The City of New York Deferred Compensation Plan – Global SRI Equity Fund

Q4 2015

Portfolio manager

Global Equity Team

Investment strategy

The City of New York Deferred Compensation Plan – Global SRI Equity Fund will invest in a portfolio of a broad range of international equity securities, in accordance with the relevant socially responsible criteria. These criteria cover issues including the environment, social issues and governance.

Investment objective

Rolling 3 year period net of fees - equal or exceed the return of the MSCI World Index and exceed on average the median of a representative Global Equity Universe.

Rolling 5 year period net of fees - exceed the return of the MSCI World Index by 1.5% with an information ratio equal or greater than 0.50. Exceed on average the median of a representative Global Equity Universe.

Benchmark

MSCI World

Inception date

8 Feb 2007

Performance summary

(% in USD terms)	Portfolio (gross)	Portfolio (net)	Benchmark
December 2015	-3.94	-3.98	-1.72
3 months	0.73	0.62	5.62
1 year	-13.13	-13.49	-0.32
Since inception[1] (pa)	1.71	1.28	3.78

Portfolio manager's report

Performance

Global equities fell in December, as the most anticipated US interest rate increase in a decade finally materialised. The Federal Reserve raised rates in mid-December by 25 basis points. Meanwhile, the European Central Bank underwhelmed investors with a smaller-than-expected round of monetary stimulus. While the measures included a further cut in the deposit rate and an extended bond-buying programme, the moves were less aggressive than policymakers had intimated. China remained in the spotlight as the renmimbi is to be included within the IMF's Special Drawing Rights basket from October 2016 and the government announced cuts to import taxes for several categories of consumer goods in 2016 to spur economic activity.

During the month the portfolio fell by 3.94%, lagging the MSCI World benchmark which fell by 1.72% over the same period. On a geographic basis the only positives in absolute terms from amongst the main global markets were in Asia, led by Japan, India and Hong Kong. The rest of the world's markets were on the whole negative, with commodity driven markets such as Canada, Russia and South Africa posting the most significant falls. At the industry level the only positives came from health care, utilities and consumer staples, whereas it was the more cyclical areas of the market such as energy and materials where investor sentiment was weakest.

With regards to relative returns the portfolio's exposure to the materials sector was the biggest detractor, with energy also a negative contributor. Continued weakness in the oil price and commodities in general weighed heavily on the share prices of companies including EOG Resources, Schlumberger, Tenaris and Potash. As mentioned in previous commentaries, these businesses are very often market leaders in terms of being low cost producers or having significant market shares and offering value add services. Their management teams are continuing to do what we would expect of them in this tough environment such as focusing on costs and efficiencies.

1. 8 Feb 2007

Portfolio manager's report

Performance, continued

Casino in France was also a weak performer after Muddy Waters LLC, a US based hedge fund publicly disclosed their short position in the stock and criticised the company for its accounting policies and group structure. Accusations that Casino publicly and in a meeting with representatives from Aberdeen, vehemently denied. Finally Schneider Electric in France gave back the gains it had made the prior month on concerns about the slowing Chinese economy and its exposures to other emerging markets as well as the oil and gas industries. Again, we feel that management continue to do the right things in this environment by shifting more towards integrated systems, software based solutions, and services, with a focus on internal self-help and improving free cash flow and return on capital.

In terms of trading activity we initiated a new holding in the UK listed budget hotel, restaurant and coffee shops group, Whitbread. The company has created impressive competitive positions and brands in their key UK markets over recent years supported by solid execution by management and favourable consumer trends and have ambitious plans to further strengthen their positions and to expand overseas. Against this, we sold French utility company Engie. Despite the company's best efforts, political, environmental and regulatory pressures will likely continue to remain at the forefront of its operations. We also sold BHP Billiton, as the company fails ethical screens following the Samarco incident.

The liquidity trap was highlighted in the previous quarterly report, and the lack of meaningful traction in the real economy continues to raise the spectre of debt deflation. The divergence in monetary policy perhaps reflects recognition of the desire to return to normal and the likelihood of a shorter and shallower tightening cycle given the continued increase in debt levels. This divergence though has resulted in the dollar continuing to be strong, with the flattening of the yield curve accompanying the Fed increase reflective of a currency driven by interest rate differentials and not perceptions/expectations of a reacceleration of growth. This strengthening of the dollar has certainly led to moderation in the rate of earnings growth witnessed within the US, and if any credence is set by the actions of corporates, the anaemic capital spend with a preference for equity repatriation highlights what is underlying fragile confidence in the depth and strength of economic recovery.

Accompanying falling US business sales has been a pick-up in corporate activity, with the level of transactions announced climbing to 4.6trn USD. A classic late cycle market development – if you can't generate top line growth organically, buy some, particularly when helped by low funding costs.

At the corporate level, it was Japan which was the only territory to generate any meaningful earnings growth, helped not in small part by the devaluation of the yen. As these effects annualise themselves, it is to be expected that this earnings progress will be harder to generate, with greater emphasis placed on what sort earnings growth that could be expected given the elevated levels of market valuation. While currently the strains within the high yield market have been put firmly at the energy sector's door, any flow through to other areas will have to be carefully monitored.

The focus remains on improving the quality and diversification of the portfolio and being disciplined in terms of valuations paid for these companies. If conditions in the credit markets deteriorate, balance sheet strength focus will again be rewarded. While there have been a number of names introduced into the portfolio over the last twelve months turnover still remains modest. Any pick up in volatility in response to the growing number of catalysts for market fluctuations may provide the potential for additional opportunities, particularly for bottom-up investors. In the current environment it is easy to get lost in the short term, but for the large part, good quality businesses remain just that. In spite of all the noise, and often because of it, long term opportunities do remain.

In portfolio-related news, Vale sold four iron-ore carrier ships to ICBC Financial Leasing for US$423 million, in line with the divestment strategy to bridge its cash-flow gap in the short term. Vale already sold eight vessels prior to this, and has seven more to sell. Separately, Moody's downgraded the Brazilian miner from Baa2 to Baa3, maintaining its investment grade rating, with a negative outlook. The ratings agency expects weaker performance from Vale over the next year, because of lower iron-ore and base metal prices. Elsewhere, Samsung Electronics appealed against the bulk of a US$548 million patent dispute settlement with Apple, which is now seeking an additional US$180 million in supplemental damages from the Korean handset-maker.

Aberdeen

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Region breakdown (%)

	Portfolio	Benchmark	Difference
Developed Asia	15.9	13.3	2.6
Developed Middle East	1.9	0.3	1.7
Emerging Markets	8.9	0.0	8.9
Europe	33.1	24.6	8.5
North America	35.5	61.8	-26.2
Cash	4.6	0.0	4.6
Total	**100.0**	**100.0**	**0.0**

Top ten holdings (%)

Roche Holdings	4.1
EOG Resources	3.7
CVS Health	3.5
Novartis	3.3
PepsiCo	3.1
Taiwan Semiconductor	3.0
Shin-Etsu Chemical	3.0
Experian	2.5
AIA	2.5
Oracle Corporation	2.4
Total	**31.6**

Portfolio characteristics

Tracking error	3.49
Portfolio risk (%)	11.26
Benchmark risk (%)	11.60
Portfolio beta	0.93
Number of stocks	53

Sector breakdown (%)

	Portfolio	Benchmark	Difference
Cons Discretionary	4.4	13.3	-8.9
Cons Staples	10.0	10.4	-0.5
Energy	9.1	6.1	3.0
Financials	19.0	20.8	-1.8
Health Care	11.5	13.5	-2.1
Industrials	11.9	10.7	1.2
Info Technology	12.5	14.2	-1.8
Materials	8.2	4.4	3.8
Telecom Services	8.8	3.4	5.4
Utilities	0.0	3.2	-3.2
Cash	4.6	0.0	4.6
Total	**100.0**	**100.0**	**0.0**

Source: APT

Past Performance is no guarantee of future results. Performance includes the reinvestment of dividends and other earnings.

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