a specialist partner as property advisor
- Create a new investment vehicle for our clients
- Target multi-let industrial properties to deliver an ungeared performance target of 8% per annum

Benefits

- Competitive fee structure
- Modern fund terms / corporate governance
- Control through no fault divorce, change of control, key man and non-compete clauses

Outcome

- Initial commitment of £50 million – potential to grow to over £200 million
- £3.0 million committed for your portfolio
- 3.2% total return for Q1 2015

Rochester Airport Industrial Estate (MLIPUT)

Roundways Industrial Estate, Bournemouth (MLIPUT)

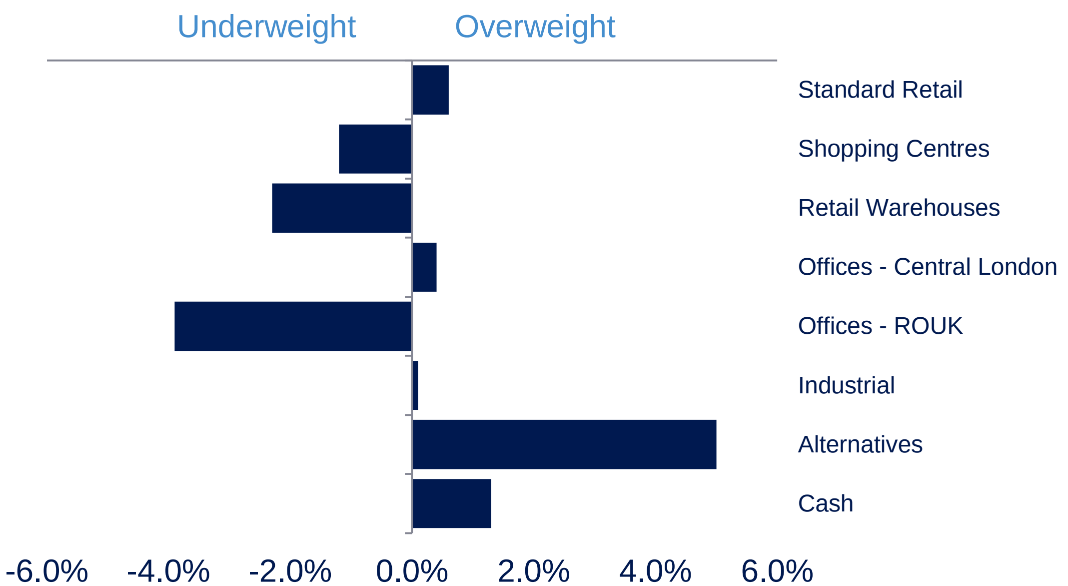
Source: Schroders, April 2015

Strategy

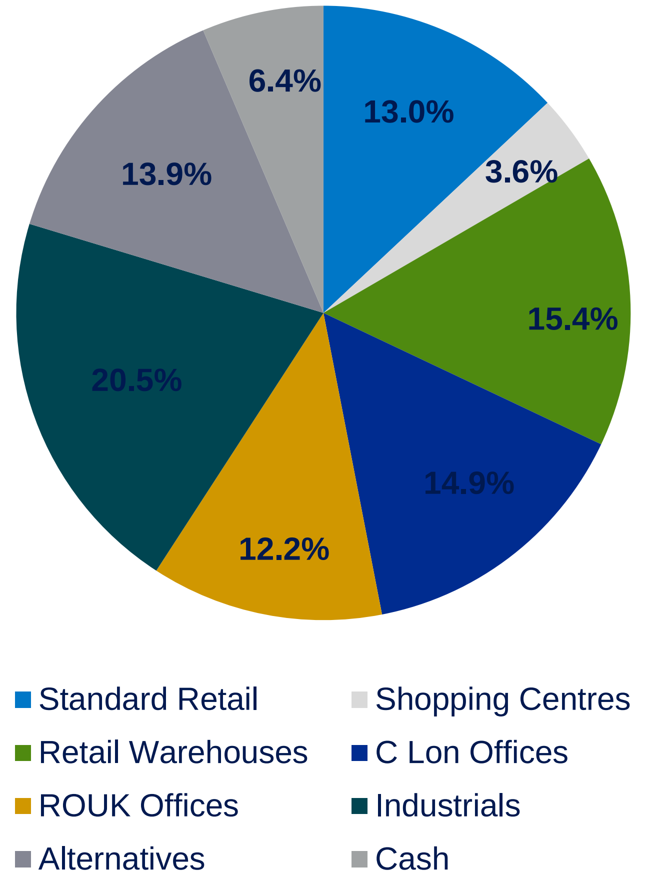
Shetland Islands Council Pension Fund

Sector strategy

Sector weightings relative to benchmark*



Sector weightings - absolute



Source: Schroders and IPD, 31 March 2015 *Benchmark is AREF/IPD UK Quarterly Property Fund Index.

Shetland Islands Council Pension Fund

Strategy: 31 March 2015

- Reduce central London: Henderson Central London Office Fund redemption expected in 2015
- Increase industrials: Multi-Let Industrial PUT drawing down on remaining commitment
- Maintain aggregate underweight to retail sectors and overweight to alternatives
- Focus balanced fund investment on portfolios with wider UK business space exposure
- Continental European Fund I to continue returning capital to unit holders.

Source: Schroders, 31 March 2015

Shetland Islands Council Pension Fund

Summary

Performance

- Portfolio has delivered strong absolute returns over 5 years
- UK investments have out-performed benchmark and target
- Continental European investment protected performance at the outset of the mandate…
- … but has subsequently significantly detracted
- European exposure has reduced from 20% of the portfolio to 4% as at Q1 2015

Activity

- £17.3 million has been allocated to the portfolio; 75% of this is invested
- The majority of the balance is committed to an industrial fund
- In aggregate £16.2 million of purchases over 12 months at an average cost of 2%

Outlook

- We believe that the recent strong performance from UK property is supported by improving rental growth
- Our expectations are for positive but more modest returns over the next five years

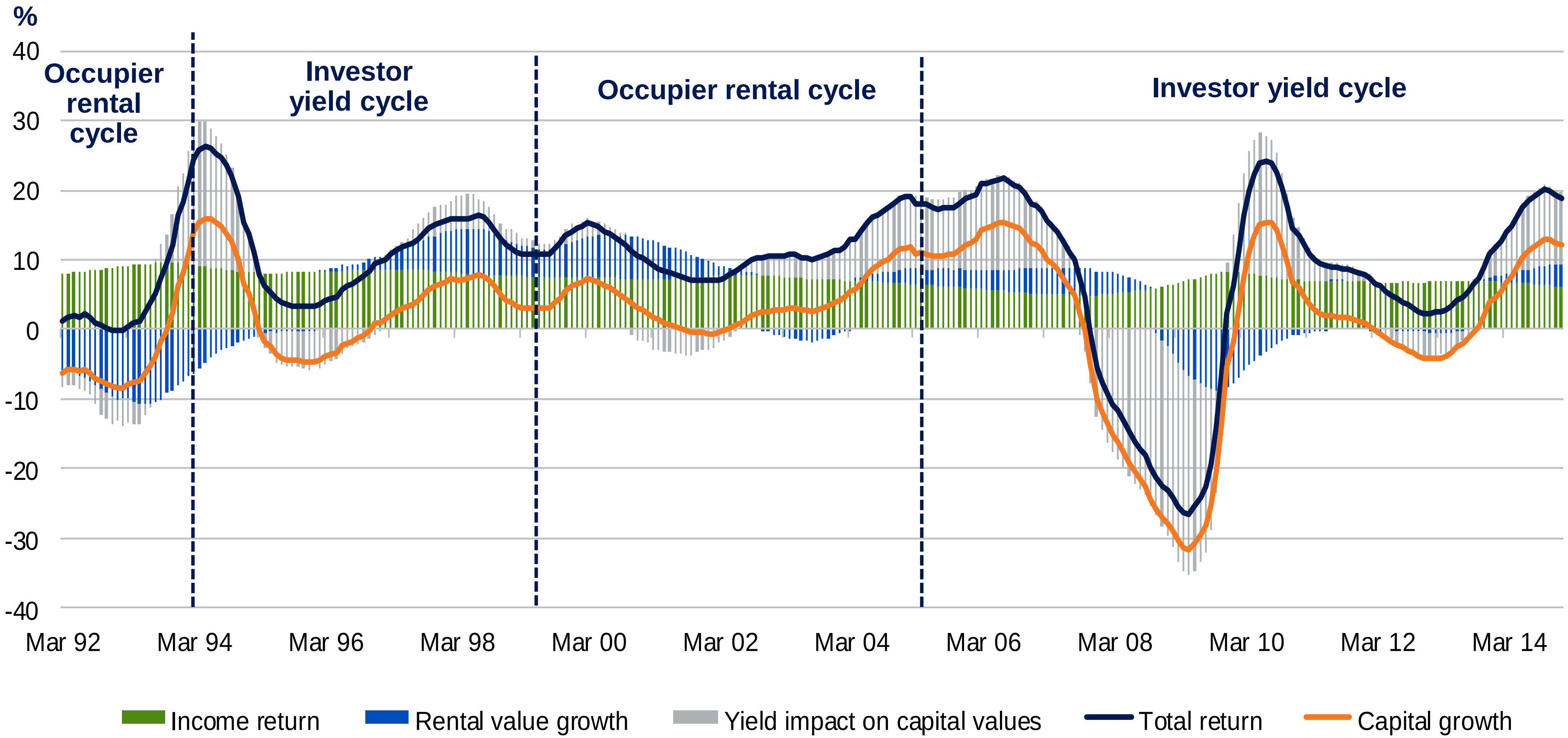
Source: Schroders, 31 March 2015

Appendices

UK Market Outlook

Changes in real estate yields have been the dominant force in recent years

Components of UK real estate market returns: rolling 12 month IPD monthly return

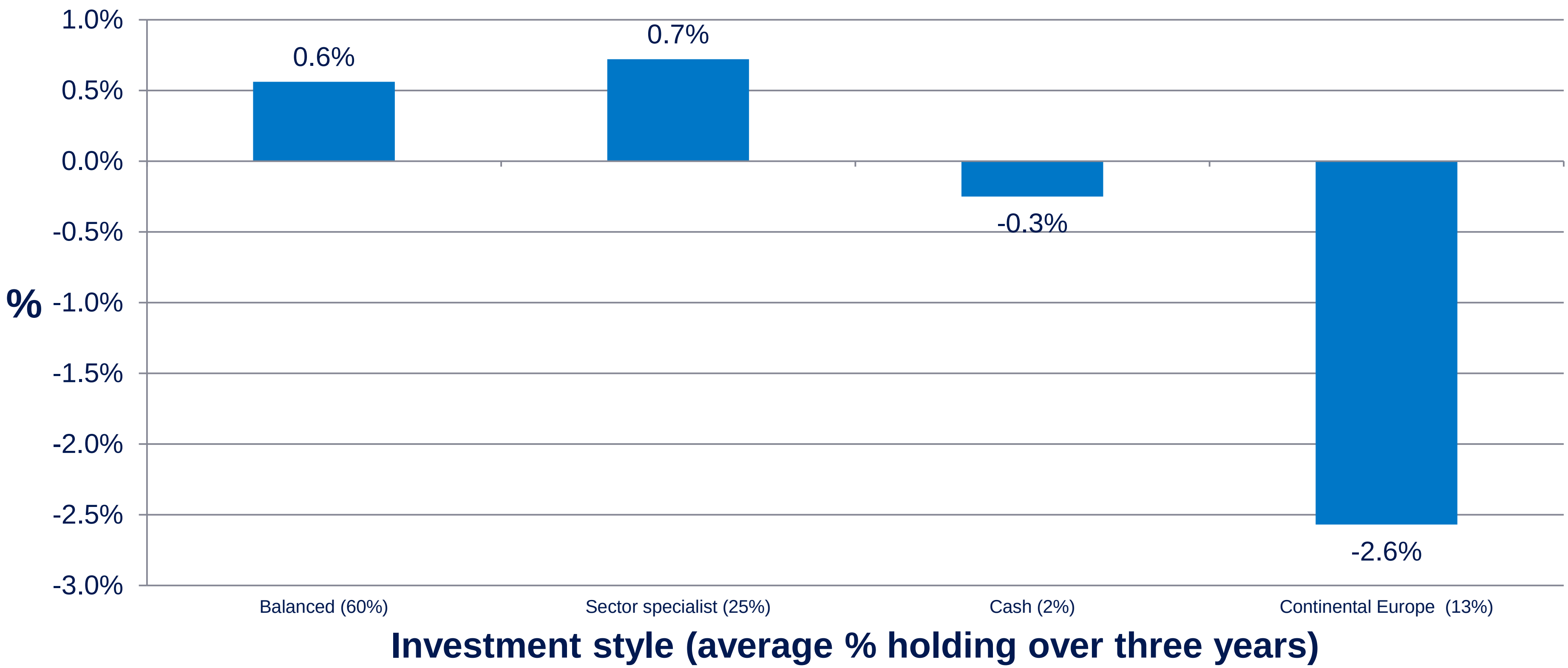


Source: IPD Monthly Index, March 2015

Shetland Islands Council Portfolio

Performance attribution, three years to 31 March 2015

Total return attribution relative to benchmark* by investment style



*Benchmark is AREF/IPD UK Pooled Property Fund Indices All Balanced Funds Weighted Average. Attribution is presented gross of fees.
Source: Schroders and AREF/IPD UK Pooled Property Fund Indices, 31 March 2015. 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.

Schroder Real Estate Fund of Funds – CEF I

31 March 2015

Characteristics

- Closed ended fund valued at €123.1 million
- Twelve year life fund to 2018
- Exposure to 16 investments with total assets of c€9 billion
- 10% IRR target return will not be met
- Undrawn commitments cancelled
- Capital starting to be returned to investors

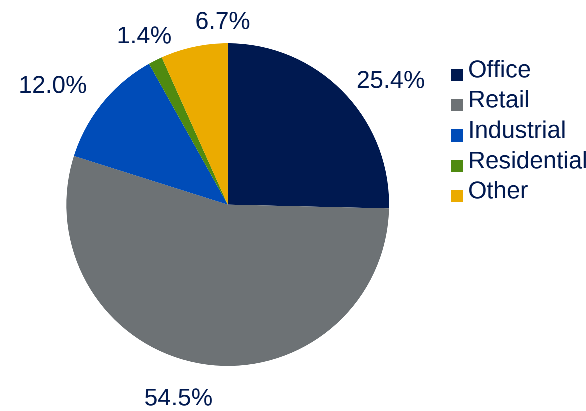
Performance

Performance (%) EUR	Q1	12 m	3 yr	5 yr	SI
I Units	10.9	5.8	-4.3	-3.2	-4.6

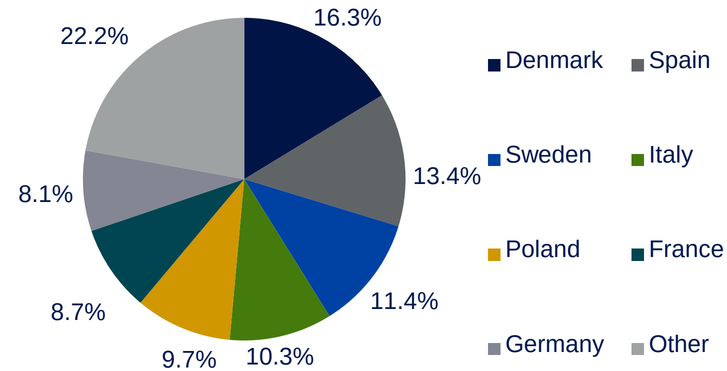
Key performance contributors (12m)

- **Positive:**
  - Sale of IRUS European Retail Property Fund at a premium to valuation
  - Nordic investments post 2009
- **Negative:**
  - CG Malls (Southern European exposure)
  - Portfolios with secondary assets

Sector weightings (% NAV)



Geographic weightings (% NAV)



Source: Schroders, 31 December 2014. Note: I units, Inception date 18 December 2006. 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.

Schroder Real Estate Fund of Funds – CEF I

Performance since inception by underlying investment, January 2015

Fund	Date of investment (divestment)	Country / sector	Since inception IRR (Euro)
Valad V+ Nordic Fund 1	November 2006	Nordic, all sectors	**-32.0%**
API Property Fund Denmark	December 2006	Denmark, all sectors	2.8%
IRUS European Retail Property Fund	February 2007 (January 2015)	Southern Europe and Germany, retail	4.6%
AXA European Added Value Fund	March 2007	Europe, all sectors	**-14.2%**
Rynda en Primeur SA	May 2007	France, office/industrial	**-10.0%**
AXA European Real Estate Opportunity Fund II	June 2007	Spain & UK, hotel/office	**-8.5%**
Nordic Retail Fund	June 2007	Nordic, retail	**-9.6%**
Corestate German Residential	August 2007	Germany, residential	**-20.8%**
CG Malls Europe	October 2007	Southern Europe, retail	**-50.8%**
Sierra Portugal Fund	April 2008	Portugal, retail	**-9.8%**
IPD French Office Total Return Linked Note*	April 2008 (September 2009)	n/a – index note	1.1%
FREO Germany II Partners	September 2008	Germany, all sectors	-4.9%
Eurocommercial Properties*	January 2009 (October 2010)	Europe, retail	**58.8%**
Henderson Herald	October 2009	Europe, retail	**15.7%**
NREP Logistics AB	March 2010	Nordic, industrial	**14.4%**
Pradera Central & Eastern Europe	April 2010	Eastern Europe, retail	4.1%
IGD Siiq	July 2011	Italy, retail	**-7.6%**
ANF Immobilier	November 2011 (January 2015)	France, all sectors	**9.5%**

Source: Schroders, January 2015. *Investments crystallised and no longer held by CEF I. Shading denotes +/-5% from zero.

Shetland Islands Council Pension Fund

Activity over 12 months to March 2015

Activity	Inflows (£)	Outflows (£)	Balance (£)
Cash March 2014			899,543
New money allocated	17,300,000		18,199,543
Purchases		16,200,000	1,999,543
Income (12 months)	1,350,000		3,349,543
Capital returned (12 months)	1,500,000		4,849,543
Commitments		2,300,000	2,549,543
Total	**20,150,000**	**18,500,000**	

Source: Schroders 31 March 2015

Key facts

Schroders investment capability and experience

The Group

- Family and related trust ownership (47%) with strong balance sheet give long term approach and stability
- £300.0bn of assets under management
- A dedicated asset manager with £10.0bn managed for 48 local authority clients

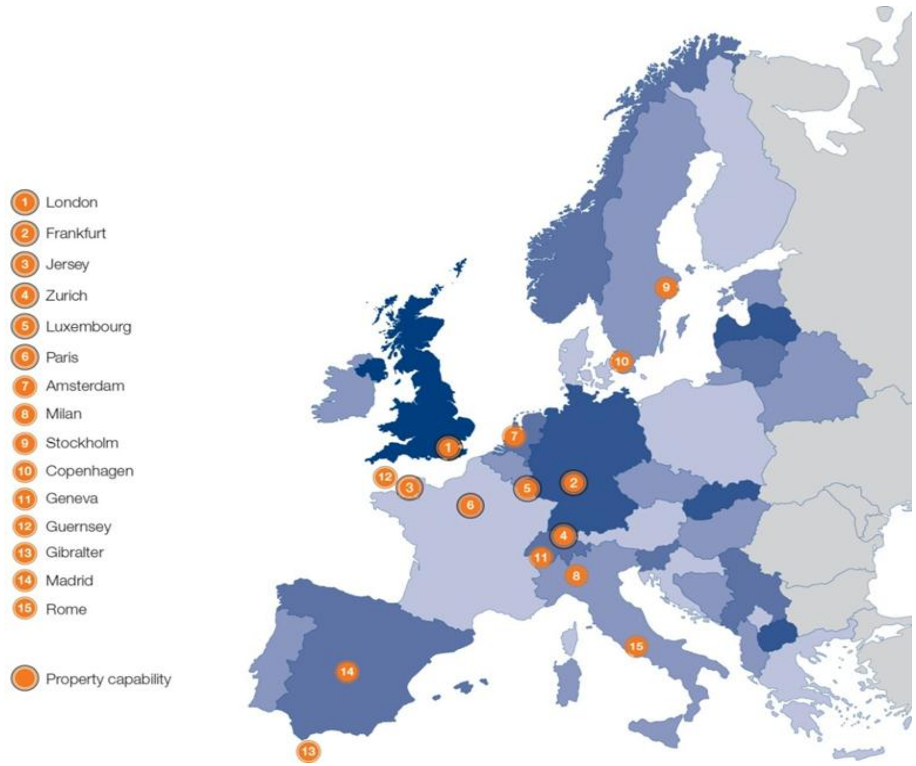
The Property Business

- Real estate investment managers since 1971 offering direct real estate, indirect and listed investments
- Manage £11.7bn of assets
- Pension funds and insurance companies represent approximately 70% of the real estate client base

Your Team

- Indirect real estate investors for over 15 years; £3.2bn assets under management
- 23 segregated mandates and four pooled funds
- Six investment vehicles created specifically for our clients

Schroders European Locations



Source: Schroders. Data as at 31 December 2014. Locations shown in orange detail offices from which real estate assets are managed and administered or where real estate research analysts are located

Schroder Real Estate Capital Partners

Stable, dedicated and experienced team

Schroder Real Estate Capital Partners

Team	Position	Responsibility
Graeme Rutter (20 years)	Head of RECaP	Business management, portfolio management & strategy
Jennifer Murray (20 years)	**Portfolio Manager**	**Portfolio management & strategy, fund monitoring**
Tony Doherty (14 years)	Portfolio Manager	Portfolio management & strategy, product sourcing & creation
Keeran Kang (7 years)	Portfolio Manager	Portfolio management & strategy, fund monitoring
Patrick Bone (8 years)	Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Gianlorenzo Paolella (7 years)	Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Marsha Reid (24 years)*	Fund Manager Assistant	Trade processing and risk monitoring
Shamaan Malik (9 years)*	Fund Manager Assistant	Trade processing and risk monitoring

Source: Schroders, March 2015. Numbers in brackets indicate years of experience
* Property Investment Support

Curriculum vitae

Geoffrey Day – Client Director

- Client Director in our dedicated Client Servicing team, based in London
- Joined Schroders in 1996
- Joined 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 – Fund Manager, Schroder Real Estate Capital Partners

- Twenty 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
- 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 (MRICS), holder of the Investment Management Certificate (IMC)

Source: Schroders, 31 December 2014

Important information

Participation in the Schroder Property Real Estate Capital Partners 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. The Schroder UK Property Fund is authorised by the Financial Conduct Authority (the "FCA") as a Qualified Investor Scheme ("QIS"). Only investors to whom a QIS can be promoted, as specified in COBS 4.12.4R of the FCA's Handbook, may invest in Schroder UK Property Fund. A QIS may not be promoted to a member of the general public.

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.

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BLACKROCK®

Shetland Islands Council Pension Fund
Shetland Islands Council Reserve Fund

Christopher Head, Head of UK Local Authorities, Institutional Client Business

20 May 2015

Agenda

BlackRock at a glance

BlackRock Mission Statement

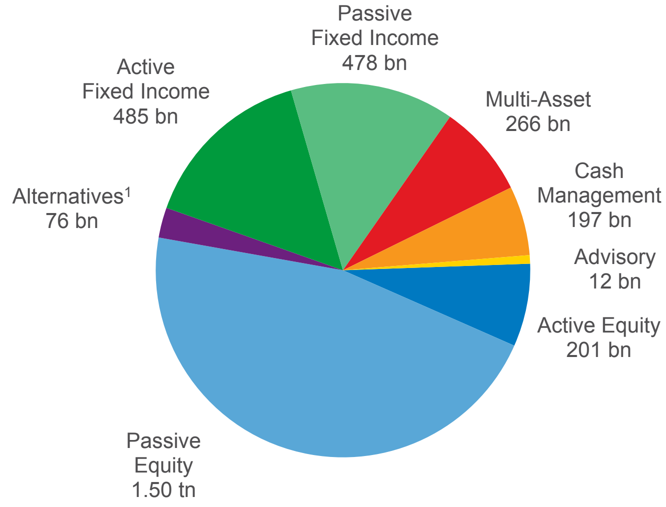
Create a better financial future for our clients by building the most respected investment and risk manager in the world

BlackRock facts *

- Established in 1988
- NYSE: BLK
- $4.77 trillion assets under management
- More than 12,000 employees
- More than 1,800 investment professionals **
- Offices in over 30 countries
- 28 primary investment centers **
- Clients in over 100 countries
- Over 700 iShares® ETFs
- Through BlackRock Solutions, the Firm provides risk management and enterprise investment services for over 200 clients
- Financial Markets Advisory business managed or advised on over $8 trillion in asset and derivative portfolios
- Transition Management team partners with clients to save costs and reduce risks when changing investment exposures

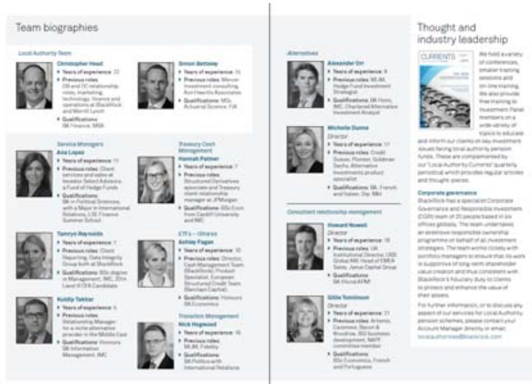
* As of 31 March 2015
** As of 31 December 2014

£3.22 trillion managed across asset classes



Assets as of 31 March 2015
[1] Includes commodity and currency mandates

BlackRock focus for LGPS



Our People

- LGPS team of 15 with responsibilities for:
  - Client relationship, service delivery, treasury services, alternatives expertise, exchange traded funds, transition services, investment consultants, and professional advisors.

Collaboration Efforts

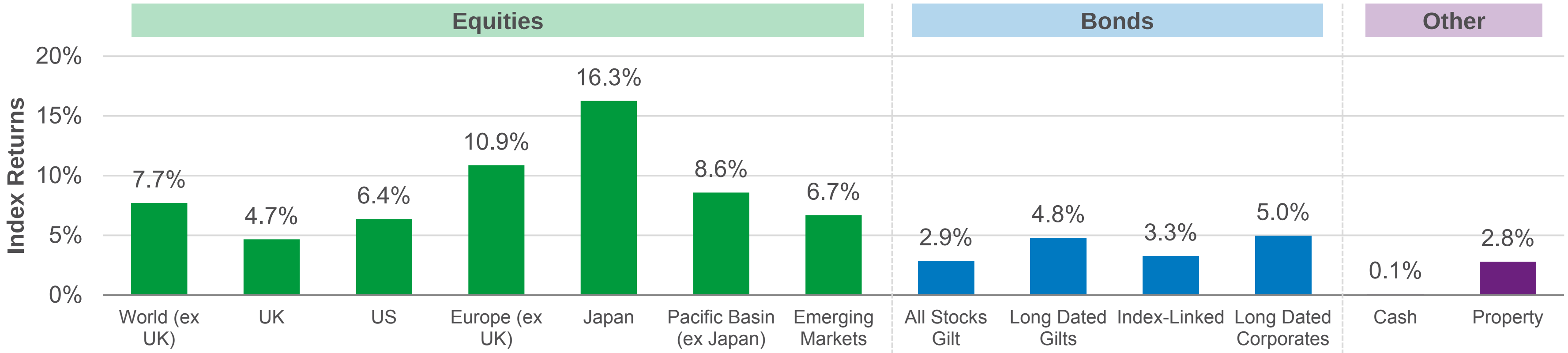
- London CIV
- National LGPS asset manager framework

Your Investments

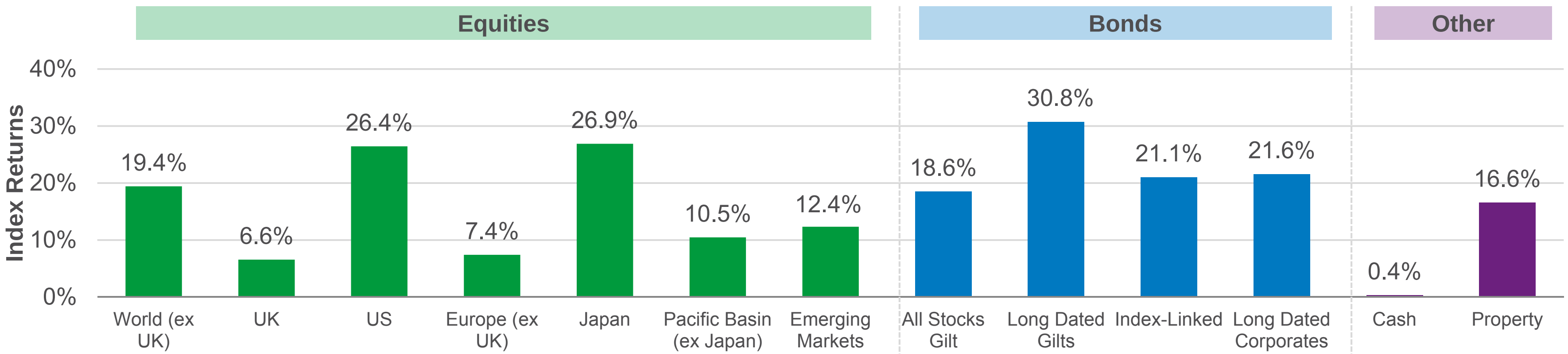
- Key themes for 2015 include :
  - Reduce Fund volatility and capture opportunities
  - Match long term inflation linked cash flows
  - Measure ESG impact

Market returns to 31 March 2015

3 Months Index Performance to 31 March 2015



12 Months Index performance to 31 March 2015



All returns shown in sterling, total return as of 31 March 2015. World (ex UK): FTSE AW DEV ex UK NET of TAX GBP, UK: FTSE All-Share TR Index, US: FTSE United States in GBP, Europe (ex UK): FTSE AW DEV Europe ex UK NET of TAX GBP, Japan: FTSE AW Japan NET of TAX GBP, Pacific Basin (ex Japan): FTSE AW DEV AsiaPac ex Japan NET of TAX GBP, Emerging Markets: MSCI Emerging Markets Index (Net), All Stocks Gilt: FTA All Stocks Gilts Index, Long Dated Gilts: FTSE AS Gilt 25+ Index, Index-Linked: FTSE Actuaries UK Index Linked Gilts Over 5 Years Index, Long Dated Corporates: iBoxx Sterling Non Gilt 15+ Index, Cash: London Interbank Bid Rate Aquila method (rate^days/365), UK Property: Investment Property Databank (IPD) All Balanced Property Funds Index. Source: BlackRock, 2015

Shetland Islands Council Pension Fund

Asset Class	Weight (%)	Value GBP (000s)
UK Equities	46.7	70,207
World ex-UK Equities	53.3	80,206
Cash	0.0	2
Total as at 31 March 2015	**100.0**	**150,416**
Total as at 29 April 2015 [1]		**151,635**

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

1. This valuation is currently unaudited

Source: BlackRock, 2015

Asset Class	3 Months		12 Months	
	Account	Index	Account	Index
UK Equities	4.7%	4.7%	6.6%	6.6%
World ex-UK Equities	8.0%	7.9%	n/a*	20.3%

The returns shown are as at 31 March 2015, client specific for 'Account', in sterling and gross of fees unless otherwise stated.

* 12 month Account return is not available as the investment was made in December 2014

Past performance is no guarantee of future results. Source: BlackRock, 2015

Shetland Islands Council Reserve Fund

Asset Class	Weight (%)	Value GBP (000s)
Global Equities	74.7	70,574
Emerging Markets Equities	25.3	23,918
Total as at 31 March 2015	**100.0**	**94,492**
Total as at 29 April 2015 [1]		**94,935**

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

1. This valuation is currently unaudited

Source: BlackRock, 2015

Asset Class	3 Months		12 Months	
	Account	Index	Account	Index
Global Equities	7.5%	7.5%	19.1%	19.1%
Emerging Markets Equities	7.2%	7.4%	12.8%	12.8%
Total	**7.4%**	**7.5%**	**17.5%**	**17.6%**

The returns shown, as at 31 March 2015, are client specific for ‘Account’, in sterling and gross of fees unless otherwise stated.

Past performance is no guarantee of future results. Source: BlackRock, 2015

Overview of the Transition – Council Pension Fund

The Council Pension Fund had previously around £320m assets managed by BlackRock. The assets were managed against a benchmark of 85% equity, 10% fixed income and 5% cash. The equity portfolio was managed using a number of regional equity funds.

Following an investment strategy review a new asset allocation was agreed which is summarised below:

Manager & Mandate	Value GBP
M&G, corporate bonds	34,000,000
Newton, diversified growth funds	68,000,000
KBI, diversified growth funds	68,000,000
BlackRock, UK equity	71,250,000
BlackRock, Overseas equity	78,750,000
Council Pension Fund	**320,000,000**

The transition to move the assets to be managed in line with the above asset allocation took place during November and December 2014. On the next page we provide the summary of the activity.

Overview of the Transition – Council Pension Fund

Stage 1 – Benchmark Suspension and £34m M&G investment

- Benchmark and performance monitoring was suspended
- For settlement date 27th November 2014, £34m were made available to fund the M&G's mandate.
- The proceeds were made available from selling Gilts, Corporate Bonds and Cash.

Stage 2 – £40m Newton investment

- For settlement date 11th December 2014, £40m were made available to fund the Newton's mandate.
- The proceeds were made available from selling £30m UK equities and £10m Cash.

Stage 3 – £96m Newton and KBI investments

- For settlement date 17th December 2014, £96m were made available to fund the Newton and KBI mandates.
- The proceeds were made available from selling UK, European, Japan, Pacific Rim equities and Cash.

Stage 4 – Restructuring of the £150m BlackRock mandate

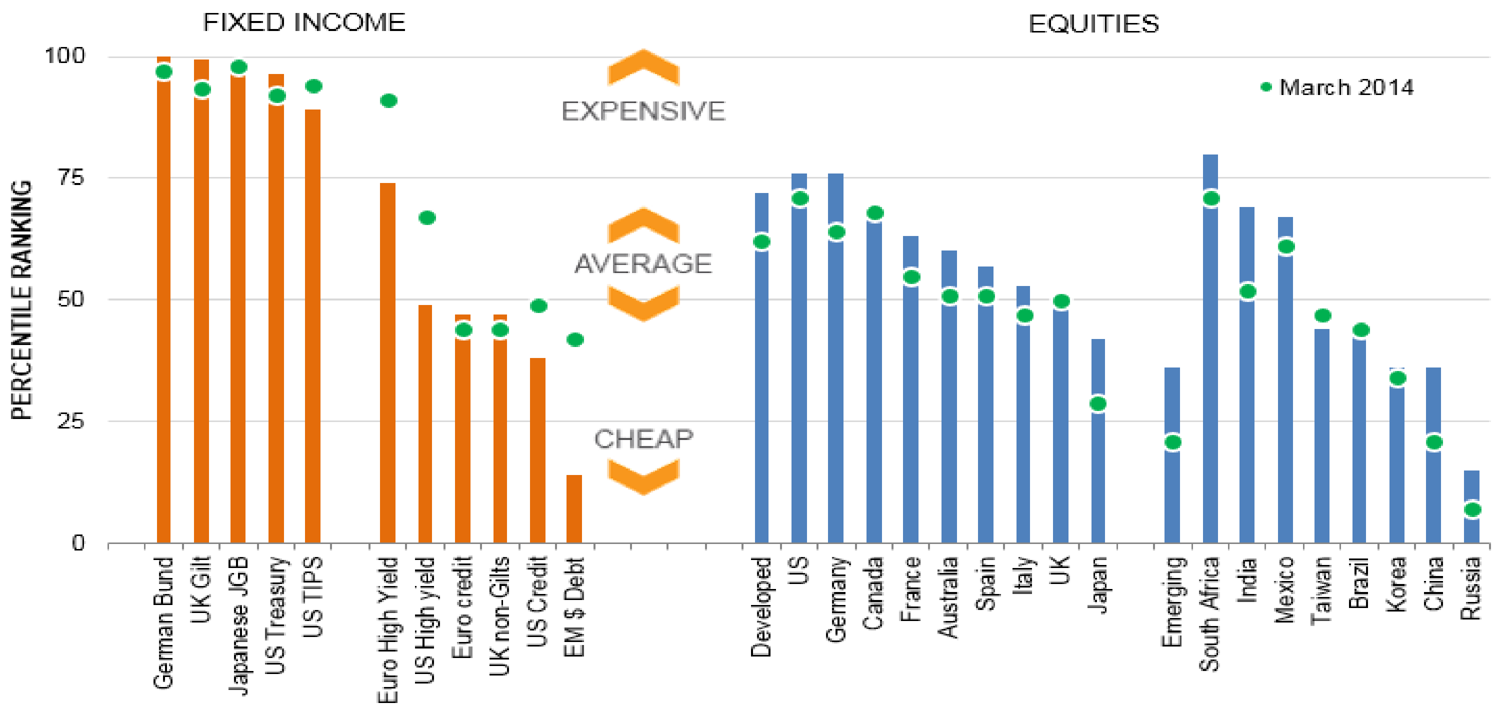
- The BlackRock mandate was agreed to be managed by two pooled funds; UK and World ex UK equities
- For settlement date 22th December 2014, the remaining holdings in the regional equity funds were transitioned into the World ex UK equity fund.

BlackRock's View of the World

Fewer Bargains

- Government bonds still expensive.
- Most equity markets have significantly revalued.
- This can still go further – but another 2014 will leave us all uneasy.

Valuations by Percentile vs. Historical Norms, March 2015



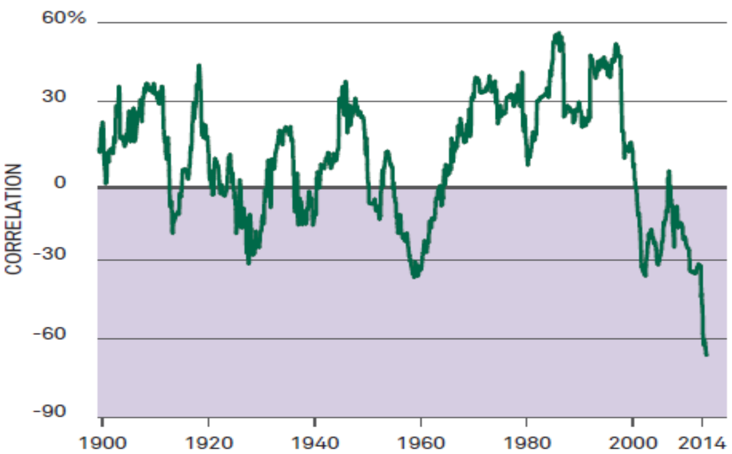
Sources: Thomson Reuters, BlackRock Investment Institute, 31 March 2015.

Back to a Volatile Normal

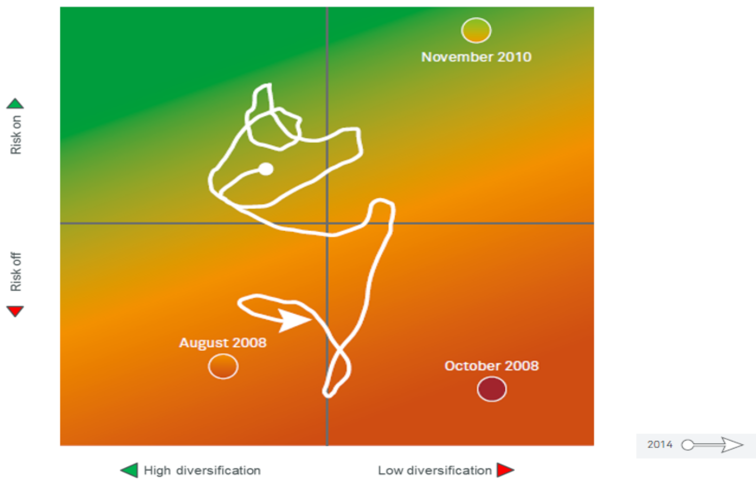
- Volatility in most assets classes is around 20-year median.
- Diversification in traditional equity and fixed income portfolios is challenged.
- Very little room for rates to fall further, implying cost of bonds to hedge equity exposure is rising.
- The cost of being wrong is increasing.

Realised Volatility by Asset Class 1994-2014

U.S. Equity and Bond Price Correlation, 1900–2014



Risk Tolerance Index vs. Multi Asset Concentration Index



Sources: BlackRock Investment Institute and Thomson Reuters, Top Right – December 2014

Winners & Losers from a Strong Dollar

- Stronger dollar equals de-facto monetary tightening.
- Japanese equities still underpinned by falling yen.
- Asia could go either way.
- Europe and UK earnings boosted.

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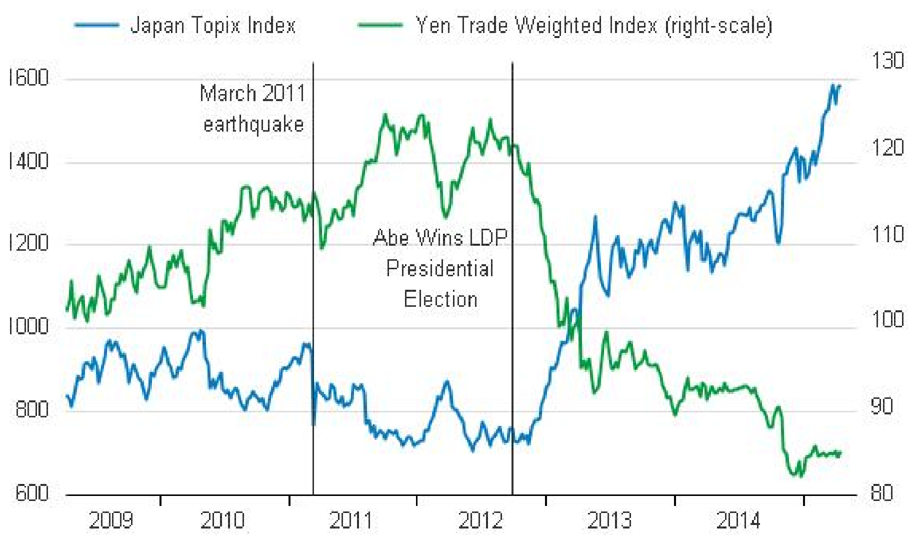
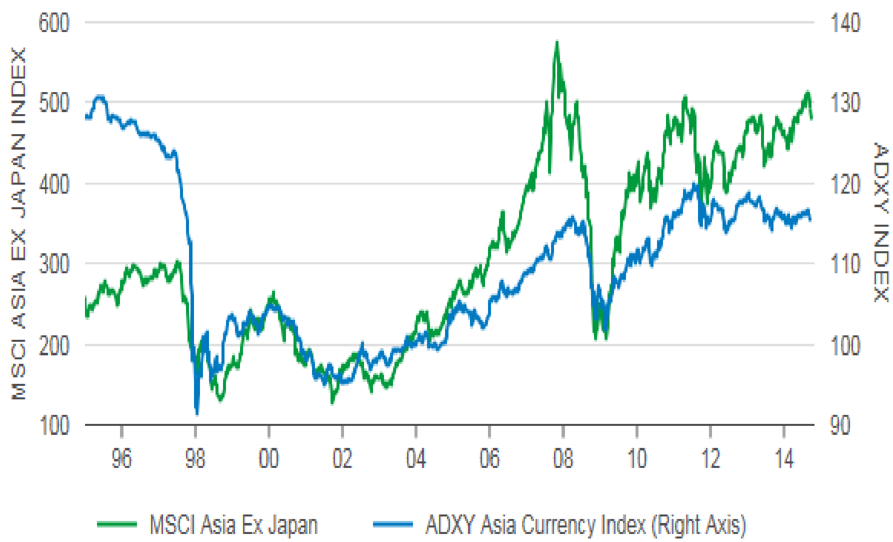
Japanese Equities & the Yen, 2008-2015



Asia Currency Index and Asia Ex-Japan Equities, 1994-2014



Sources: BlackRock Investment Institute, Thomson Reuters, April 2015

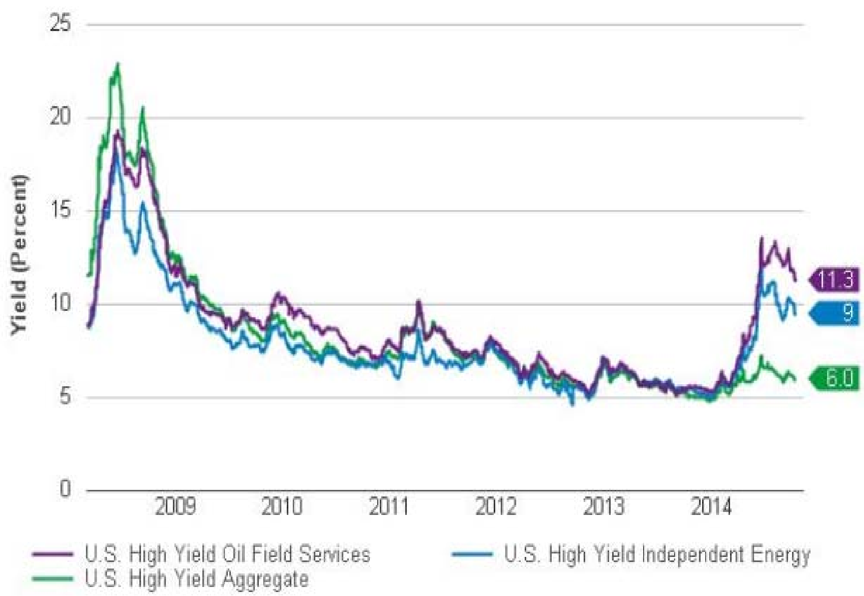
Oil Price Risks & Opportunities

- Big story of H2 2014 was the collapse in energy prices.
- Combination of increased supply (shale/Libya) meeting flaccid demand (China).
- Losers well identified: Energy equities, high yield issuers and sovereign issuers with oil exposure.
- Winners: consumer discretionary and energy importers.
- Spread decoupling across high yield energy issuers.

U.S. Hours to Buy a Gallon of Gasoline, 1990-2015

* U.S. average hourly earnings - total private non-farm divided by U.S. gasoline price

US High Yield Energy, 2007-2015

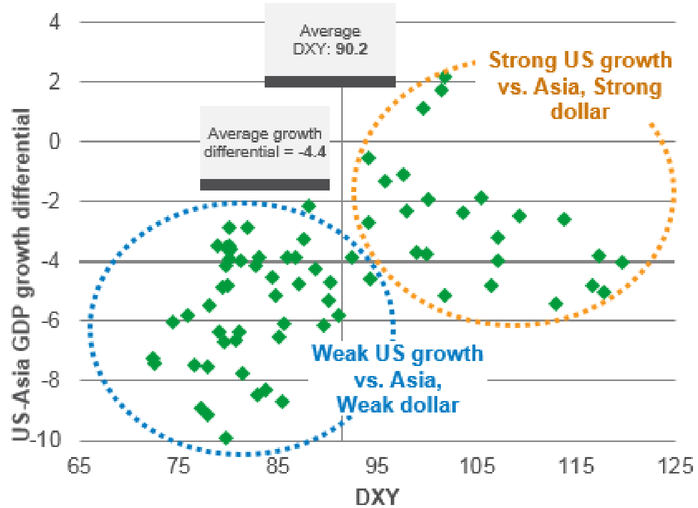


Sources: Thomson Reuters Datastream, BlackRock Investment Institute, April 2015

EM Equities do offer Value

- Critical component here is self help.
- Of its self valuation tells nothing.
- Think about EM in different buckets
  - Early reformers (China, India, Indonesia)
  - Ageing markets (Chile, Mexico, Korea, Taiwan)
  - Volatile trenders (Brazil, Turkey)
  - Commodity driven (Brazil, Chile, Peru, Mexico)
  - Commodity winners (India, Korea, Taiwan, Thailand)

USD Strength Correlates well with Relative Growth Rates



Emerging vs. Developed Equities, 2004-2015

Sources: Thomson Reuters Datastream, BlackRock Investment Institute, April 2015

2015 Base Case

Growth & Policy

- U.S.: modest rise in rates from September.
- Eurozone growth exceeds low expectations.
- Japan monetary stimulus supports equities.
- China monetary easing to avoid deflation risk.

Our Investments

Equities

- Japan and Europe
- U.S. cyclicals

Fixed Income

- Credit over sovereign debt
- Hard currency sovereign EM debt

Alternatives

- Income-paying real assets i.e. property and infrastructure

Contrarian Trades

- Beaten-up commodities (H2)

Curve balls

- Negative nominal rates and bond supply/demands dynamics seriously distort prices.
- The U.S. dollar strength is not a straight line.
- Volatility returns, making momentum strategies costly.
- Limited stock – bond diversification

Appendix

CORPORATE GOVERNANCE SNAPSHOT

BLACKROCK®

JANUARY 2015

Our half-yearly snapshot highlights the latest themes identified by our Corporate Governance and Responsible Investment (CGRI) team. In this issue, we focus on:

- Changes to UK Corporate Governance Code
- Audit reform
- Human capital

AMRA BALIC
Managing Director

REGULATION – CHANGES TO THE UK CORPORATE GOVERNANCE CODE

During the second half of the year, the UK Financial Reporting Council updated the Corporate Governance Code with changes to a number of topics, including going concern, executive remuneration and shareholder engagement. The revised Code is intended to promote the inclusion of a 'viability statement' in the Strategic Report, providing investors with an improved forward-looking assessment of the long-term solvency and liquidity of the company.

The revised Code places greater emphasis on ensuring that executive remuneration is designed to promote the long-term success of the company and the sustained creation of shareholder value, focusing less on attracting and retaining talent. **Given this, we expect future engagements on remuneration to increasingly focus on how the design of executive incentive schemes acts as a support function to the sustainable creation of long-term returns.** The revised Code also encourages companies to explain how they intend to engage with shareholders when a significant percentage of shareholders have voted against a resolution. **As a result of this, there will likely be increased engagement activity following a significant vote against pay, especially outside the proxy season (i.e. during the second half of the year).**

AUDIT

As discussed in our first issue of Corporate Governance Snapshot, during H1 2014 we engaged frequently on audit-related issues with UK issuers, who seem to be responding to a structurally-changed market by tendering audit more frequently. And coupled with increasing investor awareness on the value of audit themed engagements and an expectation in the reduction of the average audit tenure, more issuers have approached investors wanting to ensure that they fully understand their tendering process. **Despite the relatively recent changes to the audit market, we expect the increase in audit-related engagement to continue as more UK issuers begin to tender their auditing services on the back of legislative changes.**

At BlackRock, we view corporate governance in an investment context. We believe that a sound corporate governance framework promotes strong leadership from boards of directors and good management practices, which in turn help companies to achieve better returns for our clients. Our CGRI team develops and applies our environmental, social and governance framework.

HUMAN CAPITAL

In recent years, the CGRI team has increasingly focused its engagement efforts on human capital, driven by our belief that effective human capital management can be a driver of competitive advantage and contributor to sustainable shareholder returns over the long-term. Research shows that employee satisfaction is associated with positive abnormal returns in certain markets, while reputational issues associated with employee relations and safety issues can be an economic issue for investors.

Although human capital management challenges manifest themselves in different ways depending on the industry concerned, we expect boards of directors to dedicate more attention to ensuring the appropriate internal mechanisms are in place for attracting, incentivizing and retaining human capital, while ensuring safe working conditions and human rights protections in their global supply chains. **As such, we think companies will become increasingly active in discussing human capital with their investors, and we expect this topic to be an integral part of our future engagement efforts alongside more traditional corporate governance subjects.**

HUMAN CAPITAL: AN EXAMPLE OF EFFECTIVE ENGAGEMENT

Over the past four years, we have been engaging with a UK public transport company on issues concerning freedom of association, and staff and operational safety at its school bus operations. These engagements were initiated after a union raised concerns by claiming that the company had been neglecting the safety and treatment of its workers while discouraging union membership, thereby running major reputational and financial risks. In response to the concerns raised, we engaged with the company to understand the issues and asses its ability to carry out operations safely, and any potential impact on retaining and acquiring new operating licences.

During the engagement period, the company has significantly improved its transparency, while the number of injuries and accidents to employees has decreased considerably. It has also continued to deliver industry-leading retention rates of targeted contracts, and enjoyed a very successful bus bid season, all while achieving high levels of customer satisfaction. A further encouraging sign came when Board appointed a new non-executive director, currently Group Head of HR at a large UK plc, a move that we believe demonstrates a commitment to the essential matter of human capital. Despite these improvements, we will continue to engage with the company as its future success is dependant on its human capital and the safety of its transport operations.

Want to know more?

+44 (0)20 7743 3300 institutional.enquiries@blackrock.com blackrock.co.uk

Source: BlackRock. All data as at December 2014 unless otherwise stated.

BlackRock®

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BlackRock at-a-glance

134 investment teams located in 18 countries connect through a common culture and operating platform

Diverse client base represented by more than 65 offices in over 30 countries

Daily global meeting for BlackRock's 1,900+ investment professionals to discuss markets, portfolio positioning and ongoing trends

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

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Agenda Item
2

Shetland Islands Council

Shetland Islands Council **20 May 2015**

Fund Management Annual Investment Report 2014/15	
F-017-F	
Report Presented by Executive Manager - Finance	**Corporate 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 2014/15.

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 2014/15. 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 2014/15 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 dissatisfaction the performance of Baillie Gifford (diversified growth fund and equity fund) in 2014/15;

- note the performance of Insight (bond fund) in 2014/15;

- note with dissatisfaction the performance of BlackRock (passive equity fund) in 2014/15.

3.0 Detail

3.1 The Council has three Fund Managers, with total investments under management at the end of March 2015 of £278 million.

3.2 On 26 June 2014 (SIC Min. Ref. 58/13) the Council approved a new investment strategy. The reorganisation of the Council's Reserves occurred at the end of September 2013, with performance monitoring of the new strategy commencing at the start of October 2013. The new investment strategy resulted in a new Passive Equity mandate being awarded to BlackRock, and a new Diversified Growth Fund mandate being awarded to Baillie Gifford.

3.3 As per the new investment strategy the Council's Reserves are now invested with three Fund Managers Baillie Gifford, Insight and BlackRock. Their specific mandates and benchmark percentage allocations are as follows:

Manager	Fund	% of Reserves
Baillie Gifford	Active Equities Diversified Growth Fund	25% 17.5%
Insight Investment Management	Bonds Liquid Bond Fund	15% 12.5%
BlackRock	Passive Equities	30%

These allocations were set when the investment strategy was put in place at the end of September 2013. Since then markets have moved and funds have been recalled and injected. Recalls were from Insight's Liquid Bond Fund, which was set up for this purpose. These movements have altered these percentages but any cash injections were used to keep the percentages (excluding liquid bond fund) in line with expectations, with no corrective action required. Insight is therefore now well below their initial 27.5% allocation, as the Liquid Bond Fund has decreased, hence the percentages at section 3.4.

3.4 The managers, percentage of Reserves and market value are as shown below:

Manager	% of Reserves	Market Value £ million 2015	Market Value £ million 2014
Baillie Gifford	48%	133	96
Insight	18%	51	47
BlackRock	34%	94	61
		278	204

3.5 Baillie Gifford, Insight and BlackRock will all give presentations at this Council meeting concerning their investment performance over the year to end March 2015.

3.6 Karen Thrumble will attend the meeting from State Street Global Services. State Street Services independently monitor, review and report on a quarterly basis the performance of each Fund Manager. At this meeting Ms Thrumble will present her analysis of the performance of each Fund Manager relative to the markets they invest in, before that Fund Manager gives a presentation to the Council.

3.7 Along with this report are presentational documents from each of the Fund Managers, plus a performance analysis report from State Street.

3.8 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 a 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.

3.9 At section 4 this report presents a review and comparison of each Fund Manager in turn and a comparison of their performance in 2014/15 against the relevant market's performance where they were asked to invest, and also against any additional out performance target they were asked to achieve.

3.10 Due to the nature of the investments the Fund Managers are investing into, a long term investment view is appropriate, generally a five year period. The report therefore looks not only at each manager's performance over 2014/15 but also at their performance over a five year period, or from inception of the mandate if that is shorter.

3.11 This report concentrates on Fund Manager performance relative to the markets but there is a 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.

3.12 The following table shows the effect on the fund due to withdrawals/additions, the investment return over the financial year to March 2015 and as a comparison the previous financial year.

	Council Funds £ million	
	2014/15	2013/14
Opening Value	204	206
Additions/(Withdrawals)	46	(16)
Investment Return	28	14
Closing Value	278	204

3.13 During 2014/15 the value of the Council's reserves increased by £74 million.

3.14 The figures show an overall investment return of £28 million for the financial year 2014/15. This equates to an investment return of 11.5%. The return was predominately from the equity markets, plus active fund management in those markets.

3.15 During the financial year to March 2015 there were additions into the Council Funds totalling £46 million; £20.5 million to BlackRock and £25.5 million to Baillie Gifford. The largest portion of the additions relates to £31 million of borrowing by the Council from the Public Works Loan Board (PWLB). A further £5 million relates to a payment from the Government as per an agreement on the Council's housing debt.

3.16 There were no withdrawals from the Council Funds during 2014/15.

3.17 The 2014/15 market performance by asset class is set out below:

		%
Equities:	UK	6.6
	North America	25.1
	Europe (Ex UK)	7.5
	Japan	27.1
	Pacific	12.7
	Emerging	19.9
Bonds:	UK Index Linked Gilts	18.5
	UK Corporate	13.9
Property		18.3
Cash		0.3

3.18 All asset classes produced positive returns during 2014/15. Equity market returns varied considerably, from the UK at 6.6%, to very impressive figures from Japan and North America with 27.1% and 25.1%. The bond and property sectors also had a good year with both sectors returning double digit figures.

3.19 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. Each Fund Manager is asked to outperform the market return, i.e. a UK equity scenario in 2014/15 where a Fund Manager is asked to outperform the market by 2% would equate to an 8.6% target return.

3.20 While this report reviews performance in 2014/15; a brief update for the start of the financial year sees continued uncertainty surrounding Ukraine with sanctions against Russia. There are still real economic problems in Europe with Greece remaining in the headlines. The US and UK have seen some improved economic figures with speculation about when interest rates may start to move upwards.

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.

Baillie Gifford

4.4 Baillie Gifford has managed this fund since 2001.

4.5 Baillie Gifford's fund was reorganised as per the new investment strategy at the end of September 2013. Baillie Gifford's mandate before October 2013 was invested against a benchmark comprising two of their funds, the UK Alpha Fund 39% (UK equities), and the Global Alpha Fund 61% (overseas equities).

4.6 In line with the new investment strategy Baillie Gifford's mandate was reorganised with a new benchmark from October 2013. This benchmark comprises 30% UK Alpha Fund, 30% Global Alpha Fund and 40% in a Diversified Growth Fund.

4.7 The performance target for this fund is to beat a specific benchmark by 2.5% per annum. Prior to October 2013 the target was 1.5%.

4.8 The following table sets out in summary the performance of Baillie Gifford versus the benchmark and the performance target in 2014/15, 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 (%)
2014/15	9.1	-0.4	-2.9
Five years 10/11 to 14/15	73.4	15.8	7.5

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.

4.9 Baillie Gifford returned 9.1% in 2014/15, which was 0.4% below the benchmark return and 2.9% below the target return. The 9.1% return is welcome but it is a disappointing performance from Baillie Gifford as the market return was greater.

4.10 On a cumulative basis over the five-year rolling monitoring period Baillie Gifford are 15.8% above the overall benchmark return, and 7.5% above the target. The fund has over the five-year period increased in value by 73.4%, which equates to a return of 11.6% per annum.

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

Insight

4.12 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.

4.13 Insight's fund was reorganised as part of a new investment strategy in September 2013. Insight's mandate before October 2013 was 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.

4.14 In line with the new investment strategy Insight's mandate was reorganised with a new benchmark from October 2013. This benchmark comprises a bond portfolio with 33.3% in Corporate Bonds, 33.3% in Index Linked Gilts and 33.4% in a bond fund benchmarked against a 3 month cash index.

4.15 Insight also has another portfolio, which is invested in cash and a short dated bond fund. This fund is benchmarked against a cash benchmark. This fund will be used for any future cash recalls from Reserves, which will leave the long term investments alone.

4.16 Insight's performance target for this fund is to beat the specific benchmark by 1.2% per annum. Prior to October 2013 the target was 1.5%.

4.17 The following table sets out in summary the performance of Insight versus the benchmark and the performance target in 2014/15, 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 (%)
2014/15	11.5	0.1	-1.1
Five years 10/11 to 14/15	45.2	5.7	-0.9

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.

4.18 Insight returned 11.5% in 2014/15, which was 0.1% above the benchmark return and 1.1% below the target. The Fund has narrowly outperformed the market return in a rising bond market during 2014/15.

4.19 On a cumulative basis over the five-year rolling monitoring period Insight are 5.7% above the overall benchmark return, and 0.9% below the target. The fund has over the five-year period increased in value by 45.2%, which equates to 7.7% per annum.

4.20 Insight has over the long term outperformed the benchmark and added value to the fund.

BlackRock

4.21 BlackRock has managed this fund since October 2013, when it was transferred from GMO. This fund transfer was part of the changes required as per a new investment strategy.

4.22 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.

4.23 BlackRock's benchmark for this fund is based on 75% Global Equities and 25% Emerging Market Equities. 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 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.

4.24 The following table sets out in summary the performance of BlackRock versus the benchmark in 2014/15 and also on a cumulative basis since inception.

Fund Performance versus Benchmark

	Fund Return (%)	Performance v Benchmark (%)
2014/15	17.2	-0.3
18 Months Oct 2013 to Mar 2015	20.6	-0.2

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

4.25 BlackRock returned 17.2% in 2014/15, which was 0.3% below the benchmark return. This shows the fund has mirrored the high market return closely.

4.26 On a cumulative basis over the eighteen month rolling monitoring period the fund is 0.2% below the benchmark return. Over this period the fund has increased in value by 20.6%.

5.0 Future Annual Investment Review Meetings

5.1 To improve the governance procedures in relation to the Council's monitoring of the external investments, the Policy and Resources Committee will receive a new quarterly investment performance report covering all of the Council's Fund Managers.

5.2 The Policy and Resources Committee on reviewing the quarterly report can if they believe it would be beneficial request a presentation from a Fund Manager, to find out more about a specific mandate or question that manager about their performance.

5.3 A review of the arrangement will be reported as part of the first quarterly report.

6.0 Implications

Strategic

6.1 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.

6.2 Community /Stakeholder Issues – None.

6.3 Policy And/Or Delegated Authority – In accordance with section 2.2 of the Council's Scheme of Administration and Delegations, the Policy and Resources 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.

6.4 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.

6.5 Equalities, Health And Human Rights – None.

6.6 Environmental – None.

Resources

6.7 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.

Fund Manager fees are calculated based on a percentage of the value of the fund managed. Fees will fluctuate as funds increase or decrease in value.

6.8 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.

6.9 Human Resources – None.

6.10 Assets And Property – None.

7.0 Conclusions

7.1 During 2014/15 Insight outperformed their bond benchmark but they did not achieve their target. Baillie Gifford underperformed their benchmark and target in 2014/15. Over the five year period both Insight and Baillie Gifford are above their benchmark and target. BlackRock was just below their benchmark in 2014/15, and over the eighteen month period they have managed this mandate they are close to the benchmark return which they are trying to replicate.

7.2 During 2014/15 the equity, bond and property markets all rose significantly producing good returns. These markets along with the Fund Managers' management of the funds helped to contributed £28 million in investment returns to the Council's reserves during 2014/15.

For further information please contact:
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END

BAILLIE GIFFORD

Shetland Islands Council Miscellaneous Fund

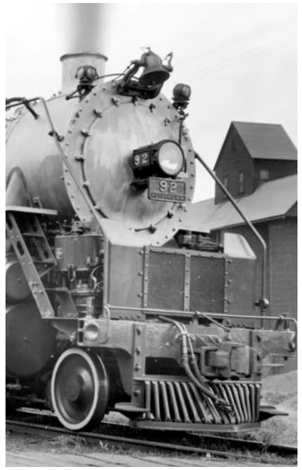
20 May 2015

Tim Gooding and Barry Templeton

Baillie Gifford

Long established asset management partnership

— Stability: organic growth since 1908
— Autonomy: owned by 40 full-time partners
— Single focus: investment management
— Managing assets for you since 1986

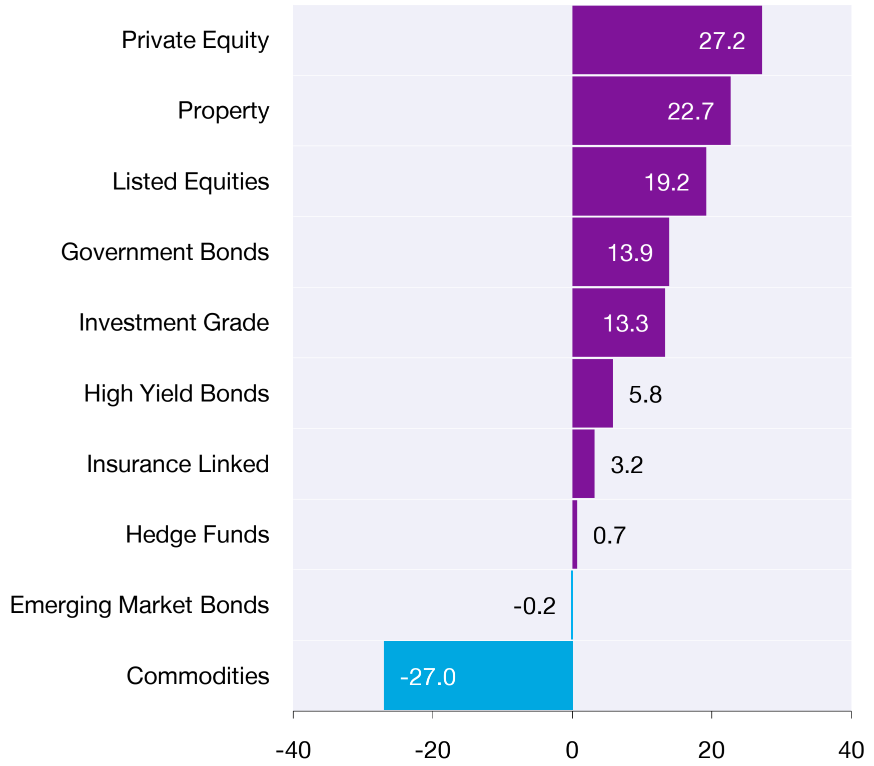


Investment Backdrop

Investment markets saw varied performance with both bonds and equities delivering positive returns

Commodities fell sharply in the last quarter of 2014, driven mainly by the decline in the oil price

Asset Class Returns During 12 Months to 31st March 2015 (%)



Note: Asset Class Returns presented above relate to market indices; the returns do not relate to the Diversified Growth Fund

Fund Performance – Miscellaneous Fund

	Fund (Net) %	Benchmark %
Since Inception* to 31st March 2015 (p.a.)	7.7	6.0
5 Years to 31st March 2015 (p.a.)	11.5	8.4
3 Years to 31st March 2015 (p.a.)	12.7	10.8
12 Months to 31st March 2015	9.1	9.5

Source: WM
* 30th March 2001

Contributors to returns:

- A wide range of companies contributed to returns
  - Royal Caribbean Cruises, Naspers and Fiat Chrysler Automobiles
- Oil and gas names have detracted from performance
  - Ultra Petroleum and Weir Group
- In your Diversified Growth Fund all asset classes generated positive returns

Global Alpha - Research Agenda in 2015

CONTINUED US RESURGENCE

New Purchase:
- Zillow

Added to:
- CRH

INCREASING GLOBAL DIVERGENCE

Commodity prices leading to some weaker economies e.g. Latin America
- Arcos Dorados weak
- Sold Norsk Hydro

POSITIVE REFORM AGENDAS

We have taken a second Indian holding
- HDFC

Strong equity returns in Europe – heralding an economic recovery?

Strength in a range of European share prices
- Fiat Chrysler Automobiles, Volvo, Carlsberg

INNOVATION, CHANGE AND DISRUPTION

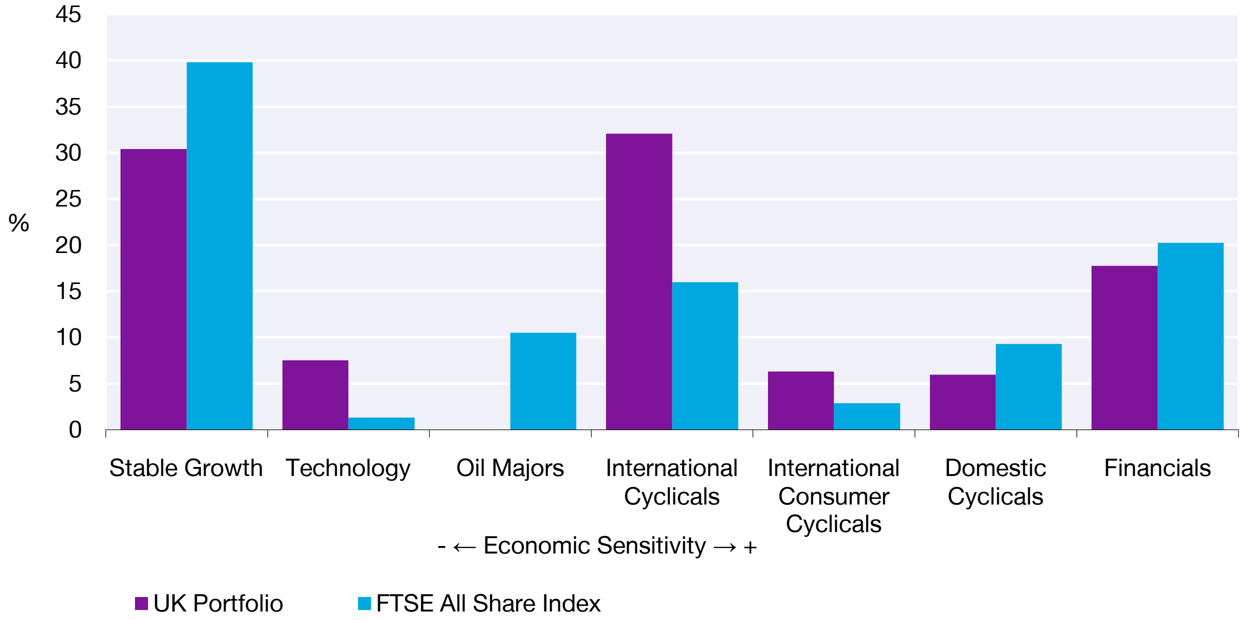
New Purchase:
- Financial Engines

Added to:
- SAP, Alibaba

Image Sources: ©Kim Kulish/Corbis, © JODY AMIET/AFP/Getty Images, © Bloomberg/Getty Images

UK Portfolio Overview

31st March 2015



Source: Baillie Gifford, as at 31st March 2015, based on a representative portfolio

The fund remains biased towards international cyclical companies

Stock selection opportunities in domestic cyclicals

Diversified Growth – Objectives and Features

Now 40% of your total portfolio

Dual objectives

- Return: To outperform the UK base rate by at least 3.5% per annum (net of fees) over rolling 5 year periods
- Risk: Annualised volatility of less than 10% over rolling 5 year periods

Features

- Broad opportunity set
- Flexible asset allocation
- Robust investment process

Performance Attribution – 12 Months to 31st March 2015

Attribution

- Positive returns from all asset classes
- No one asset has dominated returns

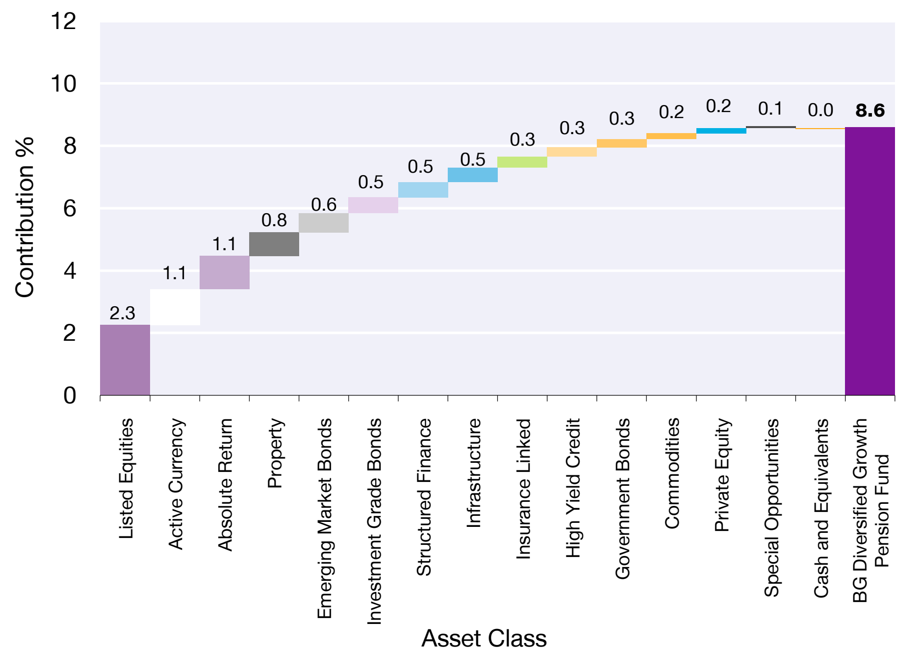
Outlook

- Continued supportive monetary policy and lower oil prices should support global growth

Valuation

- Many asset classes appear priced to deliver lower returns than in recent years

Attribution – 12 Months to 31st March 2015



Ave. Weight %	18.2	-0.1	7.4	2.3	13.0	7.7	12.8	4.5	4.9	11.3	2.7	5.9	2.2	0.6	6.7
Return %	11.3	1.1	13.9	36.9	1.8	5.5	3.1	10.1	6.6	1.5	10.2	0.4	6.7	8.8	0.1

Source: Statpro, Baillie Gifford & Co, gross of fees in sterling. Total may not sum due to rounding
BG Diversified Growth Pension Fund

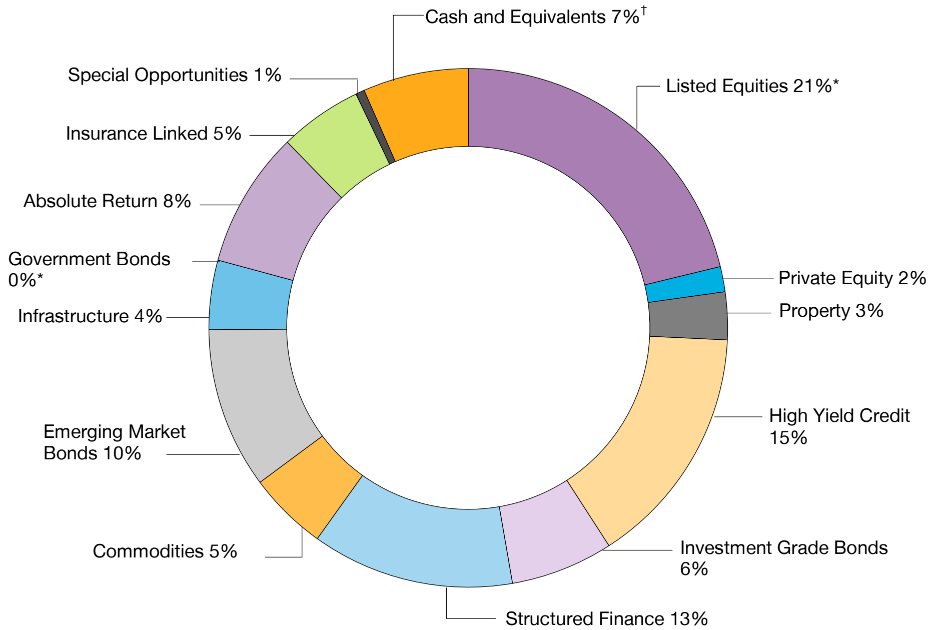
Positioning

A broadly diversified portfolio remains appropriate

Invested across a broad range of asset classes

We remain confident that the Fund can deliver on its objectives

Asset Allocation



BG Diversified Growth Fund, as at 31st March 2015
Source: Baillie Gifford & Co
Totals may not sum due to rounding

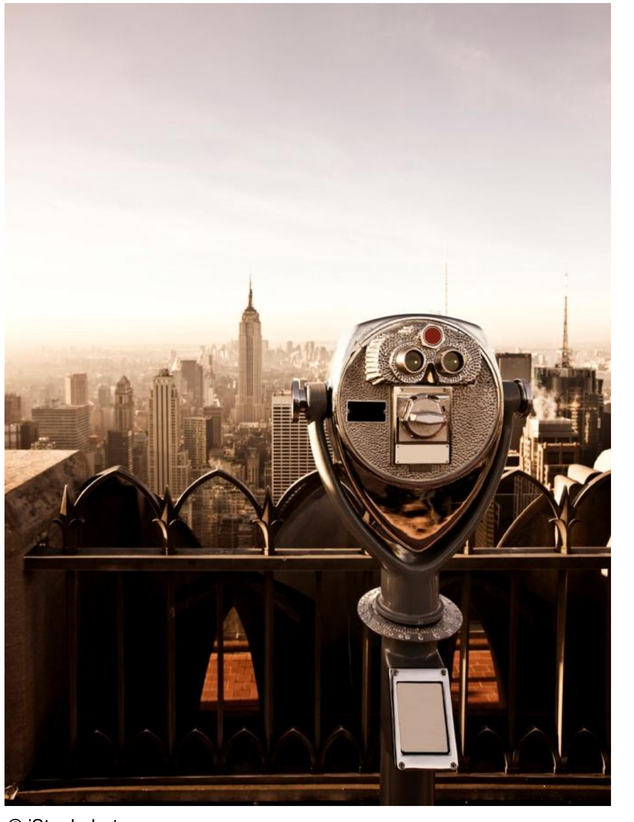
* Exchange traded futures are used either to gain exposure to asset classes (with all such ‘long’ positions fully backed by cash and therefore shown at their exposure weight) or to hedge existing investments against adverse market movements (with all such ‘short’ positions shown at their net unrealised profit or loss). As at 31 March 2015, the allocation to listed equities includes a long position in European dividend futures (equivalent to 2.9% of Fund) and a short position in S&P 500 Index futures (equivalent to 3% of Fund) as a hedge against a fall in equity markets. The allocation to government bonds includes a short position in US 10 Year Treasury futures (equivalent to 2.6% of Fund) as a hedge against portfolio exposure to interest rate risk.

†Includes net Active Currency position

Outlook

Wide range of investment ideas coming up through our investment process

Whilst there remain challenges to the portfolio, we expect that a measured approach with a long-term mindset will enable us to navigate them successfully



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Appendices

Valuation

	31st March 2014	31st March 2015	30th April 2015
UK Equities (%)	26.9	29.6	30.7
Overseas Equities (%)	33.3	30.5	29.6
Diversified Growth (%)	39.8	39.9	39.7
Total (%)	100.0	100.0	100.0
Total Value	£96,284,754	£133,021,691*	£133,585,353

* £25.5m added to the portfolio during the year to 31st March 2015

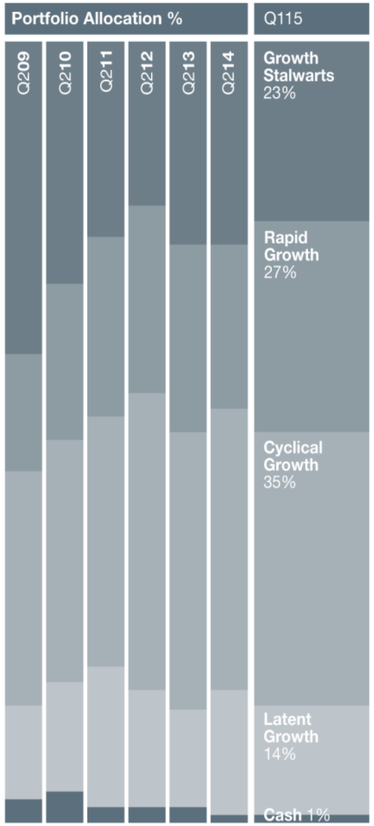
Global Alpha Portfolio

Holding Size	Growth Stalwarts 20.8%	Rapid Growth 28.1%	Cyclical Growth 34.6%	Latent Growth 14.9%	Total
c.2.0%	Anthem Nestlé Moody's SAP	Naspers Amazon Ryanair Google AIA Baidu	Royal Caribbean Cruises TSMC TD Ameritrade Markel First Republic Bank CarMax M&T Bank Harley-Davidson	Samsung Electronics CRH	**41.5%**
c.1.0%	Visa Mastercard Schindler Waters Colgate-Palmolive Monsanto Qualcomm Xilinx American Express DIA Olympus	eBay Schibsted Alibaba ICICI Bank Myriad Genetics CyberAgent Mindray TripAdvisor Tesla Motors	EOG Resources Atlas Copco Svenska Handelsbanken Martin Marietta Materials SMC Lincoln Electric Brambles Tokyo Electron THK Teradyne C.H. Robinson Jardine Matheson Deutsche Börse	MS&AD Insurance Inpex Fairfax Financial FLIR Bank of Ireland Dolby Laboratories Fiat Chrysler Automobiles Carlsberg Ultra Petroleum	**43.7%**
c.0.5%	Praxair Coca Cola HBC Tsingtao Brewery	Japan Exchange Group Facebook Qiagen Financial Engines HDFC Seattle Genetics Zillow BM&F Bovespa Dragon Oil Twitter Intuitive Surgical Shandong Weigao Arcos Dorados	Richemont DistributionNOW Volvo Ritchie Bros Auctioneers SK Hynix Leucadia National	Rohm China Resources Enterprise Howard Hughes Sberbank Jyske Bank	**13.2%**

Source: Baillie Gifford, as at 31st March 2015. Cash: 1.6%

Global Alpha Portfolio Activity

Recent Portfolio Activity (12 Months to 31st March 2015)



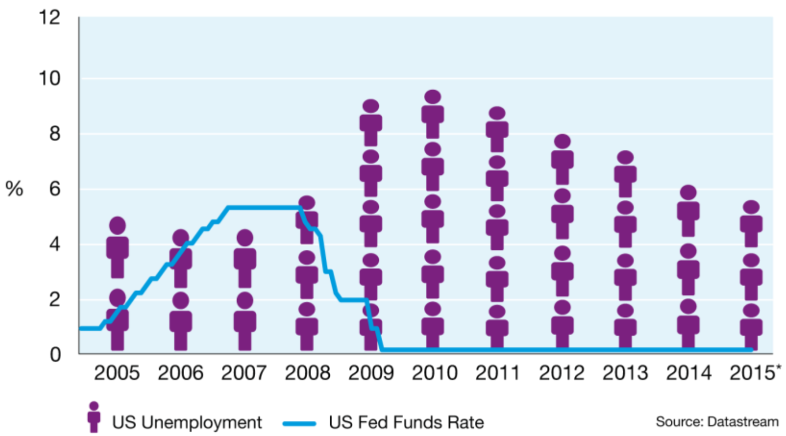
New Buys	Additions	Complete Sales	Reductions
Monsanto	SAP Colgate-Palmolive Anthem	Roche PepsiCo	Moody's
Financial Engines Zillow CyberAgent HDFC Bank Alibaba	Schibsted Amazon TripAdvisor AIA	Altera Illumina Bank Negara Indonesia	eBay
DistributionNOW Leucadia National	Martin Marietta Materials	Norsk Hydro Investor Deere Walt Disney Recall Holdings	
Fiat Chrysler Automobiles MS&AD Insurance	Bank of Ireland CRH Howard Hughes Sberbank	New York Community Bancorp Progressive Teradata Namco Bandai China Mobile	Fairfax Financial

The above list shows all new buys, complete sales, additions and reductions for Baillie Gifford International Fund between 1st April 2014 and 31st March 2015.
Portfolio allocation based on a representative portfolio

Global Alpha Research Agenda 2015

Continued US resurgence

US Unemployment and the Fed Funds Rate, 2005-2015



Source: Datastream

* January 2015

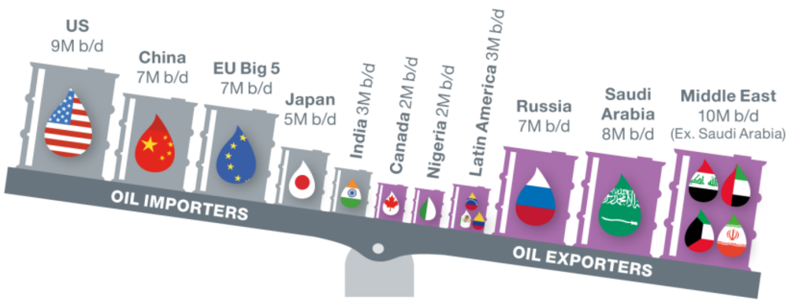
The Fed fund rate remains 0.25% despite falling unemployment

Further improvements in the housing market & the follow on effect on construction activity

The impact on consumers of falling gasoline prices – a tax cut of U$125bn

Increasing global divergence

Selected Oil Net Import and Export Volumes, 2013



b/d = barrels per day. EU Big 5: Germany, France, Spain, Italy, UK. Middle East: Iran, Kuwait, UAE, Iraq Latin America: Brazil, Colombia, Mexico, Venezuela.

Source: BP Statistical Review of World Energy 2014

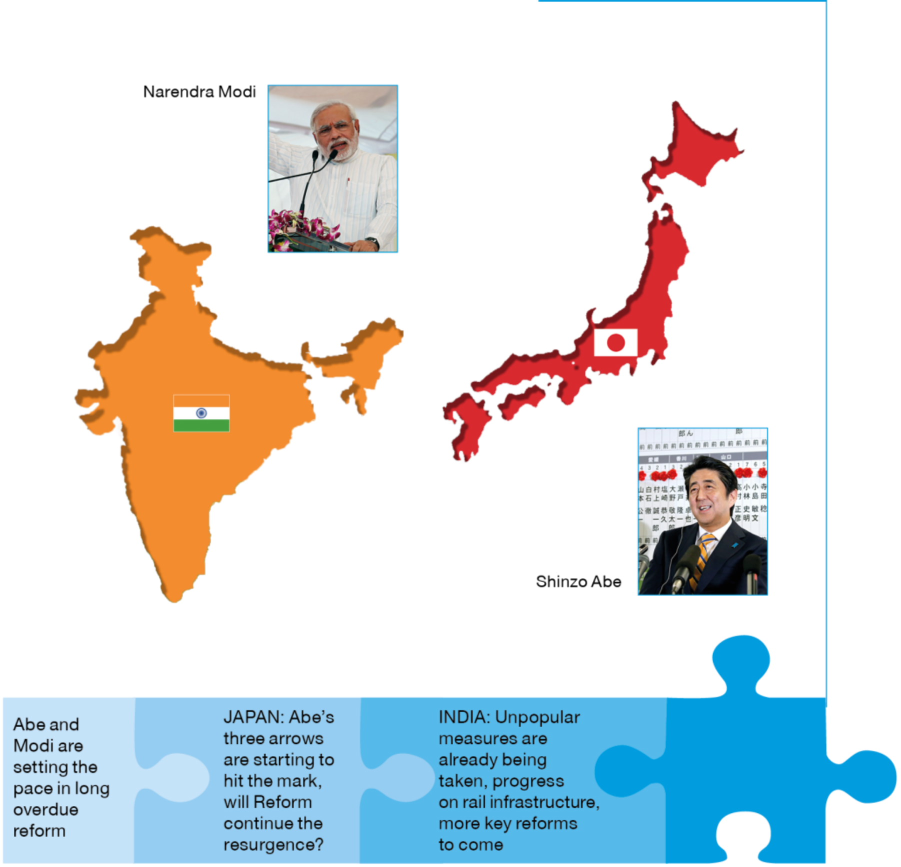
Which countries are vulnerable owing to external debt?

Broader commodity weakness impacting Brazil, South Africa, Chile

Falling oil prices are a boon for some, and a headwind for others

Global Alpha Research Agenda 2015

Positive reform agendas



Innovation, accelerating change and disruption

UK Portfolio – List of Holdings

	%
Consumer Services	24.1
Rightmove	7.8
ASOS	4.0
Ocado Group	3.6
Carnival	2.5
Mitchells & Butlers	2.3
Pearson	2.2
Auto Trader	1.7
Financials	20.4
Hargreaves Lansdown	5.0
Schroders	4.9
Standard Chartered	3.4
Jupiter Fund Management	1.9
Intermediate Capital	1.8
IP Group	1.7
Amlin	1.7

	%
Industrials	15.7
Renishaw	2.9
Spectris	2.5
Keller	2.2
Experian	2.1
Intertek	1.9
Aggreko	1.6
Weir Group	1.5
Oxford Instruments	1.0
Basic Materials	11.0
Johnson Matthey	5.4
BHP Billiton	2.7
Rio Tinto	2.3
KAZ Minerals	0.6

	%
Consumer Goods	10.3
Imperial Tobacco	4.3
Diageo	3.1
SABMiller	2.9
Oil & Gas	6.6
BG Group	3.5
AMEC	1.6
Wood Group	1.5
Technology	6.3
ARM Holdings	3.2
Aveva	1.7
Imagination Technologies	1.4

	%
Health Care	5.5
Abcam	3.6
Genus	1.9
Cash	0.1
Total	100.0

Source: Baillie Gifford, as at 31st March 2015
Totals may not sum due to rounding

Top 15 Active Positions

Stock	Fund %	Benchmark %	Relative %	Operational Performance vs. Expectations	Comments
Rightmove	7.8	0.1	7.7	↑	Pricing power appears intact. Limited impact from Agents Mutual so far
Johnson Matthey	5.3	0.3	5.0	→	Auto volumes robust, non auto catalyst demand healthy
Schroders	4.9	0.0	4.9	↑	Sensitive to markets, seeing net client inflows
Hargreaves Lansdown	5.0	0.1	4.9	→	Solid net inflows, continued pressure on income from low interest rates
ASOS	4.0	0.0	4.0	↓	Very strong growth in the UK, currency headwinds affecting international business
Abcam	3.6	0.0	3.6	→	Specialist distributor of antibodies
Ocado Group	3.5	0.1	3.4	→	Online sector growing strongly. Industry worries
Imperial Tobacco	4.3	1.3	3.0	→	Pricing offsets some volume pressures, question mark over proposed US transaction
Renishaw	2.9	0.0	2.9	↑	Very strong revenue and profit growth driven by Asia
BHP Billiton	2.7	0.0	2.7	↓	Performing well in face of falling commodity prices
ARM Holdings	3.2	0.7	2.5	→	End market growth driving demand for ARM chips and IP
Spectris	2.5	0.1	2.4	→	Niche provider of precision instruments. Sensitive to industrial production
Standard Chartered	3.4	1.0	2.4	↓	Asia exposure positive but cyclical pressures remain; announcement of new CEO
Mitchells & Butlers	2.3	0.0	2.3	→	Resilient trading against tough consumer backdrop
Carnival	2.5	0.3	2.2	↑	Booking trends stabilising, will benefit from oil price collapse
TOTAL	57.9	4.0	+53.9		

As at 31st March 2015

UK Portfolio - Transactions*

New Buys	Additions	Complete Sales
Auto Trader	Hargreaves Lansdown	Cairn Energy
Jupiter Fund Management	IP Group	
	Renishaw	

* 12 Months to 31st March 2015

Diversified Growth Portfolio

Holding	Fund %
Listed Equities*	**21.2**
BG Global Alpha Growth Fund	5.9
BG Global Income Growth Fund	5.0
BG Worldwide Japanese Fund	2.9
BG Pacific Fund	2.1
BG LTGG Fund	2.0
Euro Stoxx 50 Index Dividend Dec 16	0.6
Euro Stoxx 50 Index Dividend Dec 15	0.6
Euro Stoxx 50 Index Dividend Dec 17	0.6
Euro Stoxx 50 Index Dividend Dec 18	0.5
Fondul Proprietatea	0.4
Euro Stoxx 50 Index Dividend Dec 19	0.4
Euro Stoxx 50 Index Dividend Dec 20	0.3
S&P 500 Index Future Jun 15 (Short)	0.0
Private Equity	**1.6**
Electra Private Equity	0.3
Graphite Enterprise Trust	0.3
NB Private Equity Partners	0.3
HarbourVest Global Private Equity	0.3
Other†	0.6
Property	**3.0**
Land Securities	0.6
Hammerson	0.6
Tritax Big Box REIT	0.5
LondonMetric Property	0.3
British Land	0.3
UK Commercial Property Trust	0.3
Other†	0.3

Holding	Fund %
High Yield Credit	**15.1**
BG High Yield Bond Fund	4.6
Credit Suisse Nova (Lux) Global Senior Loan Fund	1.5
Henderson Secured Loans Fund	1.5
NB Global Floating Rate Income Fund	1.0
ING (L) Flex Senior Loans Fund	0.8
NB Distressed Debt Invest F NPV	0.4
Nuveen Floating Rate Income Fund	0.4
Eaton Vance Floating Rate Income Trust	0.3
Other†	4.8
Investment Grade Bonds	**6.4**
BG Worldwide Global Credit Fund	6.4
Structured Finance	**12.6**
Galene Fund	3.8
Metreta Fund	3.0
Julius Baer Multibond ABS Fund	2.7
TwentyFour Income Fund	0.4
Sorrento Park CLO A-1	0.4
German Residential Funding 2013-1 D	0.3
Other†	2.2
Commodities	**4.9**
Source Physical Gold P-ETC	2.0
ETFS Physical Palladium	0.9
Source Physical Palladium P-ETC	0.7
Source Physical Platinum P-ETC	0.6
ETFS Physical Platinum	0.5
ETFS Brent Crude	0.3

Holding	Fund %
Emerging Market Bonds	**10.0**
BG Emerging Markets Bond Fund	7.6
Brazil CPI Linked 6% 15/08/2050	0.8
Mexico IL 4% 15/11/2040	0.7
Brazil CPI Linked 6% 15/08/2022	0.4
Other†	0.5
Infrastructure	**4.4**
EDP Renovaveis	0.7
3i Infrastructure	0.6
Greencoat UK Wind	0.5
OHL México	0.4
Renewables Infrastructure Group	0.3
National Grid	0.3
John Laing Environmental Assets Group	0.3
NextEnergy Solar Fund	0.3
Foresight Solar Fund	0.3
Other†	0.6
Government Bonds*	**0.0**
US 10yr Note Future Jun 15 (Short)	0.0
Absolute Return	**8.5**
Allianz Merger Arbitrage Strategy	2.9
Aspect Diversified Trends Fund	2.4
Amundi Volatility World Equities	1.1
Ferox Salar Convertible Absolute Return Fund	0.9
Winton Futures Fund	0.6
MS Broadmark Tactical Plus UCITS Fund	0.5
Other†	0.2

Holding	Fund %
Insurance Linked	**5.2**
Everglades Re 2014-1 A	0.8
Tar Heel Re 2013-1 A	0.6
Merna Re 2015-1	0.5
Everglades Re 2013-1 A	0.4
Alamo Re 2014-1 A	0.4
Lakeside Re III A	0.4
Embarcadero Re 2012-2 A	0.4
Tradewynd Re 2014-1 3B	0.3
Other†	1.2
Special Opportunities	**0.6**
Other†	
Active Currency	**-0.3**
Cash and Equivalents	**6.8**
BG Worldwide Active Cash Plus Fund	1.8
Cash and UK T Bills	5.0
Total	**100.0**

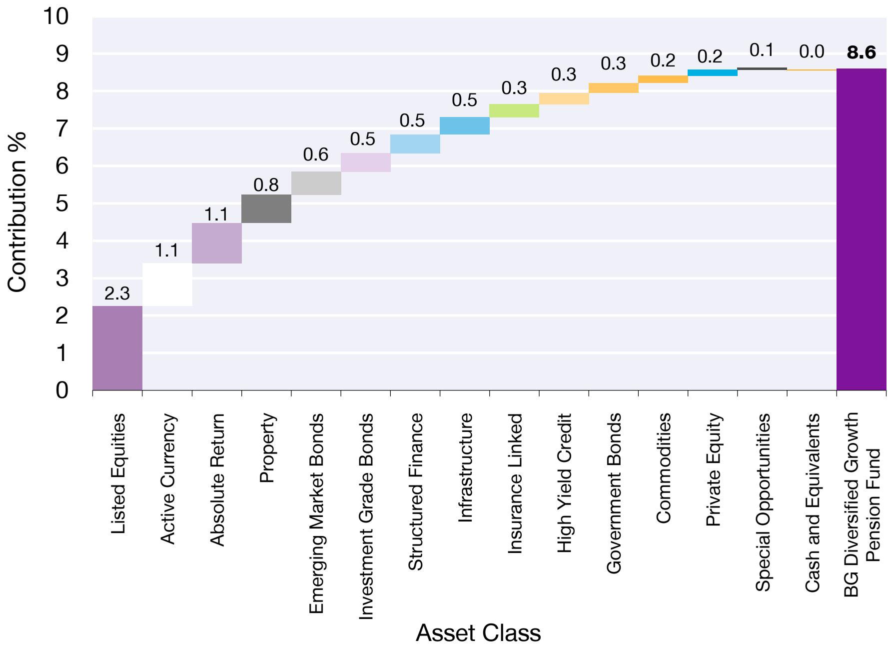
BG Diversified Growth Fund as at 31st March 2015. Totals may not sum due to rounding

* Exchange traded futures are used either to gain exposure to asset classes (with all such 'long' positions fully backed by cash and therefore shown at their exposure weight) or to hedge existing investments against adverse market movements (with all such 'short' positions shown at their net unrealised profit or loss). As at 31st March 2015, the allocation to Listed Equities includes a long position in European dividend futures (equivalent to 2.9% of Fund) and a short position in S&P 500 Index futures (equivalent to 3% of Fund) as a hedge against a fall in equity markets. The allocation to government bonds includes a short position in US 10 Year treasury futures (equivalent to 2.6% of Fund) as a hedge against portfolio exposure to interest rate risk.

† Holdings < 0.2% (excluding futures positions) have been aggregated

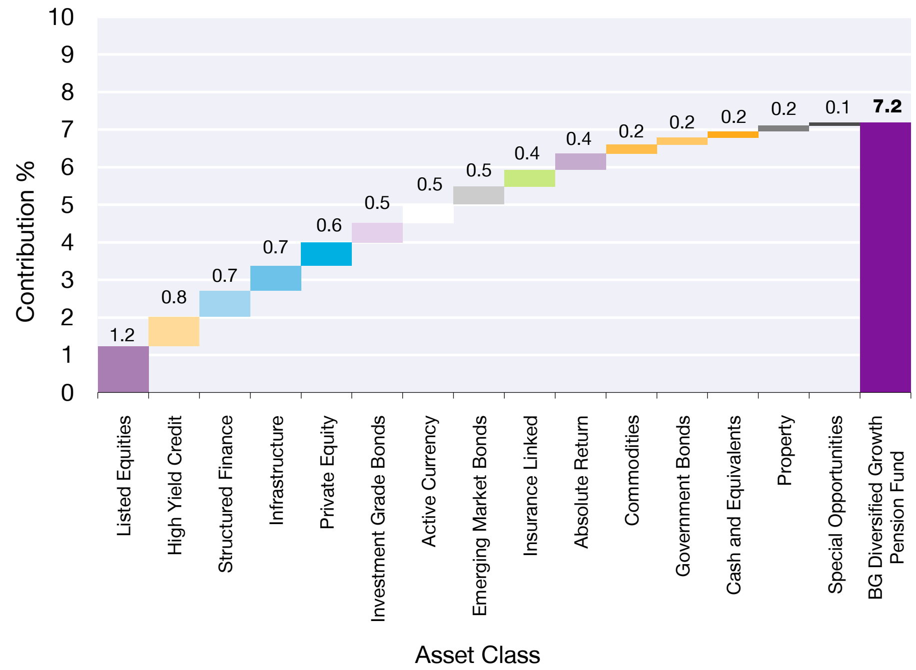
Performance Attribution Analysis

Attribution – 12 Months to 31st March 2015



Ave. Weight %	18.2	-0.1	7.4	2.3	13.0	7.7	12.8	4.5	4.9	11.3	2.7	5.9	2.2	0.6	6.7
Return %	11.3	1.1	13.9	36.9	1.8	5.5	3.1	10.1	6.6	1.5	10.2	0.4	6.7	8.8	0.1

Attribution – 5 Years (Annualised) to 31st March 2015



Ave. Weight %	12.6	9.6	8.1	6.1	4.8	6.3	0.0	12.1	8.8	10.2	4.8	2.5	10.5	2.1	1.6
Return %	7.9	7.5	9.9	11.6	13.0	7.6	0.6	2.9	4.9	3.0	3.0	8.2	0.5	9.5	9.3

Source: Statpro, Baillie Gifford & Co, gross of fees in sterling. Total may not sum due to rounding
BG Diversified Growth Pension Fund
* 31st December 2008

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Shetland Islands Council Miscellaneous Funds Portfolio

21 May 2015

A BNY MELLON COMPANY℠

Insight INVESTMENT

Insight team

April LaRusse
Senior Product Specialist, Fixed Income

Steve Lewis
Client Director

Scott MacMillan
Client Director

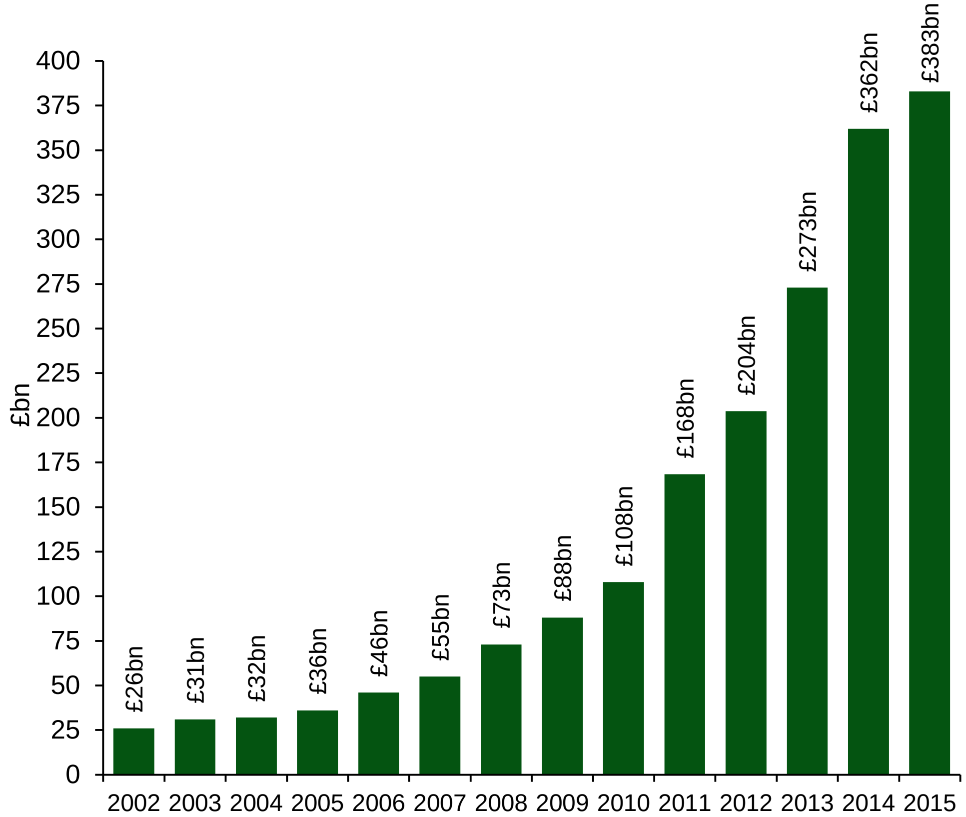
Agenda

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

Our credentials

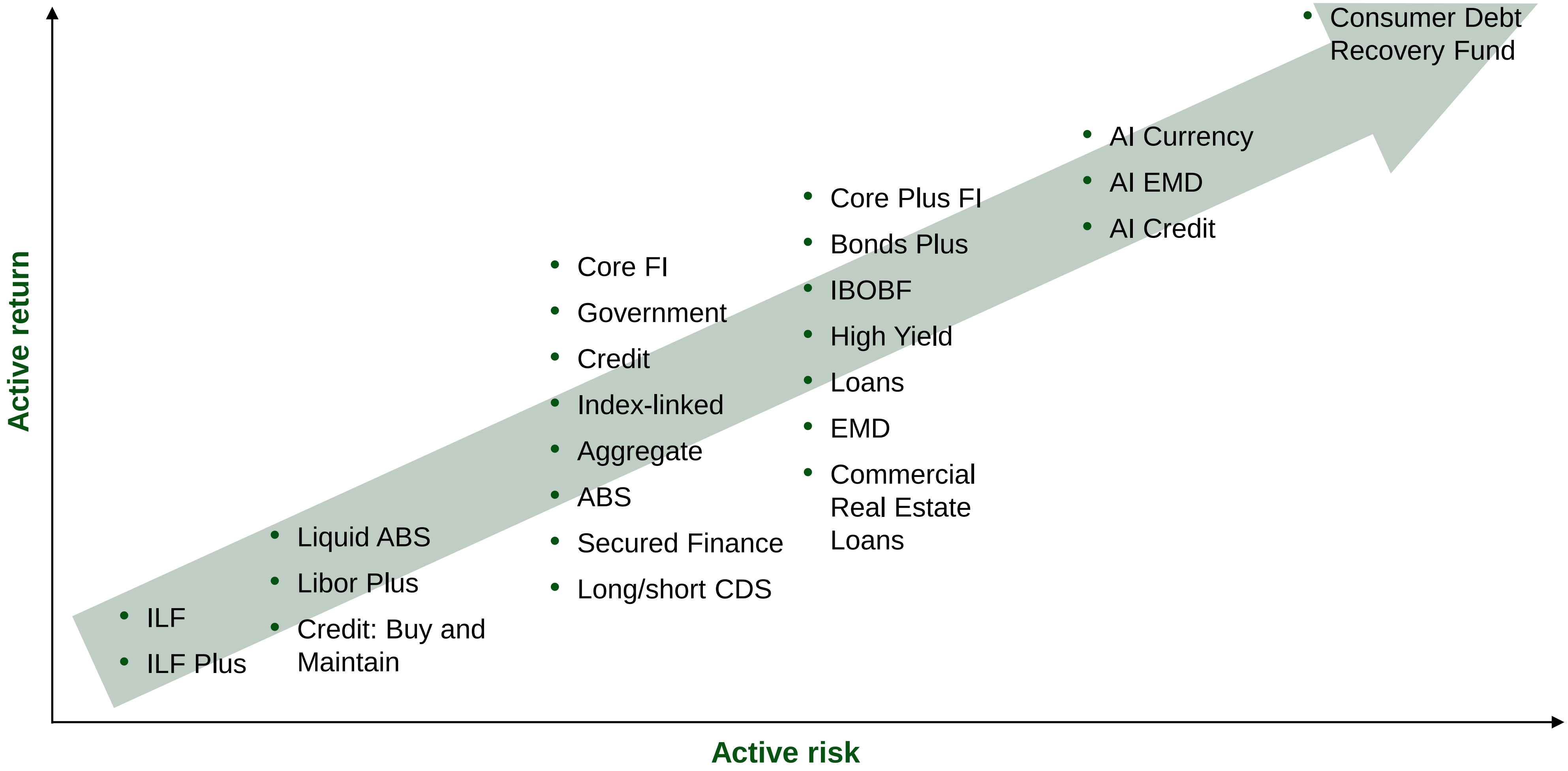
- Autonomous asset manager owned by BNY Mellon
- Reputation for excellence in:
  – liability driven investment (LDI)
  – active fixed income and currency
  – multi-asset and absolute return
- Highly-rated capability:
  – second largest manager of UK pension assets 2014[2]
  – ranked number one for LDI with UK consultants in the Greenwich Associates Survey for fourth consecutive year and number one for fixed income in 2014[3]
  – UK Pensions Awards investment manager of the year 2013 and LDI manager of the year 2013 and 2014
  – Financial News LDI manager of the year 2010, 2011, 2012 2013 and 2014 and Fixed Income Manager of the Year 2012
  – European Pensions LDI manager of the year 2014

Assets under management[1]



As at 31 March 2015. Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients.
[1] Excludes previous parent introduced assets prior to 2009. [2] Source: Financial Times Research 2014. [3] Source: Greenwich Associates survey 2014. Results are based on interviews with 13 UK consultants evaluating LDI managers and 14 UK consultants evaluating fixed income managers. Reflects the AUM of the Insight Group (Insight), which includes Insight Investment Management (Global) Limited, Pareto Investment Management Limited and Insight Investment Funds Management Limited.

Fixed income product range



For illustrative purposes only.

Fixed income
Specialist teams

Adrian Grey
HEAD OF FIXED INCOME AND CURRENCY

Peter Bentley
UK AND GLOBAL CREDIT
- Shaun Casey
- Toby Kung
- Adam Mossakowski
- Adam Whiteley

Andrew Wickham
UK AND GLOBAL
- Isobel Lee
- Harvey Bradley

Lucy Speake
EUROPE
- Bonnie Abdul Aziz
- Gareth Colesmith
- Damien Hill
- Robert Sawbridge

Alex Veroude
HEAD OF CREDIT
- Praveen Telang

David Averre
CREDIT ANALYSIS
- Jeff Bernstein (NY)
- Charles-Henri Boivin
- Cathy Braganza
- Robert Claiborne (NY)
- Simon Cooke
- David Hamilton (NY)
- Giles Haworth
- David Herrington
- Nikolay Menteshashvili
- Alex Moss
- Eleanor Price
- Scott Ruesterholz (NY)
- Anna Stevens
- Laura Thorne-Trewinski (NY)
- Lionel Trigalou
- Catherine Welfer (NY)

Colm McDonagh
EMD
- Rodica Glavan
- Robert Simpson
- Thibaut Nocella
- Oliver Williams

Colin Cave
MONEY MARKETS
- Chris Brown
- Kevin Coney
- Patrick Goodall

April LaRusse
PRODUCT MANAGEMENT
- Andy Burgess
- Monique Carter
- Emma du Haney
- Lutz Engberding
- Carl Mastroianni (NY)

INFLATION LINKED
- David Hooker

IMPLEMENTATION AND OPERATIONS
- Rory Anderson
- Peter Joslin
- Carl Burdett
- Alison Dowding

HIGH YIELD
- Uli Gerhard

Shaheer Guirguis
SECURED FINANCE
- Jeremy Deacon
- Greg Newman
- Ranbir Singh Lakhpuri
- Lorraine SpeckVeter
- Seema Sopal
- Tristan Teoh
- Duncan Westbrook

Paul Lambert
CURRENCY
- Richard Nibloe
- Max Wahl

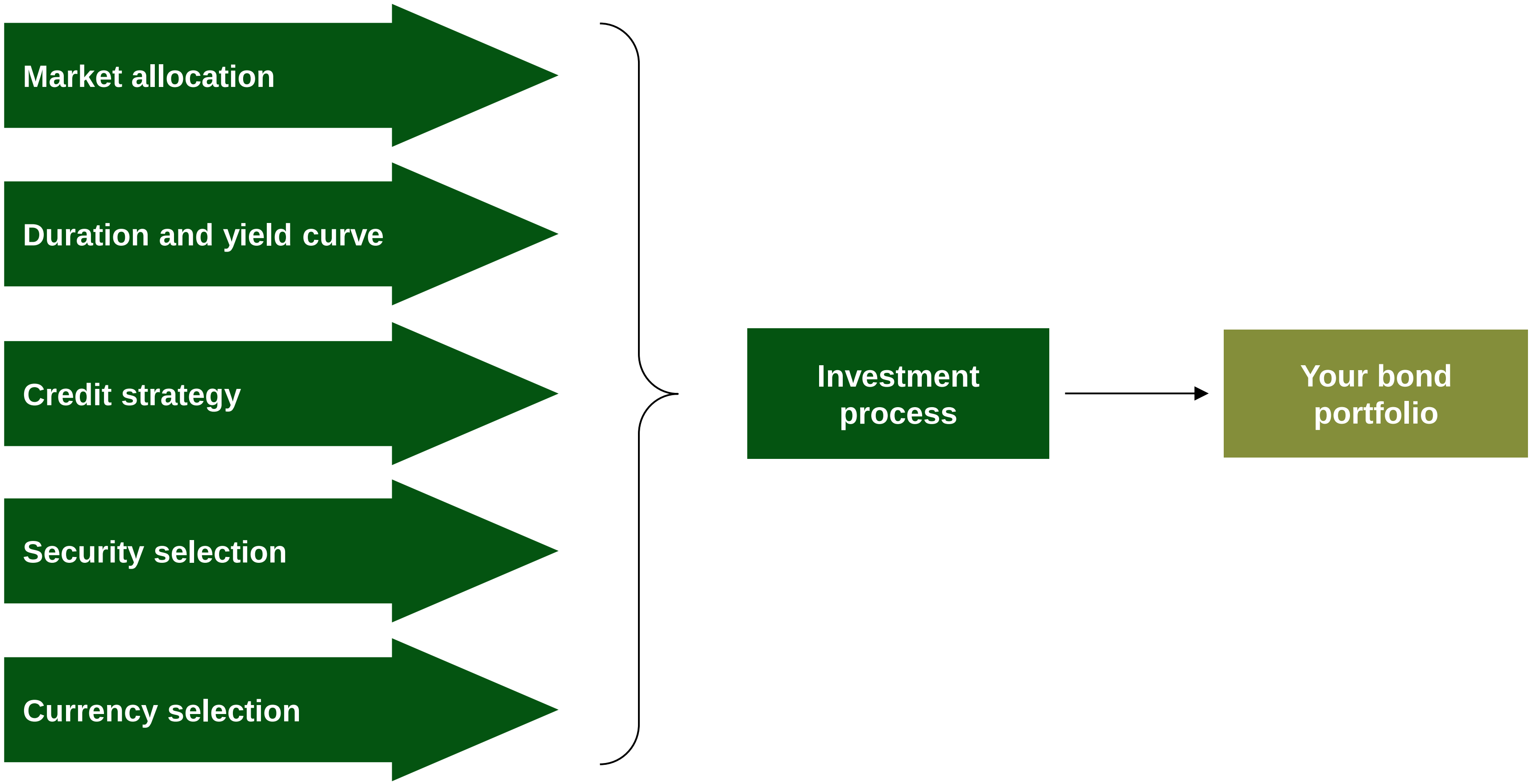
RESPONSIBLE INVESTMENT
- Andy Evans

Paul Rochester
DEALING
- Angie Hart
- Joe Hazelwood
- Emilia Hunter
- Paul Sharp

(NY) Pareto New York LLC.
As at March 2015.

Investment philosophy
Diversification

A global opportunity set



Your mandate

A BNY MELLON COMPANY℠

Mandate summary and investment guidelines
Shetland Islands Council

Funds	Index	Benchmark Weight* (%)	Investment Ranges (%)
UK Corporate All Maturities Bond Fund	Markit iBoxx GBP Non-gilts	33	13-53
UK Index-Linked Bond Fund	FTSE-A British Government Over 5 Years Index-Linked Gilt	33	13-53
Bonds Plus Fund	3 month GBP LIBOR	33	13-53
Cash	Sterling 7 Day LIBID		0-10

Portfolio objective

- To outperform the benchmark by 1.20% per annum before the deduction of annual management fees and expenses over rolling three year periods

Summary of performance
Shetland Islands Council

Performance summary as at 31 March 2015 (%)

	3 months (%)	1 year (%)	3 years (%)	5 years (%)
Portfolio	3.04	12.00	7.82	7.86
Benchmark	2.21	11.35	6.08	5.88
Relative	**0.83**	**0.65**	**1.74**	**0.56**

	30 September 2013 - 31 March 2015 %
Bonds Plus Fund	2.62
Benchmark	0.54
Relative Return	**2.08**
UK Corporate All Maturities Bond Fund	11.18
Benchmark	10.25
Relative Return	**0.93**
Index-linked Bond Fund	15.92
Benchmark	15.54
Relative Return	**0.38**

Source: Insight Investment
Portfolio was restructured on 30th September 2013
All figures are gross of fees
Returns for periods greater than one year are annualised
Inception date 31 March 2001

Fund values as at 30 April 2015

Bond Portfolio

- UK Corporate All Maturities Bond Fund: £11,737,110
- UK Index-linked Bond Fund: £12,694,610
- Bonds Plus Fund: £10,841,850

ILF Portfolio

- Insight Liquidity Fund Plus: £15,036,616

Portfolio review

A BNY MELLON COMPANY℠

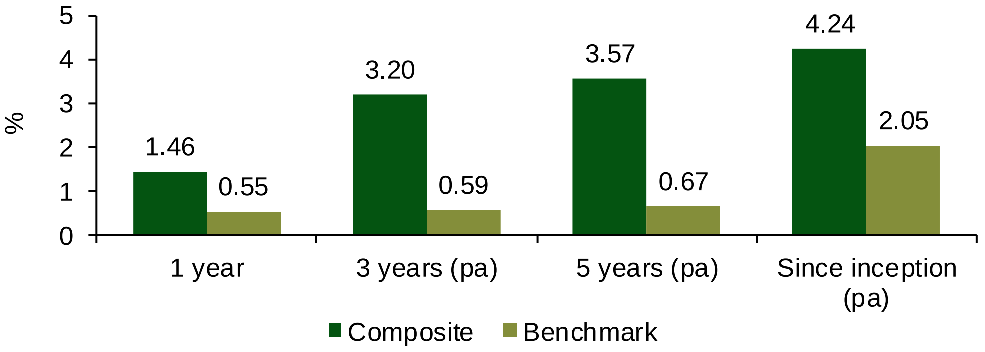
Insight Bonds Plus Fund
Portfolio summary as at 31 March 2015

Insight INVESTMENT

Investment summary

- A diversified fixed income absolute return fund
- Launched in 2006, currently valued at £4,576m
- Target[1] is to outperform benchmark by 2% per annum
- Utilises broad fixed income opportunity set, e.g. government, inflation linked, corporate, emerging market debt, high yield, loans, asset backed securities and currency

Performance



Performance attribution (3 years)	bp
Market allocation, duration and yield curve	30
IG credit	87
ABS	409
High yield	75
Loans	59
EMD	57
FX	58

Risk statistics	
Information ratio (3 years)	2.53
Tracking error pa (3 years)	1.03

Composite C0041 is gross of fees and in GBP to 31 March 2015. All returns over one year are annualised. Past performance is not a guide to future performance. Benchmark: 3 Month GBP Libor. Inception: 31 August 2006. [1] The Fund has a performance aim of benchmark plus 2% pa over a market cycle (typically 5 to 7 years). This is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim to generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected. A copy of a fully compliant GIPS performance record for composite C0041 is available in the Appendix.

Portfolio positions
Insight Bonds Plus Fund

Insight INVESTMENT

Duration exposure by currency	Years
Sterling	-0.16
US dollar	-0.08
Euro	0.00
Other	-0.50
Total	**-0.74**

Credit and emerging market allocation	%
Investment grade	1.92
High yield	4.24
Loans	6.51
Emerging market debt	6.69
ABS	8.49

Top 10 currency exposures	%
Pound sterling	100.12
US dollar	3.19
Euro	-1.55
Japanese yen	-0.64
New Zealand dollar	-0.37
South African rand	-0.29
Danish krone	0.26
Australian dollar	-0.26
South Korean won	-0.25
Turkish Lira	-0.20

Inflation linked exposure (duration)	Years
UK	0.00
US	1.14
Europe	0.00
Japan	0.00

Data as at 31 March 2015.

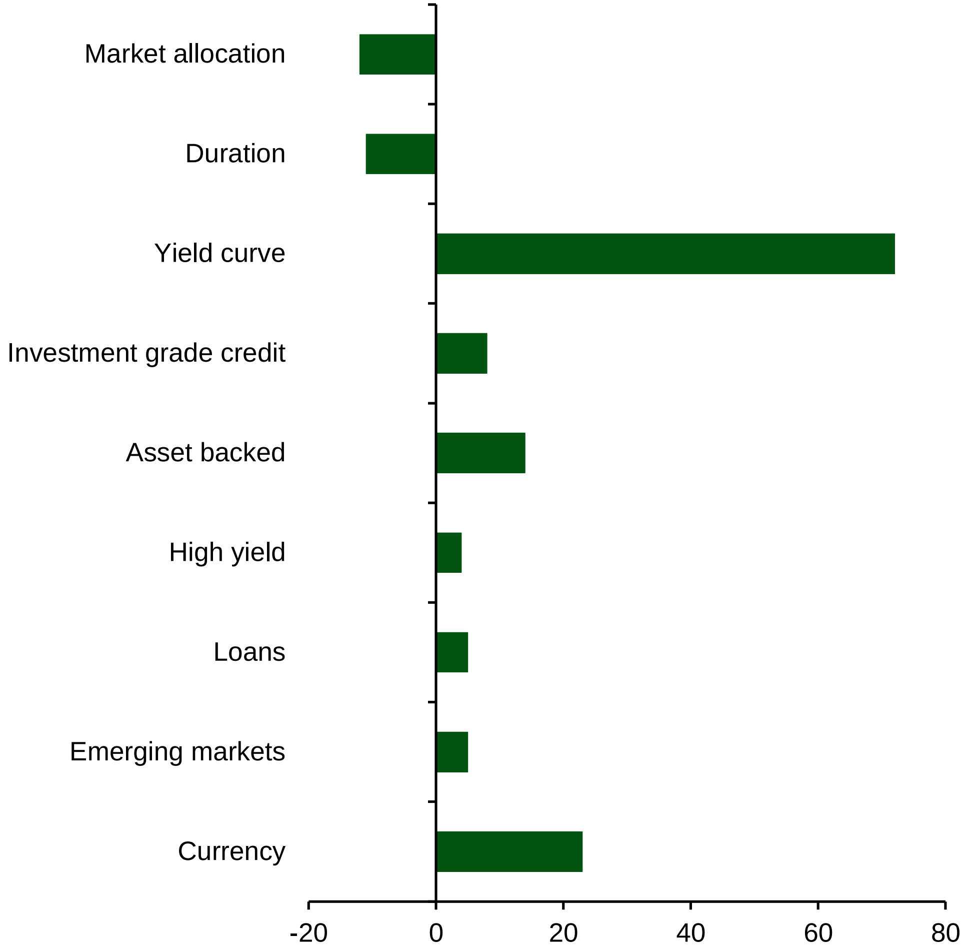
Insight Bonds Plus Fund
Performance attribution

First quarter 2015

- Fund performance was strongly positive for the quarter
- Market allocation trades were a negative contributor to performance driven largely by our long position in US inflation
- Duration was a detractor from returns, largely driven by short positions in US and Japanese bonds that rallied over the period
- Yield curve positioning was the largest positive contributor to returns, driven by an overweight position in 30 year Italian government bonds versus the 10 year sector as the ECB QE programme was implemented
- Credit positions were modestly positive, with European bank exposure and a number of pair trades performing well. High yield, loans and asset backed securities were also positive contributors
- Emerging market debt positioning was positive, as local bond markets outperformed. A cautious position in emerging market FX proved beneficial
- Currency positioning generally was also a positive contributor to performance, given our long position in the US Dollar versus the Euro and the Australian Dollar

Source: Insight as at 31 March 2015.

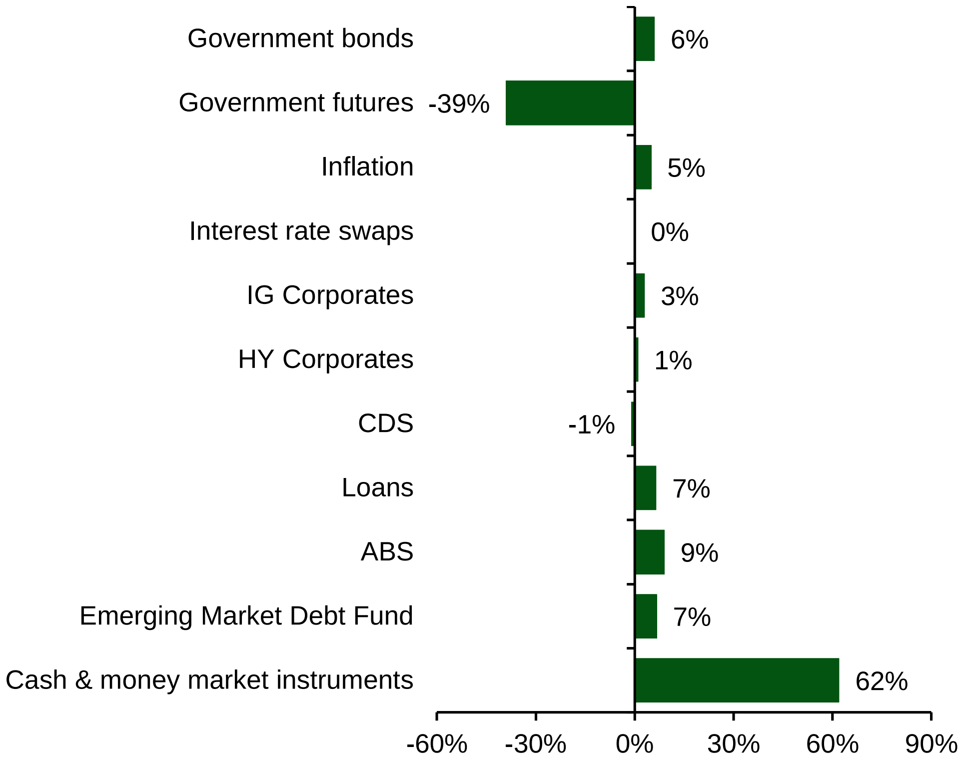
Contribution by investment decision (bp)



Insight Bonds Plus Fund
Asset allocation and yield breakdown 31 March 2015

Insight INVESTMENT

Asset allocation (%)*



- Duration -0.74 years
- Credit spread duration 1.01 years

* Positions within each asset class are shown on a net basis with the exception of currency

Asset class	Yield over Libor (%)
ABS	0.26
Emerging market debt	0.21
Loans	0.28
Investment grade credit	0.08
High Yield	0.21
Total	**1.04**

- A diversified approach is key to balancing risk and return
- Credit exposure should be managed, not permanent
- Current exposure generates a strong underlying portfolio yield
- Active management of exposure, timing and stock selection add additional value

Insight UK Corporate All Maturities Bond Fund

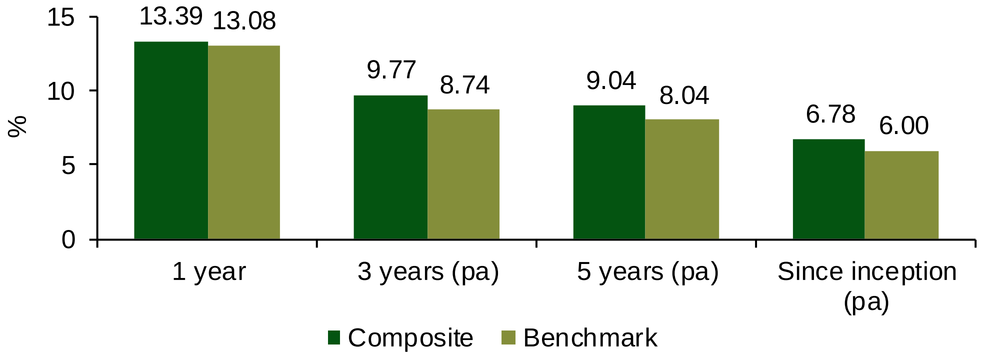
Portfolio summary as at 31 March 2015

Insight INVESTMENT

Investment summary

- Actively managed, diversified corporate bond fund
- Launched in 2004, currently valued at £2,602m
- Target[1] is to outperform benchmark by 1% per annum
- Adds value through credit strategy, security selection, duration, yield curve, market allocation and currency

Performance



Current positioning

Major sector overweights (years)	Spread duration Fund	Spread duration Benchmark
Securitised - CMBS	0.31	0.16
Securitised - WBS	0.30	0.22
ABS - RMBS	0.08	0.00
Property	0.21	0.15

Major sector underweights (years)	Spread duration Fund	Spread duration Benchmark
Health Care	0.09	0.25
Utilities	1.51	1.67
Consumer Cyclicals	0.00	0.07
Capital goods	0.00	0.06

Composite C0621 is gross of fees and in GBP to 31 March 2015. All returns over one year are annualised. Past performance is not a guide to future performance. Benchmark: iBoxx GBP Non-Gilts. Inception: November 2004. [1] The Fund has a performance aim of benchmark plus 1% pa over a market cycle (typically 5 to 7 years). This is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim to generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected. A copy of a fully compliant GIPS performance record for composite C0621 is available in the Appendix.

Portfolio positions
Insight UK Corporate All Maturities Bond Fund

Major sector overweights (years)	Spread duration Fund	Spread duration Benchmark
Securitised - CMBS	0.31	0.16
Securitised - WBS	0.30	0.22
ABS - RMBS	0.08	0.00
Property	0.21	0.15

Major sector underweights (years)	Spread duration Fund	Spread duration Benchmark
Health Care	0.09	0.25
Utilities	1.51	1.67
Consumer Cyclicals	0.00	0.07
Capital goods	0.00	0.06

Key issuer longs (variance to benchmark)	%
RWE	1.34
Erste Bank	1.33
Channel Link (WBS)	1.32
KPN	1.00
Intu (CMBS)	0.91

Key issuer shorts (variance to benchmark)	%
Rabobank	-0.96
Orange	-0.91
Thames Water	-0.88
Centrica	-0.73
National Grid	-0.68

Credit allocation	%
High yield (fund + direct)	-0.82
Loans	1.72
EMD fund	2.60
ABS	3.72
Non-sterling IG bonds	7.95

	Fund	Benchmark
Yield (%)	2.6	2.5
Duration (years)	8.4	8.3

Data as at 31 March 2015. Benchmark: iBoxx GBP Non-Gilts index, Inception: November 2004.

Insight UK Index Linked Bond Fund

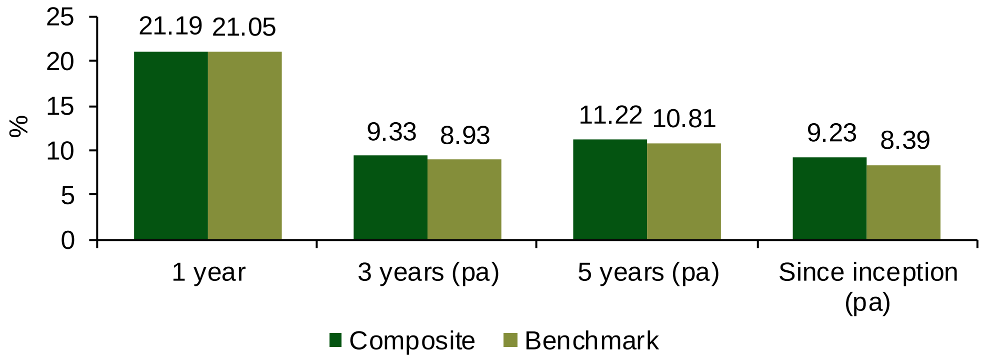
Portfolio summary as at 31 March 2015

Insight INVESTMENT

Investment summary

- Actively managed, diversified government bond fund
- Launched in 2004, currently valued at £306m
- Target[1] is to outperform benchmark by 0.75% per annum
- Adds value through market allocation, duration and yield curve, credit strategy, security selection, and currency

Performance



Current positioning

Allocation* (%)	Fund	Benchmark
Government	90.39	100.00
Supranational	1.45	0.00
Financials	0.36	0.00
Non-cyclical	0.00	0.00
Emerging Market Debt Fund	2.46	0.00
Cash	5.35	0.00
Total	**100.00**	**100.00**

Maturity by duration (years)	Fund	Benchmark
0-5 years	0.01	0.00
5-10 years	1.49	1.44
10-15 years	1.53	1.20
15-25 years	2.83	5.20
25 years +	16.93	15.11
Total	**22.79**	**22.95**

Composite C0625 is gross of fees and in GBP to 31 March 2015. All returns over one year are annualised. Past performance is not a guide to future performance. Benchmark: FTSE British Govt >5yrs Index-Linked. Inception: November 2004. [1] The Fund has a performance aim of benchmark plus 0.75% pa over a market cycle (typically 5 to 7 years). This is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim to generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected. * Allocation breakdown excludes futures exposure. A copy of a fully compliant GIPS performance record for composite C0625 is available in the Appendix.

Portfolio positions
Insight UK Index Linked Bond Fund

Allocation* (%)	Fund	Benchmark
Government	90.39	100.00
Supranational	1.45	0.00
Financials	0.36	0.00
Non-cyclical	0.00	0.00
Emerging Market Debt Fund	2.46	0.00
Cash	5.35	0.00
Total	**100.00**	**100.00**

Maturity by duration (years)	Fund	Benchmark
0-5 years	0.01	0.00
5-10 years	1.49	1.44
10-15 years	1.53	1.20
15-25 years	2.83	5.20
25 years +	16.93	15.11
Total	**22.79**	**22.95**

Duration	Years
Credit spread duration versus benchmark	0.23
Conventional exposure	0.00

Currency by duration (years)	Fund	Benchmark
GBP	22.83	22.95
EUR	0.00	0.00
USD	-0.04	0.00
Total	**22.79**	**22.95**

Data as at 31 March 2015. Benchmark: FTSE British Govt >5yrs Index-Linked, Inception: November 2004.
* Allocation breakdown excludes futures exposure.

Performance attribution
Shetland Islands Council

Bonds Plus Fund
Q2 2014 to Q1 2015

	in bp
Market Allocation	-39
Duration	-101
Yield Curve	82
Investment grade credit	0
ABS	74
HY Fund	3
Loan Fund	11
EMD Fund	17
FX	46
	93

UK Corporate All Maturities Bond Fund
Q2 2014 to Q1 2015

	in bp
Duration	-50
Yield Curve	28
Credit strategy	3
Security Selection	18
Residual	11
FX	15
	24

UK Index-Linked Bond Fund
Q2 2014 to Q1 2015

	in bp
Duration	-17
Yield Curve	3
Credit	0
Security Selection	9
FX	16
	11

Investment analysis

Fixed Income Q1 2015

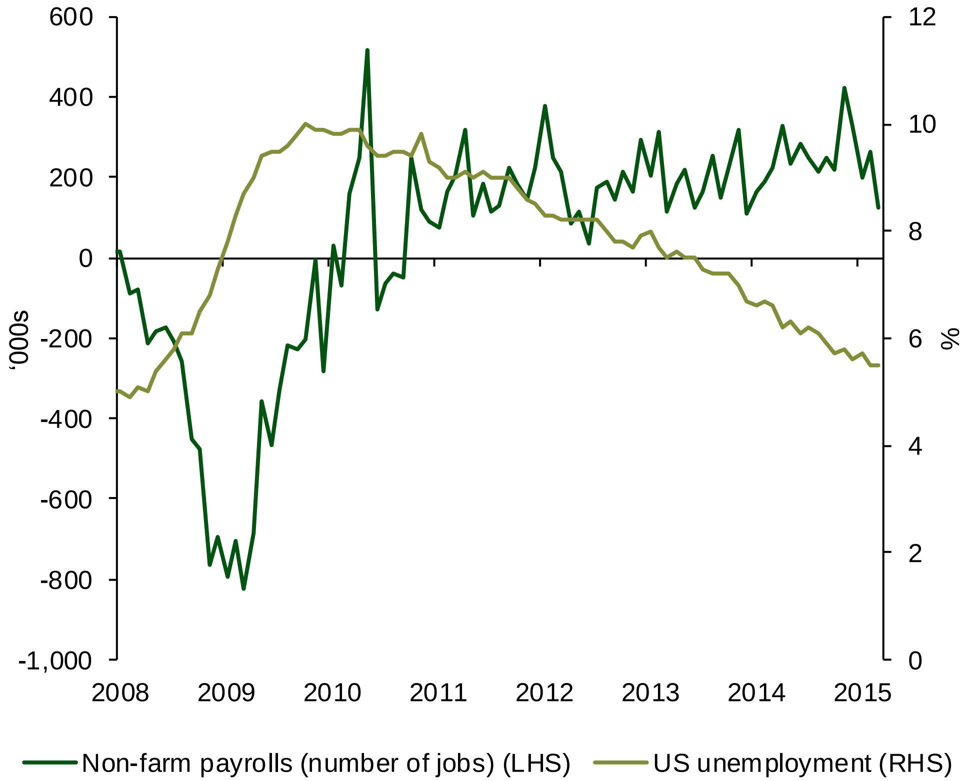
A BNY MELLON COMPANY[SM]

Economic and investment themes

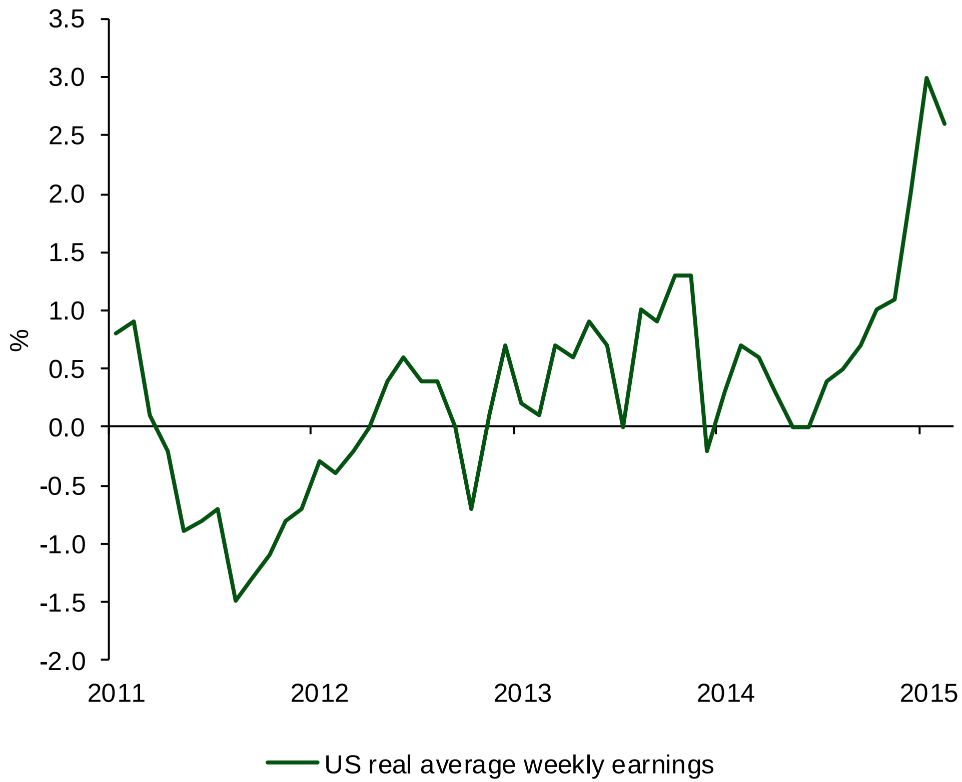
- Lower commodity prices and stimulative monetary policy will boost growth in the US, UK and Europe. Growth in Europe could exceed current market expectations
- Headline inflation will continue to fall in the short term, but is unlikely to lead to longer term deflation
- Interest rates to rise modestly in the US, with the UK likely to follow. In Europe, QE bond purchases will continue
- The UK election is unlikely to yield a single-party majority and rising uncertainty could weigh on both Sterling and UK assets
- Credit spreads are most attractive in the US, then the UK – with European credit much closer to fair value. QE in Europe will continue to support investor appetite for higher yielding assets, which will in turn support risk markets
- The energy sector remains vulnerable should commodity prices fall further from here
- A number of attractive recovery opportunities are available in emerging markets, but currency risk needs to be managed actively
- The US Dollar is likely to continue to appreciate further relative to the Japanese Yen and the Euro given divergent monetary policy – although it is unlikely to be a smooth ride

Insight INVESTMENT

US monthly job creation and unemployment



US wage growth

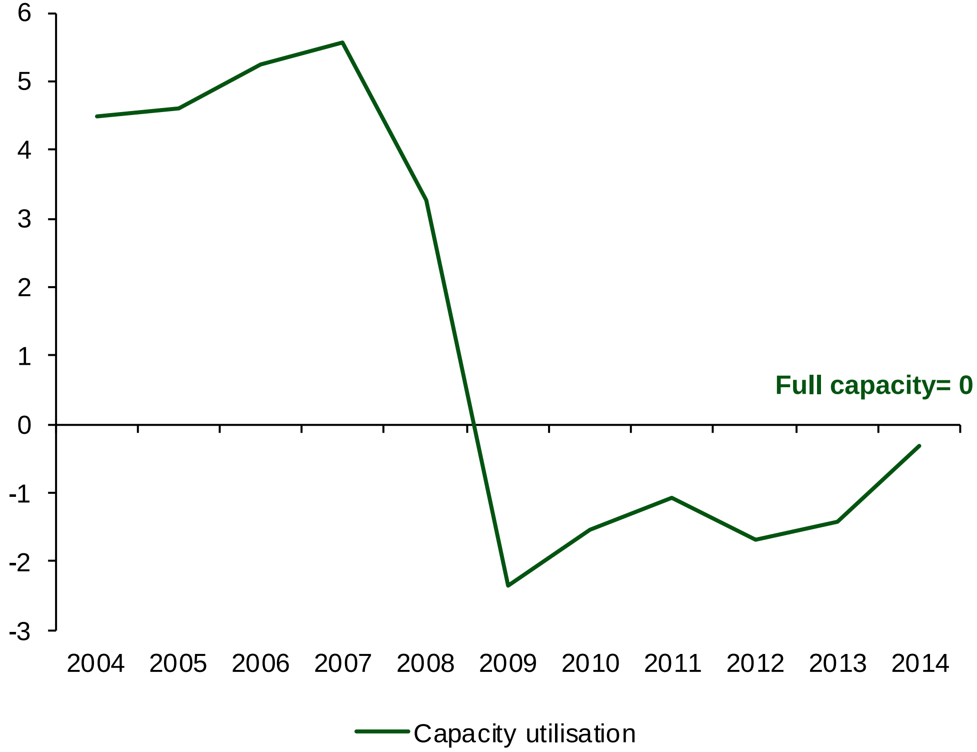


The US economy is approaching full employment…

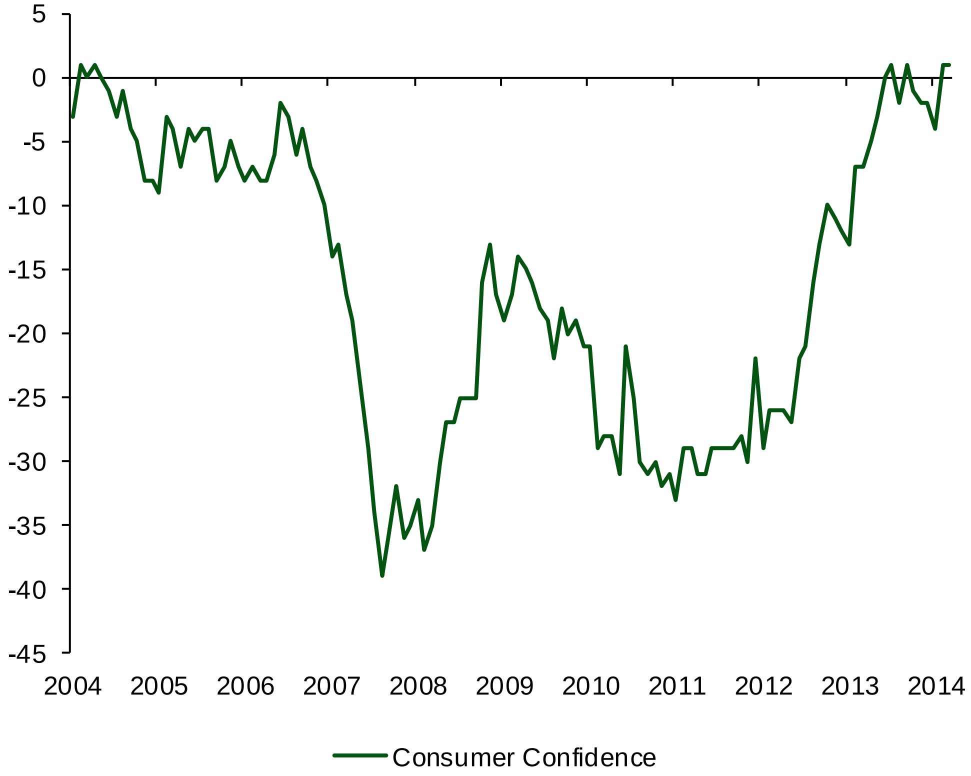
…wage pressures are starting to emerge

Source: Bloomberg, as at 31 March 2015.

UK capacity utilisation – % deviation of actual GDP from potential GDP



UK consumer confidence (%)



UK excess capacity has largely been absorbed

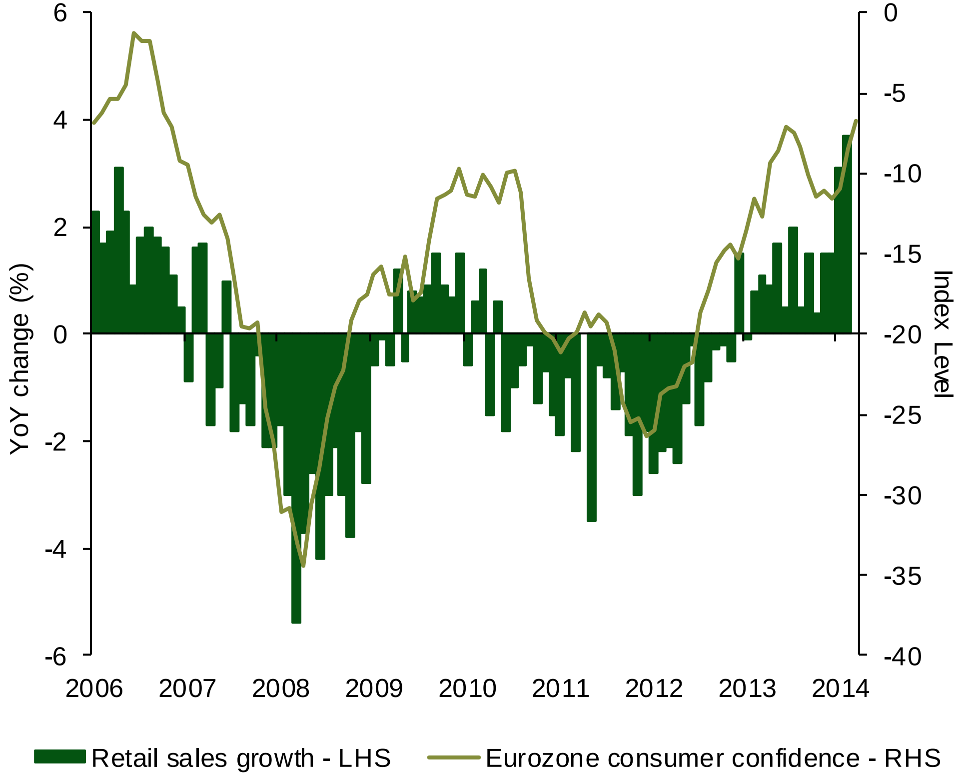
Consumer confidence back to pre-crisis levels

Source: OECD, GfK, as at 31 March 2015.

Economic and investment themes
Eurozone

Insight INVESTMENT

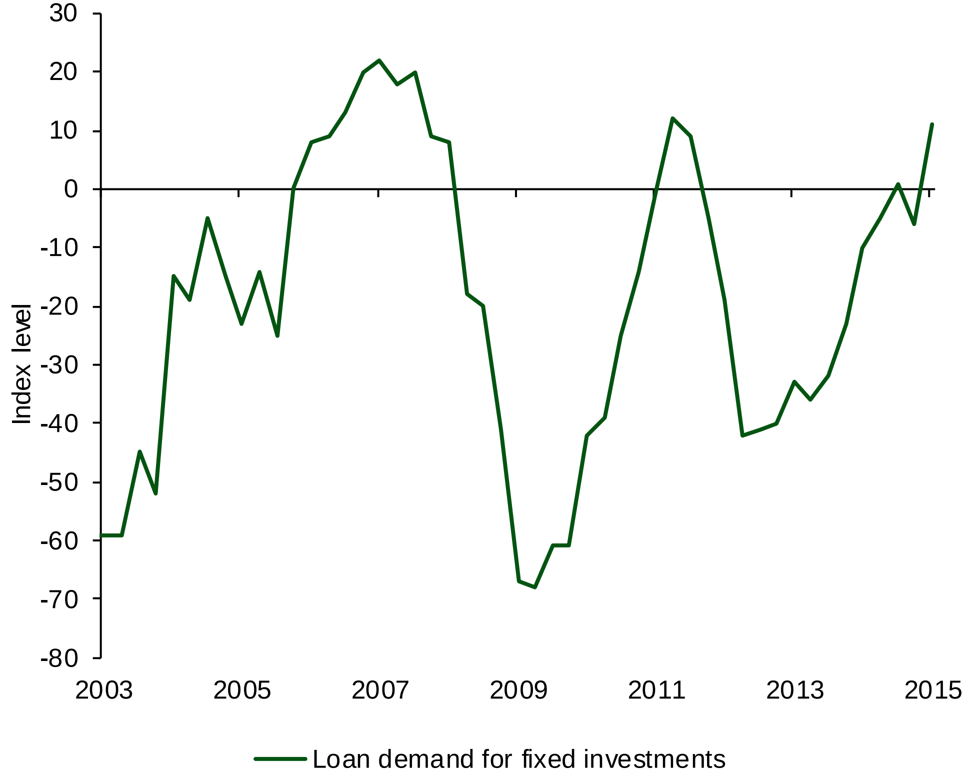
Consumer confidence and retail sales



Consumer confidence and retail sales are signalling recovery in Europe

Source: European Commission and Eurostat, as at March 2015.

Demand for loans



ECB action is helping bank lending to recover

Source: ECB Lending Survey and Eurostat, as at March 2015.

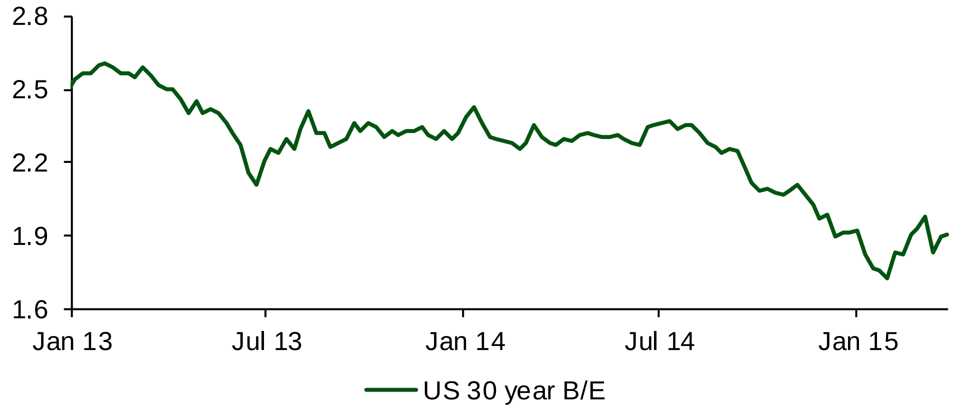
Position: Overweight US inflation

Market: Commodity prices have stabilised at low levels following the significant drop in the fourth quarter. Despite this fall, core CPI has remained somewhat firmer

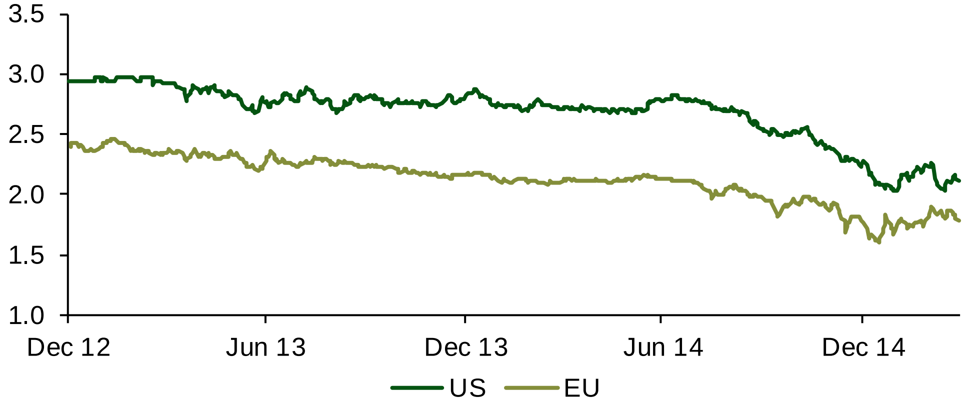
Outlook: We expect higher US inflation over the medium term, owing to the continued strength in the labour market and the closing of the output gap

We believe US inflation protection is cheap in absolute terms and offers value relative to the UK and Europe

Long term US breakeven inflation (%)



US and European 30 year inflation swap rates (%)



Source: Bloomberg, as at 31 March 2015.

Market allocation
Emerging market debt – local rates

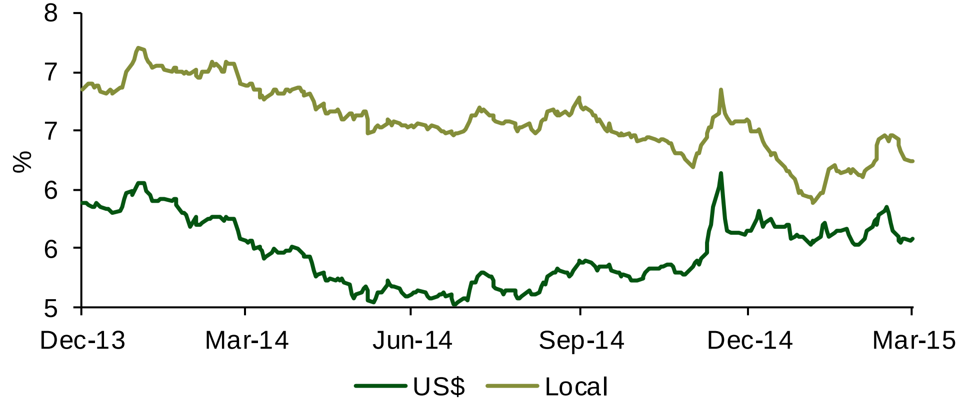
Position: We believe, at current yields, local government bonds represent value. However, the volatility of the US treasury market remains heightened and only small long risk positions are warranted

Following significant weakening of EM currencies we are looking to reduce defensive hedges and express small overweights in undervalued currencies

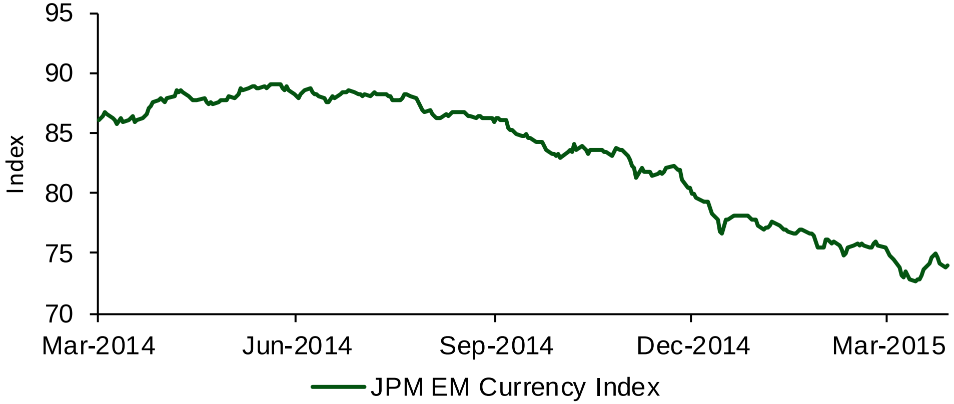
Market: EM currency volatility has remained high with a general trend of depreciation. Central banks have been cutting interest rates to stimulate growth through lower borrowing costs and a weaker currencies. Bond yields have traded in a wide range over the quarter

Outlook: Although the backdrop of lower US yields on a delayed first US rate hike should be supportive for EM, the market is likely to remain volatile. We have our exposure focused on countries with high real rates and central banks focused on cutting interest rates further

Emerging market yields – local and USD denominated



EM currencies under pressure – JPM EM Currency index



Source: Bloomberg, as at 31 March 2015. JPM EM currency index.

Duration
Global government bond markets

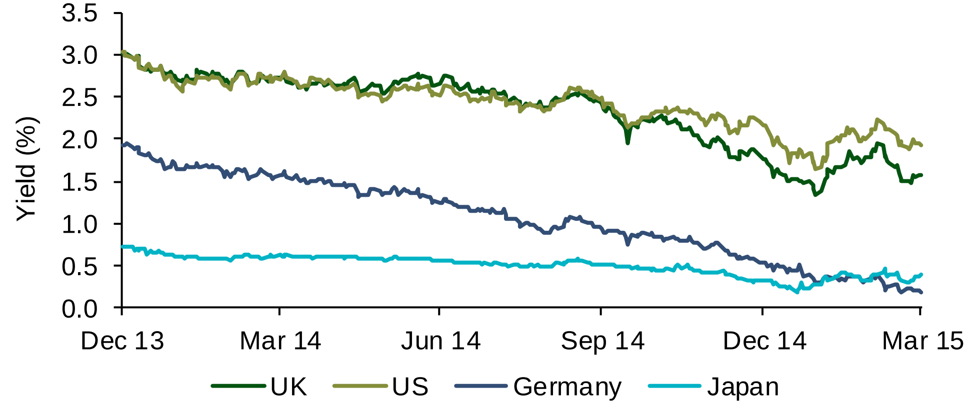
US: Weaker economic date have pushed back rate hike expectations, although seasonal impacts could have distorted the short term picture

UK: UK yields were driven by global yield moves rather than the continued strong economic environment in the UK. With the upcoming election yet to impact the gilt market, UK assets could yet be vulnerable

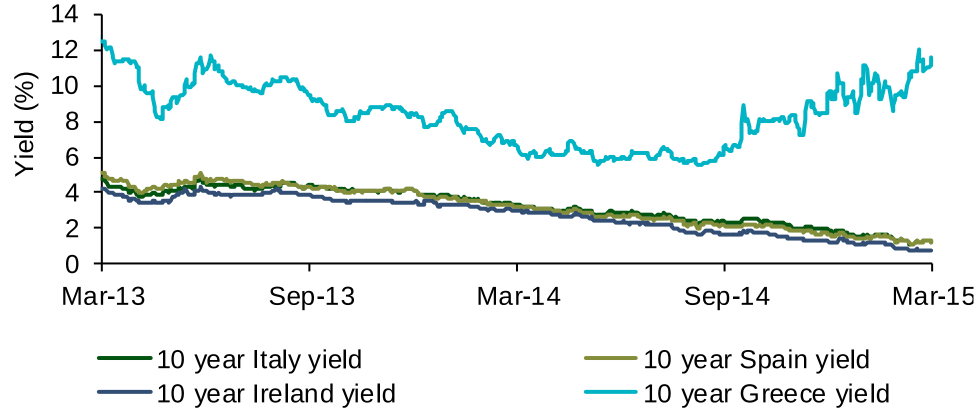
Europe: The start of QE is supporting a bond scarcity scenario, leading to Germany bunds trading below Japanese yields. In the medium term we expect the stronger than expected recovery to be reflected in higher bund yields

Elsewhere, concerns are rising that the newly elected Greek government will be unable to balance its electoral promises with the bail-out requirements set by its Eurozone peers

Global government bonds – 10 year yields



European periphery



Source: Bloomberg, as at 31 March 2015.

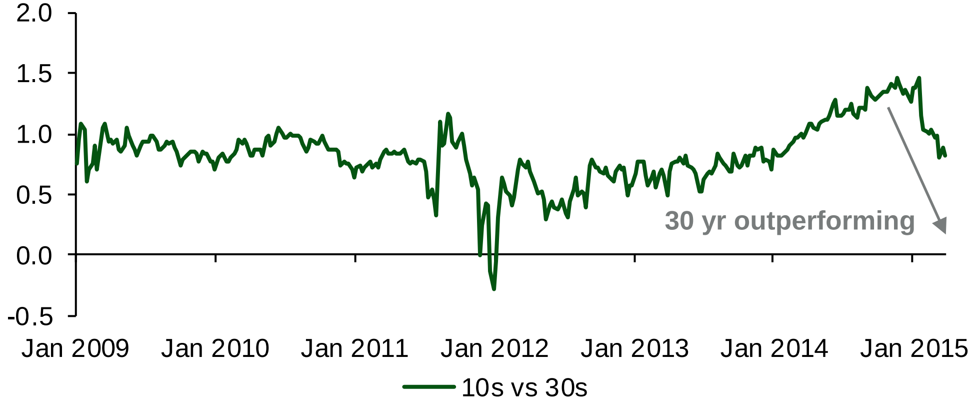
Yield curve
Italy

Position: Positioned for a flatter yield curve in Italy, expressed in a long position in 30 year versus a short in 10 year bonds

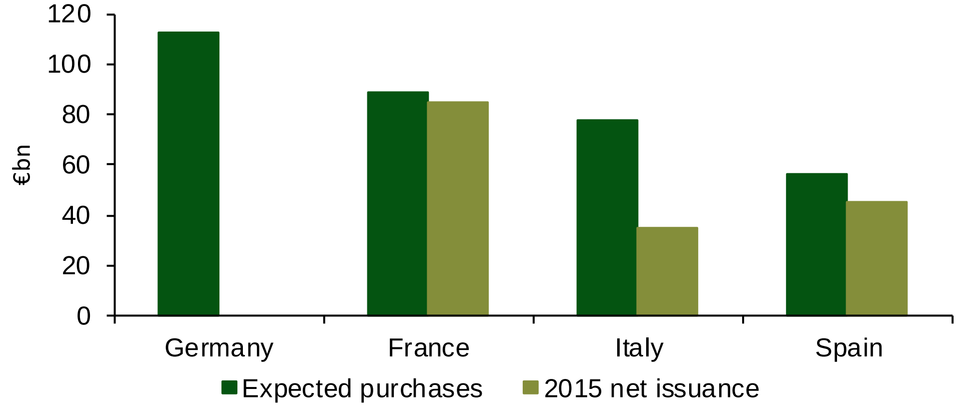
Market: ECB announced QE purchases of government bonds would cover all maturities. In contrast the market was expecting purchases to be limited to short and medium dated bonds. The Italian yield curve flattened very sharply

Outlook: Government bond yields could fall further as the ECB attempts to buy €560bn more bonds than the net government bond supply over the course of the QE programme

Italian yield curve: 10 year vs 30 year (%)



ECB purchases and issuance



Source: Bloomberg, as at 31 March 2015.

Duration
UK index-linked gilts

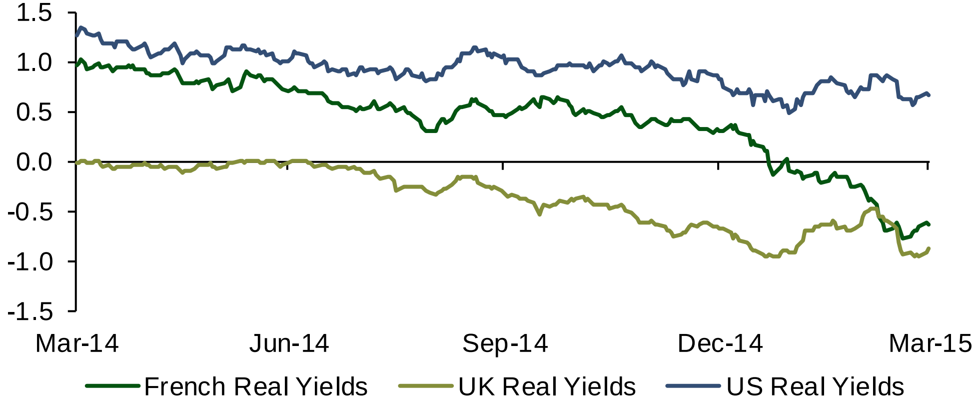
Position: Active position management with a bias to a short duration position

Market: Investor demand for yield and duration has been strong. Low headline inflation prints have increased investors fears that the UK is heading for deflation. The market also benefited from investment flows from overseas as international investors see the UK as a high yielding alternative to the low yielding Eurozone bond

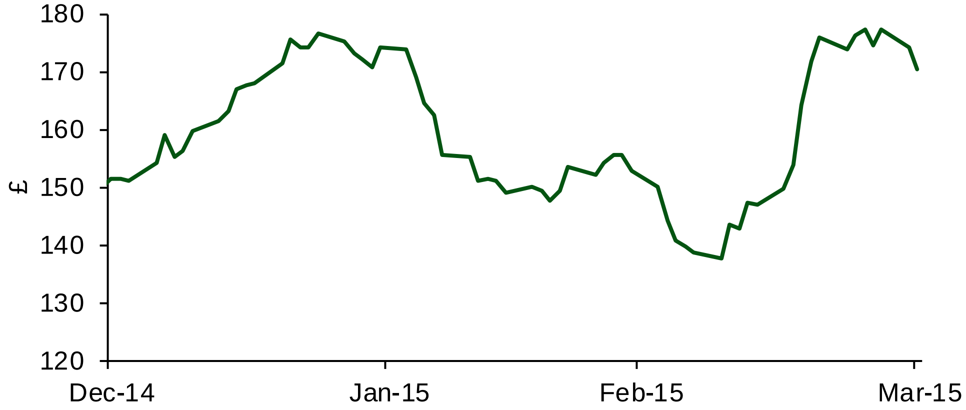
A notable feature of the quarter was the volatility of the market, a reflection of poor liquidity and low risk appetite amongst investors

Outlook: The continued strength of the economic expansion and the closing of the output gap means investors should seek higher risk and term premiums as we near the first UK rate hike. Consequently, we expect yields to rise modestly going forward

Global real yields (%)



UK Index Linked Gilt 2068 – price



Source: Bloomberg. as at 31 March 2015.

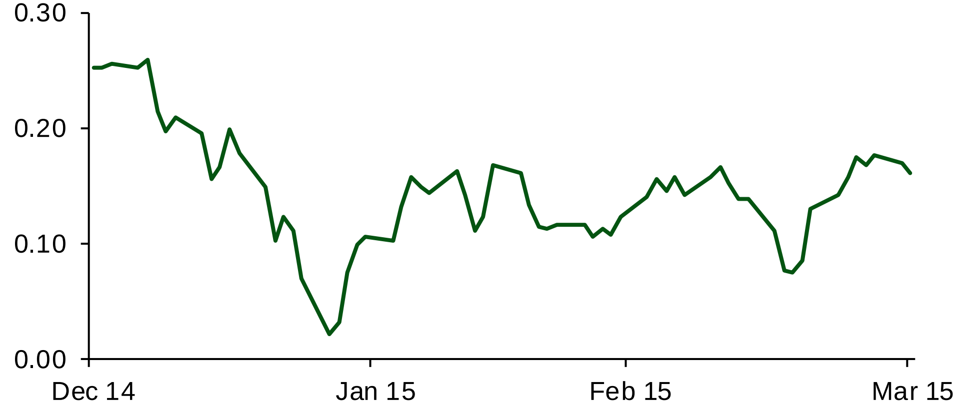
Yield Curve
UK index-linked gilts

Position: Overweight 50 year maturities versus 30 year maturities

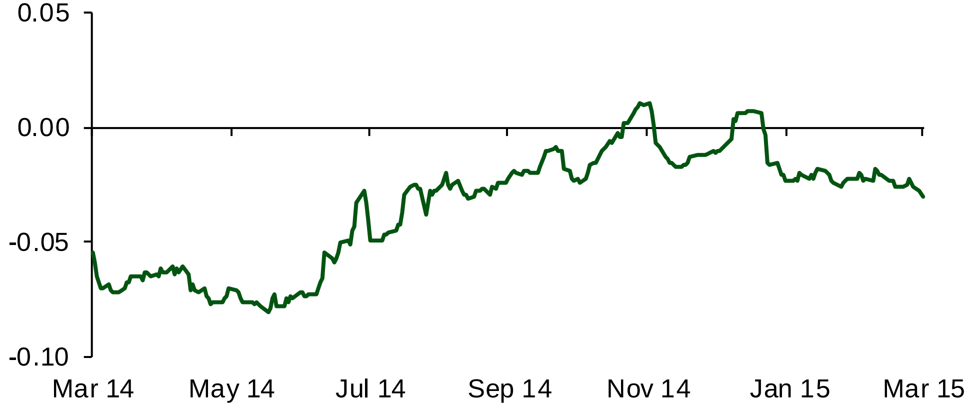
Market: The curve flattened over the quarter as investor demand for duration increased and the markets long position from previous supply events began to ease

Outlook: The debt office has focused on extending the maturity profile of the market over the last two years and supply has reflected this with a focus on 40 and 50 year issuance. This fiscal year, we expect the debt office to return to a more 'normal' issuance profile with a greater focus on 20 and 30 year maturities

UK real yields – 10s 30s (%)



UK real yields – 30s 50s (%)



Source: Bloomberg, as at 31 March 2015.

Insight INVESTMENT

Position: Small long credit risk position

Market: Credit spreads narrowed in January and February, before consolidating in March as increased corporate issuance was digested

The UK and US credit markets outperformed as investors expressed a preference for higher yielding credit and European credit struggled in response to QE driven fall in Bund yields

Outlook: Demand for credit is likely to remain high in an environment of QE and an improving economic backdrop. Nonetheless spreads in Euro denominated credit is already at tight levels and we continue to favour GBP and USD denominated investment grade credit

USD, GBP and EUR investment grade credit spreads

Source: Merrill Lynch, as at 31 March 2015.

Asset-Backed Securities (ABS)

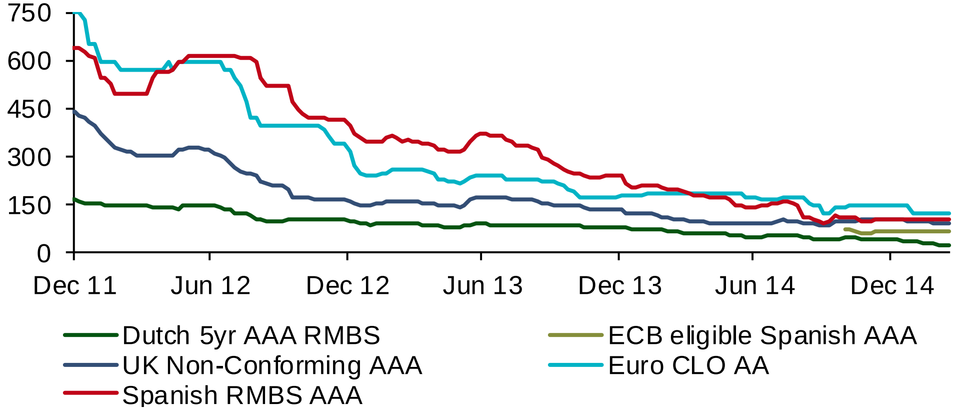
Position: Small overweight position in ABS

Market: The ECB continue with limited purchases of both covered bonds and ABS, successfully stimulating new issuance. Eligible ABS paper underperformed modestly, whilst UK RMBS (especially the buy-to-let sector) outperformed

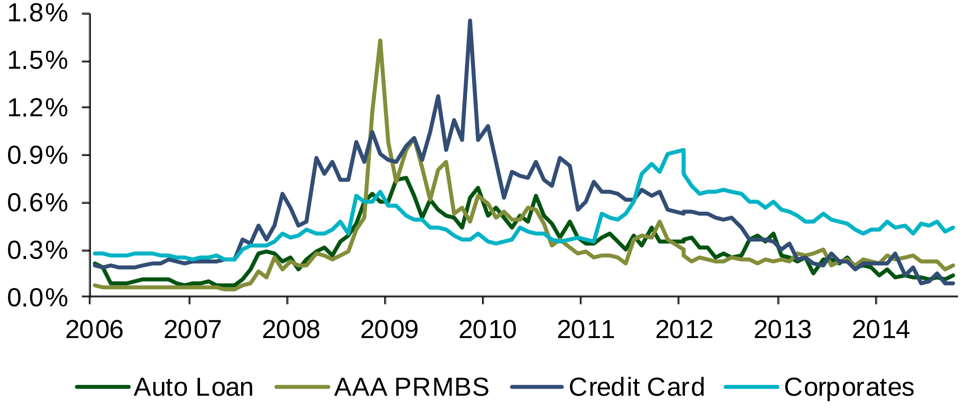
Liquidity remains excellent, with bid-offer spreads below comparable corporates sectors

Outlook: We expect spreads across the ABS sector to continue to narrow as the search for yield supports demand and new issuance does not disrupt the market

Spreads – ECB eligible bonds, UK RMBS/buy-to-let



Average bid/offer spread by ABS sector



Source: Bid/Offer – Morgan Stanley, as at December 2014. Other – JP Morgan, as at 31 March 2015.

Credit strategy

Sector allocation – subordinated financials

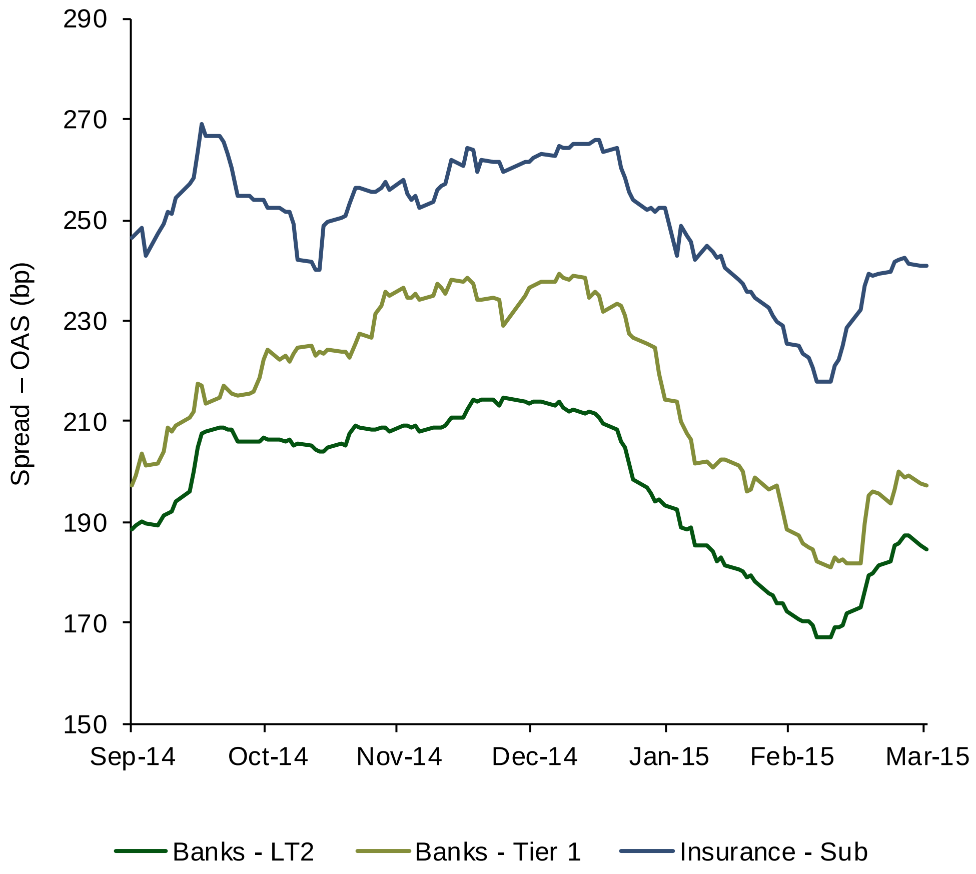
Position: Modest overweight

Market: Subordinated insurance has been one of the best performing sectors this year. This follows underperformance towards the end of last year due to heavy Solvency II related issuance. A change in the regulatory treatment in 2015 underpinned a strong technical bid during the first quarter

We have also been purchasing bonds issued by the insurance arms of banks as it has become more viable for those entities to issue debt directly. These bonds have provided attractive yield pick-up for their investment grade rating

Result: Positive for performance over the quarter

Subordinated financials spreads



Source: Barclays, as at 31 March 2015.

Security selection
Heathrow

Position: Overweight Heathrow Funding

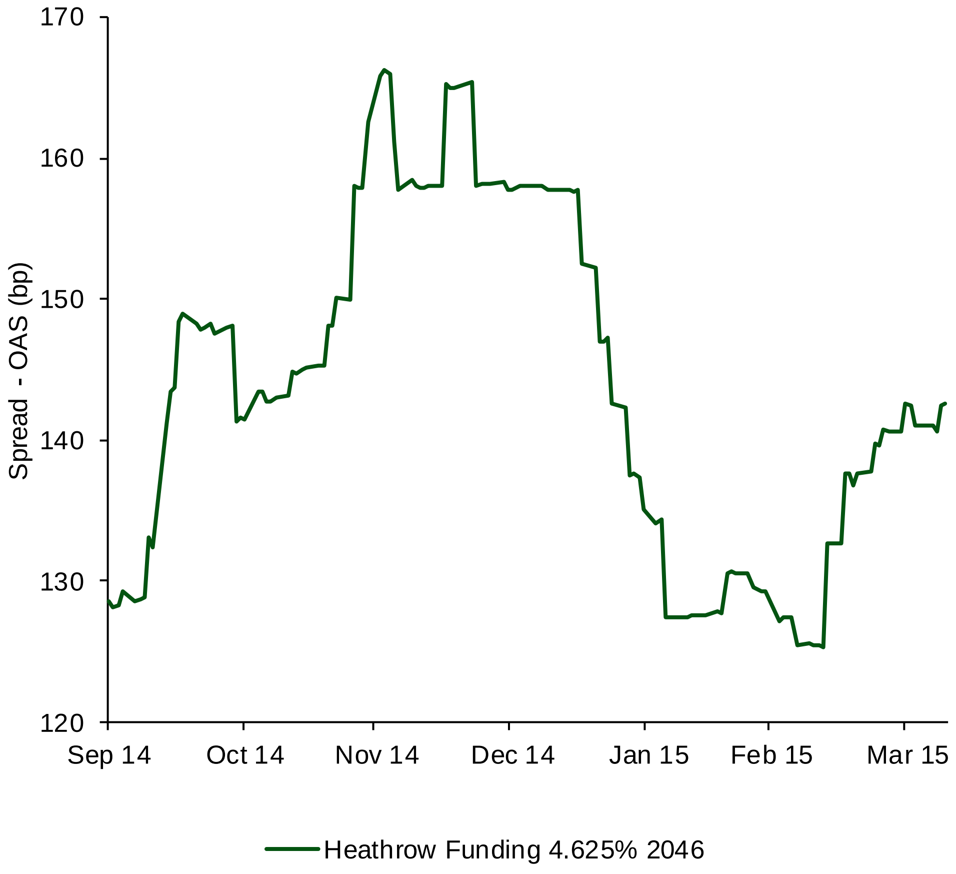
Research: Heathrow Funding Ltd bonds offer securitized exposure to the revenues generated from Heathrow airport

Stronger economic growth and lower oil prices will support the outlook for air travel in general and Heathrow in particular. Limited issuance likely given restrictive covenants in place

Valuations reached attractive levels and we added to our position in late November

Result: Positive driver of performance as Heathrow outperformed the wider transport sector

Heathrow Funding 4.625% 2046



Source: Barclays, as at 31 March 2015.

Currency selection

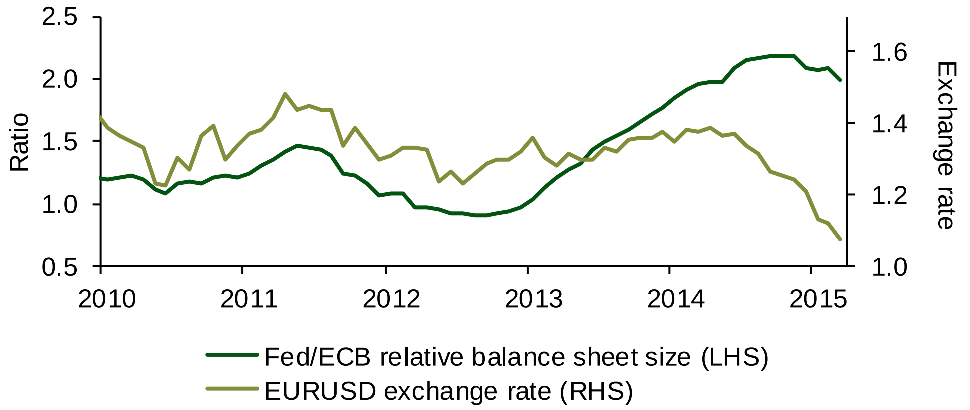
Position: Overweight USD versus a number of currencies including the Euro, Japanese Yen and Australian Dollars

Market: The USD has continued to appreciate as the market prices in the likely path of monetary policy tightening in the US versus the rest of the world

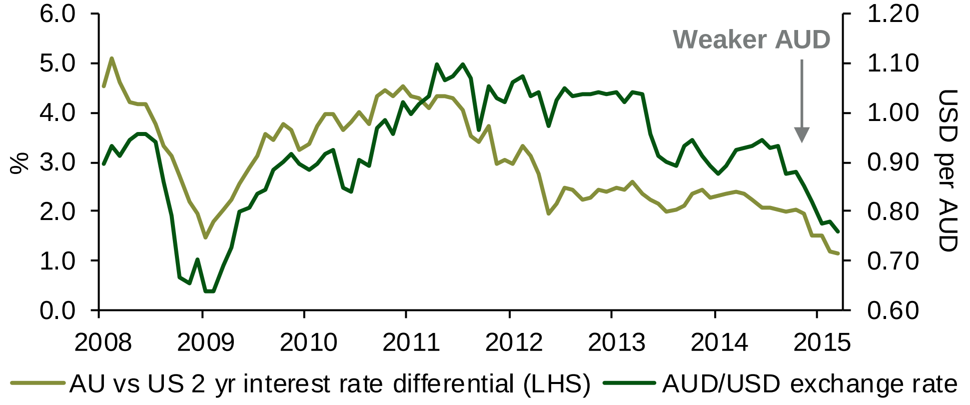
The slowdown in the domestic Australian economy has also led to rising expectations of further RBA rate cuts, weakening the Australian Dollar

Results: Positive for performance

Central bank balance sheets and exchange rates



Australian Dollar and AU-US Interest rates



Source: Bloomberg, as at 31 March 2015.

UK fixed income
Q1 2015 performance attribution

Insight INVESTMENT

	What we did…	What happened?	Impact
Market allocation	• Maintained exposure to local emerging market debt • Closed out tactical long UK vs short Germany • Maintained exposure to US breakeven inflation • Neutral peripheral Europe	• Mixed performance from EM local markets • Peripheral European bonds outperformed relative to European core markets on QE • US breakeven inflation was little changed	• Emerging market debt exposure was positive in absolute terms but underperformed developed markets • No directional exposure to European peripheral markets • UK vs Germany position was a small negative for performance • US inflation exposure position was a neutral
Duration and curve	• Small short duration positions in the US and UK • Took partial profits on Italian yield curve flattener • Curve flatteners expressed in UK, US and Japan • In UK index linked, we reduced the underweight in short maturity index-linked and increased exposure to ultra-long maturities	• UK and US yields fell in January, retraced the move in February and ended the period broadly unchanged • Yield curves flattened in most markets, reacting to better economic growth data growth but a lack of inflation • European QE demand is driving yields lower and negative yields in short maturities is encouraging investors to move to extend longer	• In benchmarked funds duration was negative for performance but yield curve positions were a bigger positive • For absolute return strategies, Italian and Japanese yield curve flattening positions were positive
Credit strategy	• We continue to have a small long credit risk position as we expect tighter spreads in the UK and US • We have maintained our very small exposure to high yield given unattractive spreads • We have maintained an overweight exposure to ABS but taken some profits on euro-denominated issues which rallied sharply and replaced them with UK RMBS. • Maintained exposure to syndicated corporate loans and commercial real estate loans	• Credit spreads in the UK tightened, reversing the sell off seen in Q4 2014. In European credit, spreads continued their steady grind tighter. US credit also rallied but not enough to erase the widening in Q4. • High yield spreads traded in a wide range • ABS spreads narrowed as the ECB purchase programme gathered momentum • Loan spreads were broadly stable with increased issuance balance by increased investor interest	• Credit strategy was a positive for performance with outperformance coming from an overweight in banks, insurance, transport and ABS • Selective bank recovery plays, ABS and loans were positive for both benchmarked and absolute return funds •
Security selection	• Bought selected new issues in US dollars from Actavis (Pharma), UBS, Cencosud (S. American retailer) and JP Morgan. • Reduced exposure to peripheral European corporates and banks after strong performance	• Plentiful new issues but valuations were not always compelling • European corporates and financials outperformed on QE • Merger and acquisition activity has increased but has not yet caused a worrying increase in leverage	• Security selection was positive for performance • Within financials, Commerzbank, Intesa, Royal Bank of Scotland and Bank of America were strong performers • In the insurance sector, exposure to Generali and Axa were also helpful to performance • The securitised sector was positive, notably Tesco which recovered from last year's sell off
Currency selection	• Long USD vs EUR, AUD and JPY	• Strong US data strengthened the USD against most other currencies • Continued weakness in commodities weakened the AUD • Euro weakened as QE programme began	• Currency positions were positive for performance

Forecast summary

UK fixed income
Q2 2015 investment outlook

Insight INVESTMENT

	Investment themes	Portfolio strategy
Market allocation	• Divergent monetary policy (particularly between the US and Europe) will create opportunities for cross-market asset allocation • Inflation pricing has fallen sharply and now offers value in the US in particular • Emerging market local rates offer value and following a sharp depreciation of many EM currencies we see opportunity to increase selectively EM FX exposure • In peripheral Europe, opportunities are now more focused on intra-market value, i.e. yield curve positions	• Maintain US and European inflation exposure where appropriate • Maintaining a small overweight in selected local EM markets with modest FX exposure • Neutral peripheral Europe allocation
Duration and curve	• US and UK government bond markets look expensive if interest rates start to rise later this year • The magnitude of ECB QE could push yields lower on a “scarcity premium” • With low inflation in the near term and a surplus of capital looking for returns, yield curves could flatten further • The UK index-linked curve is also expected to flatten	• UK and US government bond yield volatility is elevated and tactical short duration positions require tight ‘stop loss’ risk control • Yield curve flatteners in peripheral Europe where curves remain steep • Real yields in the UK are expected to rise from current levels. Ultra long-dated index linked bonds are expected to outperform as real yield curve flattens
Credit strategy	• Credit markets are likely to continue to be impacted by macro economic drivers such as US economic data, globally weaker inflation and the scarcity of government bonds due to the ECB QE programme • We expect no change in the corporate defaults environment in the coming quarter but are watching for any deterioration in the data as an early warning sign • US dollar denominated credit looks attractive at current spread levels relative to euro credit. • We see value in ABS, notably sterling denominated paper. We expect to see the increased issuance volumes continue with occasional bouts of indigestion. • Fund flows into high yield have turned positive and new issuance is plentiful. We remain concerned about rising default risk in the energy sector • Loan market is benefiting from increased loan demand on the back of high amounts of CLO issuance. New deals coming to market at attractive levels to fund M&A deals	• We remain slightly overweight credit risk relative to benchmarks in investment grade credit strategies having earlier reduced exposure • Given the attractive yield spreads on offer in the US credit market, we continue to look for relative value opportunities versus pan-European markets • New issuance is likely to remain elevated in investment grade, high yield , ABS and loans and we will continue to look for value trading out of less attractive secondary bonds. • We continue to have an overweight to the ABS market on a valuation basis. ECB QE distortions should provide anomalies to exploit in non-eligible paper • European high yield looks unattractive • Loan issuance and general improved liquidity should allow for further modest spread tightening
Security selection	• We have trimmed an overweight in subordinated insurance to neutral as Solvency II is no longer an impediment to M&A activity and shareholder-friendly activity. Bank fundamentals have evolved from improving to stable. • Telecom sector has been upgraded to improving from stable given fundamentals. • We are underweight basic industrials and energy sectors where declines in commodity prices have yet to completely feed through to weaker fundamentals and ratings downgrades	• We are focused on bank lower tier two paper as we expect little issuance. Preferred names include Credit Agricole, Erste Bank and Commerzbank. • In telecoms, strong US economic growth and market consolidation in Europe provides opportunities in issues such as Comcast, Verizon and KPN. • We remain overweight the diverse securitised sector given solid covenant protection, improving fundamentals and the probability of bond refinancing. Overweights include selective housing association bonds, Center Parcs and Heathrow Funding
Currency selection	• US dollar expected to strengthen on relatively strong economic performance and speculation of tighter monetary policy • Weaker Chinese growth and commodity weakness is expected to put downward pressure on the AUD,NZD, NOK. • Extremely loose monetary policy is expected to lead to a weaker euro and yen	• We are overweight the USD relative to commodity-dependent currencies, the JPY and EUR.

Market forecasts

Major economies: bond yields (%)

Country	Central bank	2 year	5 year	10 year	30 year
UK	0.75	1.25	2.25	2.75	3.25
US	1.25	2.25	2.90	3.30	3.55
Germany	0.05	-0.10	0.60	1.30	1.80
Japan	0.10	0.20	0.35	0.80	1.75

European periphery: spreads versus German Bunds (bp)

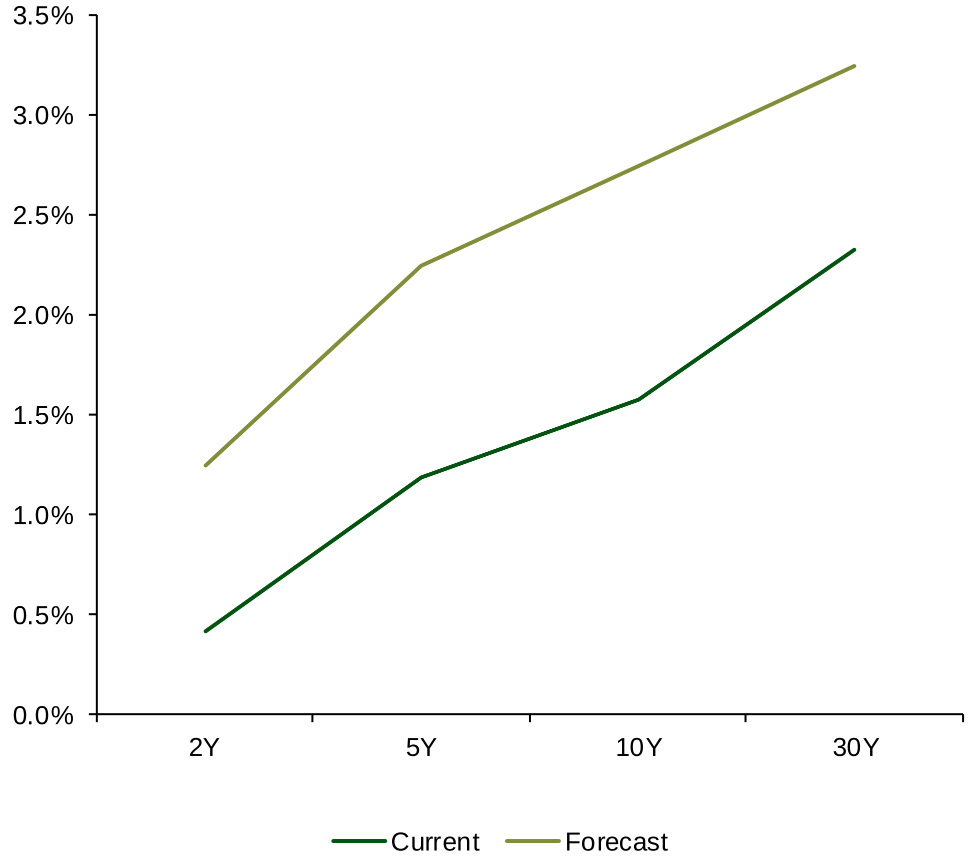
Country	2 year	5 year	10 year	30 year
Italy	35	60	95	100
Spain	30	55	90	95

Note: The forecasts are based on a time horizon of 12 months.
Source: Insight as at March 2015.

UK government bonds
Outlook

	Current yield curve	Insight 12 month forecast
2 year	0.42	1.25
5 year	1.19	2.25
10 year	1.58	2.75
30 year	2.33	3.25

UK Gilt yield curve

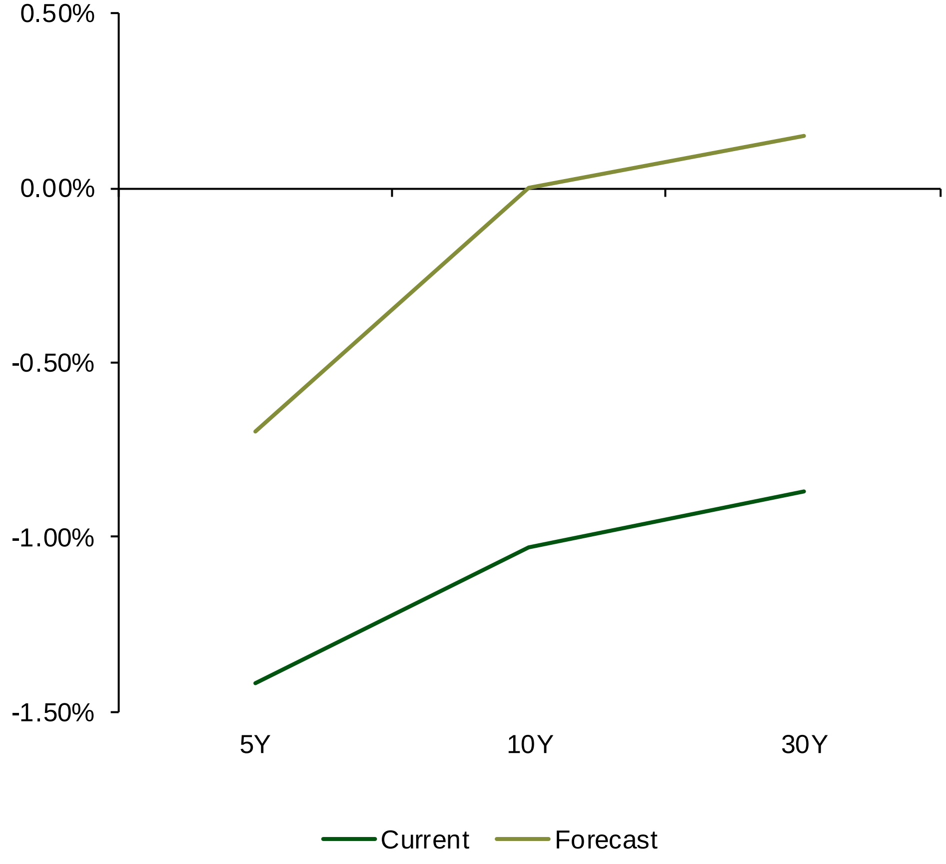


Source: Bloomberg, as at 31 March 2015.

UK Index Linked government bonds
Outlook

	Current yield curve	Insight 12 month forecast
5 year	-1.42	-0.70
10 year	-1.03	0.00
30 year	-0.87	0.15

UK Index Linked Gilt yield curve



Source: Bloomberg, as at 31 March 2015

Appendix

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.

Scott MacMillan – Client Director

Scott joined Insight's Client Relationship Team in October 2012 as a Client Director responsible for servicing UK institutional clients. Prior to joining Insight, Scott spent five years at State Street Global Advisors as Head of Relationship Management with responsibility for institutional client relationships in the UK and South Africa. Prior to this, Scott held senior relationship management and sales positions within the UK at Resolution Asset Management. Scott joined the investment industry in 2000 from FirstGroup plc where he held the position of Assistant Pensions Manager having played a key role in implementing significant changes to pension schemes across the Group. Scott holds a BSc degree in Mathematics from Strathclyde University and has also completed the Diploma in Personal Financial Services. Scott is also a CFA charterholder and has been an Associate Member of the Pensions Management Institute since 1993.

GIPS® performance

Fixed Income, Bonds Plus

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)
2014	1.55	0.54	1.01	1.55	1.55	1.55	1.06	0.05	1(1)	4,484	3.07	146,122
2013	2.97	0.51	2.46	2.97	2.97	2.97	1.36	0.06	1(1)	3594	3.52	102,059
2012	5.37	0.83	4.54	5.37	5.37	5.37	1.66	0.06	1(1)	2139	2.33	91,882
2011	3.94	0.87	3.07	3.94	3.94	3.94	4.20	0.12	1(1)	1621	2.41	67,259
2010	6.05	0.58	5.48	6.05	6.05	6.05	4.72	0.64	1(1)	1252	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	1.55	0.54	1.01
3 years	3.29	0.63	2.66
5 years	3.97	0.67	3.30

Benchmark: 3 Month GBP Libor
Base currency: GBP (British pound sterling)
Asset weighted gross returns as of 31 Dec 2014

Composite creation date: 31 Aug 2006
Composite inception date: 31 Aug 2006
Data source: Insight Investment (C0041)

GIPS® performance
Fixed Income, UK Non Gilts All Stock OEIC

Calendar year

	Total return (%)											
Year	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)
2014	12.50	12.20	0.30	12.50	12.50	12.50	5.16	4.90	1(1)	2,551	1.75	146,122
2013	1.67	0.87	0.81	1.67	1.67	1.67	5.66	5.20	1(1)	1997	1.96	102,059
2012	15.37	13.04	2.33	15.37	15.37	15.37	5.29	4.66	1(1)	1953	2.13	91,882
2011	8.20	6.92	1.28	8.20	8.20	8.20	7.21	5.78	1(1)	1368	2.03	67,259
2010	9.02	8.38	0.64	9.02	9.02	9.02	8.62	6.71	1(1)	665	1.26	52,579
2009	18.05	10.78	7.27	18.05	18.05	18.05	8.16	6.29	1(1)	624	1.34	46,504
2008	-8.09	-4.06	-4.03	-8.09	-8.09	-8.09	5.79	4.84	1(1)	464	0.55	83,969
2007	0.57	1.79	-1.22	0.57	0.57	0.57	3.39	3.23	1(1)	505	0.52	97,215
2006	1.38	0.75	0.63	1.38	1.38	1.38	-	-	1(1)	291	0.31	93,614
2005	9.54	9.00	0.54	9.54	9.54	9.54	-	-	1(1)	76	0.09	88,743

Annualised

	Annualised (%)		
Year	Composite return	Benchmark return	Arithmetic difference
1 year	12.50	12.20	0.30
3 years	9.69	8.56	1.13
5 years	9.25	8.19	1.06

Benchmark: iBoxx GBP Non-Gilts
Base currency: GBP (British pound sterling)
Asset weighted gross returns as of 31 Dec 2014

Composite creation date: 26 Oct 2006
Composite inception date: 30 Nov 2004
Data source: Insight Investment (C0621)

GIPS® performance

Fixed Income, UK Index-Linked (FTA BG > 5 yrs IL) OEIC

Insight INVESTMENT

Calendar year

	Total return (%)											
Year	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)
2014	20.81	21.38	-0.57	20.81	20.81	20.81	8.19	8.42	1(1)	398	0.27	146,122
2013	1.14	0.58	0.56	1.14	1.14	1.14	8.84	8.89	1(1)	339	0.33	102,059
2012	0.87	0.49	0.38	0.87	0.87	0.87	8.01	7.94	1(1)	499	0.54	91,882
2011	23.41	23.32	0.09	23.41	23.41	23.41	8.67	8.37	1(1)	473	0.70	67,259
2010	10.33	9.05	1.29	10.33	10.33	10.33	9.72	11.01	1(1)	331	0.63	52,579
2009	7.64	5.57	2.07	7.64	7.64	7.64	9.42	10.79	1(1)	244	0.52	46,504
2008	9.11	3.31	5.80	9.11	9.11	9.11	8.25	9.98	1(1)	228	0.27	83,969
2007	5.64	8.56	-2.92	5.64	5.64	5.64	5.05	5.04	1(1)	192	0.20	97,215
2006	3.09	2.65	0.44	3.09	3.09	3.09	-	-	1(1)	168	0.18	93,614
2005	10.28	9.59	0.69	10.28	10.28	10.28	-	-	1(1)	69	0.08	88,743

Annualised

	Annualised (%)		
Year	Composite return	Benchmark return	Arithmetic difference
1 year	20.81	21.38	-0.57
3 years	7.22	7.05	0.17
5 years	10.91	10.53	0.38

Benchmark: FTSE A British Govt > 5 yrs Index-Linked
Base currency: GBP (British pound sterling)
Asset weighted gross returns as of 31 Dec 2014

Composite creation date: 26 Oct 2006
Composite inception date: 30 Nov 2004
Data source: Insight Investment (C0625)

GIPS® performance
Fixed Income, Bonds Plus

Firm-wide disclosures

- The GIPS® firm is defined as Insight Investment and includes all investment strategies managed or advised by Insight Investment Management (Global) Limited and Pareto Investment Management Limited. Insight Investment was redefined on 1 January 2013 to include Pareto Investment Management Limited, when companies in the Pareto group became part of the Insight group on 1 January 2013. All GIPS® portability requirements have been met and all composite strategies in place before the acquisition continue unchanged. Insight Investment Management (Global) Limited and Pareto Investment Management Limited are wholly owned subsidiaries of Insight Investment Management Limited, which in turn is a wholly owned subsidiary of The Bank of New York Mellon Corporation.
- 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 on-going 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 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.
- For unitized funds, gross of fees returns are presented gross of annual management charges, but net of all dealing expenses; net returns are presented net of all charges. For segregated accounts, gross of fees returns are presented gross of all fees; net returns are presented net of just annual management charges.
- All composite returns are net of withholding taxes on income and capital gains taxes. All investment income is reinvested within the portfolio unless stated otherwise below. Additional information regarding the policies for valuing accounts and funds, and the calculation and reporting of 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. Three-year annualised ex post standard deviation measures are not presented when there are less than 36 monthly observations available.
- Insight claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Insight has been independently verified for the periods 1st January 1998 to 31st December 2012. 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.

C0041: GIPS®-Fixed, Bonds Plus

- This composite comprises actively managed funds invested in short-dated UK cash and fixed income assets. The investment objective of the funds 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
- It is benchmarked against the 3 Month GBP Libor index
- Prior to 31/1/2011, the benchmark for this composite was 3 Month GBP Libid
- 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
- 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
- Portfolios within this composite are permitted to use leverage, derivative instruments and/or short positions for efficient portfolio management. The extent to which these instruments may be used for investment purposes may vary over time and may be material. More detail on the degree of leverage/derivative/short position usage within this composite is available upon request

GIPS® performance
Fixed Income, UK Non Gilts All Stock OEIC

C0621: GIPS®-Fixed, UK Non Gilts All Stock OEIC

- This composite group comprises actively managed Insight OEIC funds invested in UK non-government fixed interest assets of all maturities
- These funds have discretion to invest in non-sterling fixed income assets
- Insight also manages significant UK non-government fixed income assets as part of multi-asset 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 0.30% per annum. Fees are variable and depend on the asset class or Fund being invested in and the value of the investment
- Portfolios within this composite are permitted to use leverage, derivative instruments and/or short positions for efficient portfolio management. The extent to which these instruments may be used for investment purposes may vary over time and may be material. More detail on the degree of leverage/derivative/short position usage within this composite is available upon request.

C0625: GIPS®-Fixed, UK Index-Linked (FTA BG > 5 yrs IL) OEIC

- This composite group comprises actively managed Insight OEIC funds invested in medium and long-term UK index-linked assets
- The funds have discretion to invest in non-sterling fixed income assets
- It is benchmarked against the FTSE A British Govt >5 yrs Index Linked index
- Insight also manages significant medium and long-term UK index-linked assets as part of multi-asset 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 0.30% per annum. Fees are variable and depend on the asset class or Fund being invested in and the value of the investment
- Portfolios within this composite are permitted to use leverage, derivative instruments and/or short positions for efficient portfolio management. The extent to which these instruments may be used for investment purposes may vary over time and may be material. More detail on the degree of leverage/derivative/short position usage within this composite is available upon request
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Notes

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