Investment Advisory Committee (IAC) Quarterly Meeting

Minutes of Meeting

Date
30/8/2016

Present members
Julius Pursaill (Chair)
Colin Taylor
Ewan Smith
Rachel Elwell
Andrew Carter

In attendance
Lorna Blyth
Ryan Medlock
Piers Hillier
Robert Whitehouse
Euan Craig
Ryan Hamill
Ricky McKinney
Niall Aitken

Apologies
Isobel Langton
Trevor Greetham
Robert Dundas

Owner

1. **REVIEW OF PREVIOUS MINUTES**
The minutes of the 14 June 2016 meeting were approved.

2. **PROJECTS**

Brexit impact
A paper was submitted outlining the steps we have taken since the outcome of the EU referendum in June.

We have issued a number of adviser and customer facing communications since the vote to voice our latest understandings of the ongoing developments, educate customers on the implications of withdrawing money in a volatile market and to reaffirm to advisers that our property fund remains open for business.

In the RLP Property fund, we continue to see strong fund inflows and outperformance relative to the fund's benchmark. We have moved from monthly to fortnightly valuations to ensure that we provide fair value for our customers amongst all of the uncertainty. RLAM confirmed that the fund holds good quality assets and are comfortable with the cash levels within the fund.

The outcome of the referendum and the fact that interest rates have fallen to a three hundred year low reflects a material change in the current environment and we have initiated internal discussions to review the assumptions used in setting Strategic Asset Allocation. RE

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Governed Portfolio & GRIP short-term performance
A paper was submitted by RLAM outlining the reasons for the recent short-term underperformance relative to the strategic benchmarks.

Like the majority of the market we were positioned for a "remain" vote in the EU Referendum and the recent underperformance is predominantly driven by factors associated with Brexit. It was noted that half of the relative underperformance over 12 months up to the end of June 2016 can be attributed to a timing mis-match between all RLP funds pricing at noon and benchmark measurement at 4.30pm close: the FTSE 350 Index rose 2.1% on afternoon of 30th June. Lesser contributors were stock selection within equity and bonds and the underweight position in bonds in favour of cash.

The IAC is satisfied with the current positioning of the RLAM funds within the portfolios. Within the UK equity funds there is a focus on capturing the recovery of the UK economy and so an emphasis on mid cap companies rather than the more global focussed blue chip stocks of the FTSE 100.

Within the RLP Global Managed fund, overweight positions in Europe and Japan served as a performance detractor. The fund moved to an underweight position in Europe in the immediate aftermath of Brexit.

It was noted that the IAC's focus is on ensuring that the SAA positions remain appropriate over the longer term and is satisfied that RLAM's positioning in expectation of a remain vote was reasonable and understands the causes of the short term underperformance. That said, the IAC requested further clarity on why some of the portfolios are underweight in index linked bonds and others are adopting an overweight position. RLAM advised that although they are overweight shorter dated index linked bonds, this is a relatively low risk position.

The IAC asked for clarification that the duration positioning was within the agreed limits for the duration-matched fixed interest funds. TG

RLAM oversight of SAA transition
A paper was submitted by RLAM outlining the implementation costs as part of the SAA changes. PH

Whilst the IAC noted that costs had been mitigated by the transition over time through the TAA process, and the costs appeared reasonable in light of the size of the change, further information on the frictional cost of trading was requested.

RLP UK Ethical
At the last IAC meeting, it was noted that discussions had taken place with the RL Sustainable Investment team around possible actions to refocus the selection criteria and management style of the fund. Before progressing these discussions, the IAC had requested further information on any specific stocks or sectors that are not currently included but could be used if a more sustainable approach were adopted.

A comparison between the RLP UK Ethical fund and the RL Sustainable Leaders fund (which operates under the revised methodology that could be adopted) was presented and showed that there are only three stocks within the sustainable fund that are currently excluded from RLP UK Ethical. This accounts for 10% of the RL Sustainable Leaders fund.

The IAC are comfortable for discussions to progress with the RL sustainable investment team and to manage communications with affected policyholders. RM

GP methodology document
An update was provided on the work in progress for a Governed Portfolio methodology document. This item is being progressed with input from RLAM and the Investment Office and a further update will be provided prior to the next IAC meeting. LB

External fund oversight
An update was provided on the work to make the external fund oversight process more robust. There have been a number of internal cross business meetings to identify ways of sharing and co-coordinating external fund analysis. We are working internally to agree a process and will update the IAC at the next meeting, once a cross Group process has been agreed. RM

GRIP SAA review
An update was given on the work to review the SAA positions of the GRIPs. This review had been placed on hold whilst we investigate the customer benefit of competitor offerings in drawdown and is now due to start in Q4 2016. The IAC also noted that this piece of work will be much more complex than the SAA review of the Governed Portfolios. RD

Default review
A paper was presented reviewing the investment default option post pension freedoms. This paper explained that based on our existing customer profile we are comfortable that an annuity endpoint remains appropriate. However, it was recognized that we should continue to monitor our customer behaviour and look to increase the MI available to better understand our customers' needs.

The IAC noted that other providers have changed their default end points recently and requested further work to be carried out to prove the annuity end point remains appropriate. It was also noted a cash end point is locking policyholders into a negative return given interest rates are now 0.25% and below our lowest AMC.

The IAC is concerned about policyholders who stay longer in the default than their selected retirement age and what we are doing for those members who fail to engage.

It was agreed that we would include a formal review of the investment default end point alongside the work to review the GRIP SAA positions. RD

3. **CUSTOMER INVESTMENTS**

STRATEGIC ANALYSIS

Governed Portfolios & Managed Strategies
The new SAAs took effect from 30/06/2016. This included the introduction of commodities, government bonds, high yield bonds and absolute return strategies (including cash) into the strategic mix. All portfolios remain within their target ranges for real volatility.

Governed Portfolios 3 & 6 efficiencies have improved and, whilst still outside the desired target the expected real return difference is very small so the IAC was comfortable that no change was necessary.

No SAA changes were made to the Managed Strategies.

Governed Retirement Income Portfolios (GRIPs)
There have been no SAA changes for the GRIPs.

The long term measure across all portfolios has increased resulting in GRIP1, GRIP2 and GRIP4 falling out of their target ranges and GRIP3 approaching the boundary of its target range. All of the portfolios are within their short term measure with the exception of GRIP5 which is flagged as amber.

The IAC continue to be comfortable that no change is necessary. We are due to start reviewing the GRIP SAAs in Q4 2016.

Lifestyle Path Analysis
Each Governed Lifestyle Strategy continues to be appropriate for its risk profile and investment objective. However, as noted in section 2 of the minutes, the IAC require further work to be completed regarding the appropriateness of the different end point options.

TACTICAL ANALYSIS

Governed Portfolios & Managed Strategies
All portfolios remain within their tactical risk budgets.

There have been three tactical changes since the last meeting, two in June and one in July.

The first two changes in June helped us transition towards the new SAAs. The July change saw the portfolios move to an underweight position in absolute return strategies (including cash) and a slightly less overweight position in equities.

Overall, the asset allocation is now overweight in equities, index linked bonds, and corporate bonds with underweight positions in government bonds, commodities, absolute return strategies (including cash) and high yield bonds.

Governed Retirement Income Portfolios (GRIPs)
There have been two tactical changes since the last meeting, one in June and one in July.

The first change was effective as of 16/6/2016 and moved to a more overweight position in equities and a less overweight position in cash.

The second change was effective as of 14/7/2016 and moved to a less overweight position in equities, an overweight position in Government bonds and a less overweight position in corporate bonds. The allocation to cash was removed.

Overall the asset allocation is now overweight in equity, high yield bonds and Government bonds. We are neutral in property and a mixture of overweight and underweight in index-linked bonds.

Short term tactical view of the Chief Investment Officer

PH reviewed Q2 2016 and presented RLAM's rationale for the current short term tactical view:

Positioning

- Portfolios began Q2 overweight Equities, funded at the expense of Fixed Income, concentrated in UK government bonds, based on the view that a steady global economic recovery would take hold through the course of 2016 accompanied by interest rate rises in the US and UK.
- Equity positioning was initially reduced in April and May following a strong risk rally and switched into Cash, before being redeployed at lower equity markets levels as polls on the EU referendum narrowed significantly.
- Following the surprise 'Leave' vote, the Bond underweight was reduced ahead of the BoE's first post 'Brexit' meeting, at the expense of Cash, and further profits were taken in Equities.

Q2 Market Background

- The UK referendum on EU membership dominated price action in financial markets over the 2nd quarter. After expectations of a 'Remain' outcome rose in the immediate run-up to the vote, a surprise victory for the 'Leave' campaign resulted in a major sell-off in Sterling, a collapse in UK Gilt yields, and the suspension of most major UK open-ended property funds.
- Sterling's depreciation led to significant outperformance of UK large caps with overseas earnings relative to domestically focussed mid and small caps. Unhedged returns from Overseas Equities in GBP terms leapt, whilst returns slumped on a local currency basis due to steep declines in Japan and Europe on unexpected currency strength and political uncertainty.
- Yields on government bond securities continued to decline sharply to record new record lows, as investors began to discount greater stimulus measures to offset elevated political risk and economic uncertainty post 'Brexit'. Credit spreads tightened as the search for yield intensified, whilst high yield securities followed equities and oil prices higher.
- Commodity markets extended their rally from the start of 2016 led by oil recovering to $50 per barrel on a combination of firmer US and Chinese economic data as well as mounting speculation of an OPEC production freeze. Meanwhile,

precious metals continued to rise as US rate expectations declined which translated into further USD weakness.
- Q2 saw UK property extend relative underperformance against other asset classes following 'Brexit'. The sudden trading suspension of a number of large open-ended property funds hit investor sentiment and resulted in downward pressure on pricing. Market activity experienced a pronounced slowdown as uncertainty weighed on both investors and occupiers.

Relative Positioning & TAA Performance

- TAA detracted from performance in Q2 and was concentrated in the period immediately following the EU referendum vote which triggered a dramatic fall in Sterling and Gilt yields.
- Although portfolios benefitted from an underweight position in Sterling from overweighting unhedged Overseas Equities, this was more than offset by the underweight Gilt position versus Cash and Absolute Return as yields fell to all-time lows.
- Within Equities, our preference for overseas markets made a positive contribution as the UK significantly underperformed the World ex-UK Index in GBP after Sterling again fell 6% on a trade weighted basis over the quarter. Regionally the overweight stance in Europe detracted on heightened political risk following the UK referendum result and Euro strength.
- In Fixed Income, longer dated conventional and index-linked Gilts significantly outperformed the shorter duration Investment Grade Credit and High Yield segments as UK rate expectations fell dramatically over the period, and yields priced in an aggressive monetary policy response by the BoE to counteract the risk of a major economic slowdown.
- UK Property was maintained at a broadly neutral level as market returns again lagged broader portfolio gains. Capital values were flat over the quarter with income generating all of the total return. Initial valuation adjustments seen in June/July have centred on Central London over fears on occupier demand from international banks in the wake of the 'Brexit' vote.

Outlook & Views

- We expect a modest upturn in global economic growth in 2016 and 2017 with limited impact from 'Brexit'. We expect the Federal Reserve to again raise rates again in late 2016 though rises should be very gradual. We remain marginally overweight equities on the back of continued global recovery, and an extended period of loose monetary policy.
- We are underweight Gilts as a funding source as yields should begin to factor in a pick-up in inflation towards year end, as a result of Sterling weakness and base effects in oil prices. More recently, yields have fallen to what we see as unsustainable levels over the long run, and we have therefore begun to reduce our exposure to Fixed Income once again.
- Following 'Brexit', the longer term implications for Property remain unclear. Although political uncertainty has been addressed, the economic consequences are still to take shape. Nonetheless, we believe that well-let, stable income streams will still be sought and should hold onto their value. We would look to add exposure should declines become more extended.

6. ROYAL LONDON FUND REVIEW

It was noted that the underperformance of many UK across the industry equity funds in Q2 has been exacerbated by the heightened volatility post-Brexit and timing differences between fund valuations and end of day benchmarks.

The following funds/portfolios were discussed:

Governed Range – Due to underperformance in Q2 driven by the portfolios being positioned for a remain vote in the Referendum, only two Governed Portfolios now outperform their benchmarks over three years and only three portfolios are outperforming since launch. This is down from all nine portfolios last quarter outperforming their benchmark over 12 months. No GRIPs are outperforming their benchmark over the one and three year periods. All portfolios are outperforming their benchmarks since launch.

RL Pension funds

The following funds were identified as requiring further discussion through the performance reporting but no specific action was required as the underperformance is predominantly driven by factors associated with Brexit and the IAC is satisfied with the current positioning of RLAM funds:

Adventurous Managed
The fund suffered from another poor quarter. Performance across all time periods has worsened and is underperforming over one, three and five years.

Managed
Fund performance worsened over Q2 and the fund now underperforms over three years in addition to 12 months and five years.

UK Equity
The fund had previously only underperformed over 1 year but a poor quarter means the fund is now underperforming over three and five years with 12 month performance also worsening.

UK Ethical
A third successive quarter of underperformance has seen the fund’s relative performance worsen over all time periods. It is now underperforming over three years in addition to 12 months and five years.

UK Mid Cap
Another poor quarter has seen the performance worsen over one, three and five years.

Worldwide
The fund suffered another disappointing quarter and the underperformance over 12 months has worsened. The fund is now underperforming over three and five years too.

Global Equity
In line with RLAM’s other equity funds, the fund underperformed in Q2 and has caused performance to worsen over all time periods. It had been outperforming over three years but is now underperforming over one, three and five years.

Fixed Interest
The fund had been outperforming over one, three and five years but successive quarters of underperformance mean the fund is now marginally underperforming over all time periods.

UK Government Bond
The fund had been marginally underperforming over three and five years but this performance has worsened in addition to underperforming over 12 months due to another poor quarter.

Global Index Linked
Another disappointing quarter has resulted in relative underperformance over one, three and five years.

Externally Managed Matrix Funds

The following funds are subject to further action before the next quarterly IAC meeting:

Fidelity American
A conference call was held with the fund manager, Aditya Khowala on 9 August to further understand the contributing detractors to the underperformance and how the portfolio has changed since he took over the management of the fund in September 2015. RM

As a growth orientated strategy, the manager is looking to invest in secular long term themes which are going to drive innovation. These are broad and independent themes such as the rise of the EM middle class and manufacturing renaissance in the US. The market went against these cyclical-type stocks over the last 12 months (particularly Q4 2015) but the manager remains positioned for growth in these areas and others hoping to benefit from a continued recovery in the US economy.

We agreed at the March IAC meeting to give the manager more time to recover performance but continue to monitor performance very closely. At the next IAC meeting in November, the current manager will hold a 12 month track record in managing the fund. The manager has a strong track record on the two other Fidelity US funds he currently manages relative to the peer group. The IAC has requested analysis to be provided of the Fidelity American fund against the other funds that Aditya manages.

Schroder Core UK Equity
After a positive quarter in Q1 and an uptake in performance across all time periods, the fund suffered from the setback in Q2 and performance has once again worsened over one, three and five years. RM

As previously noted, poor performance has mainly come from 2014/15 where the manager was doubly impacted by an overweight in commodity-based cyclicals in addition to being underweight defensive assets. The overweight's in banks, general retailers and fixed line telecoms detracted value over the short term, as did the underweights in outperforming mining, pharmaceuticals and gas & water. Recent detractors have mainly been driven by stock selection within materials and consumer staples sectors.

At the last IAC meeting in June, it was noted that a conference call was held with the manager on 3 June. Following this call, we gained a degree of comfort that performance issues have been addressed but that we'd keep the fund on watch and continue to monitor performance. A further update will be provided at the next IAC meeting.

Neptune European Opportunities

Although the fund suffered another poor quarter, relative performance actually improved. However, due to historical poor performance, the underperformance over one, three and five years has worsened. The underlying fund has also experienced a strong decline in assets under management. RM

European earnings and dividends continued to be a strong support for the market. The fund maintains a strong bias towards those companies that are perceived to have been out of favour with investors, but with attractive characteristics. The manager does not want to own expensive companies in this environment and instead is focusing on highly cash-generative companies with high dividends.

Rob Burnett has been managing the fund since 2005 and for much of the time the fund has been ahead of the peer group and benchmark. However, the fund's value bias means it has underperformed during periods when growth stocks have outperformed such as 2014 and 2016. Morningstar believe that the manager has made a number of ill-timed shifts in the portfolio since 2012 with some disappointing stock picks that have affected the fund's performance record.

This high conviction strategy blends a top-down and bottom-up approach to form a portfolio with a high active risk which is expressed through significant sector and stock bets. As such, periods of extended relative outperformance or underperformance should be expected.

Over the quarter both sector allocation as well as stock selection detracted from performance. The fund's overweight in financials as well as security selection within the sector were the most detrimental. Stock selection in materials as well as industrials was poor.

Morningstar has downgraded the fund to Neutral from Bronze. They have concerns around the manager's inability to address the performance concerns and the degree of risk taken in the management of the fund. Morningstar no longer have conviction in his ability to add value over the benchmark in a meaningful way.

The IAC are concerned with the performance of this fund and the other Neptune funds on the RLP fund range. The IAC agreed that this fund should be placed on watch with a view to remove based on the above concerns and asked that alternative solutions are investigated.

The following funds were discussed and will remain on watch and under scrutiny:

Artemis Income

The fund hasn't triggered for review but the fund co-manager, Adrian Gosden, left at the end of June 2016. As co-manager on this fund since 2003, Gosden had become an integral part to the management team alongside lead co-manager

Adrian Frost and Nick Shenton.

Morningstar continue to have a high regard for senior co-manager Adrian Frost and the consistency of the approach, the loss of Gosden is significant and presents challenges over the short term. This, combined with the trend of disappointing performance, has lowered Morningstar's conviction in the fund and they have lowered the rating from 'Gold' to 'Bronze'.

Close TEAMS UK Equities 2%
A poor Q2 has tipped the fund into marginal underperformance over 12 months. The fund is now also underperforming over three and five years.

The cause of the recent underperformance is due to Baillie Gifford, which has been negatively impacted in the short term by the Brexit vote (the manager doesn't hold the oil majors nor do they hold big pharmaceuticals, materials or utilities) and from adverse stock picks. However, the manager's investment approach has not changed, the portfolio has a very low turnover and the portfolio manager remains in place. Nothing has changed in the management of the portfolio and Close are confident the portfolio will recover as it has in the past following underperformance (for example in 2005 and 2008).

Franklin UK Mid Cap
A disappointing quarter has seen the fund's performance significantly fall below benchmark over one, three and five years after outperforming all periods last quarter.

The scale of the underperformance has come as a surprise to the fund manager given how much work had been done during H1 '16 to reduce the exposure of the fund to UK centric stocks and increase the weighting of companies with international exposure. Since the start of the year the proportion of overseas operating profits within the portfolio had increased from 47% to 57%, compared to a FTSE 250 weighting of c.47%.

The fund's underperformance over the quarter was primarily as a result of stock selection despite the above portfolio tilt. The fund's mid-cap bias meant that it lagged the peer group significantly too as midcaps came under severe pressure following the results of the EU referendum. Despite the difficulties that the fund has experienced over the last 12 months, Morningstar remain with the conviction that the fund will outperform in the long term.

Investec UK Smaller Companies
The fund suffered from a very poor quarter and is now significantly underperforming over all time periods after outperforming last quarter.

UK small-cap and mid-cap stocks bore the brunt of the post Brexit sell-off given their relative exposures to the domestic economy, with the constituents of the FTSE 100 index earning a greater proportion of their revenues from overseas.

Underperformance in the fund was driven by the weakness in those stocks with high domestic consumer exposures, with mortgage providers, house builders, car retailers, recruiters and travel companies the most impacted. Having an underweight position in the outperforming basic materials sector also weighed on performance more broadly.

JPMorgan US
The fund had a very disappointing quarter and the underperformance over one, three and five years has considerably worsened.

The underperformance of the fund partially resulted from the divergence in timing of the fund pricing and benchmark pricing in June. Detraction from relative performance was largely driven by weak stock selection in the energy and health care sectors. The manager's immediate focus is to determine the impact that Brexit will have on the revenues and earnings of the companies he is investing in.

The fund's stock selection process ranks stocks on quality, momentum and value within sectors - none of these factors contributed positively. The process definition of Value has been the biggest detractor, followed by momentum and then quality.

Other external funds

The following funds were discussed and will remain on watch:

7IM AAP Moderately Cautious
The fund had previously underperformed over 12 months but a poor quarter means that it is now also underperforming over three years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from 7IM.

Baillie Gifford UK Equity
Successive quarters of underperformance make the fund underperform over one and three years. However, it continues to outperform over five years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Baillie Gifford.

BMF Balanced
The fund suffered from a poor quarter and underperforms the benchmark over one and three years. No five year data exists for this fund.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from BMF.

Fidelity Moneybuilder Income
The fund marginally underperformed in Q2 and continues to sit just below benchmark over one and three years. The fund marginally outperforms over five years.

The fund posted positive absolute returns over the quarter but underperformed the index, primarily due to its interest rate strategy. Duration was the primary driver of absolute performance as core government bond yields fell across the curve. The fund's long credit beta stance held back returns as sterling spreads widened following the Brexit vote.

Fidelity South East Asia
No performance issues. The fund has renamed to Fidelity Asia.

Fidelity Special Situations Blended
The fund was previously outperforming over one, three and five years but another poor quarter means the fund is now underperforming over one and three years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Fidelity.

Fidelity Strategic Bond
Another disappointing quarter has worsened the relative underperformance over one, three and five years.

The fund outperformed high yield corporate bonds, but lagged Gilts and investment grade corporate bonds over Q2. Credit exposure weighed on returns as sterling credit spreads widened as a result of the Brexit vote. The exposure to banks detracted from performance as concerns around the banking sector and fears over capital adequacy mounted in the aftermath of the UK's decision to leave the EU.

Fidelity UK Growth
Relative performance worsened in Q2 and the fund is now underperforming over one and three years in addition to five years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Fidelity.

This fund has now merged in to the Fidelity UK Select fund and renamed. There is no change to the management style of the fund or existing charges.

GLG Balanced Managed
Short term performance has been disappointing with the fund sitting below benchmark over one and three years. However, the fund continues to benefit from stronger longer term performance and continues to outperform over five years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from GLG.

Invesco Perpetual Corporate Bond
The fund was previously only underperforming over five years but another quarter of underperformance has caused the fund to slip below benchmark over one and three years in addition to the five year period.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Invesco Perpetual.

Invesco Perpetual Distribution
The fund marginally underperformed in Q2 and the fund sits just below benchmark over one and three years. However, it continues to outperform over five years quite comfortably.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Invesco Perpetual.

Invesco Perpetual Global Bond
The relative underperformance improved over the last quarter but it now means that

the fund sits below benchmark over one and three years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Invesco Perpetual.

Invesco Perpetual Monthly Income Plus
The fund has triggered due to marginal underperformance over three years now. It had been previously underperformed over 12 months and the underperformance in Q2 has now impacted the three year figure. It continues to comfortably outperform over five years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Invesco Perpetual.

Investec Emerging Local Currency Debt
The fund had another positive quarter and although relative performance has improved over 12 months, it still sits well below benchmark over all time periods due to significant longer term underperformance.

Emerging market bonds and currencies generally posted positive returns over the quarter, underpinned by modestly stronger commodity prices and stabilisation in fundamentals.

The currency component in the fund made a positive contribution to relative performance, mainly through selection. The relative contribution from the bond component was effectively flat. Country selection and overall duration exposure was positive for returns. Timing & methodology detracted from returns.

Investec Global Energy
The fund another poor quarter but the relative performance over three and five years has marginally improved. 12 month performance has worsened.

The portfolio's exposure to the alternative energy sector, notably solar companies First Solar and Sunpower, was the largest detractor from relative performance over the quarter. An overweight in exploration and production companies, particularly mid-cap companies, was the main driver of positive performance.

Investec UK Special Situations
The fund had a very disappointing quarter and the relative underperformance over one and three years has worsened. No five year data exists for the fund.

The fund's strategy is to stick with the most misunderstood stocks – the banks, construction-related stocks and a few retailers. Investec are keeping their eyes on other beaten-up areas, but some sectors have significant structural issues. The fund's overweight position in oil stocks performed well during the post Brexit turmoil, but have reduced their exposure to this area as the longer-term outlook for oil also looks pressured.

JPMorgan Cautious Managed
No performance issues. The fund has renamed to JPMorgan Global Macro Balanced fund.

JPMorgan Natural Resources
The fund suffered from a very disappointing Q2 and relative underperformance over three and five years has significantly worsened. The fund is now underperforming over 12 months.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from JPMorgan.

Jupiter Ecology
The underperformed again in Q2 and the relative underperformance over one, three and five years has deteriorated.

The fund underperformed its benchmark over the quarter, although it made progress in absolute terms. The largest impediment to relative performance was the rally in resources stocks (which are not held in the fund due to its environmental focus) as these continued to rise from their low levels at the start of the year.

Jupiter European Special Situations
The fund was previously outperforming over one and three years but a disappointing quarter mean it's now underperforming over both time periods

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Jupiter.

Jupiter Financial Opportunities
Short term relative underperformance has improved but the fund remains under the benchmark over one, three and five years.

The fund lagged its benchmark in Q2. Underperformance can largely be attributed to an overweight position in the UK, with performance affected both on an individual stock level, and as a consequence of the sharp fall in sterling. Jupiter has stated most of the portfolio's UK holdings generate a significant proportion of their revenues overseas, and believe that this should benefit from sterling weakness.

Jupiter Merlin Income
Although the fund underperformed over Q2, its relative underperformance has improved over one and three years and it continues to outperform over five years.

Jupiter Merlin continue to believe that the fund is well positioned for medium to long term investors, given the variety of opportunities and potential risks they see present in global investment markets. Jupiter Merlin therefore remain confident that their stable of active managers should continue to find nuggets of value in their markets.

Jupiter Merlin Worldwide
The fund had a positive quarter and is now outperforming over 12 months. It remains under benchmark over three and five years but the relative underperformance has marginally improved over both time periods.

The fund performed better than the average for its sector in the choppy market conditions seen in the last 12 months. It has limited exposure to the UK (indeed it has no dedicated UK fund holdings but does have a small exposure to the UK economy via equities held in some of the global funds) its performance benefited from the fall in the value of the pound against various foreign currencies after the 'Brexit' result.

Legg Mason US Smaller Companies
The fund had a very disappointing quarter and is now underperforming over all time periods.

About two-thirds of the fund's relative underperformance in Q2 was due to Financials and Consumer Discretionary (as well as being overweight in this sector). Further detractors included a few one-off Industrial names and negative total returns in the fund's Consumer Staples holdings. The manager continues to have high conviction in the fund's contrarian, pro-cyclical bias and focus on disciplined stock selection.

M&G Global Basics
The fund benefited from another strong quarter and the relative outperformance over 12 months has strengthened. The fund continues to suffer from poor long term performance though.

An overweight position and stock selection in basic materials added significant value, as did an underweight position in consumer goods. Conversely, an underweight in oil & gas detracted from performance.

The IAC expressed concerns about the number of M&G funds underperforming and requested further scrutiny on these funds over the next quarter. RM

M&G Global Dividend
The fund underperformed in Q2 after a strong Q1 and this has worsened the underperformance over one and three years. No five year data exists for this fund.

The fund's underperformance in Q2 gave back some of the strong outperformance in the first quarter. Energy and materials, which were responsible for much of the fund's outperformance in the first four months of the year, were prominent among the detractors.

M&G Global Leaders
The fund had a marginally better quarter on a relative basis but continues to underperform significantly over one and three years. No five year data exists for this fund.

The fund underperformed over the second quarter, with relative returns held back by portfolio positioning and a timing difference between the pricing of the fund and the index, which had a negative effect. The fund's largest detractors came from the banking and consumer discretionary sectors.

M&G Optimal Income
A disappointing quarter means the fund is now below benchmark over one and three years. It does however, continue to outperform over five years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from M&G.

M&G Recovery
The suffered from another poor quarter and continues to significantly underperform over one, three and five years.

The fund lagged its benchmark over the first half of 2016. The fund performed well between mid-February and mid-June, but the market's Brexit-induced stampede back into large-cap defensives led to those gains being given back. The underweight to consumer goods, the underweight to Shell and the Brexit effect on many of the fund's consumer services companies, all detracted. However, the holdings in basic materials added value as they benefited from stronger US dollar earnings and a rising gold price.

M&G Strategic Corporate Bond
A poor quarter for the fund has resulted in marginal underperformance over both one and three years. The fund is marginally outperforming over five years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from M&G.

Neptune Balanced
The fund marginally outperformed in Q2 and relative performance has slightly improved across all time periods. However, it is still underperforming the benchmark over one, three and five years although.

The significant weakening of Sterling post EU referendum benefited the fund's overweight in US companies versus the index, but the fund's exposure to Japan is hedged. This is predicated on the belief that a weak yen is key to reinvigorating Japan's domestic economy. However, after the referendum the yen strengthened by nearly 15%, negatively impacting performance. Neptune had reduced their exposure to Japan before the vote, although they still remain overweight.

During Q2, the fund added investments in large FTSE 100 companies, such as British American Tobacco, as the manager continues to envisage a weak sterling environment going forward. This will provide a boost to the overseas earnings generated by these multinational companies. In addition, the fund rotated around 20% of the fund from equities and cash into UK government and inflation-linked bonds. Neptune believe this should provide some ballast to the portfolio amidst the equity volatility that is expected through the rest of 2016.

Neptune Global Alpha
The fund suffered from a very disappointing quarter and relative underperformance has worsened over one, three and five years.

The fund remains overweight to Japan as highlighted in the Neptune Balanced fund above. The fund's emerging market exposure was a positive contributor during the period. The main changes during the period involved increasing emerging market exposure, as the manager believes we are at a very attractive entry point for the asset class, particularly as political risk in Europe increases.

Given that the fund is currently entirely invested in global equities it is reasonable to compare it to MSCI World. In H1 of this year it underperformed by over 27%. The fund's performance has been hit by the sell off at the start of the year due to concerns regarding US growth / China and the fact that investors moved to bond proxy stocks.

Neptune Global Equity
The fund's ranking in the sector average improved this quarter but still suffered from significant underperformance. This has worsened the underperformance over one, three and five years.

The fund remains overweight to Japan as highlighted in the Neptune Balanced fund above. Given Neptune's longstanding macroeconomic views and for the trajectory of the US interest rate, the quarter presented tough conditions for the fund. Indeed, the three major sector overweight's compared to the Index were the consumer discretionary, financials and IT industries. Several of the major detractors were in the latter two sectors, whilst being almost zero weight energy and materials was also detrimental to relative performance.

Performance of the fund has been very poor – the fund has underperformed its benchmark index in each of the last six years (including 2016).

Neptune US Opportunities
The fund had another quarter under benchmark and performance has worsened over one, three and five years.

The energy sector had a strong rally through Q2 on the back of a rising oil price. However, the fund's underweight position here impacted negatively on relative performance. In general, defensive sectors such as utilities, telecommunications and consumer staples were overall laggards in the quarter, despite rallying strongly in the final week of the quarter.

Felix Wintle, who had managed the fund for over 10 years, left Neptune and he was replaced by James Hackman and Patrick Close who began managing the fund on 25th May.

Given the change of manager in May the above performance cannot be attributed to the new managers. The new manager has brought his own investment process which has been used for the US Income fund over the last two years. The new team have delivered outperformance on the income fund but it remains to be seen if this process will also be successful with the opportunities fund.

Sarasin Food & Agriculture Opportunities
The fund was previously underperforming over three years but a poor quarter has resulted in the fund underperforming over 12 months as well. No five year data exists for this fund.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Sarasin.

Schroder MM Diversity Tactical
A poor quarter has resulted in the fund underperforming over 12 months in addition to three years. No five year data exists for this fund.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Schroders.

Schroder MM UK Growth
The fund underperformed over Q2 and now underperforms over both one and three years. No five year data exists for this fund.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Schroders.

Schroder Global Property Securities
Although the fund's position in the sector improved over the quarter, it still suffered underperformance and the relative positions under the benchmark have worsened over one, three and five years.

The relative performance of the fund this year has been largely affected by Brexit. However, it is important to highlight that the absolute performance has been strong and Schroders believe that this highlights the importance of a globally diversified portfolio.

Schroders announced a name and objective change for the fund to take effect from 1 August. The fund is now called Schroder Global Cities Real Estate fund. There is no change to how the fund is managed but the wording has been changed in the objective to be more consistent with the language used across the suite of Schroder funds.

Schroder Income Maximiser
Last quarter, the fund was only underperformed over three years but a poor Q2 has resulted in underperformance over 12 months. It continues to sit above benchmark over five years.

The fund has only just triggered so we will review again next quarter and if it is still triggering, feedback will be sought from Schroders.

Schroders have announced a manager change with Thomas See leaving the company after a management restructure. Rupert Rucker, previously Product Manager for Asia ex Japan Equities at Schroders, has moved from Singapore to London and will take on client portfolio manager responsibilities for the fund. Schroders have confirmed that the investment philosophy, process and management of the fund will not change.

Columbia Threadneedle Absolute Return Bond
An extremely poor quarter has resulted in the fund's underperformance over one, three and five years worsening.

The fund's short position in euros ahead of the Brexit vote benefited its performance, as did the long position in UK government bonds. However, short positions in US Treasuries and German bunds detracted from performance. At a currency level, the fund's short position in the New Zealand dollar and Japanese yen were unhelpful.

Columbia Threadneedle Latin America
A disappointing quarter has resulted in the relative performance worsening over all time periods.

At a regional level, the overweight in Mexico and underweight in Brazil detracted from returns. However, the underweight in Chile added value. At a sector level, most value was lost through the underweight in energy, following the rally in the oil price from the lows seen earlier this year. However, the overweight in financials and information technology proved rewarding.

UBS Global Blended
Another poor quarter has led to further underperformance over one, three and five years.

In the UK portion of the fund, Anglo American, BP and Glencore were the strongest positive contributors to fund performance. Detracting stocks have been Aviva, N Brown and Barclays. From a geographic perspective, US stock selection has accounted for a large portion of underperformance YTD.

UBS Global Allocation (50:50)
The fund marginally outperformed over Q2 which has improved relative performance over all time periods. The fund still sits below benchmark over one and three years but is now outperforming over five years.

Underperformance can largely be attributed to: regional equity preferences towards better valued markets outside of the US; de-risking of the portfolio at the end of February in light of significant near-term risks; and underperformance from underlying security selection capabilities specifically global equities.

The following funds have improved and are no longer on watch:

Newton Balanced, Newton Real Return, Rathbone Strategic Growth

7. DATE FOR NEXT MEETING

The next quarterly meeting is 1 December 2016.

IMPORTANT INFORMATION

Past performance is not a guide to the future. Prices can go down as well as up. Investment returns may fluctuate and are not guaranteed so you could get back less than the amount paid in.