

Royal Bank of Scotland (“RBS”) Retirement Savings Plan (“RSP”)

Investment performance to 30 June 2015

10 September 2015

3090478

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This note has been prepared by Lane Clark & Peacock LLP (“LCP”) for the Trustee of the RBS Group Retirement Savings Plan. It reviews the investment performance of the RSP for periods ending 30 June 2015.

The analysis of performance in this report is based on data supplied by Fidelity, in its role as platform provider, and the underlying investment managers. We have reviewed the data received and satisfied ourselves that it is reasonable to use it. Performance figures shown in this report are before the deduction of fees, including those charged by Fidelity in its role as platform provider. We show manager fees in Appendix 1 to this note.

The information on pages 8 and 12 has been provided by Portfolio Evaluation Limited, a separate entity to LCP, and LCP accepts no liability for the accuracy and timeliness of data provided.

If there are any questions about this report, please contact either Mark Nicoll (020 7432 0661) or Tom Hawthorn (020 7432 3776).

Executive summary for the quarter

- **We recommend the Trustee disinvests from the River & Mercantile UK Equity Fund.**
- **We recommend the Trustee disinvests from the Standard Life Global Real Estate Fund.**
- The RBS Diversified Growth Fund underperformed its benchmark return by 0.2%, returning -2.5% in absolute terms;
- The RBS UK Equity Fund outperformed its benchmark return by 1.9% over the quarter, delivering an absolute return of 0.3%;
- The RBS International Equity Fund outperformed its benchmark return by 0.8%, returning -4.5% in absolute terms.

These and other points are considered in more detail below. With respect to the performance of RBS funds and underlying component funds shown in the tables throughout this note **outperformance is shown in blue**, **benchmark performance in green** and **underperformance in red**.

1. Performance of the RBS RSP options (gross of fees) to 30 June 2015

Fund	3 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception ¹ (% pa)
RBS Diversified Growth Fund	-2.5	7.0	11.0	10.3	6.0
Composite benchmark ²	-2.3	6.9	10.1	9.4	5.4
CPI	0.5	-0.1	1.6	2.3	2.5
RBS UK Equity Fund	0.3	10.1	17.9	15.8	7.3
RBS UK Equity Tracker Fund	-1.7	2.7	11.1	10.9	5.6
FTSE All-Share Index	-1.6	2.6	11.0	10.7	5.5
RBS International Equity Fund	-4.5	10.7	14.9	12.2	6.1
Composite benchmark	-5.3	10.2	14.1	11.9	7.6
RBS International Equity Tracker Fund	-5.4	11.6	15.0	12.6	7.9
FTSE All-World Developed ex-UK Index	-5.6	10.9	14.4	12.1	7.5
RBS Emerging Market Equity Tracker Fund	-4.1	6.0	5.2	-	4.7
FTSE All-World Emerging Markets Index	-4.2	5.8	4.9	-	4.5
RBS Annuity Pre-Retirement Fund	-5.6	12.2	7.8	9.8	7.7
Composite benchmark	-6.3	11.6	6.8	8.7	6.6
RBS UK Gilts Over 15 Year Tracker Fund	-6.2	16.0	5.4	-	5.4
FTSE Over 15 year Gilts Index	-6.2	15.9	5.4	-	5.4
RBS Index-Linked Fund	-5.0	14.8	7.2	9.6	8.0
FTSE UK Gilts Index-Linked Over 5 Year Index	-4.9	14.7	7.1	9.6	7.9
RBS Corporate Bond Fund	-5.3	9.6	9.4	-	9.4
BAML Euro-Sterling over 10 Year Index	-6.3	8.7	7.7	-	7.9
RBS Property Fund	-4.3	2.7	6.7	6.7	-1.7
Property benchmark ³	-3.9	7.3	8.5	6.1	6.9
RBS Cash Fund	0.1	0.4	0.5	0.6	1.9
Libid 7 day Index	0.1	0.5	0.5	0.5	1.7

For active funds out or underperformance greater than +/- 0.5% over 3 months, or greater than +/- 1%pa over longer periods is shown in a box.

¹ Inception date for: the RBS Corporate Bond Fund is 29/02/2012, the RBS UK Gilts Over 15 year Tracker Fund is 31/01/2012, the RBS Emerging Market Equity Tracker Fund is 31/12/2011 and all other funds is 30/09/2006, though underlying funds may vary.

² The composite benchmark is currently: 22.5% FTSE All Share, 22.5% FTSE AW Developed ex UK, 15% L&G 70/30 Hybrid Property, 5% ML Eurosterling over 10 years, 10% FTSE AW All Emerging Markets, 20% 1 Month LIBOR+3% and 5% CPI+3% .

³ Since inception to 31/12/2011 the benchmark has been calculated by Fidelity as CPI +5%pa. From 31/12/2011 to 30/09/2014 the benchmark has been calculated by Fidelity as the IMA Property Sector Index.

From 30/09/2014 to date, the benchmark has been calculated as the IPD Direct / MSCI World Real Estate Custom Index.

2. RBS Diversified Growth Fund Performance (gross of fees) to 30 June 2015

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%	Underlying Fund	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)
	RBS Diversified Growth Fund	-2.5	7.0	8.5	11.0
	Composite benchmark	-2.3	6.9	8.0	10.1
	CPI	0.5	-0.1	0.9	1.6
22.5	BlackRock UK Equity Tracker Fund	-1.7	2.6	7.8	11.1
	FTSE All-Share Index	-1.6	2.6	7.7	11.0
5	Henderson Diversified Alternatives Fund	-0.1	5.7	6.8	-
	FTSE All-Share Investment Trust Sector	-1.3	7.0	8.0	-
	CPI +3% pa	1.2	2.9	3.9	4.6
22.5	BlackRock International Equity Tracker Fund¹	-5.4	11.6	11.0	15.0
	FTSE All-World Developed ex-UK Index	-5.6	10.9	10.3	14.4
10	L&G World Emerging Markets Fund	-4.1	5.9	4.1	5.0
	FTSE AW Emerging Markets Index	-4.2	5.8	4.0	4.9
15	L&G 70/30 Hybrid Property Fund	-1.4	14.0	12.8	11.2
	Composite benchmark	-1.6	13.9	12.3	10.8
5	Fidelity UK Long Corporate Bond Fund	-5.3	9.6	10.2	9.3
	BAML Euro-Sterling over 10 Year Index	-6.3	8.7	8.9	7.7
10	M&G Total Return Credit Investment Fund	0.3	1.1	4.1	-
3	Alliance Trust Dynamic Bond Fund	0.0	0.5	-	-
4	Newton Global Dynamic Bond Fund	-1.4	1.4	3.3	-
3	Kames Absolute Return Bond Fund	0.0	-	-	-
	1 month LIBOR +3% pa	0.9	3.5	3.5	-

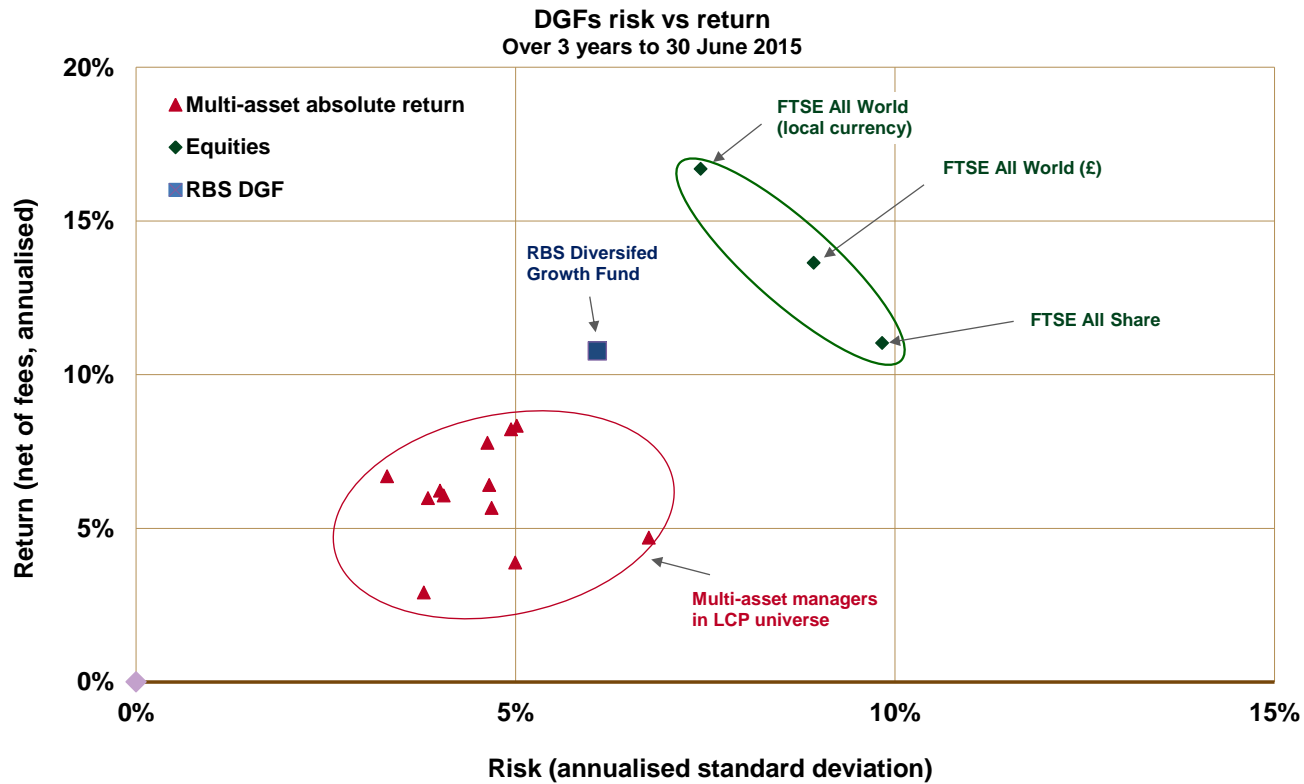
¹ The benchmark index is net of tax on dividends receivable, whereas life funds are able to reclaim the tax payable on the dividends received in the US and some European countries. In combination with the positive impact of securities lending revenue on the Fund return, this difference in the treatment of tax on the dividends is expected to create a consistent positive tracking error over time. Other factors will cause distortions from time to time, although these can be both positive and negative.

In the comments below we draw out manager performance that had a notable impact over the quarter. The Diversified Growth Fund (“DGF”) performed in line with its composite benchmark return over the quarter.

- The Henderson Diversified Alternatives Fund outperformed the FTSE All-Share Investment Trust Sector Index return, though it underperformed its target return of CPI +3% pa. The fund’s property allocation was the largest positive contributor to performance, whilst the allocation to private equity detracted from performance.
- Fidelity’s UK Corporate Bond Fund was one of the poorest performing overall returning -5.3% over the three months. However, the benchmark index returned -6.3%. Outperformance came from positive security selection in the Technology and Telecommunications sectors.
- The M&G Total Return Credit fund underperformed its target return by 0.6% over the three months, returning 0.3% in absolute terms. The fund’s allocation to sovereign bonds and asset backed securities contributed positively to performance, while exposure to industrial debt detracted from performance.
- Newton underperformed over the quarter, returning -1.4%, against its target return of 0.9%. The fund’s allocation to overseas government bonds and its investment grade credit exposure were the largest negative contributors to performance over the period.
- The Alliance Trust Dynamic Bond Fund underperformed its target return by 0.9% over the quarter. Underperformance was mainly driven by the fund’s exposure to corporate and Italian government bonds as capital markets priced in the likelihood of a Greek exit.
- The Kames Absolute Return Bond Fund was flat, underperforming its target return by 0.9%. The fund’s interest rate strategies were the most significant detractor over the period, particularly the long Australian versus short US/UK government bond position.

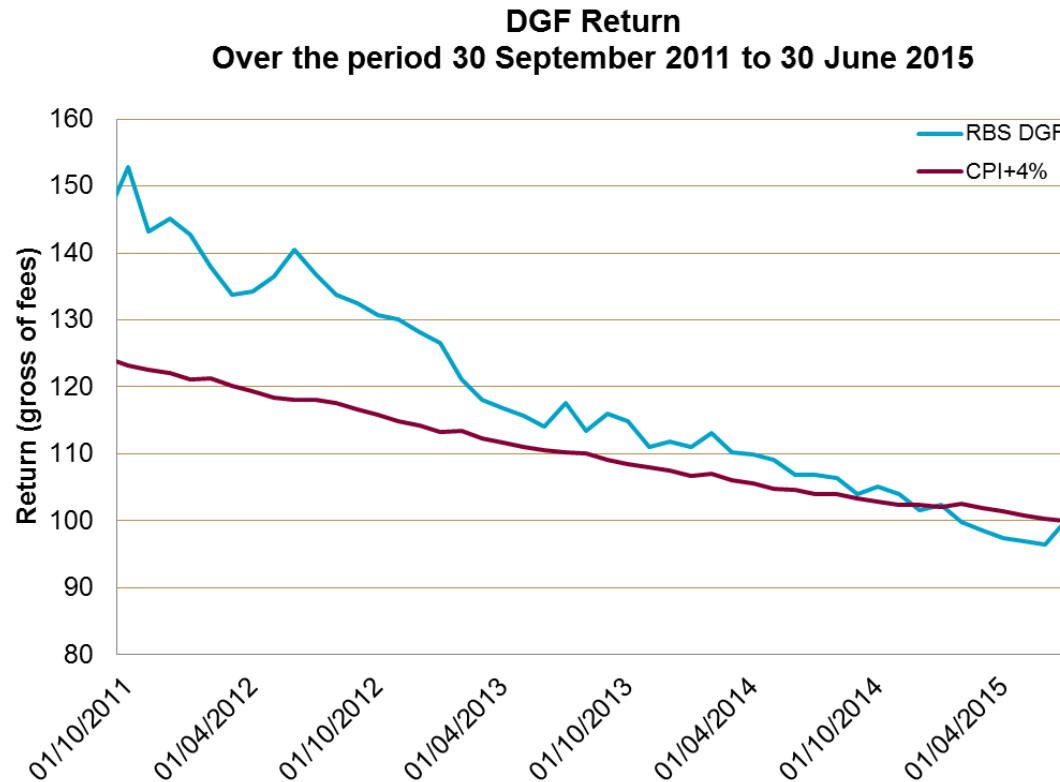
2.1. Performance comparison of Diversified Growth Fund

The following chart plots the annualised risk and return of the Diversified Growth Fund against diversified growth managers and equities.



The RBS Diversified Growth Fund has achieved a higher return than all of the multi-asset managers in LCP's research multi-asset manager universe over the last three years. The returns were also more volatile than most managers in that sample. The RBS Diversified Growth Fund has historically had a relatively high equity content, which partly explains this risk adjusted outperformance.

Ending on 30 June 2015, the following chart plots the cumulative return of the Diversified Growth Fund against its target of CPI+4% pa over time. The longest period shown is from 30 September 2011, as this is when the DGF began to include other asset classes besides equities. Before this date, the DGF solely consisted of equity funds.



The RBS Diversified Growth Fund has achieved a higher return than its performance target of CPI+4% for all periods longer than seven months to 30 June 2015.

2.2. RBS DGF scenario analysis

In previous discussions, we were asked to include some scenario analysis to provide an indication of how the RBS DGF could be expected to perform under various different economic scenarios, based on its current strategic allocation. This is provided in the table below.

For the first four scenarios, we have assumed that the change happens instantly, in isolation (eg if equity markets fall by 20% this is expected to impact all equity assets, but we have assumed it does not impact bond or property performance), and that managers have not anticipated such an event and adjusted the portfolio accordingly.

Scenario		Performance of the RBS DGF
1	20% fall in equity markets	-12%
2	50% fall in equity markets	-31%
3	Government bond yields increase by 1%	-1%
4	Credit spreads increase by 1%	-4%
5	Technology bubble	+55%
6	Credit crunch	-18%

3. RBS UK Equity Fund Performance (gross of fees) to 30 June 2015

%	Underlying Fund	3 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)
	RBS UK Equity Fund	0.3	10.1	17.9	15.8
25	Ardevora UK Income Fund	2.2	-	-	-
25	Majedie UK Equity Service Fund	-0.4	5.9	17.4	15.4
25	River & Mercantile UK High Alpha Fund	2.3	6.8	21.1	16.6
25	Lindsell Train UK Equity Fund	-2.8	14.7	21.1	19.2
	FTSE All-Share Index	-1.6	2.6	11.0	10.7
	NUMIS Small-cap Index	6.4	10.4	15.2	20.5

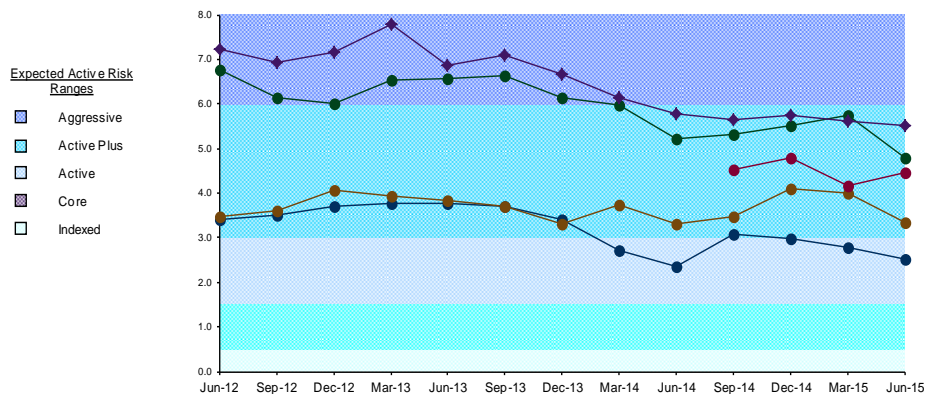
- The UK Equity Fund outperformed the FTSE All-Share index return over the quarter, as all of the Fund's active managers, with the exception of Lindsell Train, outperformed.
- Ardevora and River & Mercantile both recorded positive returns despite the market falling overall.
- Ardevora's holdings in Cable & Wireless and Taylor Wimpey were among the largest contributors to positive performance. River & Mercantile's underweight position to large cap oil stocks, such as Royal Dutch Shell, and overweight position to small cap stocks, such as Vernalis and Topps contributed positively to performance. Zoopla also contributed to the fund's positive absolute and relative returns over the quarter.
- Majedie also outperformed the benchmark return by 1.2% over the three months. Overweight positions in Orange and Vodafone were among the top contributors to performance. However, the fund's holdings in British American Tobacco and Diageo detracted.
- Lindsell Train underperformed its benchmark by 1.2%, returning -2.8% in absolute terms. Of its 24 holdings, The fund's overweight positions in RELX Group and Unilever significantly detracted from performance over the three months
- Annualised performance over the three and five year periods ending 30 June 2015 has been strong for all of the underlying managers with track records over that period.

3.1. UK equity style analysis

The bullet points below relate to the charts on the next page. For a glossary of the risk metrics used, please see Appendix 2.

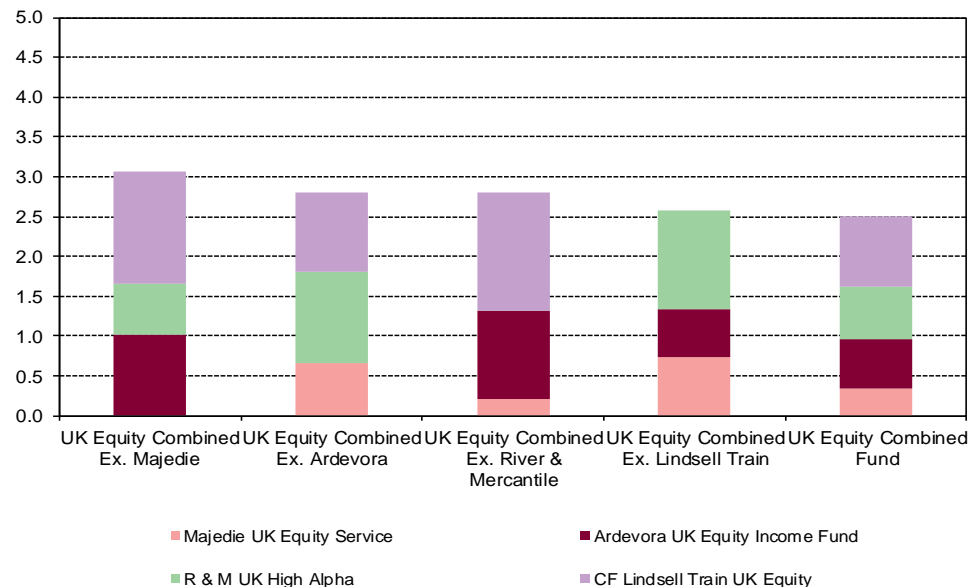
- The Lindsell Train and River and Mercantile portfolios continue to have the largest overall active risk (although the active risk of the River & Mercantile portfolio reduced markedly over the quarter). Majedie continues to have the smallest overall active risk of the component funds.
- The manager contribution to risk chart illustrates the benefits of diversification; removing any of the other managers would increase active risk.
- As at 30 June 2015, Majedie held the highest number of stocks (197), whilst Lindsell Train held the fewest (24).

Ex-Ante Active Risk Analysis (%)



	Jun-13	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
UK Equity Combined Fund	3.8	2.3	3.1	3.0	2.8	2.5
Majedie UK Equity Service Fund	3.8	3.3	3.5	4.1	4.0	3.4
Ardevora UK Equity Income Fund			4.5	4.8	4.2	4.5
River & Merc UK High Alpha Equity Fund	6.6	5.2	5.3	5.5	5.7	4.8
CF Lindsell Train UK Equity Fund	6.9	5.8	5.6	5.8	5.6	5.5

Manager Contribution to UK Combined Active Risk



Number of Stocks

	Jun-13	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
UK Equity Combined Fund	375	787	349	357	346	346
Majedie UK Equity Service Fund	210	232	236	228	198	197
Ardevora UK Equity Income Fund			35	39	41	41
River & Merc UK High Alpha Equity Fund	129	129	140	159	183	184
CF Lindsell Train UK Equity Fund	26	26	25	24	24	24

Source: Portfolio Evaluation Ltd

3.2. **Manager recommendation – River & Mercantile**

We met with James Barham, CEO of River and Mercantile Group, and Hugh Sergeant, Portfolio Manager of the UK High Alpha Fund on 1 July 2015.

In the meeting, we discussed the effects of the merger with P-Solve and the subsequent initial public offering (“IPO”) that took place in 2014. Although we feel the merger will add value to the wider business and its owners in the long term, in our view the merger will not have a significant, positive impact on existing clients.

R&M has recently launched a Global High Alpha strategy, which is also managed by Hugh Sergeant. We are concerned that the launch of this new strategy will reduce Hugh Sergeant’s focus on the UK High Alpha Fund, in which the RSP invests. We are also concerned that the significant pipeline of assets due to enter the Global High Alpha strategy will affect the firm’s current focus on UK equities.

As a result, we recommend that the Trustee disinvests from the UK High Alpha Fund. We note that this also presents an opportunity to lock in R&M’s strong performance over the past three years, which has been supported by River & Mercantile’s emphasis on small cap equities, which have outperformed the broader market significantly.

We recommend the Trustee reinvests the River & mercantile allocation across the other three UK equity managers rather than appoint a replacement UK equity manager.

4. RBS International Equity Fund Performance (gross of fees) to 30 June 2015

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%	Underlying Fund	3 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)
	RBS International Equity Fund	-4.5	10.7	14.9	12.2
	Composite benchmark ¹	-5.3	10.2	14.1	11.9
25	M&G Global Leaders Fund	-4.6	5.3	12.8	10.0
	MSCI All Countries World index	-5.1	10.1	13.7	11.7
25	Veritas Global Focus Fund	-3.0	12.5	-	-
25	MFS Global Equity Fund	-5.6	11.9	16.5	14.5
25	Trilogy Global Equity Fund	-5.0	12.3	14.4	12.2
	MSCI World Index	-5.3	10.3	14.2	12.0

- Whilst recording a negative return, the International Equity Fund outperformed its composite benchmark return by 0.8% over the quarter. All managers outperformed their benchmark returns, with the exception of MFS.
- Trilogy's return of -5.0% was slightly above the benchmark return. Successful stock selection in the Financial and Information Technology sectors were positive contributors to the fund's relative performance.
- M&G outperformed its benchmark by 0.5% over the quarter. The fund's largest contributor to performance was Toho Holdings, a Japanese pharmaceutical company. Positions in Renault and Lundin Petroleum also contributed positively to relative performance.
- Veritas' outperformance was primarily driven by stock selection in the Industrials and Energy sectors.
- MFS underperformed the benchmark 0.3% over the quarter. Stock selection in Health Care and Basic Materials were the biggest detractors from performance. In particular, holdings in Bayer and Linde AG were notable detractors.

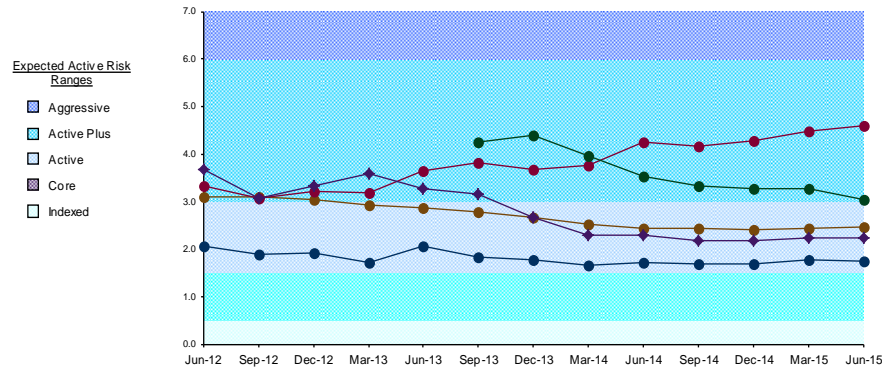
¹ The composite benchmark was 75% MSCI World NDR Index, 25% FTSE World Index until May 2013. From May 2013 the composite benchmark is 75% MSCI World Index, 25% MSCI All Countries World Index.

4.1. International equity style analysis

The bullet points below relate to the charts on the following page.

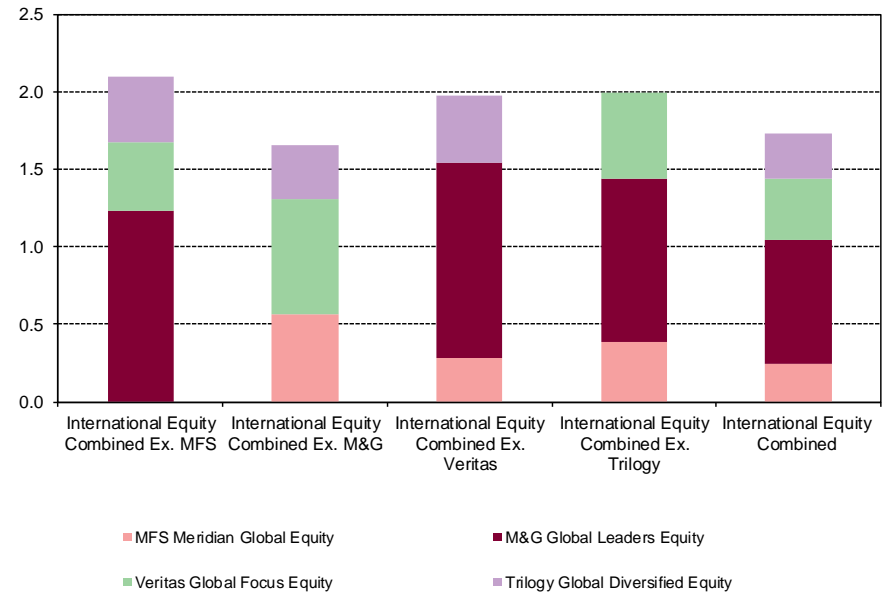
- As for last quarter, the largest contribution to active risk came from the M&G portfolio (whose risk increased slightly over the period). The lowest contribution to active risk came from the Trilogy portfolio.
- The manager contribution to risk chart illustrates the benefits of diversification; with the exception of M&G, removing any of the managers increases active risk. This chart also shows that MFS provides the most diversification of the four portfolios.
- As at 30 June 2015, the International Equity Fund held 273 stocks. Trilogy held the highest number of stocks (112), whilst Veritas held the fewest (33).

Ex-Ante Active Risk Analysis (%)



	Jun-13	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
International Equity Combined	2.1	1.7	1.7	1.7	1.8	1.7
MFS Meridian Global Equity	2.9	2.4	2.4	2.4	2.4	2.5
M&G Global Leaders Equity	3.6	4.2	4.2	4.3	4.5	4.6
Veritas Global Focus Equity		3.5	3.3	3.3	3.3	3.0
Trilogy Global Diversified Equity	3.3	2.3	2.2	2.2	2.2	2.2

Manager Contribution to Overseas Combined Active Risk



Number of Stocks

	Jun-13	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
International Equity Combined	278	287	282	279	275	273
MFS Meridian Global Equity	94	96	96	98	95	97
M&G Global Leaders Equity	67	75	68	65	64	64
Veritas Global Focus Equity	28	34	34	33	34	33
Trilogy Global Diversified Equity	123	119	121	118	115	112

5. RBS Annuity Pre-Retirement Fund Performance (gross of fees) to 30 June 2015

%	Underlying Fund	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)
	RBS Annuity Pre-Retirement Fund	-5.6	12.2	10.4	7.8
	Composite benchmark	-6.3	11.6	9.5	6.8
40	L&G Over 15 Years UK Gilt Index	-6.2	16.0	10.4	5.4
	FTSE Over 15 Years Gilt Index	-6.2	15.9	10.4	5.4
60	Fidelity UK Long Corporate Bond Fund	-5.3	9.6	10.3	9.3
	BAML Euro Sterling Over 10 Year Index	-6.3	8.7	8.9	7.7

- The Annuity Pre-Retirement Fund returned -5.6% over the quarter, outperforming its composite benchmark return (-6.3%).
- Within the Fidelity UK Long Corporate Bond Fund, security selection in non-financials, specifically within the technology and telecommunications sectors, added to relative performance.
- The Fidelity UK Long Corporate Bond Fund has outperformed its benchmark return over longer periods, which has also driven the Annuity Pre-Retirement Fund's outperformance of its benchmark return over longer periods.

6. RBS Property Fund performance (gross of fees) to 30 June 2015 (Commentary for Q1)

%	Underlying Fund	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)
	RBS Property Fund¹	-4.3	2.7	5.4	6.7
	Benchmark*	-3.9	7.3	7.5	8.5
	L&G 70/30 Hybrid Property Fund²	-1.2	14.1	13.4	-
	Composite benchmark	-1.4	14.0	12.2	-
	Standard Life Global Real Estate Fund³	-5.5	-0.1	5.5	6.0
	Benchmark*	-3.9	7.3	7.5	8.5

*Provided by Standard Life. Note: Standard Life changed its benchmark (from CPI +5%) on 30 September 2010 to the IMA Property Sector Index. From 30 September 2014, Standard life has changed its benchmark to an IPD / MSCI World Real Estate Custom Index. For the most recent quarter the benchmark return is the IMA Property Sector Index.

- The L&G Fund was added to the RBS Property Fund in January 2012. As at 30 June 2015, the RBS Property Fund was split approximately 33% L&G, 67% Standard Life. All new contributions are invested in the L&G fund rather than incur the high transaction costs associated with buying and selling property fund units.
- In Q1 2015, Standard Life underperformed its benchmark return by 4.4%, returning 0.3% in absolute terms. The fund's underweight exposure to strongly performing listed real estate holdings was the main driver of underperformance. Furthermore, the fund's underweight allocation to US dollar assets also hindered performance over the three month period to 31 March 2015.
- **We have material concerns regarding the Standard Life Fund, and recommend that the Trustee disinvests. We provide full details and reasons for this recommendation in a separate paper to the Trustee.**

¹ We would expect the RBS Property Fund to underperform the composite return of its underlying funds over time as a result of the high transactions costs incurred in buying property fund units. This factor affects the returns generated by the RBS Property Fund, but is not reflected in the performance of its underlying funds.

² The L&G Fund invests in two underlying funds: 70% in L&G's Managed Property Fund, which invests in commercial properties (ie bricks and mortar) and is benchmarked against the CAPS Pooled Property Fund Median, and 30% in L&G's Global Real Estate Equity Index Fund which aims to provide global, diversified exposure to listed real estate companies by tracking the FTSE EPRA/NAREIT Global Real Estate Index.






³ The Standard Life Fund was previously benchmarked against the IMA property sector index (a peer group benchmark comprised of funds which invest predominantly in property, which is defined as at least 60% directly in property or at least 80% in property securities). From 30 September 2014, Standard life has changed its benchmark to an IPD / MSCI World Real Estate Custom Index.

7. Summary of assets and cash flows¹

	31 March 2015 (£)	31 March 2015 (%)	Net Cash Flow (£)	Investment return (£)	30 June 2015 (£)	30 June 2015 (%)
Diversified Growth Fund	450,418,276	58.9	10,827,069	-15,724,381	445,520,964	59.3
UK Equity Fund	32,281,937	4.2	693,632	-142,793	32,832,775	4.4
UK Equity Tracker Fund	58,441,325	7.6	506,489	-1,758,601	57,189,214	7.6
International Equity Fund	34,049,340	4.5	-29,508	-1,905,797	32,114,035	4.3
International Equity Tracker Fund	70,722,105	9.2	1,217,411	-4,948,987	66,990,529	8.9
Property Fund	13,952,211	1.8	248,525	-619,144	13,581,592	1.8
Annuity Pre-Retirement Fund	42,182,706	5.5	990,602	-2,561,494	40,611,813	5.4
Index-Linked Gilt Fund	15,121,075	2.0	233,039	-867,481	14,486,633	1.9
Cash Fund	29,113,781	3.8	416,163	-23,049	29,506,896	3.9
EM Equity Tracker Fund	10,970,859	1.4	610,041	-632,072	10,948,828	1.5
Over 15yr Gilt Tracker Fund	5,192,691	0.7	-33,190	-338,214	4,821,288	0.6
Corporate Bond Fund	2,666,222	0.3	285,240	-190,301	2,761,162	0.4
Total	765,112,529	100.0	15,965,521	-29,712,322	751,365,728	100.0

¹ Totals in this section may not sum exactly due to rounding.

8. Underlying fund manager views and ratings – red and amber rated managers

Manager	LCP Manager research view	Manager rating
River & Mercantile – UK equity	We recommend that the Trustee disinvests from this fund due to concerns discussed earlier in this report.	
Standard Life – Property	We recommend that the Trustee disinvests from this fund due to concerns which are discussed in a separate paper to the Trustee	
Alliance Trust – Absolute return bonds	We believe the Fund’s philosophy and portfolio construction are of a high quality. The risk management process includes detailed thinking regarding scenarios that could result in capital loss and is not unduly reliant on theoretical mathematical modelling. We have some concerns over recent team departures, which are discussed further below.	
Fidelity – UK long corporate bonds	A competent but not outstanding corporate bond fund supported by a well-resourced credit research team. The fixed income team adopts a pragmatic approach by keeping the investment process straightforward where possible.	
BlackRock passive	As the legacy passive manager, BlackRock manages the UK Equity Index Fund and the World (ex UK) Equity Index Fund. BlackRock is a strong and well-resourced passive manager. However, we have some concerns regarding BlackRock’s client servicing. L&G is our preferred passive manager.	

9. Investment Manager Updates

9.1. Alliance Trust

Two of the seven-strong bond team left Alliance Trust during the quarter. It was the manager’s decision – its rationale is to focus the strategy on having fewer, higher conviction positions. We have changed our rating of the fund to amber, as we have concerns about the size of the team, in particular the depth of the credit research team. Furthermore, organisational concerns remain.

9.2. Newton

Simon Pryke (CIO) is leaving Newton. As CIO, Simon was a senior part of the management team and involved in developing Newton's themes but did not directly manage money. He was due to go on gardening leave in late June and does not have a new role to go to, but expects to start looking for new role in the investment industry. So reading between the lines it sounded like it was Newton's decision for Simon to leave.

This change does not impact our view of Newton.

9.3. Kames

Kames Capital has appointed Peter Ball to lead its institutional business on an interim basis, reporting to CEO Martin Davis.

Peter initially began working with Kames Capital in March as a consultant, advising the business on strategic opportunities in the institutional market. This review concluded in May and Peter has agreed to lead the team until a permanent head of institutional business is recruited.

Peter was previously on the Board of JLT Employee Benefits, where he was responsible for the investment management and investment consulting businesses. Before that he led the UK institutional business at JP Morgan Asset Management for 10 years. He has 26 years' industry experience.

This change does not impact our view of Kames.

We look forward to presenting this report to you.

Mark Nicoll
Investment Partner

Tom Hawthorn
Senior Investment Consultant

Direct tel: +44 (0)20 7432 0661
Email: mark.nicoll@lcp.uk.com

95 Wigmore Street
London W1U 1DQ
www.lcp.uk.com

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Fund	AMC	OCF
Diversified Growth Fund	0.23%	0.27%
BlackRock UK Equity Index Fund	0.03%	0.04%
BlackRock World (ex UK) Fund	0.03%	0.04%
Fidelity UK Long Corporate Bond Fund	0.25%	0.32%
L&G 70/30 Hybrid Property Fund	0.40%	0.41%
L&G World EM Equity Index Fund	0.28%	0.28%
Alliance Trust Dynamic Bond Fund	0.25%	0.25%
Kames Absolute Return Bond Fund	0.43%	0.54%
Newton Global Dynamic Bond Fund	0.40%	0.46%
M&G Total Return Credit Investment Fund	0.07%	0.25%
Henderson Diversified Alternatives Fund	0.50%	0.63%
UK Equity Fund	0.72%	0.82%
Lindsell Train UK Equity Fund	0.65%	0.77%
Ardevora UK Income Fund	0.70%	0.87%
Majedie UK Equity Service Fund	0.75%	0.78%
River and Mercantile UK Equity High Alpha	0.60%	0.69%
UK Equity Tracker Fund	0.07%	0.08%
BlackRock UK Equity Index Fund	0.03%	0.04%
International Equity Fund	0.68%	0.82%
Veritas Global Focus Fund	0.50%	0.64%
M&G Global Leaders Fund	0.75%	0.92%
MFS Global Equity Fund	0.60%	0.69%
Trilogy Global Diversified Fund	0.70%	0.86%

Fund	AMC	OCF
International Equity Tracker Fund	0.07%	0.08%
BlackRock World (ex UK) Fund	0.03%	0.04%
Emerging Markets Equity Tracker Fund	0.32%	0.32%
L&G World Emerging Markets Fund	0.28%	0.28%
Annuity Pre-Retirement Fund	0.20%	0.24%
Fidelity UK Long Corporate Bond Fund	0.25%	0.32%
L&G +15 Year Gilt Fund	0.03%	0.03%
UK Gilts Over 15 Year Tracker Fund	0.07%	0.07%
L&G Over 15 Year Gilt Fund	0.03%	0.03%
Index-Linked Gilt Fund	0.07%	0.07%
L&G Over 5 Year Index Linked Gilt Fund	0.03%	0.03%
Corporate Bond Fund	0.29%	0.36%
Fidelity UK Long Corporate Bond Fund	0.25%	0.32%
Property Fund	0.61%	0.69%
Standard Life Select Property Fund	0.65%	0.77%
L&G 70:30 Hybrid Property Fund	0.40%	0.41%
Cash Fund	0.09%	0.09%
L&G Cash Fund	0.05%	0.05%

- The Ongoing Charges Figure (“OCF”) was formerly known as the Total Expense Ratio (“TER”).
- The current ongoing charges figure on the Diversified Growth Fund is 0.27% pa.
- Fidelity’s platform fee of 3 basis points (0.03%) is included within the RBS Fund AMCs shown above in bold.

Risk Analysis Glossary

Active risk (ex ante)

Quantifies the differences in the portfolio holdings and construction relative to the holdings and composition of the benchmark. It estimates the portfolio return deviation from the benchmark and is expressed as an annualised standard deviation. Therefore if the active risk is 2% the portfolio should perform within 2% of the benchmark return 67% of the time (1 standard deviation) and within 4% of the benchmark return 95% of the time (2 standard deviations). It is based on the holdings of the portfolio at the end of each month and is calculated via a multi factor risk model. Multi factor models are used to decompose the sources of risk and return into common factors. Common factors used in equity reports are as follows;

- Regions and countries
- Currencies
- Industries and sectors
- Styles
 - Size – identifies if the portfolio has a large/mid/small capitalisation bias and the success of that strategy
 - Growth – identifies if the portfolio has a growth style bias and the success of that strategy
 - Value – identifies if the portfolio has a value style bias and the success of that strategy

- Volatility – measures the exposure to stocks that have more or less volatility (of return) relative to the benchmark
- Momentum – identifies if the portfolio has been over / under exposed to average return movement.

Appendix 2

Ex-Ante Active Risk Contribution

Identifies the active risk contribution made to the total active risk of the portfolio by the over / under weight position. Positive numbers increase the total active risk whilst negative numbers lower total active risk as they diversify risk (blue bars).









Combined Style Analysis







A weighted contribution of the underlying stock characteristics. Each style factor is composed of the characteristics as detailed in the Stock Characteristics Glossary above.

Manager Contribution to Active Risk

Identifies the active risk contribution made to the total active risk of a combined portfolio by each underlying manager. Displayed as an additive contribution from each manager, summing to the active risk value (expressed as an annualised standard deviation) of the combined portfolio. It is based on the holdings of the portfolio at the end of each month and is calculated via a multi factor risk model in the same way as the standard ex-ante active risk analysis.

Underlying fund manager views and ratings – green rated managers

Manager	LCP Manager research view	Manager rating
Lindsell Train – UK equity	A boutique firm whose success is based heavily on the abilities of the two founding partners. There is key man risk attached to both men. The fund looks to invest in undervalued, durable, cash generative business franchises. The investment process continues to be well implemented and reflects the philosophy.	
Majedie – UK equity	The investment process is well structured, drawing heavily on the expertise of a small experienced investment team which has been together for a long time. The team is a close knit group of high quality individuals.	
Ardevora – UK equity	Ardevora's investment process aims to exploit market inefficiencies which are driven by behavioural psychology. We have a positive view on this process, which is clearly defined and rigorously implemented.	
Veritas – International equity	We rate the investment process and key individuals at Veritas highly. Veritas shows clear commitment to the global equity market and to its existing clients, and we believe that it manages assets with this in mind.	
M&G – International equity	This fund has a strong underlying investment process which is well implemented. There is a key man risk associated with the fund manager, Aled Smith.	
Trilogy – International equity	An impressive investment process which blends the results of a bespoke screening tool with fundamental analysis and rigorous risk management. This fund tends to have a distinct growth style and may therefore produce volatile performance.	
MFS – International equity	The investment process aims to identify high quality companies with sustainable business models that are attractively valued.	
Henderson – diversified alternatives	A fund designed to provide liquid (listed) exposure to a range of alternative asset classes with a view to providing diversification away from publically listed equity markets. We are comfortable with the recent change in portfolio manager and with the RSP continuing to invest in the fund.	

Manager	LCP Manager research view	Manager rating
M&G Multi-asset credit	A high conviction, bottom-up fund that includes M&G's best ideas across bond markets. The fund is well resourced with a strong portfolio manager and a risk-aware investment philosophy.	
Newton – Absolute return bonds	The fund looks to add value over the long term by expressing top down views through an investment process with strong risk controls. The fund focusses on total return, liquidity and capital preservation.	
Kames – Absolute return bonds	We are positive on the Fund's portfolio construction and low risk approach that focusses on relative value within government and corporate bond markets.	
L&G – 70/30 hybrid property	We have a positive view of both of the underlying funds, the Global Real Estate Equity Fund, and Actively Managed UK Property Fund.	
L&G – Cash	We are comfortable with L&G's cash management abilities.	
L&G – Passive	L&G is a strong and well-resourced passive manager. Performance has been close to benchmark return.	

Active fund manager styles

Manager	Investment style
Lindsell Train – UK equity	High conviction, value and long-term (with a low stock turnover).
Majedie – UK equity	Flexible / style rotation.
Ardevora – UK equity	A unique investment process driven by behavioural psychology.
River & Mercantile – UK equity	Bottom-up stock picking, with a value and small-cap bias.
Veritas – International equity	High conviction, concentrated portfolio with a value bias.
M&G – International equity	Unconstrained bottom-up stock selection, focussing on unloved businesses requiring refocus to improve returns.
MFS – International equity	A blend of quality and growth at a reasonable price.
Trilogy – International equity	Growth at a reasonable price with a focus on economic scenario analysis.
Henderson – Diversified alternatives	Bottom up stock selection supplemented by a top down view.

Manager	Investment style
M&G – Multi-asset credit	High conviction, bottom-up, best ideas credit fund.
Newton – Absolute return bonds	Top down asset class rotation based on thematic views.
Alliance Trust – Absolute return bonds	Macroeconomic, top-down approach.
Kames – Absolute return bonds	Relative value, government and corporate bonds.
Fidelity – UK long corporate bonds	Bottom up with a strong focus on research within a top down framework.
Standard Life – Property	The Fund focuses on providing liquid, transparent access to global property markets with low levels of leverage. The fund will maintain circa 60% to direct property with the remaining 40% allocation to global REITs providing liquidity.
L&G – 70/30 hybrid property	70% is invested in the actively managed UK Property Fund, a core UK property fund. The remaining 30% is invested in the passive Global Real Estate Equity Fund