Wealth and Investment Management

Investment Review
The great divergence

Third Quarter 2014

In this edition

This Investment Review contains several indications of the past performance of investments and investment indices. Please bear in mind that the past performance of investments is not a reliable indicator of their future performance.

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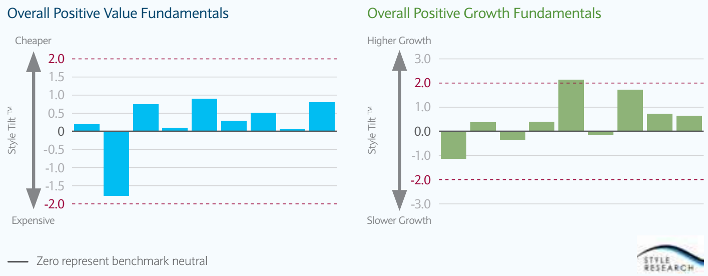

Source: Barclays, Style Research

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Welcome

"Few things are brought to a successful issue by impetuous desire, but most by calm and prudent forethought." – Thucydides

One of the major stories of the third quarter was US dollar appreciation.

Many market participants have been expecting the dollar to rise meaningfully for some time now, and in the third quarter it happened. The US economy is coming out of recession in a much more robust and timely fashion than most others and the Federal Reserve is widely anticipated to be the first big central bank to begin raising interest rates.

Earlier this year we saw the dollar show signs of improving strength, as the US wound down its quantitative easing programme, but, as with its gains against the Japanese yen, this was largely contrived by the actions of other central banks. Now we are seeing concerted dollar strengthening across the board against the euro, sterling and just about any currency you can think of. The US dollar was up almost 4% against the euro in September alone, and more than 5% against the yen and Australian dollar.

Our portfolios have been positioned for dollar strength for some time, and we are now beginning to reap the rewards of that forethought. Our bias towards US assets is a bonus for euro and sterling investors, who will have seen a stronger dollar boost returns. Despite its good run, we think the dollar is still undervalued relative to other currencies and would expect further gains in the final quarter of 2014.

It's fair to say that many active managers have had a very difficult year so far, largely due to rotation in equity markets and the difficulty of finding sectors and names that perform consistently well. There is no proven correlation between the strength of the US dollar and the behaviour of equity markets, but there is between the dollar and commodity prices – which fall as the dollar rises. Of particular note are oil prices, which have dropped significantly during the third quarter, the equivalent of a tax cut to our oil dependent industrialised economies.

It is to be hoped that this will be enough to encourage economic growth, especially in the small and mid cap space, giving active managers something to get their teeth into as we look towards the end of the year.

Yours sincerely

Rupert Howard

Senior Portfolio Manager, Managing Director

Investment roundtable

Our panel of portfolio managers assess the performance of portfolios in the third quarter, while addressing the impact of divergent central bank monetary policy and a resurgent US dollar.

Hosted by Nicola Eggers, Head of Discretionary Portfolio Management

Topics covered include:

Asset class correlation

Divergent central bank policy

US dollar strength

Geopolitics

High yield outflows

Participants:

Rupert Howard
Senior Portfolio Manager, Discretionary

Nick Montgomery
Portfolio Manager, Discretionary

Jaime Arguello
Head of Barclays MultiManager and GlobalAccess Funds

Olivier Asselin
Head of Specialist Investment Management (Fixed Income, Equities and Structured Funds)

Nicola Eggers: **Fixed income and equity markets have both continued to perform well during the third quarter. We have been correct with our overweight allocation to equities, but have missed the fixed income rally to an extent. What factors are driving this and how are we adjusting portfolios to compensate?**

Olivier: I don't think this is just a story for last quarter, it's been going on for longer than that. I would say there are common factors – one of which is accommodative monetary policy – that have benefited both equities and bonds.

Other than that, each asset class has been shaped by different things. Equity market participants are focused on earnings expectations, and so far the earnings expectations horizon has been reasonably bright, giving the asset class good support.

Fixed income investors are more focused on GDP and in the US you have a good story, but it is far less impressive in Europe. When you add the European situation to a question mark on China, you end up having an overall growth story that is less supportive than the earnings growth story. Another issue during the quarter was that the asset liability managers within pension funds were pushing to reallocate away from equity into fixed income, while investors were also looking for a carry trade in the absence of yields in core European fixed income. They had to go to the US to find yield pickup, thus the spread between the two regions dragged US fixed income into a lower yield trend.

Nicola: **Has that led you to make any changes within your equity and bond portfolios Olivier?**

Olivier: Decisions are not the same with single asset classes as with global asset allocation, but on the fixed income side the markets look expensive, therefore we are cautiously positioned underweight duration versus the benchmark target duration. We like the credit story as the risk-on trade has clearly benefited equity and credit markets, meaning we have benefited from credit exposure. What we have lost going underweight duration in a bull market, we have made up through our credit/corporate exposure in portfolios.

One market (equity or fixed income) is more right than the other – it is not sustainable over the long term to have record low yields from a rates and credit perspective and such bullish equity markets. At some point, I would expect some adjustment one way or another. We need to resolve this million dollar question not only at the single asset class level but at an overall asset allocation level – which market is right?

Nicola: **As a multi-asset portfolio manager Nick, have you seen this issue and taken positions because of it?**

Nick: Having a high correlation between equities and fixed income is difficult from an asset allocation point of view. We were overweight US equities which have been best performing, and we were also focused on the performance of European equities which have softened due to worse macro data.

Rupert: I would take a little bit of issue with any statement that says bonds and equities rallied during the quarter. What's been highlighted over the last three months is the huge change in the US dollar. If you look at the MSCI World Index in US dollar terms, it was negative in the third quarter, but in sterling and euro terms it was positive, due to the weakness of both currencies compared to the US dollar – it depends on where you sit as an investor.

Broadly the themes are central bank accommodation, the dispersion of growth between the US and Europe and the fact that earnings continue to look reasonably robust.

Jaime: Our view on fixed income wasn't quite right. We didn't have much duration risk in MultiManager portfolios, and we expected the Fed to act sooner than is priced into the market. In terms of expected relative performance, we see better returns from equities than fixed income going forward. Fixed income has benefited as a safe haven from geopolitical risks, given a number of potential scares in the quarter.

Nicola: We have seen increasingly divergent policy between the European Central Bank (ECB) and the Federal Reserve (Fed) during the quarter, as tapering comes to an end in the US and the ECB tries ever harder to stimulate an ailing eurozone. What impact has this had and how do we see it developing into the fourth quarter?

Jaime: The main impact was seen across currencies. The market might, at some point, lose confidence in the ECB, if its actions appear to be too little too late, or the structure of monetary policy in the context of the mix of countries doesn't work. The markets expect quantitative easing to be as positive in Europe as it was in the US – but the evidence is not there. The potential support it has given other markets might not materialise.

Rupert: That also helps to explain the peculiar behaviour of the bond markets this year. In the US in particular, strengthening economic data is much clearer evidence of a more robust economy moving out of recovery and in to growth, yet bond yields have been falling, which creates a lot of difficult questions to answer. It does seem now that a lack of growth and the risk of deflation in Europe has dragged down yields aggressively, also having an impact globally – dragging down US yields. It has caught a lot of people on the wrong side of fixed income this year, but hopefully that is now starting to normalise and the behaviour of the bond market should be more reflective of the fundamentals moving forward.

Nick: There is an interesting debate about this concept of divergence and the strength of the US. There are strong

Olivier Asselin

arguments for why the US continues to do well, but you can't dismiss that other global macro data is slowing and, even in US equities, there is a 30% exposure to foreign sales. The debate is around how that will impact the US growth story.

Nicola: One of the big themes of the quarter has been the strength of the US dollar, particularly against the euro, which has been weakened by ECB action. How have we factored this into investment decisions?

Rupert: The third quarter was validation for us on a view we have held for some time now. We moved positive, as a house, on the US dollar in 2013, which has been painful, but clearly over the last three months that viewpoint has been very helpful. We have seen a significant unwinding of Sterling strength driven by the US dollar and the Scottish independence debate. Also, for euro investors, we have seen a material weakening in the euro. We have not had to make many changes to our portfolios in the quarter, and we feel the benefits we are experiencing now are unwinding the pain

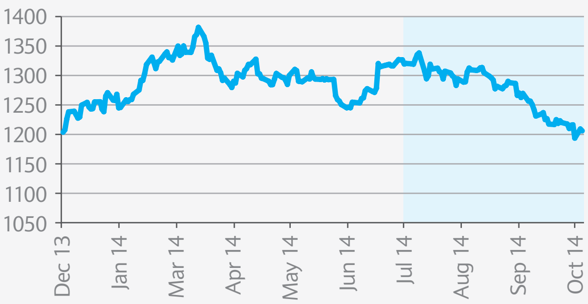
US dollar strength indicates weaker global economy

The strength of the US dollar not only indicates the health of the US economy, but is also related to softer data in the rest of the world. Weaker global demand for commodities combined with increased supply is depressing prices, with oil in particular suffering.

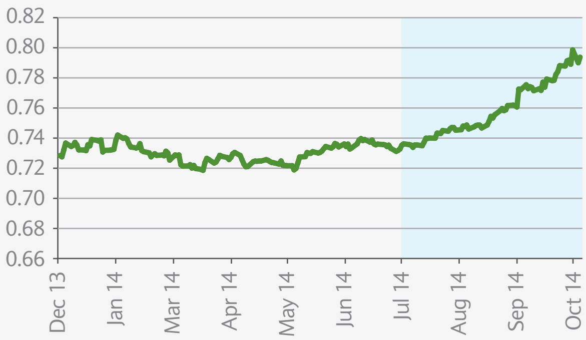
Global commodity markets are priced in US dollars, meaning they have become relatively more expensive for buyers in two of the major markets for commodities - Europe and Japan. The yen fell more than 5% against the US Dollar in September, while the euro declined almost 4%, offsetting to some extent the fall in prices and impacting demand further.

An increased demand for US risk assets in the third quarter also lowered demand for safer haven assets which provide no yield pickup, such as gold.

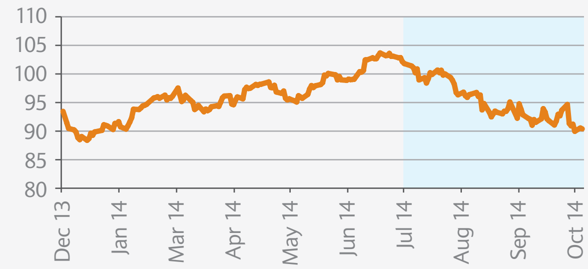
Falling gold prices ($ per oz)



US dollar gains against the euro (€ per $)



Falling oil prices ($ per barrel)



Gold   Oil $ vs €   Source: Bloomberg

we felt last year and at beginning of 2014. We don't think this trade has finished yet and we believe the dollar will strengthen further.

Jaime: In the case of MultiManager, we hedge everything except emerging market asset classes, therefore eliminating much of the volatility. In terms of dollar strength versus emerging market currencies, the impact was negative but minimised because we were underweight that asset class.

Nick: The weakness in the commodity markets has, in part, been driven by the strength of the US dollar – being underweight commodities helped us.

Olivier: Other things to consider include a revision of earnings expectations between different regions. The dollar is strong against a basket of currencies, but that has been more pronounced against certain currencies, for example the Japanese yen. This is not good for US exporters but is good for European and Japanese exporters, although we won't see that in the earnings numbers for three months or so though. This is not something that has yet been figured out by equity analysts in terms of impact.

You might also find correlation between the US dollar and emerging market bonds. A stronger dollar could impact local emerging market debt, while weaker emerging market currencies are also more sensitive to inflation risk. Emerging market (EM) debt and equity, along with commodities, are the asset classes to monitor on the back of the stronger US dollar.

Rupert: The impact of a strong US dollar on the US equity market is much more mixed. You can find a clear correlation between weak commodity and oil prices and a strong dollar, but there isn't any clear correlation or pattern regarding how the equity market will behave in a strong dollar environment. During the 1990s when the dollar was strong, US markets were bullish – while in the financial crisis the dollar was strong and equity markets were terrible. There aren't any conclusions to draw about whether a strong dollar has predictive power over US equities.

Nicola: There has been a lot of publicity recently around outflows from high yield funds, as valuations appear to be becoming stretched. What is our view on high yield and do we still hold it in portfolios?

Jaime: In terms of high yield, there are a number of red flags and concerns at present. One is the lower quality and underwriting of loans, a lot of low quality companies have been able to come to the market and raise debt easily, which they couldn't do in normal conditions. There is increased leverage, greater collateralised loan obligation (CLO) issuance and lower liquidity – not as good as it should be.

In terms of portfolios, we are underweight high yield with a small exposure. Our strategy has been to increase the quality and it is an asset class we are concerned about.

Olivier: High yield has fully benefited from ample liquidity in the market and the carry trade has been playing a major role, as investors piled into assets in the high yield sector. We reduced exposure to high yield about two months ago, when yields and spreads were close to historical lows. We think that was the right decision, given the level of yields, combined with fundamental views around the solidity of companies - the trough in terms of spread was 330 bps, and now it is trading 100 bps above that. We all know that entry doors are wider than exit doors because this is not the most liquid asset class, so reducing our position was a good move, because, at some point, when people want to liquidate positions they might have difficulty.

We halved our exposure to high yield, and we are now meaningfully underweight, although I would not see the high yield risk in isolation. If we see further pressure on the high yield market it will spread into other high beta asset classes making it hard to remain positive on equities.


Nicola Eggers

Nicola: Did you make any adjustments during the third quarter for geopolitical issues, and are you actively monitoring this from a portfolio perspective?

Olivier: Geopolitical impact was not really reflected in our decisions.

Rupert: We have discussed geopolitics, whether its Ukraine, Middle East or China, and our conversations have been around how this might broadly impact portfolios. Our confidence in the US cyclical upswing is such that we believe it is likely to overwhelm most other geopolitical factors in terms of how markets are going to behave. The US is very important – the last time we had major geopolitical issues (Arab Spring), the US was in a clear economic downswing so it exacerbated the problems. This time around it feels different, the US is improving which is a big positive and negates the impact of geopolitical problems. The direction of travel for most risky asset classes is positive because of the nature of the economic cycle.

Jaime: The Fed is not keen to derail the markets with hawkish language when we have a lot of other issues, so it does have a direct impact in that way.

Nicola: What have been some of your best and worst contributors in the third quarter? How are we adapting those positions for the fourth quarter?

Nick: The energy sector was weak across the board in the third quarter, particularly some of the US energy stocks which had a very good first half. This can be attributed to movements in oil prices. On the positive side, the best performers were US consumer stocks such as Home Depot and Bed Bath & Beyond, a positive indicator for the strength of the US consumer story.

Rupert: Gold stands out as having had a difficult quarter, which is a corollary of the strength of the US dollar. In currency terms, being long the dollar was a big benefit, but the allocation to gold was difficult. We also saw some more volatility within the high yield space – where we have seen spread widening and increased volatility – otherwise credit and sovereigns were well behaved.

Olivier: The third quarter was more volatile than the second. The underlying market in which we invest had a challenging July and September, while August was friendlier. In that context our duration position was clearly a slight detractor to the overall position. We probably underestimated the fixed income rally even at a single asset class level, although the contribution from credit exposure was good.

Jaime Arguello

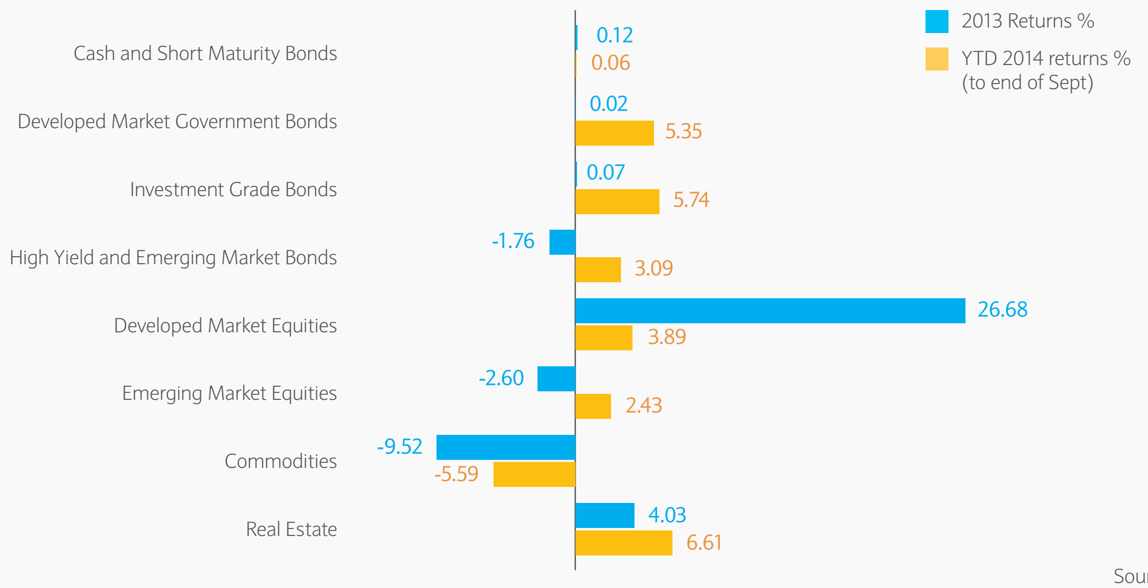
We adopted a more defensive position at a stock picking level which worked well, while maintaining credit exposure, and cutting back on riskier investments. Our investment in an Asian Equity ex-Japan fund was a particular positive, with year-to-date performance 500bps above benchmark – largely due to the country allocation favouring China and India.

Jaime: The quarter was good until September, when there was a downturn – mostly in EM equities and fixed income. In terms of what worked well in the quarter, UK equity allocations were good with managers protecting well on the downside, while Japan was also a positive allocation.

Rupert: I would add that an increase in M&A activity, both real and rumoured, is also important. Shire in the UK and Covidien in the US both benefited from increased share prices, while SAB Miller was the subject of takeover rumours in the third quarter and performed better because of that. It's very difficult to try and predict where you will see M&A equity, although hedge funds in the arbitrage space might be worth looking at.


Nick Montgomery

Total returns across key global asset classes



Source: Barclays

Note: Past performance is not an indication of future performance. For discrete five-year returns, see appendix. Figures quoted are % net returns.

Index Total Returns are represented by the following: Cash and Short-maturity Bonds by Barclays US Treasury Bills; Developed Government Bonds by Barclays Global Treasury; Investment Grade Bonds by Barclays Global Aggregate – Corporates; High-Yield and Emerging Markets Bonds by Barclays Global High Yield, Barclays EM Hard Currency Aggregate & Barclays EM Local Currency Government; Developed Markets Equities by MSCI World Index; Emerging Markets Equities by MSCI EM; Commodities by DJ UBS Commodity TR Index; Real Estate by FTSE EPRA/NAREIT Developed; Alternative Trading Strategies by HFRX Global Hedge Fund. The benchmark indices are used for comparison purposes only and this comparison should not be understood to mean that there will necessarily be a correlation between actual returns and these benchmarks. It is not possible to invest in these indices and the indices are not subject to any fees or expenses. It should not be assumed that investment will be made in any specific securities that comprise the indices. The volatility of the indices may be materially different than that of the hypothetical portfolio.

Portfolio positioning update

All eyes on Europe: asset allocation update

Roberta Gamba, Head of Portfolio Construction

The third quarter was difficult for markets as divergent economic performance between Europe and the US created uncertainty across asset classes.

In US dollar terms, developed government bonds outperformed all other asset classes during the quarter as a pickup in market volatility, a divergent global economic environment and increased geopolitical tensions served to unnerve investors, increasing demand for safe havens and depressing bond yields. The only active change made during the quarter was to reduce our exposure to high yield bonds, which proved to be a good decision given its underperformance.

We remained overweight in developed market equities in the quarter, as more robust data from the US economy increased the likelihood that the Federal Reserve will raise interest rates next year. US manufacturing activity, as measured by the US Manufacturing Purchasing Managers Index, rose in September, rounding off the strongest quarter since the financial crisis, while most other economic indicators beside the August non-farm payroll number have also been quite good.

The situation in Europe is far worse with persistently poor data, low inflation and low growth across the eurozone. While economic indicators are pointing to an improving economy in the US, the opposite is true in Europe. We are not only experiencing a divergence in monetary policy between the US and Europe, but a more profound economic divergence.

This, in addition to geopolitical tension in Eastern Europe and in the Middle East, led us to recommend hedging part of our developed market equity exposure back in July, or, as an alternative, rotating into more defensive managers to protect against global economic weakness.

We have been neutral in our exposure to emerging market (EM) equity for some time, due to the lack of a clear catalyst for adding to this under-valued asset class. Geopolitical risks and the normalisation of interest rates still make us cautious in implementing EM exposure. We also kept our underweight position in commodities given the global economic slowdown and imbalance between demand and supply in favour of the latter for most, but not all, commodities

Overall through the year, we have been well positioned tactically. Our overweight in developed market equities (particularly to the US) and our underweight in commodities have more than balanced the underweight in fixed income, but we gave back some of those gains in our selection. Some of the funds we used to express our views had a very difficult time beating respective benchmarks due to an unexpected rotation from cyclical to defensive sectors and back during the first part of the year.

Equities

+ US equities + European equities = Japan equities = UK equities = emerging market equities

Key: + overweight, = neutral, - underweight

Over the quarter, equities saw mixed performance; the US led with positive performance for the quarter driven by strong economic news, while the rest of the world suffered in US dollar terms, particularly Europe. It is worth flagging that the majority of underperformance versus the US is actually driven by strong dollar appreciation over the quarter.

Federal Reserve Chair Janet Yellen remains wisely cautious and has decided to consider a range of statistics, other than just employment and inflation rates, to decide policy, giving the Federal Open Market Committee more breathing space around rate rises. The US inflation rate is still below 2%, and pressure is currently on the downside as oil prices are falling, therefore we think it is unlikely that the Fed will raise rates before mid-2015.

In Europe we saw persistently poor data, with low inflation and low growth across the region. The increased use of monetary stimulation by the European Central Bank (ECB) has now extended to a new Targeted Long-Term Refinancing Operation (TLTRO), designed to prompt regional banks to lend more to private businesses. The region is in desperate need of growth and a weaker euro is helping to stimulate exports, but it is not enough yet, as evidenced by the German DAX Index losing more than 3% in the third quarter in US dollar terms.

Our overweight in developed market equities has been in place since January and was a good call in the third quarter and throughout the year, despite the increased volatility. We started the third quarter flagging the potential of a pick up in volatility driven by low market liquidity over the summer, and the normalisation of US monetary policy. To combat this heightened volatility we decided to recommend hedging at least part of our developed market equity exposure when possible or rotating into more defensive sectors, rather than cutting exposure. We still see value over the medium term in developed market equities, and view any drawdown as an opportunity to add to the asset class.

While the overweight to US equities worked in our favour, our overweight in Europe cost us as markets were driven down by negative economic news especially in the last part of the quarter. For US dollar investors, its strong appreciation against all major currencies also had a negative impact on investments outside the US. The opposite is true for euro and sterling investors, whose US equity exposure was boosted by the stronger US dollar.

We have been neutral in emerging market equities for almost two years now and we are happy to maintain that position, even considering our strategic overweight to this asset class with respect to market standards. The reality is that, while emerging economies look attractive from a valuation perspective, we always look for a catalyst before moving in. Eastern Europe is dealing with geopolitical risks and Russia in particular is suffering due to soft oil prices.

Latin America and other commodity-led emerging economies are still suffering from a weak global economy, besides dealing with a lack of reforms and chaotic political environments. The region we like most is Asia, which, so far this year, has actually performed quite well. India had a strong rally in May as political elections saw a more pro-business government win; but China and south-eastern Asia have also seen some positive performance as flows from investors re-entered the region. That said, our concern around China, and the reason we have not added back to emerging market equity, is that we have not yet seen a clear catalyst that would meaningfully reverse the current softness in the economy. The Chinese banking sector in particular needs to solve the ongoing problem represented by non-performing loans.

Fixed Income

= government bonds – investment grade corporate - high yield – emerging market local debt = emerging market hard currency

So far this year being underweight fixed income has cost us some performance. We have been positioned for improving global economic growth and an environment of interest rate increases, and that has not yet materialised. Instead we have seen a weaker eurozone and rising geopolitical tensions lead global uncertainty and, consequently, a bond rally.

Fixed income has done well across the board, leading us to take some profits back from our high yield exposure. Spreads on high yield debt have come back quite meaningfully in the last five or six years and are currently at historically low levels. We have been overweight for a number of years on a tactical basis, but moved back to neutral in the second part of last year. In the third quarter of this year, we decided it was time to go underweight high yield, as it appeared increasingly expensive. It is also an asset class that can quickly lose liquidity in the case of crisis.

The other fixed income trade we implemented in the quarter was to add back from a zero position in emerging market (EM) local currency debt. This was a partial reversal of a trade we entered at the beginning of the year, when we exited emerging market local currency debt entirely in favour of emerging market debt in hard currencies. We still maintain an underweight position in emerging market debt in local currency, but after a correction in EM currencies, we wanted to lock in some profits (roughly 400bps). We are currently neutral in our exposure to emerging market debt in hard currency, but during the quarter we still benefited from the fact that hard currency debt outperformed local currency debt.

Overall we maintain an underweight position to fixed income asset classes primarily because they are extremely expensive, but also because we still believe the global economy will pick up, driven by the US.

Alternatives

- commodities = real estate = alternative trading strategies

Key: + overweight, = neutral, - underweight

Commodities were down across the board in the third quarter, as illustrated by the Dow Jones UBS Commodity Index, which lost significant ground. Energy commodities were hit particularly hard, with falling crude prices contributing to significant decreases in gasoline, and gasoil. US shale oil supplies have outstripped expectations and Iraqi and Libyan production has risen despite political unrest in both countries. Natural gas also lost significant ground, while agricultural commodities and precious metals were down heavily.

We were underweight during the quarter and throughout the year due to a level of oversupply in most commodity markets and to weak demand resulting from anaemic global economic growth.

While gold has been doing well compared to the rest of the commodity complex so far this year, during the third quarter prices moved lower, driven by expectations around the normalisation of interest rates and a stronger US dollar. Despite that, we still own a small gold allocation for tail risk hedging purposes, given the relatively low exposure we currently have to asset classes that would perform well if our central case scenario for the global economy doesn't materialise.

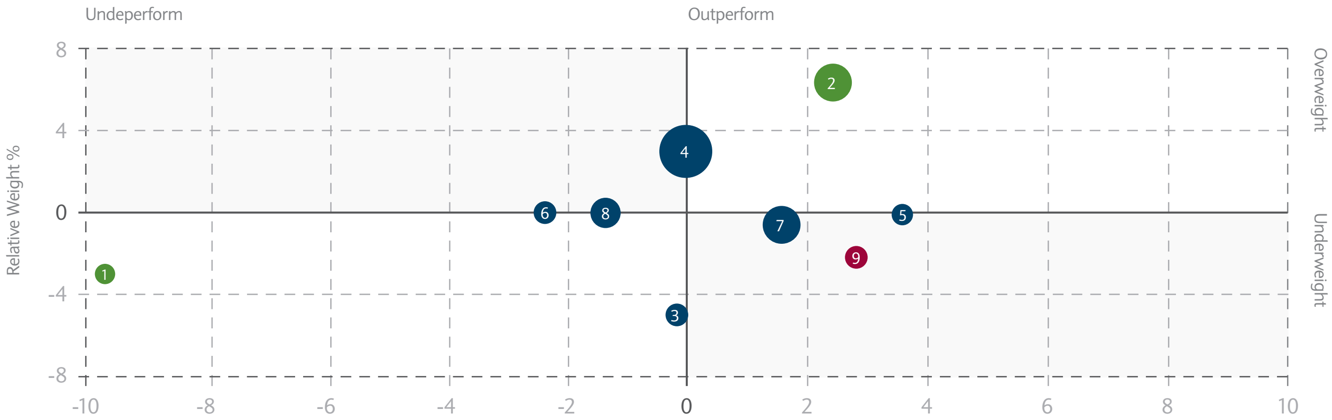
In alternatives (ATS) and real estate we have maintained a neutral position throughout the year. Developed markets REITS have performed well on a year-to-date basis, despite the negative quarter, while valuations are rich, so we are happy to be neutral. ATS have disappointed so far this year, since many managers have suffered from the equity rotation experienced in March and April. The future of ATS allocation for European investor is also linked to new regulation in the space, which narrows the universe of available implementation options. This is something we are considering in the context of our overall Strategic Asset Allocations (SAA).

Tactical and strategic asset allocation

The third quarter was difficult for markets as divergent economic performance between Europe and the US created uncertainty across asset classes. The decision to remain overweight to US equities proved to be correct, however our underweight to fixed income cost us some performance.

The chart below demonstrates the effect of our tactical asset allocation decisions over the quarter, from July 1 to September 30 2014, for a US dollar-denominated medium risk (profile 3) portfolio. The aim is clearly to overweight the asset classes that outperform and underweight those that underperform. We are therefore looking for results in the top right and bottom left sectors of the chart.

Attribution allocation effects



	Allocation	TAA Weight %	TAA/SAA Return %	TAA weight relative to SAA %	TAA allocation effect %
1	Commodities	1.88	-11.83	-3.01	+ 0.3
2	Cash and short maturity bonds	14.85	0.02	+ 6.69	+ 0.18
3	High yielding fixed income	5.52	-1.97	-4.89	0
4	Developed market equity	40.8	-2.16	+ 3.25	0
5	Developed market government bonds	4.14	1.5	-0.4	0
6	Real estate	3.84	-4.59	+ 0.4	0
7	Alternative trading strategies (ATS)	14.27	-0.57	-0.16	0
8	Emerging market equity	9.59	-3.49	+ 0.16	0
9	Investment grade fixed income	5.13	0.65	-2.04	-0.05

Positive Tactical decision · Neutral Tactical decision · Negative Tactical decision

The devil in the divergence

The overall performance of discretionary portfolios during the third quarter masked increasing divergence across asset classes and regions. Nick Montgomery and Michael Topley, Portfolio Managers, give their take on the big themes.

Since last year we have held a view that an improving global economy, led by a resurgent US, would eventually lead the Federal Reserve and Bank of England to raise interest rates. This view worked well for us in the second half of last year, as the yield curve shifted higher across the board and UK gilts lost money. Our portfolios still reflect this view, as we believe growth is still on its way. Consequently, we are underweight fixed income relative to benchmark, and also underweight duration (interest rate sensitivity), with an average of five years compared to the benchmark nine years.

A string of poor economic data from Europe over the summer, plus heightened geopolitical tensions, has seen fixed income rally so far this year, leading to a flattening of the yield curve, with strong performance from longer dated Gilts as investors sought safety. This fixed income rally drove overall underperformance in discretionary portfolios for the quarter.

The underlying weakness of global data also impacted equities, causing a rotation out of cyclical growth stocks, including most small and mid caps (SMIDS), into higher quality defensive names. This shift has been particularly pronounced in Europe, where the poor economic data combined with fears over the impact of Russian sanctions to cause European cyclicals to underperform over the quarter. Particular weakness within the German economy and disinflationary concerns have increased focus on the European Central Bank, which initiated targeted lending to eurozone banks and announced further measures in an attempt to stimulate bank lending.

Currency fluctuations added to the dichotomy between the two regions for sterling investors, as a strong US dollar boosted

UK gilts have rallied during the third quarter

Source: Bloomberg

Discretionary portfolio performance

ARC PCI* Risk Category	Cautious		Balanced		Steady Growth		Equity	
Cumulative	Barclays	ARC	Barclays	ARC	Barclays	ARC	Barclays	ARC
1 year	3.8%	4.6%	4.6%	5.6%	5.6%	6.1%	7.0%	6.9%
3 year	18.6%	16.8%	24.8%	24.8%	30.5%	30.7%	37.4%	38.0%
5 year	28.7%	23.2%	33.5%	31.8%	38.5%	38.5%	46.8%	45.4%
Discrete periods	Barclays	ARC	Barclays	ARC	Barclays	ARC	Barclays	ARC
Q3 2014*	1.2%	1.2%	1.0%	1.0%	0.9%	0.9%	1.0%	1.0%
YTD 2014	2.5%	3.1%	2.3%	2.9%	2.3%	2.6%	2.8%	2.5%
2013	5.5%	5.0%	9.0%	9.2%	12.1%	12.5%	15.2%	16.1%
2012	6.6%	5.8%	8.0%	7.7%	8.8%	8.9%	9.7%	10.1%
2011	1.3%	-0.5%	-1.5%	-2.9%	-3.1%	-4.2%	-3.7%	-5.9%
2010	8.4%	6.8%	9.9%	9.8%	10.7%	11.9%	12.9%	14.0%

Past performance is not an indication of future performance.

* We provide portfolio performance to Asset Risk Consultants (ARC), who receive performance data from over 50 discretionary portfolio managers which they group into four Private Client Indices (PCI) as shown above. This provides a powerful independent assessment of our performance versus competitors. The cumulative data and returns use ARC PCI estimates for Q3 2014.

returns, while a weak euro had the opposite effect. As a consequence, our S&P500 tracker was up 7% in the quarter in sterling terms, while our investment in the Franklin Templeton US Opportunities Fund was up more than 6%.

This rotation theme was played out in our individual equity positions, as some of the big defensive stocks did well. Scottish and Southern Electricity (SSE) was up 2.8% in the quarter, while HSBC was up 5.6% and Vodafone 4.8%. There was underperformance in cyclicals, particularly energy stocks, where exploration firm Tullow Oil lost ground, as did support businesses Weir Group and Wood Group.

Commodity prices had a big part to play in discretionary performance during the quarter, particularly the effect they had on emerging markets (EM). There was a divergence in performance between commodity-producing and commodity-consuming economies, as lower demand for oil and industrial metals depressed prices, as did bumper agricultural harvests. As a result Asian economies performed well, while Russia and Brazil underperformed.

This was reflected in our active funds, as the Asia-focused First State Asia Pacific Leaders was up 7%, while the wider EM focus of Lazard Emerging Markets meant it lost 1%.

Duration counts

Duration is the measurement of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates. This calculation can help predict the likely changes in the price of a bond given a change in interest rates. As a general rule, for every 1% increase or decrease in interest rates, a bond's price will change approximately 1% in the opposite direction for every year of duration.

For example, if a bond has a duration of five years and interest rates increase by 1%, the bond's price will decline by approximately 5%. Conversely, if a bond has a duration of five years and interest rates fall by 1%, the bond's price will increase by approximately 5%.

By understanding duration, we can structure the interest rate sensitivity of our portfolios in relation to our overall investment objectives and risk tolerance.

Dynamic strategy review

The Dynamic team remained cautious over the summer, concentrating on quality and liquidity. We moved out of high yield debt and sold down positions in emerging markets.

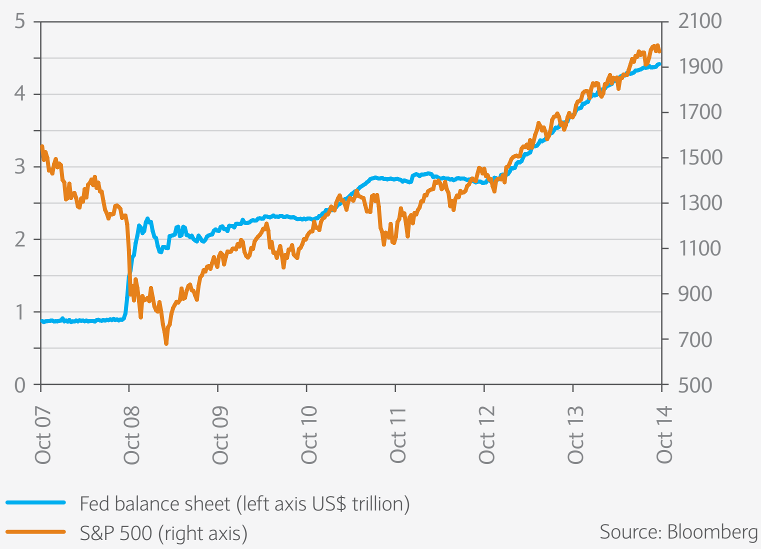
During the quarter, Dynamic maintained a large 35% allocation to bonds, largely in liquid sovereign issues split between conventional and inflation linked. We did not shy away from duration, as we believe interest rate expectations have got a little ahead of themselves. As a result, our fixed income exposure worked well for us during the quarter helping to generate the portfolio's income yield of 2.67%.

One of the changes that played into our liquidity strategy was the sale of a US dollar-denominated Petrobras bond. We are mindful of liquidity drying up in emerging market debt, and the risks to hard currency debt with an appreciating dollar, and spreads widening. We also sold our 4% position in the Barclays GlobalAccess High Yield Bond Fund early in the quarter, following a strong return from this investment over the last two years. High yield spreads over Treasuries fell to around 2.5% in July, suggesting overly rich valuations.

Conversely, the US Treasury is relatively liquid and may provide 'flight to quality' benefits if general risk sentiment changes in the market. Also, the yield differential between US Treasuries and other quality government debt is quite high at the moment, especially at the long end. These conditions led us to buy long duration 30-year US Treasuries during the quarter, yielding 3.125%.

Another change made was a play on the ageing demographic in developed economies. We invested in Ventas, a US-based REIT that owns and operates more than 1,500 seniors' housing and healthcare properties in the US, Canada and the UK. The valuation is compelling, as are its bond-like qualities and healthy 4.3% yield.

The relationship between QE and US equity prices



Source: Bloomberg

Stock or flow – how will the end of QE affect asset prices?

By Piers Cushing, Senior Portfolio Manager for Dynamic

One of the debates keeping the Dynamic committee busy in the third quarter centred on global equities and the expected reaction to the end of quantitative easing (QE) in the US. Previously, we have seen markets lose significant ground as QE was switched off, but there are several other factors to consider this time.

Divergent monetary policy may mean the Fed 'passes the QE baton' on to the European Central Bank (ECB), or to the Bank of Japan, therefore reducing risks to the equity market. Fundamentally, there is also the discussion of 'stock versus flow'.

Proponents of 'flow' suggest that it is the actual flow of money via quantitative easing (QE) that matters to an addicted market, and that a constant flow of money from central bank purchases is required to hold and raise the price of assets. In this world, ending the flow of asset purchases amounts to monetary tightening, which might undercut a fragile recovery.

Proponents of the 'stock' argument believe that the cessation of quantitative easing, per se, does not constitute monetary tightening because the Fed continues to hold US$4.4 trillion on its balance sheet – the Fed's foot is still firmly in the same position on the accelerator. Tightening only occurs when the Fed finally starts reducing the size of its balance sheet.

We will discover the answer in the last quarter of 2014. Either way, you can expect short-term volatility to increase during this period of uncertainty.

In the meantime, the global disinflationary trend has surprised the market, and continues to unnerve central bankers. We have been buying longer-dated bonds and defensive, quality equity in order to support our wealth preservation focus.

MultiManagement team insights

Creating the perfect blend

By Jon Woo, Quant Portfolio Manager for MultiManagement

Finding investments that continually outperform the market is the golden ticket for investors, but virtually impossible to achieve with one strategy. However, creatively blending together different strategies can tap into positive returns in all economic conditions, generating optimal risk/reward.

Barclays MultiManagement team tailors multiple-alpha portfolios beyond simply owning managers, as we engineer exposure to security fundamentals, empirical behaviour and style rotation within portfolios.

Our portfolio construction process uses a multi-barbell approach, meaning we combine ideas from the extremes of investible spectrums (e.g. micro cap and mega cap stocks), to give a diversified rotatable strategy. A crucial benefit is the resultant breadth of alpha generation, sourcing managers whose distinct security selection techniques are complementary to each other in different environments. With this, we navigate through ever-changing markets to deliver superior returns, and diversified investment risk.

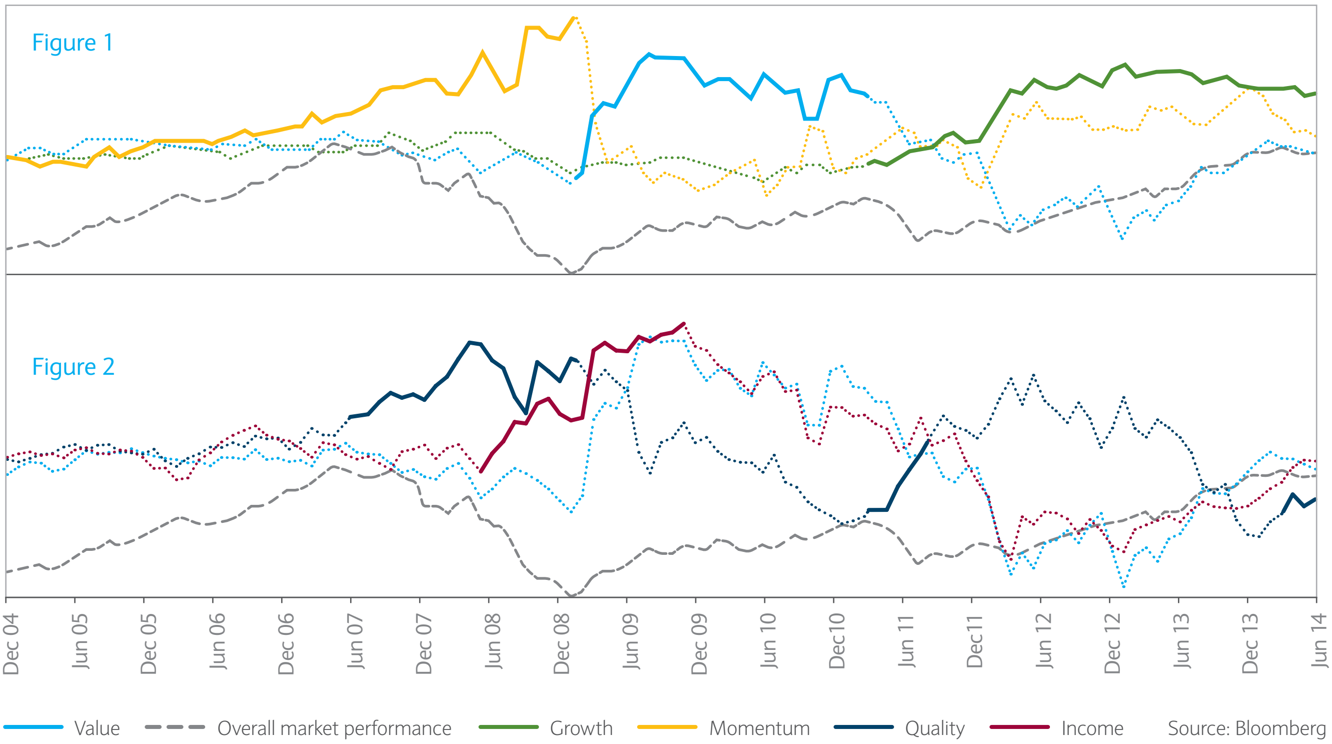
Case Study: Analysing eurozone equities

When investing, we must understand security behaviour in different market conditions. Figure 1 splits eurozone equities into distinct behaviour buckets, namely Momentum, Value and Growth. We also see (Figure 2) that quality stocks consistently outperform during sell-offs, but income stocks work best during heightening volatility (e.g. 2008 turmoil). Extrapolating how and why these buckets move prompts our idea generation.

Proprietary quantitative screening

Scoring managers is a process that runs alongside market

Performance of eurozone equity buckets (solid lines represents time when factors have outperformed the market)



Source: Bloomberg

evaluation. We maintain robust screens designed to filter away poorly performing managers, creating a qualified shortlist.

We examine the investment behaviour of the shortlisted managers, assessing alpha, beta, downside protection, and consistency in market cycles. It is critical to contextually select managers based on how markets continually evolve, assessing opportunity sets, strengths and weaknesses.

Generating shortlists does however have its limits. For example, we often find that historical screens characterise short-term factors, exposing results to rotation, seasonality, business and interest rate cycles. To mitigate this, we typically stretch our analysis across different horizons and fine-tune relevant measurements. This enables us to accurately identify the characteristics we desire and the managers to consider.

Fundamental Analysis – under the bonnet

The next stage of our process validates the empirical behaviour of managers, combining quantitative observation and qualitative views. In a recent review of European funds, our market evaluation revealed that a clean, style-neutral blend offered little alpha for clients (overly passive).

We invest in managers able to think beyond just one investment style, constructing a measured and cycle-conscious blend, by placing managers heavily under the microscope. This allows us to understand all fundamentals encompassed by a manager's approach, across the span of their track record, and determines which fundamental blends maximise returns at budgeted risk levels.

An example is laid out below in more detail. We examine two managers selected and blended in GlobalAccess Europe ex-UK Alpha Fund, using style research to measure sensitivity towards fundamentals.

Schroders (ex-Cazenove) – value and growth

Schroders run a top-down 'growth at reasonable price' approach (GARP) – in other words focusing on value stocks that also exhibit growth potential. In the illustration (Figure 3) we measure levels of cheapness through exposure to valuation fundamentals (e.g. dividend / earnings / book yields), and exposure to growth fundamentals (e.g. earnings estimates, sales growth, forecast revisions). In line with the manager's approach, we see an overall positive tilt to both areas, value fundamentals (blue bars) and growth fundamentals (green bars). To stay cheaper than the market yet maintain above-average growth, the manager maintains a fairly balanced portfolio, hence no exposures appear excessive.

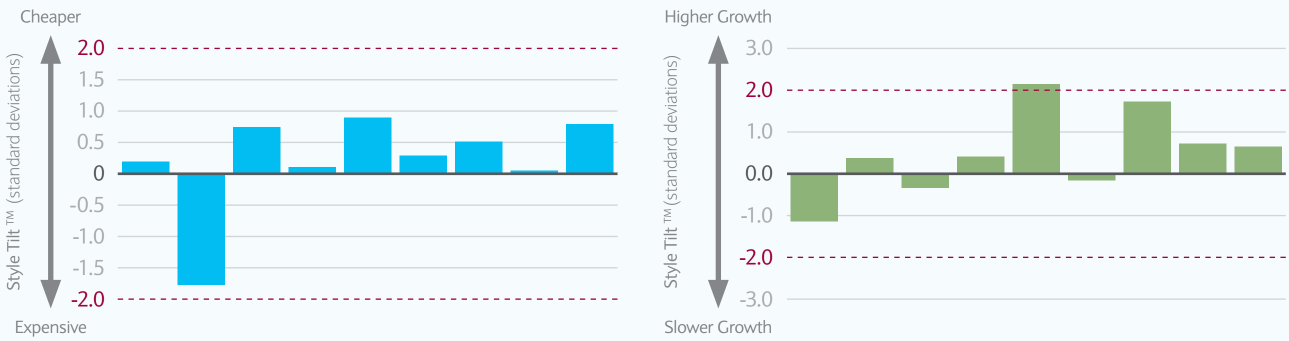
Montanaro – quality and small cap growth

Montanaro offer a very different growth-related return profile, sourcing high quality growth from small businesses at early stages of their company cycle. These business often deliver future elevated earnings, but are resultantly highly reactive to both rising/falling market environments. In contrast to Schroders, Montanaro will pay high valuation premiums to maximise exposure to quality within growth. The manager believes that strong future sales and earnings will allow these to graduate to better valuations.

Figure 3 - Schroders

Overall positive value fundamentals *

Overall positive growth fundamentals *



Zero represents benchmark neutral

Significant divergence above 2 or below -2 standard deviations from benchmark average

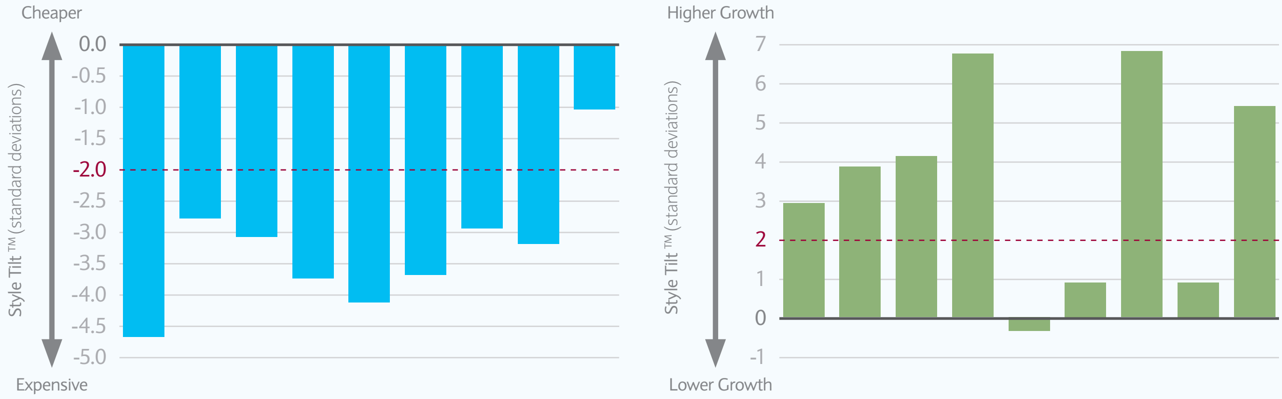
* Each bar represents a specific fundamental indicator, e.g. dividend yield

Source: Barclays, Style Research

Figure 4 - Montanaro

Expensive on value fundamentals*

Strongly positioned on growth fundamentals*



Zero represents benchmark neutral

Significant divergence above 2 or below -2 standard deviations from benchmark average

* Each bar represents a specific fundamental indicator, e.g. dividend yield

Source: Barclays, Style Research

This manager's key ability, is to find early discoveries that fully capture transformational business growth before other investors. The resultant small cap bias is also beneficial, since small caps historically beat large caps over the long run. Quality intertwined with growth allows Montanaro to avoid "growth traps" despite valuations appearing high.

Fundamentally, Montanaro are heavily positioned towards growth, with strong growth conviction and a risk profile designed to unlock stronger return on equity.

Performance

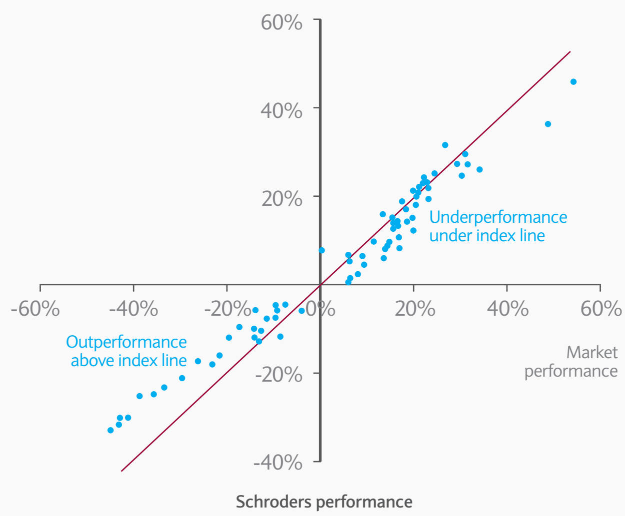
An example of how this analysis translates into performance can be seen in the scatter charts. Figure 5 plots the rolling one-year returns of Schroders (y-axis) versus its benchmark (x-axis). The red line denotes the performance of the market index, allowing comparison, on a relative basis. Outperformance is represented by dots above the market index line, and underperformance by dots falling below it.

Schroders' value-growth considered approach ensures returns are within distance of their index. Refusing to buy more expensive areas of the market, means they minimise exposure to value-driven sell-offs during down markets (left side of the chart, above index), helping to avoid "value traps".

Consequently, although they participate in rising markets, moderated risk means they lag in bullish scenarios (right side, below index).

Figure 6 shows Montanaro's cyclically geared portfolio, generating exceptional outperformance in rising markets (above index, right), but poor protection during sell-offs (below index, left).

Figure 5 - Return profile of Schroders



Index benchmark • Schroders

Figure 6 - Return profile of Montanaro

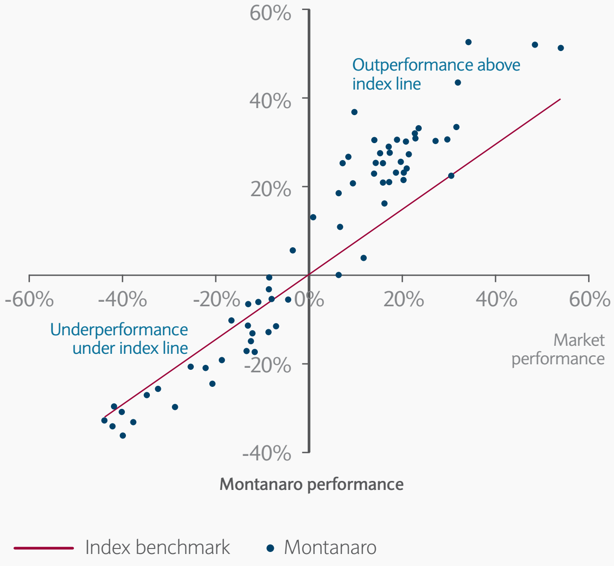
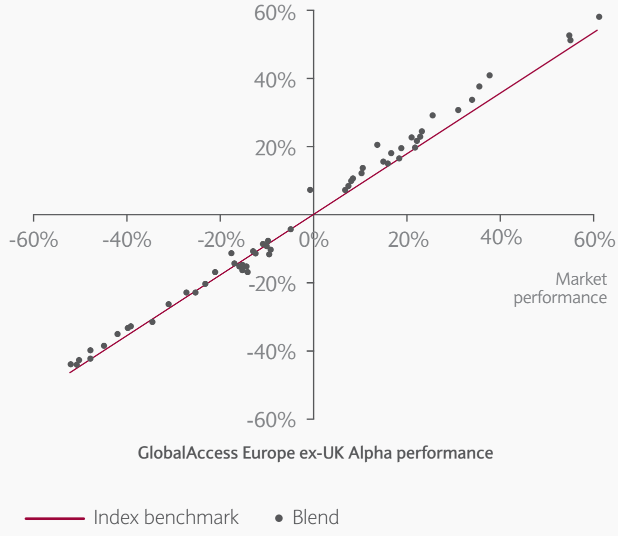


Figure 7 - Return profile of GlobalAccess Europe ex-UK Alpha Fund



GlobalAccess Europe ex-UK Alpha Fund

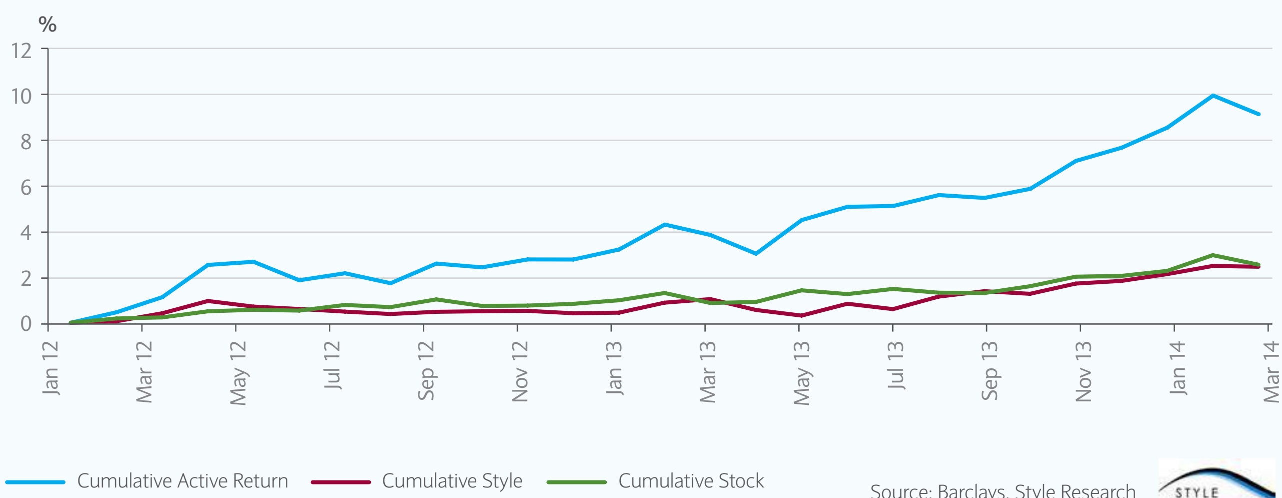
We blend these two managers with two additional strategies (JP Morgan and TT International), to produce a fund that consistently outperforms in different market conditions. Figure 7 shows consistent, steady historical outperformance on a one-year rolling basis (including the 2008 financial crisis).

Conclusion

Our blends exploit correlations between managers and styles, while construction assesses their volatilities and risk contributions in determining manager allocations. Combining different alpha drivers, provided by top hand-selected managers, allows us to manufacture an all-weather solution. Different fundamentals and selection ideas resonate across the resultant portfolio, generating value-add from both bottom-up ideas and our own blended style management (figure 8).

Barclays GlobalAccess uses a recipe of fundamental investing and empirical science to deliver consistent, superior risk-adjusted returns for clients in all market conditions.

Figure 8 - GlobalAccess Europe ex-UK Alpha Fund cumulative return



Source: Barclays, Style Research

Stock and style selection were two of the major contributors to total active returns over the period

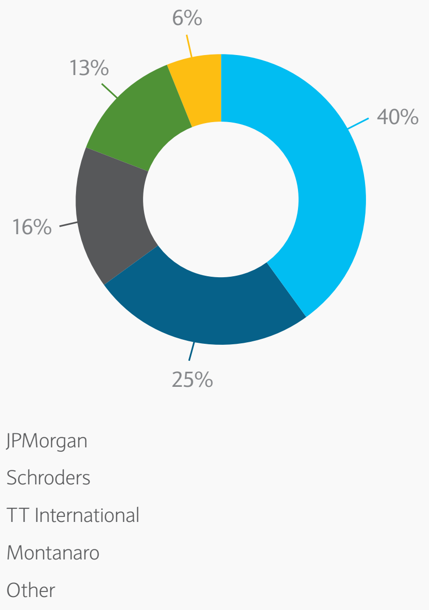
Spotlight on the GlobalAccess Europe ex-UK Alpha Fund

The Fund seeks to maximise long-term total return primarily through investment in European companies.

Fund Features

- Continental European mandate (i.e. ex-UK)
- Four very different managers chosen on the basis that they will each deliver outperformance from different sources and parts of the market, during different periods of the market cycle
- Two boutique managers, offering unique access and a competitive differentiator
- The Fund is run by an experienced manager, who can use that experience to allocate to the different underlying investment managers, with the aim of delivering consistent outperformance
- The Fund has a structural overweight to small caps – a long term belief that this is where we can find opportunities to outperform

Third party manager allocation



Source: Barclays

Glossary

Alpha - The excess return of the fund relative to the return of the benchmark index. The alpha is the portion of a portfolio's excess return independent from market returns.

Beta - The return generated from a portfolio that can be attributed to overall market returns.

Defensive duties

The MultiManager portfolios are currency-hedged and diversified across traditional asset classes, regions and third-party managers. Alpha is generated via exposure to third-party investment managers and the implementation of tactical asset allocation views. We spoke with Jaime Arguello, Head of MultiManager, to get his thoughts on third quarter performance.

We had another quarter of relatively low dispersion in most asset classes, as global volatility remained largely subdued.

In terms of performance between different MultiManager funds, we had a couple of outliers but returns were largely as expected. Credit remained stable except for the high yield space where we saw a meaningful correction, while equities were boosted by dovish Fed language.

The significant market changes this quarter were around currencies, driven by a change in policy from the European Central Bank (ECB) which has pushed the euro lower. We also saw significant weakening in the Japanese Yen, while the US dollar strengthened considerably during the month. The MultiManager portfolios are fully hedged against the major global currencies; this was positive in keeping portfolio risk under control, as currency movements have been significant since the beginning of the year and were a major source of volatility.

It was a difficult period for active managers with alpha generation relatively muted for the quarter. Despite that, our asset allocation made low single digit returns, which is positive in an environment of negative real yields and extremely low inflation.

Tactical positioning

The portfolio maintained its overall defensive tilt in the third quarter. Our underweight position in commodities worked well for us in those funds with exposure to nine asset classes, as commodities were down around 11% in the quarter.

We moved from underweight to strong underweight in high yield and emerging market debt in July, on the back of a very strong rally in high yield, as yields reached historical lows. The move was positive as we have seen spreads move back out since then. We also maintained an underweight to investment grade bonds during the quarter which was negative for performance, although we still believe this asset class is too expensive.

Within equities we implemented a small overweight to Japanese equities at the start of the quarter, to benefit from a market that looks undervalued versus other developed market equities. There is also a story of improving corporate earnings, while monetary policy is supportive. A key element is our yen hedge which has protected Japanese exposure.

Elsewhere we added a small position to US small and mid cap equities on the back of quite a strong underperformance in that sector. We originally exited that position when they were doing well and have now added back to it, as we believe the US economy remains strong.

Portfolio Holdings - MultiManager portfolio 3

19.0%	GlobalAccess US Value	Ceredex Value Advisors 40.0%	Cramer Rosenthal McGlynn 30.0%	Artisan 30.0%	
10.1%	GlobalAccess Europe (ex-UK) Alpha	JPMorgan 40.0%	Schroders 25.0%	TT International 16.0%	Montanaro 13.0%
9.4%	GlobalAccess Emerging Market Equity *	Schroders 28.3%	Somerset Capital 22.5%	Pzena Investment Management 17.0%	Arrowstreet 13.5%
		ARX Investimentos 4.5%	East Capital 3.5%		
8.0%	GlobalAccess Japan	Schroders 50.0%	AllianceBernstein 50.0%		
5.3%	US Alpha	INTECH 100.0%			
4.4%	GlobalAccess US Small & Mid Cap Equity *	Delaware Investments 40.0%	Kennedy Capital 40.0%		
2.5%	UK Equity Income	Artemis 50.0%	Lazard Asset Management 30%	Majedie 20.0%	
2.3%	GlobalAccess Pacific Rim (ex-Japan)	Schroders 50.0%	Hermes 35.0%	Fidelity 15.0%	
1.6%	GlobalAccess UK Opportunities	Heronbridge 35.0%	J O Hambro Capital Management 25.0%	Lindsell Train 20.0%	Majedie 20.0%
1.5%	GlobalAccess UK Alpha	Majedie 35.0%	Jupiter 30.0%	Old Mutual 20.0%	Artemis 15.0%
1.4%	UK Core *	Schroders 40.0%	Threadneedle Investments 40.0%		
1.3%	iShares MSCI Pacific ex-Japan UCITS				
1.0%	GlobalAccess Global Equity Income	Kempen 38.0%	Sarasin 37.0%	Kleinwort Benson Investors 25%	
8.6%	GlobalAccess Global Corporate Bond	PIMCO 100.0%			
7.1%	GlobalAccess Global Short Duration Bond *	PIMCO 80.0%			
4.9%	GlobalAccess Global Government Bond	PIMCO 100.0%			
3.4%	GlobalAccess Global High Yield Bond	Oaktree 50.0%	Nomura 50.0%		
3,0%	GlobalAccess Emerging Market Debt	Wellington 80.0%	Lazard Asset Management 20.0%		
3.0%	GlobalAccess EM Local Currency Debt	Stone Harbor 80.0%	Colchester Global Investors 20.0%		
2.1%	Other *				

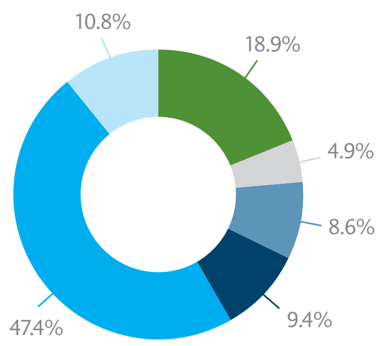
- Portfolio Allocation
- Equity Fund
- Bond Fund
- Investment Manager

Note: Target allocations based on risk profile 3

* The rest of the allocation making up 100% consists of cash and futures positions and/or exchange-traded funds. Be aware, funds investing in some overseas securities are exposed to currency exchange risks.

Source: Barclays

Asset Allocation - MultiManager portfolio 3



- Cash & Short Maturity Bonds
- Developed Government Bonds
- Investment Grade Bonds
- High Yield & Emerging Market Bonds
- Developed Market Equities
- Emerging Market Equities

Source: Barclays

Outlook

Markets continue to be dominated by central banks, as we wait on a change of tone from the Federal Reserve (Fed) on interest rates. We believe rates will remain on hold for the next nine to 12 months because of increased global geopolitical risks.

The Fed knows that its decisions have a global impact and it must be cautious not to take action that might derail markets. We are seeing very accommodative language, and this is giving comfort to fixed income markets, which should stay in a very tight range for another three to six months. Equities are also likely to remain in a tight range as long as rates remain at current levels.

We believe the European Central Bank (ECB) action is a case of too little too late, which is extremely concerning from an inflation and growth perspective. The reform pressure on peripheral countries has relaxed and they are borrowing again at very cheap rates.

The overall picture is one that remains fragile meaning we could have more downside than upside in the fourth quarter. As such we expect to retain a defensive tilt to our portfolio going into 2015.

Rotation dampens returns

By Ziad Abou Gergi, Fund Manager Global, Japan and Real Estate GlobalAccess Equity Funds

Global dividend stocks lagged in the third quarter

Dividend stocks generally underperformed the wider market in the third quarter, as investors started to expect a rise in US interest rates. Despite this, our **GlobalAccess Global Equity Income Fund** performed well compared to the income index and relative to the peer group.

Dividend stocks usually have a positive correlation to interest rates because of their higher yield and are therefore popular when interest rates are low and income is hard to find. Income as a theme tends to lag when investors start expecting higher interest rates. In the third quarter, the sectors that outperformed were low dividend payers, namely technology, healthcare and financials.

Our managers that are more exposed to growth stocks did well, particularly Sarasin which has a bias to growth stocks, while Kempen lagged because of its higher exposure to income stocks. Kleinwort Benson Investors (KBI) was in line with benchmark.

Beyond the initial impact of higher interest rate expectations, income stocks usually tend to outperform. These stocks, like all others, will eventually benefit from a pick-up in economic growth as their ability to generate higher cash flow will lead to better results and more returns for investors in the form of dividends and buybacks.

Our expectation however is that interest rates will remain low, in Continental Europe and the UK, which should boost investors' appetite for income in a low growth environment.

Yen depreciation boosts returns

Our **GlobalAccess Japan Fund** performed well in the third quarter, as both managers did well. The fund is now in the first quartile for its peer group year-to-date.

One of our managers, Schroders, has more exposure to small and mid-cap companies and takes an active approach to value stock picking in the consumer sectors, while the other, Alliance Bernstein, is biased to large cap value. Schroders did well in the first part of the quarter, while Alliance Bernstein picked up in September as the yen depreciated and large cap exporters outperformed.

Interest rate uncertainty hits property

Property was one of the best performing asset classes this year, until expectations of interest rate increases impacted the asset class in the third quarter.

Beyond the initial interest rate uncertainty though, Real Estate Investment Trusts (REITs) tend to respond well to an economy that is doing well, as growing economies need more commercial real estate. The sector is generating a lot of cash and the environment is still favourable for real estate investing. REITs are positioned to benefit from future economic growth.

During the quarter, we made some changes within the **GlobalAccess Global Property Securities Fund**, replacing a manager (EII), following a change in their investment team, and appointing Principal Real Estate Investors, leaders in real estate investing, managing $US6 billion globally. The team is located in the US, London and Asia and has a great track record. Their approach to stock selection is based on fundamental analysis focusing on companies with quality assets and good management.

By Hilary Aldridge, Fund Manager UK GlobalAccess Equity Funds

Stockpicking success

The UK economy had a difficult time in the third quarter, as the FTSE AllShare Index lost ground. Despite this, our **GlobalAccess UK Alpha Fund** beat the benchmark in the third quarter.

During the market sell off the types of stocks that performed well were the mega caps, essentially the top 20 names in the FTSE All Share Index. It can be difficult for active managers to successfully overweight these because of the portfolio concentration this would create, so the fund's outperformance relied primarily on overweight positions in aerospace and defence, an area which is starting to perform well again following defence cuts. We also benefited from a lack of exposure to mining as lower iron ore prices have reduced the profits for most UK miners. On the negative side, the fund's focus outside of the mega caps was a drag over the month.

From a stock specific angle, Cambridge Silicon Radio (CSR) did well after the technology firm was subject to a takeover bid. On the negative side, stock selection in the pharmaceutical sector was poor with our preferred stock GlaxoSmithKline losing ground. A position in sugar producer Tate & Lyle was also a detractor.

As far as our managers are concerned, we found that Old Mutual UK Alpha struggled a bit in the third quarter, due to its overweight position in miners, however we believe that its larger company focus and concentrated style should create positive returns going forward.

Hello J O Hambro

Our **GlobalAccess UK Opportunities Fund** underperformed during the quarter and was 1% behind the benchmark FTSE All Share Index, due to a volatile period in July.

Our existing managers Lindsell Train and Heronbridge suffered slightly in the quarter due to stock selection and through having a significant exposure to mid and small cap equities. The fund's exposure to recruitment company Hays, consultancy group Mitie and supermarket chain William Morrison detracted from performance, as did a large relative overweight to asset manager Hargreaves Lansdown, which was off 25% in the quarter. On the positive side, a minimal exposure to mining companies, and an overweight to aerospace and defence, helped.

We added a new manager in July, namely J O Hambro. It is a hard working special situations strategy, which we believe complements the growth styles of our other two managers. In a flattish market, this strategy should seek out companies in transition and those making disposals, finding alpha where there is not much economic growth elsewhere.

Abenomics key to equity potential

By Ziad Abou Gergi, Fund Manager for GlobalAccess Japan

Japanese equities outperformed other developed markets in the third quarter as a combination of monetary stimulus expectations and a depreciating yen boosted the market.

The market had a tough start to the year as investors preferred to wait and assess the impact of the increase in consumption tax that took place in April. Economic data that came out in the third quarter highlighted that the impact might have been more severe than initially expected, fuelling expectations that the Bank of Japan will intervene with additional quantitative easing and supporting measures. Additionally, yen depreciation that occurred mainly in September benefited large Japanese exporters, helping the market to gain.

Prime Minister Shinzo Abe has worked hard to promote growth in Japan with the aim of pulling the economy out of deflation, but his economic plan, known as Abenomics, has some way to run still. One of his goals is to encourage Japan's state pension fund (GPIF) to reduce its focus on fixed income, and increase its allocation to domestic equities, although, for this to happen, inflation expectations need to rise. Japan has the largest pension fund in the world with US$1.6 trillion at its disposal. It is expected to review its asset allocation in the following months, which could have a big impact on domestic equities as many smaller pension funds and corporates will follow suit, increasing flows into Japanese equities still further.

By Chady Jouni, Fund Manager Emerging Markets, Pacific Rim, Europe, and US GlobalAccess Equity Funds

Volatile third quarter for emerging markets

Emerging markets had a volatile quarter, as expectations of rate hikes in the US and a strong US dollar dented recent gains, leading the MSCI Emerging Markets Index down by more than 3%. Concerns around economic growth especially in Europe and China increased uncertainty further.

Against this backdrop our **GlobalAccess Emerging Market Equity Fund** was flat against the MSCI Emerging Markets benchmark in the quarter. Our quality tilt means our managers tend to focus largely on private companies with good profitability, low financial leverage and a visible stream of earnings.

The fund lagged the index in July and August, as positive flows into exchange traded funds (ETFs) boosted large state-owned companies, to which our fund is underweight. The election cycle in India and Brazil was also positive, with potential economic reform driving Indian equities higher.

Our quality tilt helped the fund to outperform in September in a more difficult market, gaining back ground lost earlier in the quarter. There were heavy market losses in the month as the MSCI Emerging Markets Index lost more than 7%, due to increased expectation of US interest rate hikes and a stronger US dollar.

Country allocation was another driver, as the fund benefited from underweight positions in Brazil, Korea and Russia and an overweight to the UAE. On an individual stock basis, our underweight to Chinese banks detracted as well as a position in Korean game developer NCSOFT, on concerns surrounding delays to a new online game.

Within our suite of managers, there was strong performance among our most defensive positions including Somerset Capital and Schroders. We reduced our allocation to Brazilian manager Arx Investimentos as the valuation gap in Brazilian equities closed. We increased allocation to quant manager Arrowstreet, which had been hard closed for some time and re-opened recently for existing investors

Importance of capital protection

Within the Asia space the **GlobalAccess Pacific Rim (ex-Japan) Fund** outperformed the benchmark MSCI All Country Asia Pacific Ex-Japan Index in a challenging quarter for Asian equities

The latest manager added to the fund, Hermes, performed very strongly due to strong stock selection, while our underweight to Australia was also beneficial given the weakness in the Australian dollar during the quarter.

Within individual stocks we saw Korean utility firm Kepco stage a decent earnings recovery, with the share price up nearly 24% in the quarter. Another main contributor was our underweight position in Samsung given concerns around succession and pressures on Smartphone sales in an increasingly competitive environment.

Slowdown in Europe

Economic indicators have been deteriorating in Europe especially in France, raising concerns around potential deflationary pressures and slower growth. The European Central Bank (ECB) announced a number of measures to incentivise banks to increase lending to the domestic economy in order to stimulate growth, depressing the value of the euro.

As a result, this year has been very difficult so far for active managers in Europe, resulting in the **GlobalAccess Europe (ex-UK) Alpha Fund** falling behind the benchmark MSCI Europe ex-UK Index in the third quarter.

Sector allocation was positive, but the main detractor was negative security allocation and exposure to small caps through our manager Montanaro.

The fund also suffered from underweight positions in the healthcare sector, including Novartis and Novo Nordisk that performed strongly. An underweight position in Deutsche Bank relative to benchmark was also negative, while an overweight in Swedish bank Avanza detracted.

In terms of activity in the fund, we reduced allocation to Montanaro and TT International to lower our small and mid cap risk, while increasing our allocation to JPMorgan, which has more realistic earnings growth expectations than other managers.

We initiated a position in the German DAX via an exchange traded fund (ETF), following a period of underperformance since the beginning of the year. German equities now trade at more attractive valuations relative to other European markets. Companies in the DAX index should also benefit from a weaker euro, given their high exposure to earnings outside Europe.

Energy exposure unhelpful

More robust data from the US economy increased the likelihood of more divergence globally in terms of monetary policies with the first interest rate hike likely to happen next year. The US dollar rallied strongly during the third quarter especially against the euro. In this environment, our **GlobalAccess US Value Fund** underperformed the Russell 1000 Value Index mainly driven by negative stock selection in energy and consumer discretionary. Oil prices were negatively impacted by global slowdown concerns despite ongoing unrest in the Middle East. Among our managers, Artisan was the most impacted given its positions in a number of energy stocks. CRM suffered from its domestic cyclical positions including CBS Corporation, although an overweight position in Apple contributed positively following the launch of the iPhone 6.

Difficult year for US small caps

Given uncertainty surrounding the Fed's rate hikes and high valuations, small caps underperformed their large caps counterpart during the quarter. The **GlobalAccess US Small & Mid Cap Equity Fund** outperformed the benchmark Russell 2500 Index due to its quality tilt and its current focus on companies in the higher end of the small & mid market cap spectrum. Stock selection has been strong during the quarter with encouraging results in the consumer discretionary space, particularly Sally Beauty and service dining company DineEquity, which rallied in the third quarter.

In terms of fund activity, we sold our position in Pyramis in September due to significant turnover in the investment team and invested the proceeds in a combination of Russell 2000 Futures and an ETF in the Russell Mid-Cap Index. This is a temporary position until we appoint a new manager.

The GlobalAccess Equity Fund range

- Emerging Market Equity Fund
- Europe (ex-UK) Alpha Fund
- Global Equity Income Fund
- Global Property Securities Fund
- Japan Fund
- Pacific Rim (ex-Japan) Fund
- UK Alpha Fund
- UK Opportunities Fund
- US Small & Mid Cap Equity Fund
- US Value Fund

A tricky duration play

By Chris Bamford and Sabina Raza, Fund Managers
GlobalAccess Fixed Income Funds

Fixed income continued to rally during the third quarter, despite the more hawkish stance from the US Federal Reserve. 10-year Treasury and Bund yields fell indicating that investors still feel uncertain about the global recovery, despite robust data from the US.

High yield had a difficult time in the early part of the quarter, as stretched valuations saw many retail investors exit the asset class. It picked up in August though as institutional investors took advantage of the drop to buy good quality high yield names.

The performance of the GlobalAccess range was mixed in the period, although a number of funds did outperform their benchmarks for the period.

The **GlobalAccess Global Inflation Linked Bond Fund** slightly underperformed benchmark over the quarter, due to our short duration strategy. Short exposure to the US and German yield curve held back returns, as nominal yields rallied, although losses were mitigated by exposure to the belly of the Spanish, UK and French curves. An overweight position in US linkers was also negative, as real yields sold off.

Our **GlobalAccess Global Corporate Bond Fund** was also slightly below benchmark, due to off benchmark exposure to some high yield corporates in the telecommunications and banking sectors, plus an overweight to Russian quasi-sovereign debt. We saw some of the high yield debt we were invested in sell off over the quarter, while spreads on Russian debt widened due to the Ukraine conflict.

The duration strategy helped to mitigate losses though, as overweight exposure to European peripherals, in particular Italy and Spain, was positive as yields rallied. Short exposure to the Japanese yen also helped.

An overweight to European peripheral debt in Spain and Italy was the major reason why our **GlobalAccess Global Short Duration Bond** outperformed benchmark in the quarter, alongside short exposure to the Japanese yen and the euro. Yields rallied in Europe due to continued dovish sentiment from the European Central Bank (ECB), while the yen and euro depreciated heavily against the US dollar.

Our **GlobalAccess Global Government Bond Fund** employed a similar strategy to the short duration fund and was flat against benchmark, helped by a large overweight to peripheral Europe, particularly Spain and Italy. Short positions in the yen and euro also helped, as did off-benchmark exposure to European supranational issuers, which also saw yields rally. Returns were held back slightly by an underweight to the UK yield curve.

It was a tough quarter for high yield as the sector sold off in July, rallied in August and sold off again in September. This led the **GlobalAccess Global High Yield Bond Fund** to underperform its benchmark over the quarter.

The top performing sector for our manager Oaktree was non-electric utilities, which had a positive return in the quarter, while exposure to the energy and software sectors hurt performance. Our other manager Nomura gained from exposure to banks and the automotive sector and was hurt by exposure to some individual credit positions.

Both Nomura and Oaktree, took advantage of the sell-off in July/early August. Nomura bought selected BB-rated names that had sold off, while Oaktree swapped out of names that had traded to US$104 for new issue bonds priced at par.

Increased geopolitical tensions were a concern for our emerging market debt funds during the quarter, resulting in negative returns, although the **GlobalAccess Emerging Market Local Currency Debt Fund** outperformed benchmark.

Within our **GlobalAccess Emerging Market Debt Fund**, joint manager Wellington lagged over the quarter, hurt by the overweight to short-dated Argentine external sovereign debt and an underweight to long-dated external sovereign bonds. The overweight to Russia also detracted as US and EU sanctions targeted some non-sovereign entities in the financial and energy sectors. Positives included the underweight to Ukraine and overweight exposure to selected quasi-sovereign issues in Kazakhstan's oil and financial sectors. Lazard, on the other hand, outperformed the index over the quarter, supported by the off benchmark exposure to select emerging market corporates and the African external sovereign allocation.

Lazard made some changes during the quarter, moving back to neutral duration relative to benchmark, from negative. They also reduced overweight positions in Angola, Ivory Coast and Iraq, in order to add more investment grade exposure. Wellington scaled back on Argentina and Russia and also trimmed local currency exposure.

Within the **GlobalAccess Emerging Market Local Currency Debt Fund**, a lack of Russian exposure was a strong positive for our manager Colchester, which also benefited from currency hedging around the Brazilian real and Colombian peso. Elsewhere our manager Stone Harbor struggled due to off benchmark exposure to Venezuelan quasi-sovereign debt and an overweight to Russia. Losses were mitigated by an underweight to Hungary.

The GlobalAccess Fixed Income Fund range

- Emerging Market Local Currency Debt Fund
- Emerging Market Debt Fund
- Global Corporate Bond Fund
- Global High Yield Bond Fund
- Global Inflation Linked Bond Fund
- Global Short Duration Bond Fund
- Global Government Bond Fund

Disinflation concerns

GlobalBeta provides cost efficient access to markets through investment in a wide range of indexed funds, including exchange-traded funds (ETFs). We spoke with Fund Manager Roberta Gamba and asked for her take on the quarter.

The current equity environment is very challenging primarily because of problems in Europe. There is a real risk of deflation and the structural problems, in France and peripheral Europe are still quite pronounced; in addition to soft economic numbers coming out of Germany.

The draw downs we have seen between the end of September and the beginning of October were expected, bearing in mind that during the last four years, we have had lengthy and impressive rallies in equity markets without any significant pull back, not even due to profit taking. We are also still concerned about high yield debt, although less so now than back in July when credit spreads were historically quite low. High yield bonds provide better carry now, from a valuations perspective, but we are still cautious given the relative illiquidity in volatile markets and the quality of some extravagant priced deals currently coming to the market.

In this environment, we don't allow any tracking error in the portfolio and work hard to adjust the profile to make sure it is tight to the underlying Strategic Asset Allocation (SAA).

As a result, our performance on an asset allocation basis, was only slightly down in the quarter. The losses GlobalBeta experienced in the last few days of the quarter were largely due to currency fluctuations, caused by the rapid appreciation of the US dollar versus almost all global currencies. While we try to maximise currency hedging within the portfolio, we don't implement a perfect hedge and the currency exposures we still had in the portfolio hurt us in late September and early October. In an attempt to increase the currency hedging already in place, we reviewed the holdings and exposures we maintain. Such changes should provide some protection, further minimising the currency exposures we maintain.

Passive, what passive?

GlobalBeta is a passive fund, but is a well diversified passive fund that aims to deliver the Barclays Wealth & Investment Management long-term Strategic Asset Allocation (SAA) view.

As a result the portfolio is well diversified across asset classes, and has a return profile modelled specifically to mitigate volatility over a longer term horizon, ignoring short term noise. The fund is essentially tracking our best long term ideas, and allocations will change alongside our SAA views. Passive doesn't mean that the fund never trades though. Besides trading to rebalance to SAA as the market moves and tracking errors increase, our fund managers execute regular trades in order to maintain an optimum risk profile as money flows in and out of the portfolio. In addition the fund trades FX forwards for hedging purposes, excluding the exposure to emerging market currencies that are left unhedged. We try to minimise the currency exposure to the major currency pairs, limiting as much as possible the impact of foreign exchange moves.

Portfolio Holdings - GlobalBeta Portfolio 3

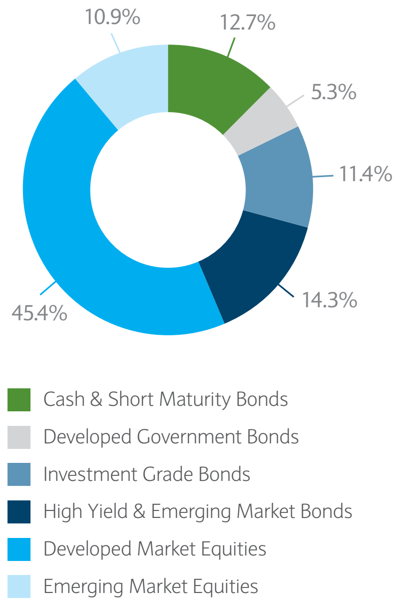
Name	Name Portfolio Allocation
Vanguard Global Stock Index	18.1%
BlackRock Developed World Index	17.7%
iShares Global Corporate Bond EUR Hedged UCITS ETF	11.4%
BlackRock Emerging Markets Index	10.9%
HSBC ETF HSBC MSCI World UCITS ETF	9.6%
iShares $ Treasury Bond 1-3yr UCITS ETF	6.8%
iShares Global High Yield Corp Bond GBP Hedged UCITS ETF	5.9%
iShares Emerging Markets Local Government Bond UCITS ETF	5.3%
SSgA Global Treasury Bond Index	5.3%
SPDR Barclays 1-3 Year Euro Government Bond	3.3%
iShares J.P. Morgan $ Emerging Markets Bond UCITS ETF	3.1%
Other*	2.7%

Note: Allocations based on risk profile 3

* Includes cash and futures positions. Be aware, funds investing in overseas securities are exposed to currency exchange risks.

Source: Barclays

Asset Allocation - GlobalBeta Portfolio 3



Source: Barclays

The fund is essentially tracking our best long term ideas

Look to global GDP for a guide to European equities

By Will Hobbs, European Equity Strategist

European equities have had a tough year, but if we look beyond all the noise around quantitative easing and domestic economic stagnation, the prospects for global GDP suggest brighter times ahead for European equities.

In stark contrast to the US economy, Europe continues to flounder. France remains on the sick bed, both politically and economically, Germany looks subdued and the periphery is mixed. The Ukraine crisis still smoulders, while softening inflation expectations seem to be luring the European Central Bank (ECB) further down the path towards full blown government bond quantitative easing.

Amid all these opposing influences, it is easy to understand why European equity investors have endured a jittery year, lagging behind the other major developed markets.

Our views on European risk assets have not changed. The combination of a brightening global economic backdrop, with the US likely dragging the rest of the world with it, alongside a thawing domestic credit backdrop, continues to suggest that investors taking a bit of equity risk in the euro zone will be sufficiently rewarded.

There are of course areas for concern though. The French economy is likely to remain in the doldrums for a while yet, and all signs point to no meaningful pick-up in economic activity in the third quarter. The credibility of the French government following a recent reshuffle remains fragile, with little tangible progress on structural reforms and a fiscal outlook that is likely to continue to draw fire from all quarters.

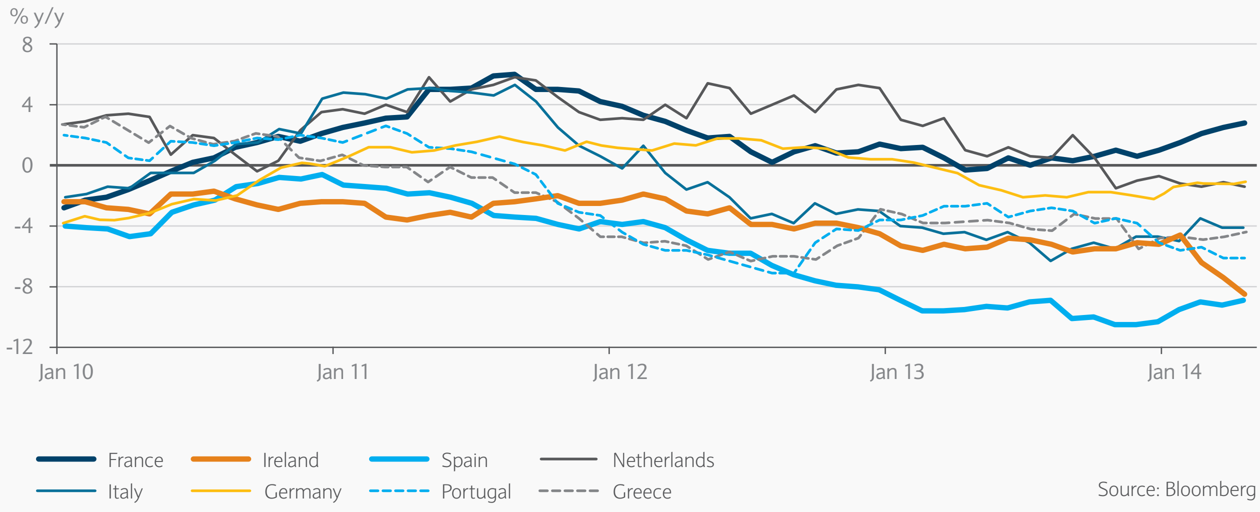
Despite this, looking round the rest of the eurozone, we do see the German economy bouncing back mildly from its current splutters. In spite of a lukewarm reaction to the ECB's latest stimulatory efforts, we continue to see credit markets in the eurozone continuing to thaw, albeit glacially, with the ECB's various measures helping at the margin. A thawing credit market should continue to aid the uneven ongoing recovery in much of peripheral Europe.

Where next for the ECB?

The ECB has a significant role to play in the near-term performance of European equities. It has tried several tactics to try to reboot the banking sector within the eurozone, the latest of which is the Targeted Long-Term Refinancing Operation (TLTRO).

There are a couple of reasons why European banks may have been reluctant to more forcefully commit to the ECB's new long term liquidity scheme. The TLTRO does represent what should be irresistibly cheap long-term funding for the banks, but, with in-depth stress tests set for October, banks may have been reluctant to meaningfully change the shape of their balance sheets. Alongside this understandable caution, there is no doubt that demand for credit remains patchy across much of the periphery. There is another tranche of TLTRO in December, and we would expect a better take-up then. In between now and then, we'll also have the asset-backed security (ABS) and covered bond purchase scheme, which, again, may well help at the margin.

Loans to non-financial corporations across the eurozone



Source: Bloomberg

There are many commentators who believe that this cautious take up of the TLTRO from the banks increases the probability of full-blown quantitative easing (QE), which would involve the ECB directly buying sovereign bonds. However, while the ECB has hinted at more muscular action, there are likely to be significant objections from several EU members to overcome on this front.

Even so, the argument for full-blown quantitative easing has seductive logic. The ECB has recently said that it wants to increase the size of its balance sheet by around one trillion euros; a very difficult task using current tools. A combination of the TLTRO programme and the ABS and covered bond markets would likely be insufficient, as there are simply not enough eligible private sector assets for them to buy. Only by including public sector assets (i.e. government bonds) can they hope to reach their targeted balance sheet expansion.

How does Europe differ from the US?

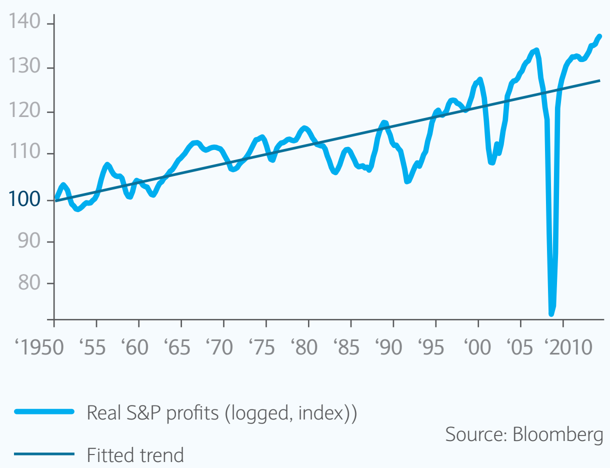
The relationship between quantitative easing and risk assets is a highly contentious subject. There are many who point to the fact that the US stock market began an incredible bull run just a few months after the US Federal Reserve initiated QE at the end of 2008 as evidence of undue influence. The intervening years of rapid central bank balance sheet expansion have coincided with a circa 200% total return from the US stock market.

There can be little doubt that the Federal Reserve's dramatic intervention was vital in averting an economic catastrophe of even larger proportions, but to attribute the whole, or even the majority of the equity market's rise since then to QE may be confusing correlation with causation.

The QE programme no doubt provided handrails for the US economy, stabilised investor and business risk appetite and surely lowered borrowing costs in the economy, but the huge bounce back in US corporate profits was surely more instrumental in driving the US equity market's recovery.

This surge in corporate profits was not just a function of cost cutting as the popular caricature has it and had little or nothing to do with QE. Revenue growth in the more economically

US corporate profits (indexed)



Source: Bloomberg

sensitive areas of the economy and massive write-backs in the financial sector were the most important influences.

Europe's problems are entirely different. Government borrowing costs across the region are already at record lows in many cases. In our view, it is the willingness of parts of Europe to allow the market a greater role in allocating capital and labour that is vital to reinvigorating the region's growth prospects. Government bond QE could even serve to reduce pressure on governments such as France and Italy to push through these politically difficult labour market reforms in particular.

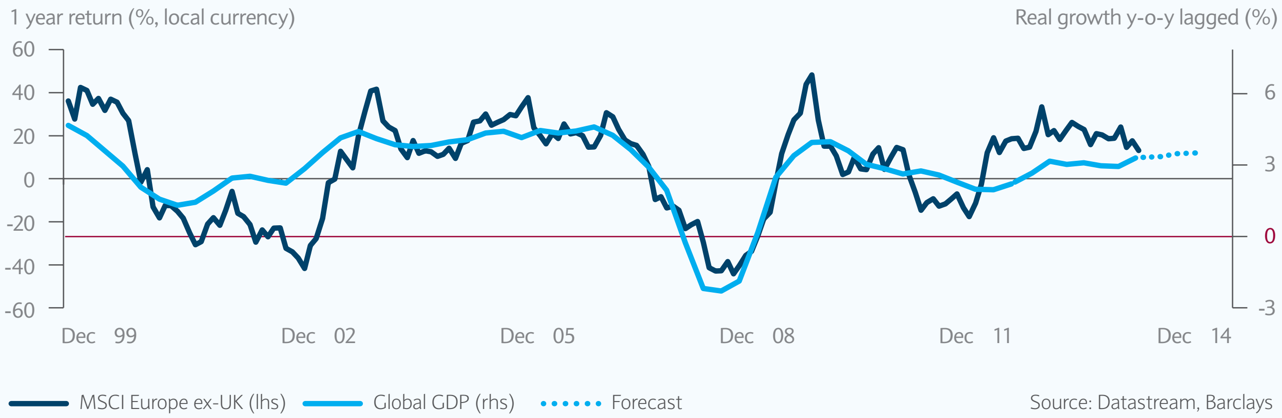
High levels of unemployment are not necessarily a function of a lack of a labour market safety net; they are a function of too much protection. The difficulty and expense involved in terminating employment contracts is, in many cases, deterring companies from entering into new ones.

Europe still a good bet

For our part, we would rather not rely on QE as a saviour for European equity markets. The ECB's supportive posture should certainly ensure that borrowing costs remain palatable for governments and, if their attempts to reboot the banking sector bear fruit, corporates and consumers. We see this, in concert with a brisker pace of global growth, led by the US, as helping the euro zone pick up slowly and unevenly into the year end.

Relative to other major equity markets, continental European equities have an especially geographically diversified revenue footprint. This explains why, in looking for data points that best explain moves in European share prices, the statistic with the single greatest explanatory power is global GDP.

Relationship of global GDP to eurozone equities



Source: Datastream, Barclays

ECB Intervention

- German 10-year Bund yields remained below 1% in September, indicating significant demand for safe haven investments
- At its September meeting, the ECB chose to cut its main refinancing rate to 0.05% from 0.15%
- It also pushed its overnight deposit rate further into negative territory, now charging banks 0.2% to deposit funds
- The ECB introduced a new asset-backed security purchase scheme that could be worth up to 500 billion euros over three years
- Forecasts for inflation and growth in the eurozone were also cut, suggesting the need for sustained ECB intervention

Appendix

Strategic and tactical asset allocation performances

	Q3	YTD	1 Year	3 Years	3 Year Volatility	Since Inception	2013	2012	2011
MSCI AC World (USD)	-2.3%	3.7%	11.3%	16.6%	12.0%	13.4%	22.8%	16.1%	-7.3%
BarCap Global Agg Hdg (USD)	1.1%	5.3%	5.5%	3.9%	2.4%	3.9%	-0.1%	5.7%	5.4%
3-Month Libor (USD)	0.1%	0.2%	0.2%	0.3%	0.0%	0.3%	0.3%	0.4%	0.3%
Strategic Asset Allocation ($ RP3)	-2.2%	3.1%	6.8%	9.5%	7.6%	8.1%	9.8%	11.7%	-3.7%
Tactical Asset Allocation ($ RP3)	-1.7%	3.2%	7.3%	10.0%	7.8%	8.2%	11.1%	11.2%	-4.0%
Inflation (CPI - US)	-0.2%	2.1%	1.6%	1.6%	1.1%	2.1%	1.5%	1.7%	3.0%

Asset Class performance 2004-2013

Higher Return

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative Performance*
38.0%	34.0%	41.8%	39.4%	9.1%	78.5%	19.6%	5.5%	27.7%	26.7%	11.2%
25.6%	21.4%	32.2%	16.2%	2.4%	37.1%	18.9%	4.8%	18.2%	6.5%	8.2%
14.7%	14.9%	20.1%	9.0%	-5.1%	36.0%	16.8%	2.9%	17.4%	3.7%	7.7%
12.1%	9.5%	11.1%	5.6%	-18.4%	30.0%	13.5%	0.1%	15.8%	0.1%	7.0%
9.1%	7.8%	9.3%	5.0%	-23.3%	18.9%	11.8%	-5.5%	10.9%	0.1%	4.9%
5.5%	5.0%	4.8%	4.2%	-35.6%	16.6%	7.2%	-6.5%	4.5%	0.1%	4.2%
4.8%	3.5%	3.6%	3.2%	-40.7%	13.4%	5.2%	-8.9%	3.5%	0.1%	1.7%
2.7%	3.0%	3.3%	2.7%	-48.2%	1.0%	3.6%	-13.3%	0.1%	-2.6%	1.0%
1.2%	2.7%	2.1%	-7.4%	-53.3%	0.3%	0.2%	-18.4%	-1.1%	-9.5%	0.9%

Lower Return

Emerging Markets Equities | Real Estate | Developed Markets Equities | High Yield & Emerging Markets Debt | Commodities | Investment Grade Bonds | Developed Government Bonds | Cash and Short-maturity Bonds | Alternative Trading Strategies

Past performance is not a guarantee of future performance

Note: Diversification does not protect against loss. Index returns are represented by the following: Cash & Short maturity bonds represented by Barclays US Treasury Bills (USD); Developed Government Bonds by Barclays Global Treasury (Hedged in USD); Investment Grade Bonds by Barclays Global Aggregate - Corporates (Hedged in USD); High Yield/Emerging Markets by Barclays Global HY (66%) (Hedged in USD) & Barclays EM Hard Currency (34%) (Hedged in USD) up to June 2008, Barclays Global HY (40%) (Hedged in USD) & Barclays EM Hard Currency (20%) (Hedged in USD) & Barclays EM Local Currency Government (40%) (USD) from July 2008 onwards; Developed Markets Equity by MSCI The World Index Net (USD); Emerging Markets Equity by MSCI EM Net (USD); Commodities by Dow Jones UBS Commodity TR; Real Estate by FTSE EPRA/NAREIT Gross up to February 2005, FTSE EPRA/NAREIT Net from March 2005 onwards; ATS by HFRX Global Hedge Fund (USD). Source: DataStream, FactSet and Barclays. *Annualised return

Barclays Discretionary UK Portfolios - As at 30 September 2014

	Inception Date	3 month return (%)		Year to Date (%)		5 year return (p.a.%)		2013 return (%)		2012 return (%)		2011 return (%)		2010 return (%)		2009 return (%)	
		Gross	BM	Gross	BM	Gross	BM	Gross	BM	Gross	BM	Gross	BM	Gross	BM	Gross	BM
Barclays Discretionary UK APCIMS Portfolios																	
UK (APCIMS) Income GBP	31/12/2005*	0.1	1.6	2.1	4.3	7.4	7.7	12.3	10.0	7.6	7.8	-1.0	3.1	12.6	11.4	20.7	14.2
UK (APCIMS) Balanced GBP	31/12/2005*	0.1	1.5	2.3	4.2	8.1	8.6	15.3	14.1	8.6	9.1	-3.3	0.2	13.7	12.5	23.3	16.6
UK (APCIMS) Growth GBP	31/12/2005*	-0.1	1.2	2.3	3.8	8.6	9.0	17.2	17.0	9.1	10.0	-4.8	-2.3	15.2	13.4	26.3	19.8

Barclays Discretionary IP Portfolios - As at 30 September 2014

	Inception Date	3 month return (%)		Year to Date (%)		Since Inc. return (p.a.%)		2013 return (%)		2012 return (%)	
		Gross	BM	Gross	BM	Gross	BM	Gross	BM	Gross	BM
Barclays Discretionary IP Portfolios											
Sterling Profile 2	31/05/2011	0.2	1.4	1.4	4.1	3.4	5.2	7.9	7.7	6.9	6.1
Sterling Profile 3	31/05/2011	0.3	1.4	1.9	4.3	4.2	5.9	10.4	10.1	8.3	7.2
Sterling Profile 4	31/05/2011	0.2	1.4	1.7	4.3	4.5	6.4	11.8	12.2	9.7	7.9
Sterling Profile 5	31/05/2011	0.3	1.4	2.2	4.2	5.1	6.7	14.0	13.8	9.6	8.4
Dynamic	02/04/2012	1.7	0.6	3.8	2.2	5.4	3.8	4.9	4.0		

Info

* Portfolios existed before this date but composite data is only available from 31/12/2005 onwards

Source: Barclays, Factset, Lipper

BM: Benchmark, details are shown below

Gross: the returns shown are gross of management charges

Benchmarks

BM: Performance shown for GBP portfolios corresponds to the following asset classes:

UK (APCIMS) Income: 40% FTSE All Share / 15% FTSE World ex-UK / 35% FTSE Gilts All Stock / 2.5% FTSE Hedge/ 2.5% FTSE Property / 5% 7 Day Libor -1%

UK (APCIMS) Balanced: 42.5% FTSE All Share / 27,5% FTSE World ex-UK / 17,5% FTSE Gilts All Stock / 5% FTSE Hedge / 2.5% FTSE Property / 5% 7 Day Libor -1%

UK (APCIMS) Growth: 47.5% FTSE All Share / 32.5% FTSE World ex-UK / 7.5 FTSE Gilts All Stock / 7.5% FTSE Hedge / 2.5% FTSE Property / 2,5% 7 Day Libor -1%

Sterling Profile 2: 13.5% FTSE ALL SHARE - RETURN (GBP) / 19.5% MSCI WORLD ex-UK - NET RETURN (GBP) / 25% Barclays Capital Sterling Aggregate (GBP) / 5% Dow Jones-UBS Commodity Index (GBP) / 13% DJ Credit Suisse Hedge Fund Index (GBP) / 5% IPD All Property Index - United Kingdom in GBP / 19% Bank Of England Base Rate -1% (Floating Rate)

Sterling Profile 3: 18% FTSE ALL SHARE - RETURN (GBP) / 26% MSCI WORLD ex-UK - NET RETURN (GBP) / 23% Barclays Capital Sterling Aggregate (GBP) / 6% Dow Jones-UBS Commodity Index (GBP) / 13% DJ Credit Suisse Hedge Fund Index (GBP) / 4% IPD All Property Index - United Kingdom in GBP / 10% Bank Of England Base Rate -1% (Floating Rate)

Sterling Profile 4: 21.5% FTSE ALL SHARE - RETURN (GBP) / 31.5% MSCI WORLD ex-UK - NET RETURN (GBP) / 19% Barclays Capital Sterling Aggregate (GBP) / 6% Dow Jones-UBS Commodity Index (GBP) / 12% DJ Credit Suisse Hedge Fund Index (GBP) / 4% IPD All Property Index - United Kingdom in GBP / 6% Bank Of England Base Rate -1% (Floating Rate)

Sterling Profile 5: 24% FTSE ALL SHARE - RETURN (GBP) / 36% MSCI WORLD ex-UK - NET RETURN (GBP) / 16% Barclays Capital Sterling Aggregate (GBP) / 6% Dow Jones-UBS Commodity Index (GBP) / 11% DJ Credit Suisse Hedge Fund Index (GBP) / 3% IPD All Property Index - United Kingdom in GBP / 4% Bank Of England Base Rate -1% (Floating Rate)

Dynamic: UK CPI + 2%

Barclays MultiManager Portfolios - As at 30 September 2014

	Inception Date	3 month return (%)		Year to Date (%)		5 year return (p.a.%)		2013 return (%)		2012 return (%)		2011 return (%)		2010 return (%)		2009 return (%)	
		Net	MI	Net	MI	Net	MI	Net	MI	Net	MI	Net	MI	Net	MI	Net	MI
Barclays MultiManager Luxembourg Portfolios																	
MultiManager Portfolio 1 GBP	23/10/2006	-0.7	0.6	1.6	3.3	4.1	4.2	4.4	5.2	5.2	5.6	0.2	1.3	7.2	4.5	18.0	8.4
MultiManager Portfolio 2 GBP	23/10/2006	-1.3	0.8	2.0	4.6	5.7	6.3	8.5	9.9	10.9	8.7	-3.4	-0.1	8.5	6.5	24.8	13.9
MultiManager Portfolio 3 GBP	23/10/2006	-0.9	0.9	3.0	5.4	6.8	7.7	12.4	13.5	12.2	10.9	-5.3	-1.3	9.8	7.9	27.4	17.9
MultiManager Portfolio 4 GBP	23/10/2006	-0.8	0.9	3.3	5.8	7.4	9.2	15.0	18.7	13.3	13.2	-7.0	-3.6	9.7	9.2	30.2	23.0
MultiManager Portfolio 5 GBP	23/10/2006	-1.3	0.8	3.1	5.9	7.9	9.8	16.2	21.4	13.7	14.1	-7.4	-4.8	10.3	9.6	33.3	25.4
Barclays MultiManager Dublin Portfolios																	
UK Balanced	01/10/2004	-1.5	0.9	1.3	5.4	5.9	7.7	12.7	13.5	10.8	10.5	-7.1	-1.4	12.3	7.9	14.4	18.1
UK Balanced Plus	29/10/2004	-1.5	0.9	1.2	5.6	6.0	8.4	13.8	16.1	11.8	11.5	-9.1	-2.5	12.7	8.6	18.3	20.6
UK Growth	01/10/2004	-1.9	0.9	1.0	5.8	6.2	9.2	15.7	18.7	12.3	12.6	-10.4	-3.6	13.1	9.2	21.1	23.2
UK Growth Plus	01/10/2004	-1.9	0.8	1.0	5.9	7.0	9.8	19.0	21.4	14.2	13.4	-12.3	-4.9	14.4	9.8	23.7	25.6

Info

Source: Barclays, Factset, Lipper. Net income reinvested: Barclays MultiManager Luxembourg Portfolios (D Distribution GBP share class). Net income reinvested: Barclays MultiManager Dublin Portfolios (B Distribution GBP share class).

MI: Market Index, details are shown below

Net: the returns shown for Barclays MultiManager Portfolios are net of annual fees

Benchmarks

MI: Market Index definitions: Cash = LIBOR GBP 3 Months / High Yield Emerging Market Bonds = Barclays Global High Yield / Short-Maturity Bonds = Barclays Global Treasury 1-3 Year / Global Investment Grade Bonds = Barclays Global Aggregate / Equities = MSCI All Country World

Luxembourg MultiManager Portfolio 1 GBP Market Index: 10% Cash / 40% Short-Maturity Bonds / 30% Global Investment Grade Bonds / 20% Equities

Luxembourg MultiManager Portfolio 2 GBP Market Index: 10% Cash / 15% Short-Maturity Bonds / 35% Global Investment Grade Bonds / 40% Equities

Luxembourg MultiManager Portfolio 3 GBP Market Index: 10% Cash / 35% Global Investment Grade Bonds / 55% Equities

Luxembourg MultiManager Portfolio 4 GBP Market Index: 5% Cash / 20% Global Investment Grade Bonds / 75% Equities

Luxembourg MultiManager Portfolio 5 GBP Market Index: 5% Cash / 10% Global Investment Grade Bonds / 85% Equities

MultiManager UK Income Market Index: 5% Cash / 15% Short-Maturity Bonds/ 60% Global Investment Grade Bonds / 10% High Yield Emerging Market Bonds / 10% Equities

MultiManager UK Income Plus Market Index: 5% Cash / 60% Global Investment Grade Bonds / 25% High Yield Emerging Market Bonds / 10% Equities

MultiManager UK High Income Market Index: 5% Cash / 40% Global Investment Grade Bonds / 40% High Yield Emerging Market Bonds /15% Equities

MultiManager UK Dividend and Growth Market Index: 5% Cash / 25% Global Investment Grade Bonds / 70% Equities MSCI UK

MultiManager Dublin UK Balanced Market Index: 10% Cash / 35% Global Investment Grade Bonds / 55% Equities

MultiManager Dublin UK Balanced Plus Market Index: 7.5% Cash / 27.5% Global Investment Grade Bonds / 65% Equities

MultiManager Dublin UK Growth Market Index: 5% Cash / 20% Global Investment Grade Bonds / 75% Equities

MultiManager Dublin UK Growth Plus Market Index: 5% Cash / 10% Global Investment Grade Bonds / 85% Equities

As of this update, performance of MultiManager is compared to a Market Index, comprised of different mixes of Cash, Short-Maturity Bonds, Global Investment Grade Bonds and Global Equities. The mixes are statistically optimised to correspond to varying risk profiles. This Market Index replaces the past reference to a basket of sub-asset classes that, in combination, matched the specific weightings of the overall asset classes within MultiManager.

Barclays GlobalAccess Equity Funds - As at 30 September 2014

	Inception Date	3 month return (%)		1 year return (%)		5 year return (p.a. %)		2013 return (%)		2012 return (%)		2011 return (%)		2010 return (%)		2009 return (%)	
		Net	BM	Net	BM	Net	BM	Net	BM	Net	BM	Net	BM	Net	BM	Net	BM
UK Alpha	01/10/2004	-0.9	-1.0	0.4	0.6	9.7	12.4	29.1	20.4	21.4	12.9	-5.7	-3.6	18.1	15.7	30.1	29.8
UK Opportunities	01/10/2004	-2.6	-1.0	-2.4	0.6	11.6	9.7	29.4	20.4	18.6	12.9	-4.8	-3.6	15.3	15.7	27.3	29.8
US Small & Mid Cap	01/07/2011	-3.6	-5.4	0.0	0.0			38.8	39.4	12.2	15.2						
US Value	19/12/2011	-2.2	-0.4	5.2	7.5			31.2	33.7	12.9	14.2						
Europe (ex-UK) Opportunities	01/10/2004	-0.9	0.3	4.8	6.6	9.7	8.9	25.3	22.4	24.6	20.3	-15.9	-13.3	12.0	9.1	30.4	28.4
Pacific Rim (ex-Japan)	01/10/2004	-1.1	-3.3	6.7	3.6	7.6	6.7	-2.2	3.3	24.3	22.7	-15.7	-15.9	23.8	17.8	73.0	70.9
Emerging Market Equity	30/10/2007	-3.8	-3.5	1.1	2.4	6.5	4.4	-3.8	-2.6	20.7	18.5	-14.2	-18.6	24.1	18.3	78.4	76.5
Japan	01/10/2004	6.2	5.8	5.7	3.8	11.4	10.1	53.1	54.4	18.9	21.1	-16.6	-17.7	3.7	1.0	20.5	7.6
Global Equity Income	29/12/2011	-3.6	-2.2	2.9	3.9			18.2	27.8	14.4	15.3						
Global Property Securities	16/12/2009	-6.1	-4.6	3.5	6.6			1.2	3.7	24.4	27.6	-7.8	-6.7	16.6	19.4		

Info

Source: Barclays, Factset, Lipper. Net income reinvested: GlobalAccess Dublin Equity Funds (M Distribution share class) except US Value (M Accumulation)

BM: Benchmark, details are shown below

Net: the returns shown for GlobalAccess Equity Funds are net of annual fees

Benchmarks

BM: gross benchmark return for funds are as follows: UK Alpha: FTSE All-Share / UK Opportunities: FTSE All-Share / US Small & Mid Cap: Russell 2500 Index / US Value: Russell 1000 Value Index / Europe (ex-UK) Alpha: MSCI Europe ex-UK / Japan: TOPIX / Pacific Rim (ex-Japan): MSCI AC Asia Pacific Ex Japan / Emerging Market Equity: MSCI Emerging Markets USD / Global Equity Income: MSCI World / Global Property Securities: FTSE EPRA/NAREIT Developed TR

Barclays GlobalAccess Fixed Income Funds - As at 30 September 2014

	Inception Date	3 month return (%)		1 year return (%)		5 year return (p.a. %)		2013 return (%)		2012 return (%)		2011 return (%)		2010 return (%)		2009 return (%)	
		Net	BM	Net	BM	Net	BM	Net	BM	Net	BM	Net	BM	Net	BM	Net	BM
Global Government Bond*	01/10/2004	1.4	1.5	4.8	5.3	4.1	3.7	-1.2	0.1	5.9	4.6	5.8	5.5	4.6	3.5	4.6	1.1
Global Short Duration Bond	27/07/2011	0.5	0.2	1.6	0.8			-0.4	0.8	2.3	1.4						
Emerging Market Debt	03/12/2007	-1.3	-0.6	6.9	8.0	8.2	8.0	-5.0	-5.2	19.1	17.5	5.7	7.3	12.0	12.2	34.2	29.8
Global Inflation Linked Bond	03/12/2007	0.8	0.9	6.6	6.3	5.7	4.7	-7.4	-5.5	7.6	5.8	13.3	11.7	6.9	5.0	8.9	8.7
Global High Yield Bond	27/11/2007	-2.2	-1.9	2.9	3.6	11.4	10.3	7.3	7.4	18.1	15.6	4.6	4.3	16.9	14.9	65.6	57.9
Global Corporate Bond	03/12/2007	0.1	0.6	5.1	5.7	6.3	6.0	-0.6	-0.1	14.6	11.2	3.7	4.7	8.9	6.9	22.1	16.7

Info

Source: Barclays, Factset, Lipper. Net income reinvested: GlobalAccess Dublin Fixed Income Funds (M Distribution share class) except Global Short Duration Bond (M Accumulation)

BM: Benchmark, details are shown below

Net: the returns shown for GlobalAccess Fixed Income Funds are net of annual fees

* Note: Global High Grade Bond Fund was renamed Global Government Bond Fund in October 2011

Net: the returns shown for GlobalAccess Fixed Income Funds are net of annual fees

Benchmarks

BM: gross benchmark return for funds are as follows: Global Government Bond: Barclays Global Treasury USD / Global Corporate Bond: Barclays Global Credit - Corporate Hedged / Global High Yield Bond: Merrill US High Yield / Emerging Market Debt: JP Morgan EMBI Global Diversified / Global Inflation Linked Bond: Barclays World Inflation Linked (USD Hedged) / Global Short Duration Bond: Barclays Global Treasury 1-3 Yr

Barclays GlobalBeta Portfolios - As at 30 September 2014

	Inception Date	3 month return (%)		Year to Date (%)		5 year return (p.a.%)		2013 return (%)		2012 return (%)		2011 return (%)		2010 return (%)		2009 return (%)	
		Net	MI	Net	MI	Net	MI	Net	MI	Net	MI	Net	MI	Net	MI	Net	MI
Barclays GlobalBeta Portfolios																	
GlobalBeta Portfolio 1	01/05/2009	0.3	0.6	2.5	3.3	3.3	4.2	3.1	5.2	4.3	5.6	-0.3	1.3	4.9	4.5		
GlobalBeta Portfolio 2	01/01/2009	-0.2	0.8	3.2	4.6	4.5	6.3	5.9	9.9	7.6	8.7	-3.1	-0.1	6.5	6.5	14.4	13.9
GlobalBeta Portfolio 3	01/10/2008	-0.6	0.9	3.4	5.4	5.5	7.7	8.8	13.5	9.9	10.9	-5.2	-1.3	8.2	7.9	19.5	17.9
GlobalBeta Portfolio 4	01/10/2008	-0.6	0.9	3.6	5.8	6.1	9.2	11.3	18.7	10.9	13.2	-6.8	-3.6	8.6	9.2	25.2	22.9
GlobalBeta Portfolio 5	01/09/2009	-0.3	0.8	4.0	5.9	6.4	9.8	12.1	21.4	10.5	14.1	-7.5	-4.8	7.7	9.6		
GlobalBeta Equity	01/04/2011	-0.5	0.8	4.2	5.9			17.7	24.2	13.7	15.1						

Info

Source: Barclays, Factset, Lipper. Net income reinvested: Barclays GlobalBeta 1 (D Distribution GBP share class) / Barclays GlobalBeta 2 - 5 (D Accumulative GBP share class) / GlobalBeta Equity &GlobalMarkets (B Accumulative GBP share class).

MI: Market Index, details are shown below

Net: the returns shown are net of annual fees

Benchmarks

MI: Market Index definitions: Cash = LIBOR GBP 3 Months / Short-Maturity Bonds = Barclays Global Treasury 1-3 Year / Global Investment Grade Bonds = Barclays Global Aggregate / Equities = MSCI All Country World

GlobalBeta Portfolio 1 Market Index: 10% Cash / 40% Short-Maturity Bonds / 30% Global Investment Grade Bonds/ 20% Equities

GlobalBeta Portfolio 2 Market Index: 10% Cash / 15% Short-Maturity Bonds / 35% Global Investment Grade Bonds/ 40% Equities

GlobalBeta Portfolio 3 Market Index: 10% Cash / 35% Global Investment Grade Bonds / 55% Equities

GlobalBeta Portfolio 4 Market Index: 5% Cash / 20% Global Investment Grade Bonds / 75% Equities

GlobalBeta Portfolio 5 Market Index: 5% Cash / 10% Global Investment Grade Bonds / 85% Equities

GlobalBeta Equity Market Index: 3% Cash and Short-Maturity Bonds / 97% Equities

As of this update, performance of GlobalBeta is compared to a Market Index, comprised of different mixes of Cash, Short-Maturity Bonds, Global Investment Grade Bonds and Global Equities. The mixes are statistically optimised to correspond to varying risk profiles. This Market Index replaces the past reference to a basket of sub-asset classes that, in combination, matched the specific weightings of the overall asset classes within GlobalBeta.

Disclaimers

Value Of Investments - The value of investments, and any income can fall, as well as rise, so you could get back less than you invested. Neither capital nor income is guaranteed.

Derivative Exposure - Some funds invest in derivatives as part of their investment strategy, over and above their use for Efficient Portfolio Management. Investors should be aware that the use of these instruments can, under certain circumstances, increase the volatility and risk profile beyond that expected of a fund that only invests in equities. Funds may also be exposed to the risk that the company issuing the derivative may not honour their obligations which in turn could lead to losses arising.

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