



Northhill Capital

Nowhere to Hide
Focused Active Asset Managers Outperform

August 2016



Executive Summary

Focused active managers have outperformed both generalist active managers and passive strategies over the 5 year period to 31 December 2015

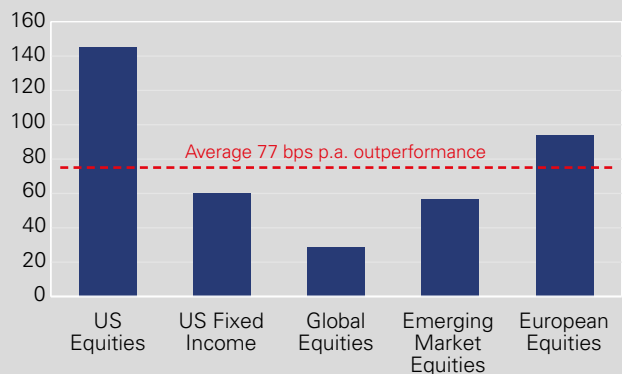
The debate on whether active managers deliver value for money rages on. But much of that commentary has failed to consider how the business model of asset managers can influence investor outcomes.

Focused active managers, who target best-in-class performance in one asset class specialisation, have significantly outperformed generalist active asset managers. In contrast to the typical active manager, US equity strategies offered by the most focused managers on average outperformed passive mandates on a net of fees basis.

In this study, we demonstrate:

- Focus drives outperformance in multiple asset class disciplines

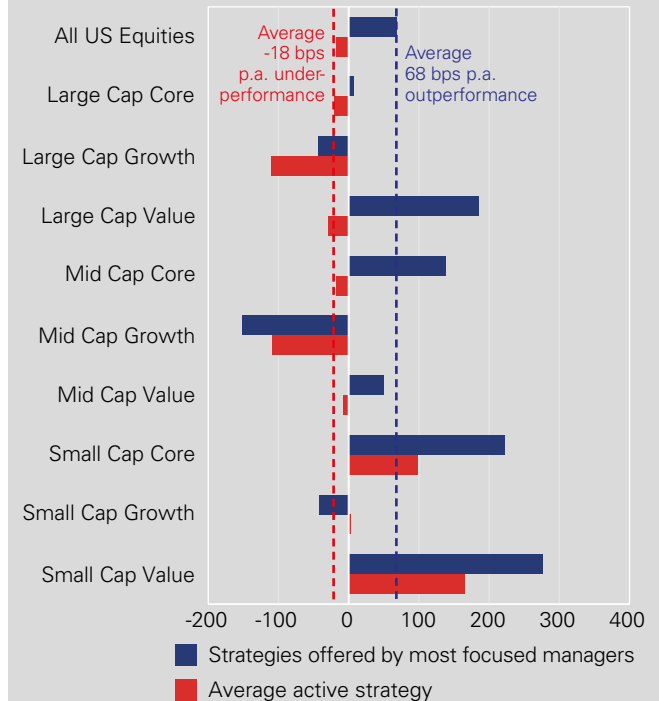
Figure 1: Average focused active manager 5 year out-performance vs. all active manager average (bps p.a.).



Source: MercerInsight® database utilised for return data, manager and strategy AuM. Most focused managers are ranked in the top decile for each asset class specialisation as rated by our focus statistic. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

- The average US equity strategy offered by focused managers outperformed passive mandates on a net of fees basis

Figure 2: Average 5 year outperformance of active US equity strategies vs passive mandates, net of fees (bps p.a.).



Source: MercerInsight® database utilised for return data, manager and strategy AuM. Active strategy performance net of median advertised fees for a \$100m segregated mandate for each product universe. Passive mandate comparison estimated based on benchmark performance net of median advertised fees for comparable passive product universes for a \$100m segregated mandate. Source: Global Asset Manager Fee Survey 2016, ©2016 Mercer LLC. "Most Focused Managers" are managers ranked in the top decile for US equities specialisation as ranked by our focus statistic. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

Focus supports alignment of interest and therefore investment outperformance

100% of management time and resources committed to making one investment process as successful as possible

Management is not distracted by launching new investment strategies or product proliferation

The management team and equity owners of the firm will benefit from strong financial returns only if they deliver superior outcomes for their investors

Focused managers have more incentive not to grow AuM beyond the capacity of their investment strategy

Focus on a single investment process encourages a collegial, team-oriented culture, mitigating key man risk



Key Conclusions

1 Focused active managers outperformed generalist managers

2 The benefits of focus were evident across multiple asset classes

3 Focused active managers can help investors avoid mistaking luck for skill

4 The average focused active manager outperformed its benchmark after fees

5 Focused active managers outperformed even in the most efficient markets

6 Focused active managers added more on the upside and lost less on the downside

7 Focused active managers have helped investors avoid the worst underperformance outcomes



Methodology

We have analysed the gross investment performance of 5,006 active long only equity and fixed income strategies using the MercerInsight® database. MercerInsight® was selected due to its comprehensive data on institutional active investment strategies. Our analysis examines the live track record of all strategies in relevant Mercer product universes¹ reporting gross investment performance for the 5 year period to 31 December 2015. The total AuM of these strategies is \$14.2tn. Passive product universes are excluded.

The strategies examined in this report are managed by 781 asset managers from around the world. The combined total AuM of all of these managers is \$54.8tn.

Defining "Focus"

A truly focused manager offers a single investment process. The manager may offer distinct products tailored to different client segments or investment universe constraints but as these products share a single research platform they will generally all be successful or unsuccessful at the same time. All professionals work as part of a single team.

A generalist manager offers multiple investment strategies managed by multiple teams, each utilising different investment processes and, on occasion, completely different investment philosophies.

For each of the managers analysed in this study, we have calculated the percentage of the manager's total AuM which is represented by active investment strategies within the same asset class. For example, if 100% of a manager's AuM is comprised of active US equity strategies the manager is more likely to be a focused active manager. If only 20% of a manager's AuM is represented by active US equity strategies with the residual AuM managed in other asset classes or passive mandates that manager is very unlikely to be a focused active manager.

We have ranked each of the managers for focus based on this statistic and then sorted them into equal size quartiles or deciles for analysis.

By selecting this quantitative statistic as a measure of a manager's focus our methodology makes no subjective judgements. This analysis is therefore repeatable and our conclusions can be readily confirmed by other industry participants or academic researchers.

Most managers reporting data to MercerInsight® provide up-to-date strategy and manager total AuM data. We have excluded those strategies and managers that have not provided AuM data which is up-to-date as of March 2014 or later.

Equal Weighted Basis

Our analysis reviews the default track record for each of the active strategies offered by a manager within the asset class. This helps avoid double counting that may otherwise occur.

Investors should always conduct qualitative due diligence on a manager to assess whether the firm is focused.

Many examples exist of managers that would appear to be focused based on the quantitative statistic applied in this research but where in fact the manager operates separate, unrelated investment processes within the same asset class, or even within the same "multi-strategy" fund.

The absolute performance for each strategy is compared to the reference benchmark for that MercerInsight® product universe to calculate a relative performance statistic over the time period being analysed. We have also tested our conclusions using outperformance relative to each manager's nominated benchmark for their strategy. Our conclusions are supported on either basis.

The relative performance track record of each active strategy offered by the manager within the asset class is weighted equally in our analysis to produce an average relative performance statistic for each manager. We have also tested our conclusions based on an AuM weighted average outperformance statistic for each of the managers in our sample. Our conclusions are supported on either basis.

The average outperformance for each manager is then averaged with the average outperformance for the other managers within that quartile or decile group to generate an average outperformance statistic for each quartile or decile.

Survivorship Bias

If a strategy has not been offered continuously for the 5 year period to 31 December 2015 it will not be considered by our analysis. Managers that do not offer at least one strategy with a 5 year track record are excluded. Returns for inactive (discontinued) strategies and managers are included if performance is available for the entire period measured.

While the average returns will exclude some underperforming strategies which a given manager has elected to discontinue, the comparison between groups of managers ranked by focus is valid given survivorship bias impacts each group of managers. Our analysis in section 5 (below) indicates that the average returns of strategies offered by the least focused active managers are typically more sensitive to survivorship bias. Analysis of outperformance based on 1 year track records only, where survivorship bias is less relevant, identifies evidence of outperformance consistent with the results measured over 5 years.

¹Product universes as classified by MercerInsight®. See appendix B for details.



Detailed Findings

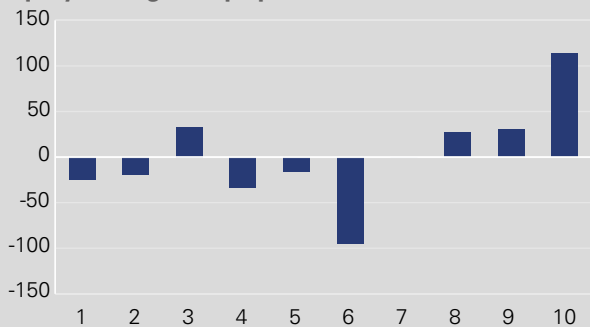
Do focused active managers outperform generalist managers?

Our analysis of active institutional asset management strategies provides strong evidence that focused managers deliver material outperformance relative to their less focused peers across a wide range of asset classes. The data also demonstrates that active strategies offered by focused managers have significantly outperformed both benchmarks and passive strategies on an after fees basis. Our key insights are presented below.

1 Focused active managers have typically outperformed generalist managers

Figure 3 compares the average 5 year outperformance of active US equity strategies offered by managers ranked into deciles based on our focus statistic. Managers solely focused on active US equities (our 10th decile) generated average annualised outperformance relative to their benchmarks of 116 bps in the 5 years to 31 December 2015.

Figure 3: Average 5 year outperformance of active US equity managers (bps p.a.)



US Equity AuM as % of total firm AuM, by decile (10 = most focused).

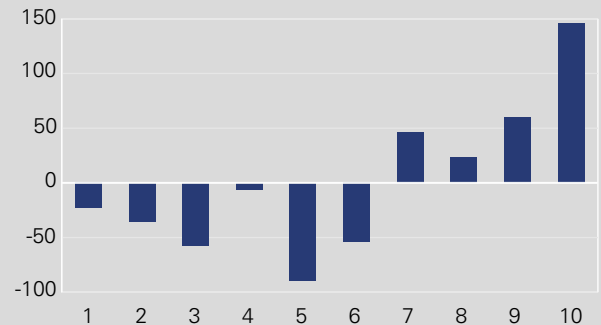
Source: MercerInsight® database utilised for return data, manager and strategy AuM. All managers in sample. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

Our analysis captures the performance data of 2,004 active US equity strategies with a combined AuM of \$3.9tn. These strategies are offered by 496 different asset managers with total AuM of \$41.0tn. As the largest sample evaluated in this study it is very interesting to note the strong relationship between focus and performance.

In figure 4 we exclude very small managers with less than \$50m of AuM and very large managers with more than \$100bn (who are by definition unlikely to be focused around a single investment strategy and process). The most focused mid-sized managers achieved annualised outperformance of 146 bps per annum.

Managers ranked in our 6th decile or below, where less than 72% of the AuM is represented by active US equity strategies, on average underperformed the index.

Figure 4: Average 5-year outperformance of mid-sized active US equity managers (bps p.a.)

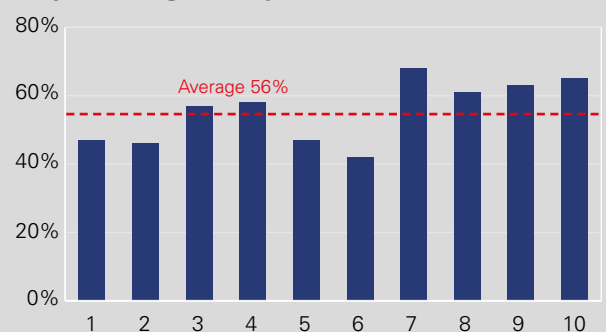


US Equity AuM as % of total firm AuM, by decile (10 = most focused).

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

Furthermore our most focused managers are significantly more likely to outperform their benchmarks over 5 years, as shown below.

Figure 5: Percentage of active US equity strategies outperforming over 5 years



US Equity AuM as % of total firm AuM, by decile (10 = most focused).

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

On average, 65% of the active strategies offered by our most focused managers outperformed the benchmark vs. only 56% for the entire sample and 47% for the least focused managers.

2 The benefits of focus were evident over multiple asset classes

If a focused active manager is more likely to outperform similar results should also hold true when we consider managers specialising in other asset classes. We have examined a number of other asset classes where there is a meaningfully large population of managers and active strategies to test our hypothesis.

Similar evidence that focused active managers tend to outperform can be identified in the US fixed income universe. We have analysed the performance track records of 1,038 investment strategies with a

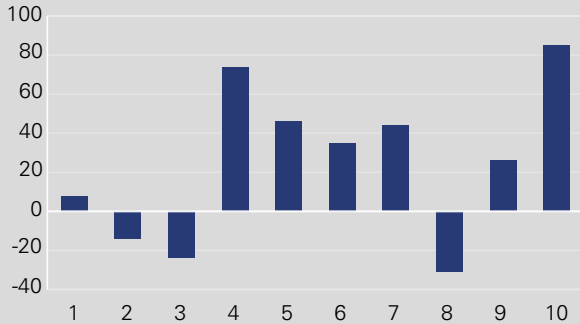


Detailed Findings

combined AuM of \$5.6tn. These strategies are offered by 203 different managers with total AuM of \$39.0tn.

As shown in figure 6, the most focused mid-sized active managers generated average outperformance of 85 bps, compared to 24 bps for the average mid-sized active manager. With only 138 managers included in this sample, this analysis will be more heavily influenced by idiosyncratic factors. However the benefits of focus remain evident.

Figure 6: Average 5 year outperformance of mid-sized active US fixed income managers (bps p.a.)

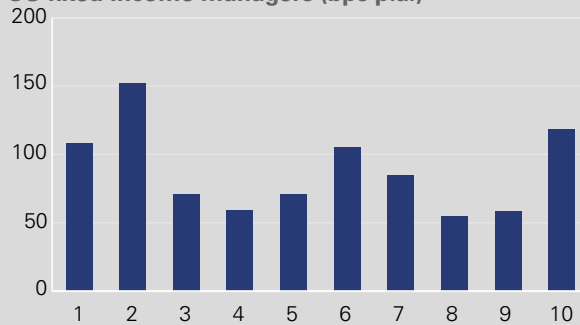


US fixed income AuM as % of total firm AuM, by decile (10 = most focused).

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

Figure 7 examines the active fixed income track record of larger managers with total AuM in excess of \$100bn. For this group we see little evidence that focus on active fixed income strategies drives outperformance. As a group, the larger managers have outperformed mid-sized managers (88 bps vs. 24 bps respectively). Capacity is typically less constrained than in equities, as duration, credit exposure and yield curve management may drive active performance in addition to security selection. Larger fixed income managers often benefit from enhanced access to new issue volumes and larger teams of analysts than smaller managers, given the relative low fees in this asset class. But despite not benefiting from these economies of scale mid-sized managers who remain focused on active fixed

Figure 7: Average 5 year outperformance of large active US fixed income managers (bps p.a.)



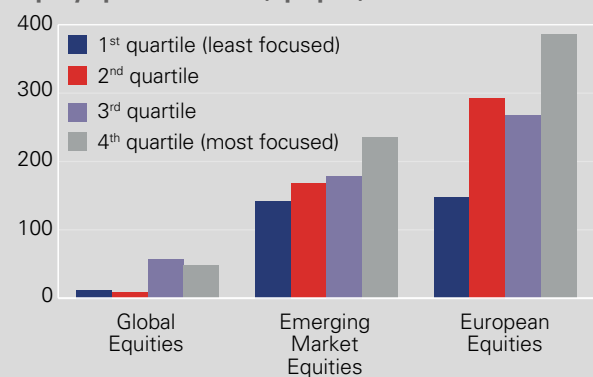
US fixed income AuM as % of total firm AuM, by decile (10 = most focused).

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM greater than \$100bn AuM. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

income have delivered outperformance in excess of 80 bps p.a., on par with their larger competitors.

Finally, we have considered the performance of managers who specialise in active global, emerging market or European equities. One would expect the evidence for the benefits of focus to be weaker in global equities and emerging markets given that many managers with an existing equity market specialisation have extended their product range into these asset classes. But again, there is clear evidence that focused active managers outperform generalist managers.

Figure 8: Average 5 year outperformance in other active equity specialisations (bps p.a.)



Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

3 Focused active managers can help investors differentiate between luck and skill

Some unfocused active managers may employ a business strategy of incubating many track records in multiple asset classes. If the team is lucky and the track record is strong, the manager can then seek to sell the product through their distribution channels. If the track record is poor, the strategy can be quietly wound down with little impact on the manager's profitability and viability. Five year returns would only be reported for those strategies which survived this culling process.

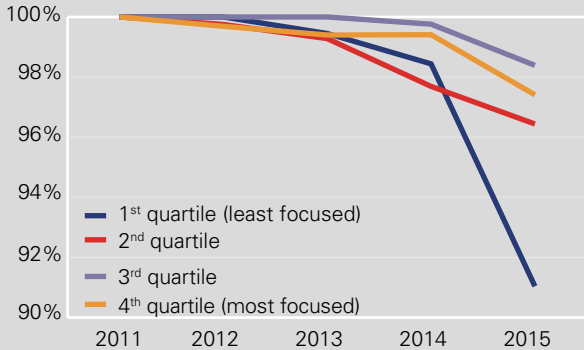
In figure 9 we examine all active US equity strategies included in the relevant MercerInsight® universes during the period 2011-2015 offered by mid-sized managers. If the manager has reported a track record for calendar year 2011 (or in the case of a more recent launch, a later year) but not reported performance in subsequent years this would likely indicate that the investment strategy has been shut down. In the least focused quartile of managers 9% of the investment strategies have been terminated; a significantly higher failure rate than seen in those managers with a greater focus on active US equities.

This behaviour contrasts with the most focused managers. A sustained period of underperformance puts the entire firm's future at risk. Shutting down the strategy to focus on other lines of business is not an option.



Detailed Findings

Figure 9: Percentage of strategies still offered by mid-sized active US equity managers



Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn.

It also contrasts with those managers who are unfocused but where active US equity strategies represent a significant portion of the total AuM. Despite some of these managers suffering a sustained period of lacklustre performance these managers have typically retained their underperforming investment strategies; likely with a view to retaining the associated revenues and profits.

Investors who are considering allocating to a generalist manager with an apparently strong historical investment track record often struggle to assess to what degree the strong track record resulted from a superior investment process. Allocating to a focused active manager who is more directly aligned with the performance of the strategy can help an asset owner mitigate the risk of mistaking luck for skill.

4 The average focused active manager outperformed its benchmark after fees

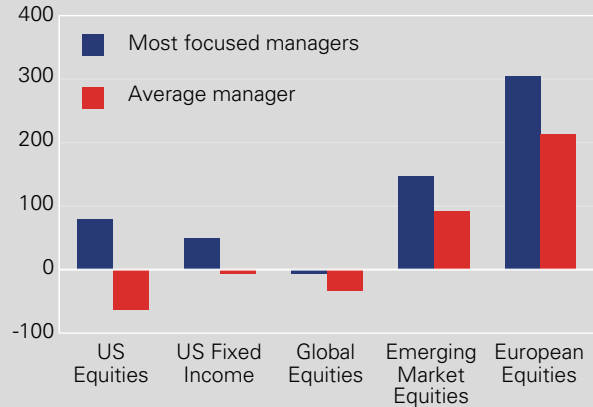
We have established that focused active managers have, on average, outperformed their benchmarks and outperformed the typical active manager on a gross of fees basis for the 5 years to 31 December 2015.

Figure 10 considers performance relative to benchmarks on a net of fees basis. The information presented references the median advertised fees for each product universe as presented by the investment managers for a \$100m segregated mandate, excluding custody. In reality, the fees a client pays may differ from those advertised.

The average outperformance relative to benchmarks generated by the most focused managers has been more than sufficient to fully offset the impact of institutional fees on performance in each of the asset classes we have examined with the exception of global equities. The average active manager of US equities, US fixed income or global equities failed to outperform its benchmarks on an after fees basis and generated lower average net outperformance in each of the asset classes reviewed.

The average outperformance of focused active managers is particularly compelling once an investor

Figure 10: 5 year average outperformance, net of typical institutional fees (bps p.a.)



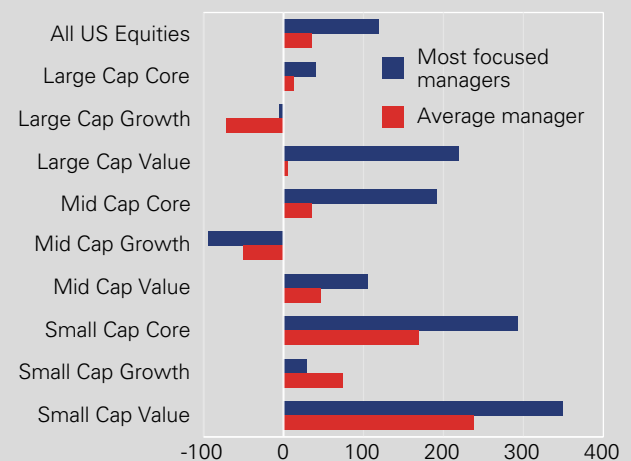
Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Active strategy performance net of median advertised fees for a \$100m segregated mandate for each product universe. In those instances where fees were not reported for a product universe the median fee rate of the nearest similar product group has been assumed. Source: Global Asset Manager Fee Survey 2016, ©2016 Mercer LLC. "Most Focused Managers" are managers ranked in the top decile for each asset class specialisation as ranked by our focus statistic. Refer to Appendix B for list of reference benchmark(s).

considers that a passive mandate or ETF will underperform their respective benchmark as a result of the fees charged by the passive manager and any tracking error.

5 Focused managers outperformed in even the most efficient markets

Delivering consistent outperformance in very efficient markets such as large capitalisation US equities is notoriously difficult. The most focused decile of active managers have, on average, outperformed their respective indices in each of the style box quadrants in the 5 year period to 31 December 2015 with the exceptions of mid and large cap growth.

Figure 11: 5 year outperformance of active US equity strategies (bps p.a.)



Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. "Most Focused Managers" is the top decile within each asset class specialisation as ranked by our focus statistic. Refer to Appendix B for list of reference benchmark(s).



Detailed Findings

6 Focused active managers have added more on the upside and lost less on the downside

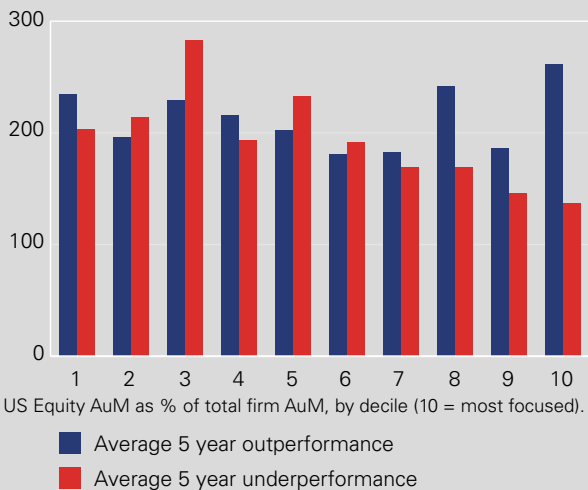
All active investment strategies will suffer periods of underperformance. But as a focused active manager is more closely aligned with its investors, one would expect that the manager would be very sensitive to large investment losses which may put the entire business at risk.

An asset manager that manages only a small percentage of its assets in active US equities will suffer far fewer adverse business consequences if its strategy underperforms. The financial impact will be relatively small and there may be little or no adverse reputational impact on the manager's core business. And if the strategy underperforms the manager may perhaps be more incentivised to "swing for the fences", risking further loss of investor capital in an attempt to salvage the firm's track record.

Figure 12 compares the average absolute size of outperformance or underperformance for each of the active strategies offered by our focused and unfocused managers. Consistent with our hypothesis, the most focused active managers have done a much better job of containing the losses suffered by their investors during a period of underperformance, underperforming by 137 bps vs. an average of 196 bps for the entire sample. On the 65% of occasions where the most focused active managers outperformed their benchmarks they generated outperformance gains of 261 bps per annum over 5 years.

In contrast, the average underperformance delivered by the least focused managers when the active strategy underperformed was 203 bps. When the least focused managers did outperform, they delivered average outperformance of only 235 bps.

Figure 12: Average 5 year gains (losses) from out-performance (underperformance) of active US equity strategies (bps p.a.)

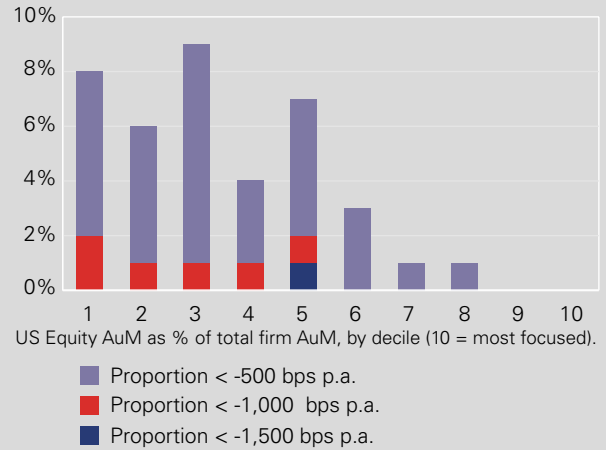


Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

7 Focused managers have helped investors avoid the worst underperformance outcomes

Given the business risks faced by focused managers, one would expect that they do a much better job than unfocused managers of avoiding the worst performance outcomes.

Figure 13: Proportion of active US equity strategies experiencing very significant underperformance



Source: MercerInsight® database utilised for return data, manager and strategy AuM. Manager AuM \$50m to \$100bn. 5 years to 31 December 2015. Refer to Appendix B for list of reference benchmark(s).

Overall, a total of 34 strategies out of the 1,242 US equity strategies with a 5 year track record in our sample underperformed by more than 500 bps p.a. As shown in figure 13 above, the vast majority of those strategies were offered by managers that are unfocused or manage US equities as a sideline to their core business.

The 41 most focused active managers, our 10th focus decile, offer a total of 116 US equity strategies with a 5 year track record. Of these strategies, none underperformed the benchmark by more than 500 bps p.a.. However it is important to note that these results may be influenced by survivorship bias; a focused active manager that underperformed its benchmark to such a large extent over an extended period is very likely to have gone out of business.



Conclusion

Focused active managers offer superior alignment to investors, driving outperformance

In many fields of human endeavour specialisation results in superior performance. The same truism applies to asset management. Our research demonstrates a clear and persistent link between the managers who focus on a single core skillset and their success in delivering outperformance for their investors.

Business diversification risks misalignment with investors

A diversified asset management company may offer multiple investment strategies managed by multiple teams, each utilising different investment strategies. One team and strategy may deliver strong investment outcomes to their clients during a period where another strategy is struggling. The outcomes experienced by the owners of the equity in the manager may be good even if clients of an underperforming team are receiving poor returns.

To protect the value of their equity interest in the firm, management teams in diversified asset management firms may be incentivised to act in a way which may not be in the best interests of their clients. To hedge against market risk they may seek to offer investment strategies which are correlated to different sources of market beta, such as an equity specialist developing a fixed income capability. To protect for a scenario where their investment style is out of favour, they may seek to develop a range of different investment approaches with the hope that, at any one time, one of the strategies will outperform.

Diversification away from areas of core competence may risk damaging outcomes for investors. Management teams may be distracted by the latest new and exciting product. They may become focused on marketing, perhaps at the expense of running their existing portfolios. More complex operations, compliance and IT systems require additional staff, increase operational risk and may distract senior management from delivering investment performance. There are many examples of once-successful managers that have become overly diversified and as a result end up delivering no single strategy particularly well.

Large teams of distribution professionals can exacerbate these conflicts. As long as the manager has some strategies showing strong track records the distribution team has a product that they can sell to grow the manager's AuM. If a strategy is failing, the distribution teams can seek to retain the assets under management by encouraging the client to switch to a different investment process offered by the same manager. At its worst, this can lead to firm cultures which actively encourage investors to chase past performance and spur product and strategy proliferation at the expense of quality.

When they have a successful strategy, diversified managers may risk growth of assets beyond the strategy's natural capacity constraints, harming their ability to continue to generate alpha.

Managers that offer multiple strategies and multiple investment processes will naturally be distracted by discussions as to how to share the firm's economics. Unsuccessful teams may want to be subsidised while successful teams will wonder what value they gain from working under the same roof as their colleagues. There is a natural tendency for the more successful teams to consider spinning off as independent firms or joining a competitor. These tensions can destroy teamwork, damage firm cultures and distract professionals from their investment responsibilities.

If they work for a diversified financial institution the link between team compensation and long term performance can become even more remote. And if the strategy's existing assets under management are large or the manager benefits from captive distribution channels, avoiding material underperformance relative to benchmarks via closet indexing can help to retain assets under management, protecting the firm's revenues and hence the portfolio manager's compensation.

The benefits of focus

Contrast the above with an asset manager that offers a single investment strategy and process. The management team of a focused active manager will devote all of their time and resources to make their investment process as successful as possible. They are not distracted by launching new investment strategies or product proliferation. The management team will benefit from strong financial returns only if they deliver good outcomes for their investors. They will have less incentive to grow AuM beyond the capacity of their investment strategy as this would be detrimental to the track record which supports the firm's market reputation and hence the value of the firm. And they will have every incentive to support and develop their colleagues within a collegial, team orientated culture, mitigating key man risk.

In our experience, we have found that focused managers tend to manage more concentrated portfolios with low levels of portfolio turnover. It is less tempting to hug an index or churn positions when the key driver of business success is investment performance, not asset gathering. Similarly, focus encourages a manager to remain cautious when defining its capacity limits.

By maximising the alignment of interests between the asset owner and the asset manager, institutional investors who appoint focused asset managers can maximise the probability of achieving long-term successful outcomes.

In truly focused, single-purpose asset managers, all professionals work together in one team to deliver the best possible outcome for all of their investors. Their success, and the long term value of the equity in the firms in which they work, is defined solely by the outcomes they deliver for their clients. With a single investment strategy, managers are truly aligned with their investors - there is nowhere to hide.



Conclusion

In conclusion

We believe no single factor should be relied upon by asset owners to define their search criteria. Sustainable sources of alpha generation, disciplined repeatable investment processes, stable teams and firm culture are all key determinants of an asset manager's ability to deliver superior long-term outcomes for asset owners. We also believe that the rationale for investing in asset managers where the key decision makers hold a meaningful proportion of the firm's equity is supported both in theory and empirically².

We have sought to add to this debate by examining whether focused active managers outperform their more generalist competitors. Our research suggests there is clear evidence of persistent outperformance of focused active managers relative to both active strategies offered by generalists and passive alternatives.

Our research suggests that investors who appoint asset class and investment style specialists strengthen the alignment of interests with the manager and hence maximise the probability of achieving their investment objectives.

Typical Focused Active Manager

Investment team is the largest function

Collegial, team-oriented culture

Sensitive to capacity limits

Concentrated, low turnover portfolios with high active share

Simple business models with low operational risk

Focused on investment performance

100% of management time and attention spent on a single investment strategy

Typical Generalist Manager

Marketing and support teams are the largest functions

Star managers with key man risk and succession issues

May be inattentive to capacity limits

Temptation to "closet index"

Complex business models with high operational risk

May be too focused on asset gathering

Multiple distractions and limited "skin in the game" for key decision makers

²As demonstrated in Casey Quirk by Deloitte's 2013 publication "The Complete Firm, Competing for the 21st Century Investor"



Appendix A: Data Tables

Figure 14: Outperformance of active US Equity Managers to 31 December 2015
 All sized managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active US Equity Assets (\$m) | Focus % (active US Equity as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|--------------------------------------|--|-------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 49 | 20,113 | 141,664 | 0% | 2% | -27 | -52 | -25 |
| 2 | 50 | 9,483 | 451,231 | 2% | 7% | 27 | 36 | -19 |
| 3 | 50 | 4,024 | 406,042 | 7% | 15% | 94 | 24 | 33 |
| 4 | 49 | 3,307 | 724,673 | 15% | 29% | 11 | -33 | -33 |
| 5 | 50 | 2,186 | 789,252 | 29% | 46% | 44 | -15 | -16 |
| 6 | 50 | 584 | 298,618 | 46% | 61% | -52 | -124 | -95 |
| 7 | 49 | 495 | 363,172 | 61% | 78% | 5 | 55 | 0 |
| 8 | 50 | 419 | 351,750 | 78% | 89% | 6 | 2 | 27 |
| 9 | 50 | 221 | 207,086 | 89% | 97% | 86 | 13 | 30 |
| 10 | 49 | 160 | 166,228 | 98% | 100% | 136 | 107 | 114 |
| Total | 496 | 40,992 | 3,899,717 | 0% | 100% | 33 | 1 | 2 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).

Figure 15: Outperformance of active US Equity Managers to 31 December 2015
 \$50m to \$100bn AuM managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active US Equity Assets (\$m) | Focus % (active US Equity as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|--------------------------------------|--|-------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 41 | 1,079 | 15,262 | 0% | 4% | -34 | -37 | -23 |
| 2 | 42 | 866 | 62,212 | 4% | 12% | 65 | -7 | -35 |
| 3 | 42 | 441 | 84,435 | 12% | 26% | -23 | -68 | -57 |
| 4 | 42 | 684 | 216,428 | 26% | 42% | 66 | -30 | -6 |
| 5 | 41 | 380 | 183,291 | 42% | 58% | -40 | -87 | -89 |
| 6 | 42 | 182 | 118,609 | 58% | 72% | -36 | -9 | -54 |
| 7 | 42 | 494 | 385,870 | 72% | 84% | 60 | 38 | 46 |
| 8 | 42 | 255 | 224,275 | 84% | 92% | 80 | 4 | 23 |
| 9 | 42 | 159 | 152,244 | 92% | 99% | 45 | 23 | 60 |
| 10 | 41 | 147 | 153,865 | 99% | 100% | 191 | 159 | 146 |
| Total | 417 | 4,687 | 1,596,491 | 0% | 100% | 37 | -1 | 1 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).

Figure 16: Outperformance of active US Fixed Income Managers to 31 December 2015
 All sized managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active US Fixed Income Assets (\$m) | Focus % (active US Fixed Income as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|--|--|-------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 20 | 7,510 | 38,863 | 0% | 1% | 24 | 37 | 45 |
| 2 | 20 | 4,282 | 106,670 | 1% | 3% | 12 | 22 | 60 |
| 3 | 21 | 10,543 | 614,989 | 3% | 8% | 30 | -4 | 46 |
| 4 | 20 | 5,137 | 538,794 | 8% | 13% | 0 | -23 | 14 |
| 5 | 20 | 1,295 | 201,614 | 13% | 17% | 6 | 18 | 56 |
| 6 | 21 | 3,407 | 692,365 | 18% | 24% | 44 | 49 | 50 |
| 7 | 20 | 2,778 | 782,079 | 26% | 36% | 43 | 26 | 59 |
| 8 | 21 | 937 | 420,770 | 37% | 54% | 18 | -35 | 2 |
| 9 | 20 | 2,440 | 1,548,517 | 57% | 78% | 45 | 27 | 37 |
| 10 | 20 | 745 | 679,290 | 80% | 100% | 34 | 40 | 82 |
| Total | 203 | 39,073 | 5,623,950 | 0% | 100% | 26 | 16 | 45 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).



Appendix A: Data Tables

Figure 17: Outperformance of active US Fixed Income Managers to 31 December 2015
 \$50m to \$100bn AuM managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active US Fixed Assets (\$m) | Focus % (active US Fixed Income as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|-------------------------------------|--|-------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 13 | 349 | 2,443 | 0% | 1% | 52 | 24 | 8 |
| 2 | 14 | 220 | 6,635 | 2% | 7% | 0 | -107 | -14 |
| 3 | 14 | 339 | 36,112 | 7% | 13% | -49 | -74 | -24 |
| 4 | 14 | 216 | 31,559 | 13% | 17% | 18 | 34 | 74 |
| 5 | 14 | 501 | 90,779 | 17% | 20% | 19 | 20 | 46 |
| 6 | 14 | 286 | 78,942 | 21% | 34% | 49 | 22 | 35 |
| 7 | 14 | 111 | 42,537 | 34% | 48% | 108 | 54 | 44 |
| 8 | 14 | 150 | 81,087 | 48% | 64% | -21 | -92 | -31 |
| 9 | 14 | 194 | 151,496 | 65% | 86% | 42 | 11 | 26 |
| 10 | 13 | 336 | 329,595 | 86% | 100% | 15 | 32 | 85 |
| Total | 138 | 2,702 | 851,185 | 0% | 100% | 23 | -8 | 24 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).

Figure 18: Outperformance of active Global Equity Managers to 31 December 2015
 All sized managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active Global Equity Assets (\$m) | Focus % (active Global Equity as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|--|--|-------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 28 | 10,128 | 18,512 | 0% | 0% | 17 | -28 | -41 |
| 2 | 29 | 11,581 | 106,712 | 0% | 2% | 140 | 95 | 66 |
| 3 | 29 | 7,216 | 172,847 | 2% | 4% | 79 | 54 | 21 |
| 4 | 28 | 2,032 | 101,789 | 4% | 6% | -54 | -145 | -100 |
| 5 | 29 | 6,043 | 554,164 | 6% | 12% | 121 | 50 | 41 |
| 6 | 29 | 2,016 | 336,099 | 12% | 22% | 156 | 5 | 36 |
| 7 | 28 | 1,109 | 301,569 | 22% | 33% | 147 | 116 | 131 |
| 8 | 29 | 1,187 | 526,894 | 34% | 66% | -8 | -16 | 4 |
| 9 | 29 | 867 | 649,979 | 66% | 86% | 151 | 49 | 37 |
| 10 | 28 | 289 | 274,687 | 87% | 100% | 62 | 31 | 70 |
| Total | 286 | 42,466 | 3,043,252 | 0% | 100% | 82 | 21 | 27 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).

Figure 19: Outperformance of active Global Equity Managers to 31 December 2015
 \$50m to \$100bn AuM managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active Global Equity Assets (\$m) | Focus % (active Global Equity as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|--|--|-------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 21 | 552 | 1,674 | 0% | 1% | -19 | -53 | -77 |
| 2 | 21 | 546 | 10,280 | 1% | 3% | 166 | 181 | 123 |
| 3 | 22 | 505 | 22,265 | 4% | 6% | -18 | -93 | -68 |
| 4 | 21 | 444 | 42,428 | 6% | 13% | 37 | -18 | -14 |
| 5 | 21 | 339 | 57,998 | 14% | 20% | 234 | 38 | 89 |
| 6 | 22 | 413 | 114,592 | 22% | 32% | 172 | 109 | 107 |
| 7 | 21 | 430 | 167,966 | 33% | 52% | 44 | 23 | 33 |
| 8 | 22 | 392 | 260,606 | 55% | 73% | 85 | -5 | -34 |
| 9 | 21 | 547 | 454,563 | 73% | 93% | 51 | 26 | 100 |
| 10 | 21 | 177 | 176,033 | 93% | 100% | 127 | 44 | 60 |
| Total | 213 | 4,347 | 1,308,405 | 0% | 100% | 88 | 25 | 31 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).



Appendix A: Data Tables

Figure 20: Outperformance of active Global Emerging Market Equity Managers to 31 December 2015
 All sized managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active GEM Equity Assets (\$m) | Focus % (active GEM Equity as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|---------------------------------------|---|-------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 13 | 4,814 | 8,363 | 0% | 0% | 383 | 302 | 194 |
| 2 | 14 | 10,278 | 35,640 | 0% | 0% | 63 | 104 | 74 |
| 3 | 14 | 4,769 | 31,780 | 1% | 1% | 228 | 126 | 82 |
| 4 | 14 | 4,479 | 64,711 | 1% | 2% | 151 | 247 | 221 |
| 5 | 14 | 4,172 | 95,736 | 2% | 3% | 180 | 252 | 218 |
| 6 | 14 | 1,169 | 59,110 | 4% | 6% | 102 | 151 | 154 |
| 7 | 14 | 863 | 58,539 | 6% | 8% | 149 | 224 | 148 |
| 8 | 14 | 1,324 | 150,773 | 8% | 14% | -53 | 132 | 188 |
| 9 | 14 | 664 | 126,948 | 15% | 27% | 31 | 141 | 237 |
| 10 | 14 | 243 | 112,787 | 28% | 100% | 136 | 244 | 215 |
| Total | 139 | 32,776 | 744,385 | 0% | 100% | 135 | 191 | 173 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).

Figure 21: Outperformance of active Global Emerging Market Equity Managers to 31 December 2015
 \$50m to \$100bn AuM managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active GEM Equity Assets (\$m) | Focus % (active GEM Equity as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|---------------------------------------|---|-------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 8 | 413 | 1,104 | 0% | 1% | 228 | 151 | 19 |
| 2 | 8 | 246 | 2,223 | 1% | 2% | 189 | 248 | 242 |
| 3 | 9 | 238 | 6,025 | 2% | 3% | 47 | 181 | 201 |
| 4 | 8 | 146 | 7,194 | 4% | 6% | 115 | 149 | 207 |
| 5 | 8 | 211 | 14,119 | 6% | 7% | 42 | 146 | 102 |
| 6 | 9 | 186 | 14,878 | 7% | 10% | 134 | 169 | 118 |
| 7 | 8 | 276 | 36,674 | 11% | 15% | -134 | 184 | 216 |
| 8 | 9 | 245 | 46,259 | 16% | 23% | 0 | 126 | 253 |
| 9 | 8 | 164 | 48,347 | 27% | 38% | 135 | 222 | 214 |
| 10 | 8 | 106 | 71,615 | 47% | 100% | 159 | 255 | 238 |
| Total | 83 | 2,230 | 248,437 | 0% | 100% | 90 | 182 | 181 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).

Figure 22: Outperformance of European Equity Managers to 31 December 2015
 All sized managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active European Equity Assets (\$m) | Focus % (active European Equity as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|--|--|------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 13 | 6,025 | 6,172 | 0% | 0% | 227 | 137 | 72 |
| 2 | 13 | 6,327 | 33,438 | 0% | 1% | 273 | 268 | 177 |
| 3 | 13 | 8,196 | 79,000 | 1% | 1% | 510 | 262 | 221 |
| 4 | 14 | 2,621 | 43,135 | 1% | 2% | 595 | 299 | 211 |
| 5 | 13 | 2,730 | 77,386 | 2% | 4% | 584 | 288 | 281 |
| 6 | 13 | 1,673 | 70,020 | 4% | 6% | 715 | 416 | 323 |
| 7 | 14 | 2,185 | 153,775 | 6% | 8% | 342 | 167 | 211 |
| 8 | 13 | 518 | 63,888 | 9% | 24% | 413 | 312 | 254 |
| 9 | 13 | 618 | 211,799 | 27% | 38% | 671 | 414 | 362 |
| 10 | 13 | 166 | 95,302 | 42% | 98% | 514 | 501 | 414 |
| Total | 132 | 31,058 | 833,913 | 0% | 98% | 484 | 305 | 252 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).



Appendix A: Data Tables

Figure 23: Outperformance of active European Equity Managers to 31 December 2015
 \$50m to \$100bn AuM managers reporting one or more 5 year track record(s)

| Focus Decile | Count of Manager | Sum of Manager Assets (\$bn) | Sum of active European Equity Assets (\$m) | Focus % (active European Equity as % of Manager AuM) | | Average of Manager Average Gross Outperformance | | |
|--------------|------------------|------------------------------|--|--|------------|---|----------------|----------------|
| | | | | Min | Max | 1 yr (bps) | 3 yrs (bps pa) | 5 yrs (bps pa) |
| 1 | 7 | 172 | 833 | 0% | 1% | -130 | 138 | -43 |
| 2 | 8 | 301 | 2,676 | 1% | 1% | 485 | 282 | 199 |
| 3 | 8 | 371 | 7,957 | 1% | 3% | 753 | 340 | 289 |
| 4 | 8 | 340 | 13,922 | 3% | 4% | 857 | 514 | 366 |
| 5 | 8 | 318 | 18,267 | 5% | 7% | 641 | 217 | 263 |
| 6 | 8 | 174 | 16,249 | 7% | 13% | 556 | 251 | 264 |
| 7 | 8 | 50 | 9,107 | 15% | 24% | 304 | 336 | 202 |
| 8 | 8 | 92 | 26,138 | 27% | 32% | 543 | 357 | 304 |
| 9 | 8 | 138 | 67,440 | 33% | 63% | 806 | 591 | 494 |
| 10 | 8 | 40 | 32,399 | 67% | 98% | 429 | 443 | 368 |
| Total | 79 | 1,996 | 1,996 | 0% | 98% | 533 | 349 | 275 |

Source: MercerInsight® database utilised for return data, manager and strategy AuM. Refer to Appendix B for list of reference benchmark(s).



Appendix B: Product Universes

The performance track records analysed in this report are based on live GIMD™. Unlike the official Mercer universe releases, these live returns may include historical performance from more than 1 quarter prior to when the strategy was first added to GIMD™.

US Equities

| Mercer Insight® Universe | Reference Benchmark |
|--|-----------------------|
| US Equity All Cap Core (Active) Sub-Universe | Russell 3000 |
| US Equity All Cap Growth (Active) Sub-Universe | Russell 3000 Growth |
| US Equity All Cap Value (Active) Sub-Universe | Russell 3000 Value |
| US Equity Large Cap Core (Active) Sub-Universe | Russell 1000 |
| US Equity Large Cap Growth (Active) Sub-Universe | Russell 1000 Growth |
| US Equity Large Cap Value (Active) Sub-Universe | Russell 1000 Value |
| US Equity Mid Cap Core Universe | Russell Midcap |
| US Equity Mid Cap Growth Universe | Russell Midcap Growth |
| US Equity Mid Cap Value Universe | Russell Midcap Value |
| US Equity Small Cap Core Universe | Russell 2000 |
| US Equity Small Cap Growth Universe | Russell 2000 Growth |
| US Equity Small Cap Micro Universe | Russell 2000 |
| US Equity Small Cap Value Universe | Russell 2000 Value |
| US Equity SMID Core Universe | Russell 2500 |
| US Equity SMID Growth Universe | Russell 2500 Growth |
| US Equity SMID Value Universe | Russell 2500 Value |
| US Equity Socially Responsible Universe | S&P 500 |
| US Equity Targeted Volatility Universe | S&P 500 |

US Fixed Income

| Mercer Insight® Universe | Reference Benchmark |
|--|--|
| US Fixed - Socially Responsible Universe | Barclays US Aggregate |
| US Fixed 1-3 Years Universe | BofA Govt/Corp 1-3 Yr |
| US Fixed Bank / Leveraged Loans Universe | Credit Suisse Leveraged Loan |
| US Fixed Core Investment Grade Universe | Barclays US Aggregate |
| US Fixed Core Opportunistic Universe | Barclays US Aggregate |
| US Fixed Core Universe | Barclays US Aggregate |
| US Fixed Credit Universe | Barclays US Corporate Inv Grade |
| US Fixed Government Universe | Barclays US Govt 1-3 Yr |
| US Fixed High Yield Universe | BofA High Yield Master |
| US Fixed Inflation Linked Bonds Universe | Barclays US TIPS |
| US Fixed Intermediate Universe | Barclays US Intermediate Govt/Credit |
| US Fixed Long Credit Universe | Barclays US Long Govt/Credit |
| US Fixed Long Duration Universe | Barclays US Long Govt/Credit |
| US Fixed Mortgage Backed Universe | Barclays US Mortgage Backed Securities |
| US Fixed Municipal Universe | Barclays US Municipal Bond |
| US Stable Value Universe | iMoneyNet All Taxable |
| US Convertible Composites Universe | BofA Inv Grade Convertible |
| US Equity Targeted Volatility Universe | S&P 500 |

European Equities

| Mercer Insight® Universe | Reference Benchmark |
|--|--|
| Denmark Equity Universe | OMX Copenhagen CAP |
| Europe ex UK Equity Universe | MSCI Europe ex UK |
| Europe ex UK Equity Small Cap Universe | MSCI Europe ex UK Small Cap |
| Europe inc UK Equity Universe | MSCI Europe |
| Europe inc UK Equity Small Cap Universe | MSCI Europe Small Cap |
| Eurozone Equity Universe | MSCI EMU |
| Eurozone Equity Small Cap Universe | MSCI EMU Small Cap |
| Finland Equity Universe | OMX Helsinki |
| Nordic Equity Universe | MSCI Nordic |
| Norway Equity Universe | Oslo Exchange Benchmark Index |
| Sweden Equity (Core) Sub-Universe | SIX Return Index |
| Sweden Equity (Unconstrained) Sub-Universe | SIX Return Index |
| Sweden Small Cap Equity Universe | Carnegie Swedish Small Cap Index Price |
| Swiss Equities Universe | Swiss Market Index Price |
| UK Active Equity Universe | FTSE All Share |
| UK Small Company Equity Universe | FTSE UK Small Cap |

Global Emerging Market Equities

| Mercer Insight® Universe | Reference Benchmark |
|--|------------------------|
| African Equity Universe | MSCI EFM AFRICA |
| Asian Emerging Markets Equity Universe | MSCI Emerging Asia |
| Brazilian Equity Universe | MSCI Brazil |
| BRIC Equity Universe | MSCI BRIC |
| Eastern European Equity Universe | MSCI EM Eastern Europe |
| Emerging Markets - Global Frontier Markets Universe | MSCI Frontier Markets |
| Emerging Markets Equity (Emerging Markets) Sub-Universe | MSCI EM |
| Emerging Markets Equity (Sustainability Themes) Sub-Universe | MSCI EM |
| Emerging Markets Equity Small Cap Universe | MSCI EM Small |
| Latin American Equity Universe | MSCI Latin America |
| Russian Equity Universe | MSCI Russia |

Global Equities

| Mercer Insight® Universe | Reference Benchmark |
|---|--|
| Global Equity (Core) Sub-Universe | MSCI World Free |
| Global Equity (Growth Biased) Sub-Universe | S&P Developed LargeMidCap Growth |
| Global Equity (Socially Responsible) Sub-Universe | MSCI World Free |
| Global Equity (Sustainability themes) Sub-Universe | MSCI World Free |
| Global Equity (Targeted Volatility) Sub-Universe | MSCI World Free |
| Global Equity (Value Biased) Sub-Universe | S&P Developed LargeMidCap Value |
| Global Small Cap Equity Universe | MSCI World Small Cap |
| World ex Japan Equity (Active) Sub-Universe | MSCI Kokusai World ex Japan |
| World ex Japan Equity (Targeted Volatility) Sub-Universe | MSCI Kokusai World ex Japan |
| World ex US/EAFE Equity (Core) Sub-Universe | MSCI EAFE |
| World ex US/EAFE Equity (Growth Biased) Sub-Universe | S&P Developed Ex-U.S. LargeMidCap Growth |
| World ex US/EAFE Equity (Socially Responsible) Sub-Universe | MSCI EAFE |
| World ex US/EAFE Equity (Value Biased) Sub-Universe | S&P Developed Ex-U.S. LargeMidCap Value |
| World ex US/EAFE Equity Small Cap Universe | S&P Developed Ex-U.S. SmallCap |



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