

East Sussex Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2016

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For and on behalf of Hymans Robertson LLP
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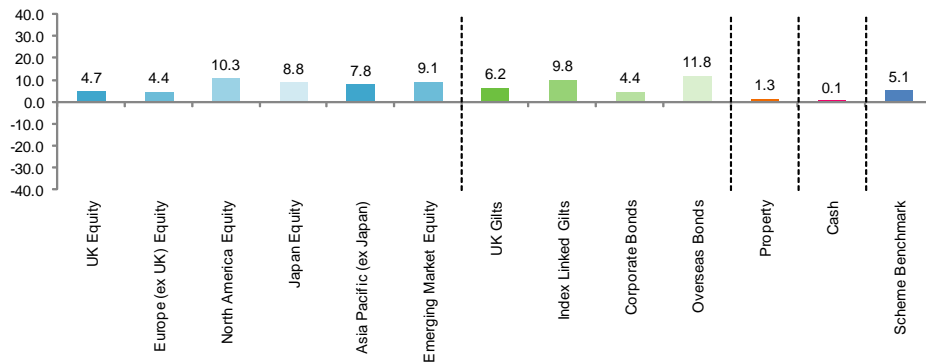
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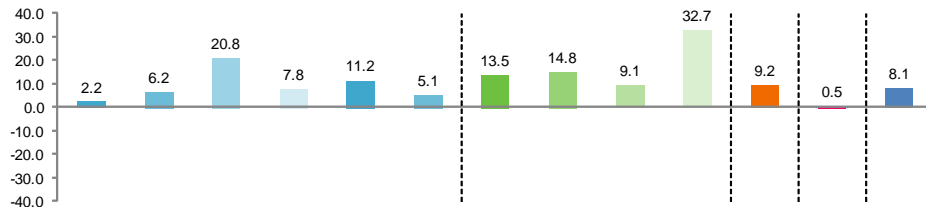
Historic Returns for World Market to 30 June 2016

Historic Returns - Chart 1 ^[1] ^[i]

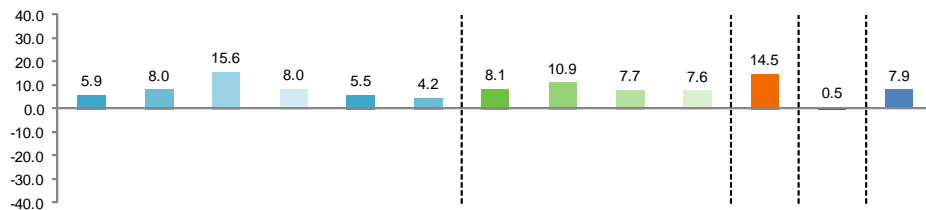
3 Months (%)



12 Months (%)



3 Years (% p.a.)



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

Comment

Economic data and business surveys suggested that global growth held up reasonably well in Q2. Oil prices continued to rebound from the lows of December 2015, with Brent Crude rising \$10 over the quarter to finish June at just under \$50 a barrel. However, the economic outlook was clouded by the UK's surprise vote to "Leave" the EU. The immediate response of forecasters was to revise down GDP growth expectations, particularly in the UK, where the consensus forecasts suggest next to no growth next year. The most significant market response to the vote was a collapse in sterling, which fell almost 10% in trade-weighted terms in two days.

In response, Governor Carney of the Bank of England shares the market's gloom about the short-term economic outlook for the UK and suggested that interest rates would be cut over the summer. Elsewhere, major central banks held firm on their monetary policies over the quarter. In April, the Federal Reserve voted to maintain interest rates at 0.5%, despite indicators suggesting an improving US labour market, and the Bank of Japan surprised markets by not adding to the current quantitative easing programme.

Global equity markets inched higher over the quarter, recovering quickly from an initial downturn after the referendum vote. In local currency terms the FTSE All-World Index rose 0.5%; the total return in sterling terms was 8.8%. In the UK, the relatively strong performance of the FTSE All Share reflected the substantial proportion of earnings that are generated overseas among the leading companies.

Key events during the quarter included:

- The "Leave" vote in the EU referendum and subsequent political fallout caught investors by surprise.
- Governor Carney hinted at possible cuts to UK interest rates over the summer. Interest rates were cut by 0.25% on 4 August.
- Oil prices continued to rebound from the lows of December 2015, with Brent Crude finishing June at almost \$50 a barrel.
- Precious metals continued their strong start to 2016, benefitting from the threat of interest rates staying "lower for longer" and wider global economic concerns.

Equities

- The strongest sectors relative to the FTSE All World Index were Oil & Gas (+8.0%) and Healthcare (+4.8%); the weakest were Technology (-3.4%) and Financials (-2.7%).
- In local currency terms, the UK was the strongest performer during the quarter; while Japan was again the weakest.

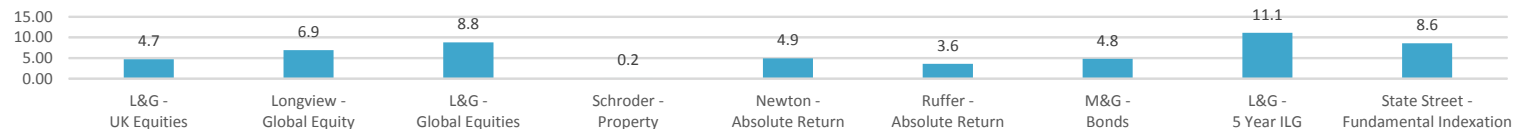
Bonds and currencies

- UK gilts yields fell (prices rose) as demand for safe haven assets soared in the wake of the "Brexit" vote. US treasury and German Bund yields also fell, but lagged the rally in UK gilts.
- Sterling credit spreads widened a little over the quarter as an upward spike in the last week unwound earlier tightening.
- Sterling depreciated sharply in the week following the referendum after what had been a period of relative stability. The Yen was the strongest of the major currencies.

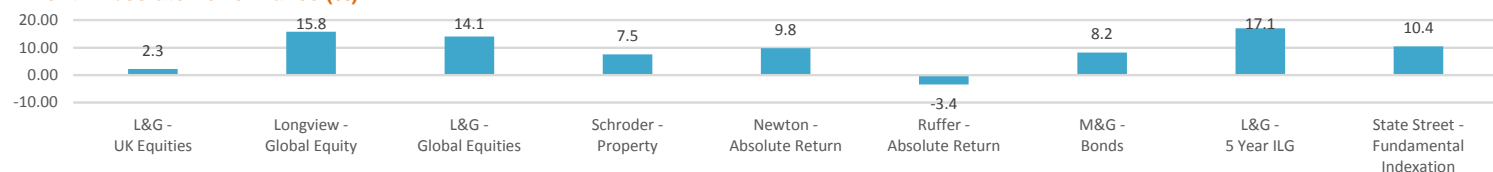


Summary of mandate absolute performance to 30 June 2016

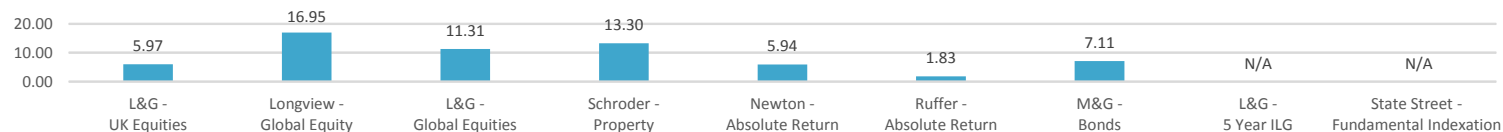
3 Month Absolute Performance (%)



12 Month Absolute Performance (%)



3 Year Absolute Performance (%)



Comments

This is a new page to your report. It sets out the absolute returns of each of the Fund's mandates over 3 month, 12 month and 3 year periods. It aims to give an indication of the role that each mandate has in the Fund's investment structure (i.e. typically to either generate growth, provide diversification or to give some protection) and how well the mandate has performed this role over the time periods shown.

Growth (Equities)

Over the long term, high absolute returns are expected to be achieved on the Fund's growth assets, albeit that the volatility of these mandates is therefore relatively large. Over each of the time periods shown, the Fund's equities have achieved this performance objective, generating strong absolute returns.

Diversification/Income oriented (Property/Absolute Return)

The Fund's property has generated strong returns and good diversification over the past 1 and 3 years. Over the quarter, performance was behind other asset classes, reflecting much of the uncertainty following the EU referendum. The Fund's absolute return mandates have, on aggregate, generated growth for the Fund, but performance has been mixed between the managers.

Protection (bonds)

The Fund's bonds have performed strongly over the time periods shown, reflecting the fall in yields over recent years. These bonds have provided liquidity in times of market stress and have partially helped protect the increase in value placed on the Fund's liabilities.



Fund Asset Allocation and Performance

Valuation Summary

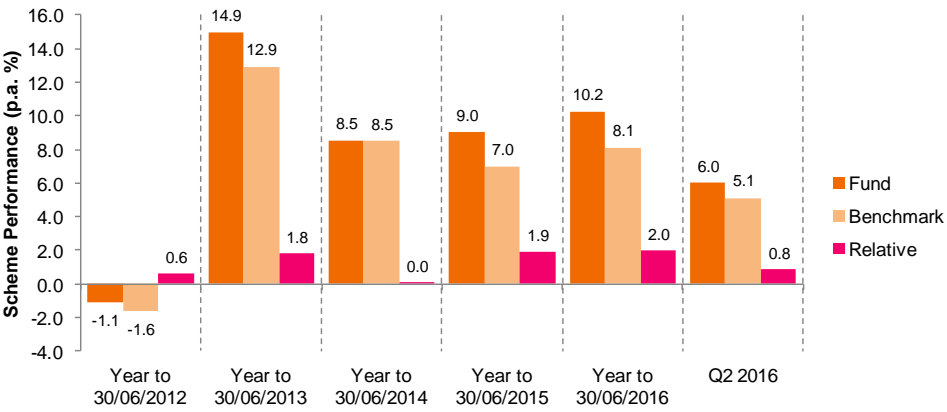
Asset Class	Value (£m)		Actual Proportion	Target Proportion	Re-balancing range %	Difference
	Q1 2016	Q2 2016	%	%		
Global Equity	1079.3	1169.5	39.8	38.0	45.0 - 55.0	1.8
UK Equity	261.2	273.5	9.3	12.0		-2.7
Fixed Interest	112.5	120.3	4.1	3.5	2.5 - 4.5	0.6
Index-Linked Gilts	147.3	163.7	5.6	5.0	4.0 - 6.0	0.6
Property	332.0	330.9	11.3	10.0	7.0 - 13.0	1.3
Infrastructure	49.5	51.0	1.7	2.0	0.0 - 4.0	-0.3
Private Equity	167.9	180.2	6.1	5.5	3.5 - 7.5	0.6
Absolute Return Funds	493.9	514.0	17.5	20.0	17.0 - 23.0	-2.5
Cash	55.6	58.2	2.0	0.0	-2.0 - 2.0	2.0
UK Financing Fund	8.5	8.6	0.3	1.0	0.0 - 2.0	-0.7
Absolute Return Bonds	67.4	68.1	2.3	3.0	2.0 - 4.0	-0.7
Total Client	2775.1	2938.1	100.0	100.0		

Fund performance [1]

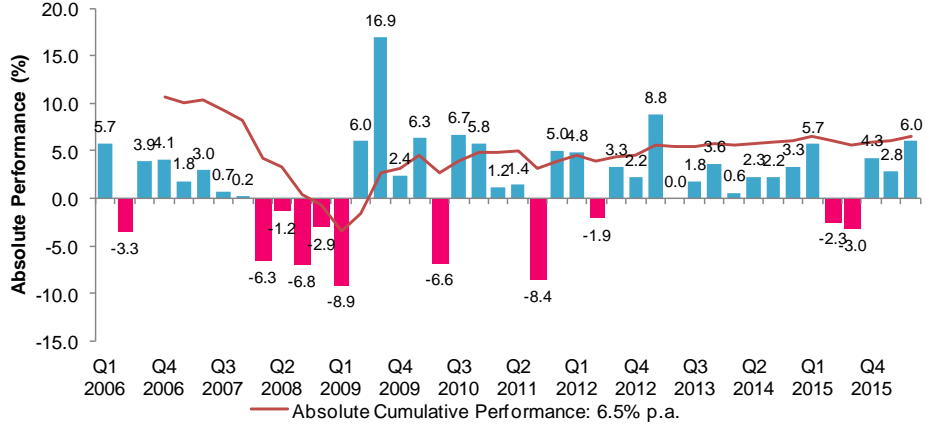
The Fund outperformed the aggregate benchmark during the second quarter of 2016, returning 6.0% in absolute terms. Over the 12 month period the Fund delivered a positive absolute return of 10.2% ahead of benchmark by 2.0%.

At a manager level, Newton and Ruffer's Absolute Return funds outperformed over the quarter whilst Longview's Global Equity mandate detracted from overall relative returns.

Performance Summary [1]



Absolute Quarterly and Absolute Cumulative Performance [1]



[1] Total Fund return is estimated. Historical returns are backdated with WM figures.

Source: [i] Hymans Robertson, [ii] Hymans Robertson

Summary of Mandates

Manager Summary ^[1]

Manager	Investment Style	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
L&G - Global Equities	Passive	11 May 2010	FTSE All World	Track index	
Longview - Global Equity	Active	16 Apr 2013	MSCI ACWI (GBP)	+3% (gross of fees) over rolling 3 year periods	
State Street - Fundamental Indexation	Passive	06 Aug 2013	FTSE RAFI All-World 3000	Track Index	
L&G - UK Equities	Passive	21 Nov 2007	FTSE All Share	Track index	
Newton - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	
Ruffer - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	
L&G - 5yr ILG	Passive	11 Mar 2015	FTSE A Index-linked Gilts Over 5 Years	Track index	
M&G - Bonds	N/A	01 Jan 1997	Bespoke	+0.8% (gross of fees) for corporate bonds only	
Schroder - Property	Fund of Funds	20 Feb 2010	IPD All Balanced Funds	0.75% p.a. (net of fees) over rolling 3 year periods	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Summary Comment

There were no changes to manager ratings over the second quarter of 2016. We will continue to monitor developments closely.

The Fund continues to be underweight to UK Equities and both the absolute return funds. Property, Global Equity and cash are overweight.

Performance versus WM Local Authorities ^[2] ^[1]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.8	1.6	7.4	7.3
WM average Local Authority	2.2	0.6	6.6	7.1
Relative	0.6	1.0	0.8	0.2

[1] Ruffer does not have a specific performance target, we have assumed a proxy for measurement purposes. Ruffer's stated objective is to 'preserve capital over rolling 12 month periods', and to grow the portfolio at a higher rate than could be expected from depositing the cash in a UK bank (net of fees), [2] Performance is shown as at 31 March 2016.

Source: [1] WM/State Street



Manager Structure

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2016	Q2 2016			
L&G - Global Equities	414.9	451.4	15.4	15.5	-0.1
Longview - Global Equity	180.9	193.2	6.6	5.0	1.6
State Street - Fundamental Indexation	483.5	525.0	17.9	17.5	0.4
L&G - UK Equities	261.2	273.5	9.3	12.0	-2.7
Newton - Absolute Return	253.6	264.5	9.0	10.0	-1.0
Ruffer - Absolute Return	240.3	249.5	8.5	10.0	-1.5
L&G - 5yr ILG	147.3	163.7	5.6	5.0	0.6
M&G - Bonds	180.0	188.4	6.4	6.5	-0.1
Schroder - Property	333.3	331.8	11.3	10.0	1.3
M&G - Infrastructure Fund	28.7	28.6	1.0	1.0	-0.0
UBS - Infrastructure	20.7	22.5	0.8	1.0	-0.2
Adams Street - Private Equity	88.6	94.4	3.2	2.8	0.5
HarbourVest - Private Equity	79.3	85.9	2.9	2.8	0.2
M&G - UK Financing Fund	8.5	8.6	0.3	1.0	-0.7
Cash account	54.3	57.3	1.9	0.0	1.9
Total	2775.1	2938.1	100.0	100.0	0.0

[1] The Fund retains a small cash position to service the commitments made to the private equity portfolio and the infrastructure funds. The M&G UK Financing Fund can no longer draw on outstanding commitments.



Performance Summary (gross of fees)

Performance Summary (gross of fees) ^[1] ^[i]

		L&G - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute Benchmark	8.8	6.9	8.6	4.7	4.9	3.6	11.1	4.8	0.2	6.0
		8.7	8.6	8.6	4.7	0.1	0.1	11.1	4.0	0.1	5.1
	Relative	0.1	-1.5	0.0	0.0	4.8	3.5	0.0	0.8	0.1	0.8
12 Months (%)	Absolute Benchmark	14.1	15.8	10.4	2.3	9.8	-3.4	17.0	8.2	7.5	10.2
		13.8	13.3	10.3	2.2	0.5	0.5	17.0	7.7	7.2	8.1
	Relative	0.2	2.3	0.1	0.1	9.2	-3.9	0.0	0.5	0.4	2.0
3 Years (% p.a.)	Absolute Benchmark	11.3	17.0	8.0	6.0	5.9	1.8	9.9	7.1	13.3	9.3
		11.2	10.6	8.0	5.9	0.5	0.5	9.9	5.4	12.5	7.9
	Relative	0.1	5.8	0.0	0.1	5.4	1.3	0.0	1.6	0.7	1.3
10 Years (% p.a.)	Absolute Benchmark	9.9	17.7	N/A	5.1	5.8	5.0	N/A	6.5	9.0	6.6
		9.9	10.0	N/A	4.9	0.6	0.6	N/A	4.8	8.6	5.9
	Relative	0.1	7.0	N/A	0.2	5.2	4.4	N/A	1.6	0.4	0.7

[1] The table shows since inception returns in place of one year, three year and ten year performance for some of the managers, if the mandate has been in place for a shorter period. Total fund performance was provided by WM until 31 March 2016, including private market returns. Thereafter, total fund performance is calculated excluding private market investments.



Performance Summary (net of fees)

Performance Summary (net of fees) [1] [i]

		L&G - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute Benchmark	8.8	6.8	8.6	4.7	4.8	3.4	11.0	4.7	0.1	5.9
		8.7	8.6	8.6	4.7	0.1	0.1	11.1	4.0	0.1	5.1
	Relative	0.1	-1.7	0.0	0.0	4.6	3.3	-0.1	0.7	0.0	0.8
12 Months (%)	Absolute Benchmark	13.9	15.1	10.4	2.2	9.2	-4.2	16.7	7.8	7.3	9.9
		13.8	13.3	10.3	2.2	0.5	0.5	17.0	7.7	7.2	8.1
	Relative	0.1	1.6	0.0	0.0	8.6	-4.7	-0.3	0.1	0.1	1.6
3 Years (% p.a.)	Absolute Benchmark	11.2	16.2	7.9	5.9	5.3	1.0	9.6	6.7	13.1	8.9
		11.2	10.6	8.0	5.9	0.5	0.5	9.9	5.4	12.5	7.9
	Relative	0.0	5.1	-0.1	0.1	4.8	0.5	-0.3	1.3	0.5	0.9
10 Years (% p.a.)	Absolute Benchmark	9.8	17.0	N/A	5.0	5.2	4.2	N/A	6.3	8.8	6.4
		9.9	10.0	N/A	4.9	0.6	0.6	N/A	4.8	8.6	5.9
	Relative	0.0	6.4	N/A	0.1	4.6	3.6	N/A	1.5	0.2	0.5

[1] We have estimated net returns based on each manager's expected fee levels. The table shows since inception returns in place of three year and ten year performance for some of the managers, if the mandate has been in place for a shorter period. Total fund performance was provided by WM until 31 March 2016, including private market returns. Thereafter, total fund performance is calculated excluding private market investments.



Legal and General - UK and Global Equities

HR View Comment & Rating



LGIM announced in June that Michael Marks will become its new Chief Operating Officer (COO), replacing Simon Thompson. Marks joins from BlackRock, where he spent 28 years, most recently as its Co-Head of Client Solutions.

We continue to rate LGIM '5 - Preferred Manager' for passive equities.

Performance Attribution Comment

Both the Legal and General Global and UK equity mandates performed broadly in line with their benchmarks over the first quarter of 2016, as expected from passive mandates.

The UK equity fund delivered a positive absolute return of 4.7%, and long term fund performance remains positive and broadly in line with the benchmark at both 12 months, 3 years and since the mandate's inception. UK equities continue to lag Global markets.

The Global equity fund delivered a positive absolute return of 8.8%, slightly ahead of the benchmark. Over all longer periods considered, fund performance remains positive and broadly in line with the FTSE All World Index.

L&G UK Fund Performance ^[i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	2.3	6.0	5.1
Benchmark	4.7	2.2	5.9	4.9
Relative	0.0	0.0	0.1	0.2

* Inception date 21 November 2007

L&G Global Fund Performance ^[ii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	8.8	14.1	11.3	10.0
Benchmark	8.7	13.8	11.2	9.9
Relative	0.1	0.2	0.1	0.1

* Inception date 11 May 2010 (since restructure of Fund)

Legal and General - 5 year ILG

HR View Comment & Rating



LGIM announced in June that Michael Marks will become its new Chief Operating Officer (COO), replacing Simon Thompson. Marks joins from BlackRock, where he spent 28 years, most recently as its Co-Head of Client Solutions.

We continue to rate LGIM '5 - Preferred Manager' for passive fixed income.

Performance Summary - Table ^[1]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	11.1	17.0	9.9
Benchmark	11.1	17.0	9.9
Relative	-0.0	0.0	0.0

* Inception date 11 Mar 2015.

Performance Attribution Comment

Over the quarter and since inception, Legal and General's 5 year index linked gilts fund performed in line with the benchmark.

The fund delivered a positive absolute return of 11.1% over the quarter. Significant volatility in equity markets due to the EU referendum drove investors to favour the defensive qualities of government bonds, causing yields to fall and prices to rise.

State Street - Fundamental Indexation

HR View Comment & Rating



State Street announced in July that it had completed its acquisition of GE Asset Management, which demonstrates State Street's ambitions to grow its active management business. However we do not expect this to have any effect on its large passive management business and therefore we have no concerns over this deal. In addition, Lorenzo Garcia has joined the passive team from BlackRock as Head of Institutional and Retail Portfolio Management.

We continue to rate the manager '5 - Preferred Manager'.

Performance Attribution Comment

Over the quarter, State Street's Fundamental Indexation Fund performed marginally ahead of its benchmark returning a positive absolute value of 8.6%. The fund remains in line with the benchmark over the longer term.

RAFI performed broadly in line with market cap-weighted global equities within the RAFI index. Overweights to Oil and Gas and the UK, Canada and Brazil were positive contributors, but were off-set by underweights to Financials, Healthcare and Consumer Goods relative to the market cap index.

Performance Summary - Table

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	8.6	10.4	8.0
Benchmark	8.6	10.3	8.0
Relative	0.0	0.1	-0.0

* Inception date 06 Aug 2013.

Longview - Global Equity

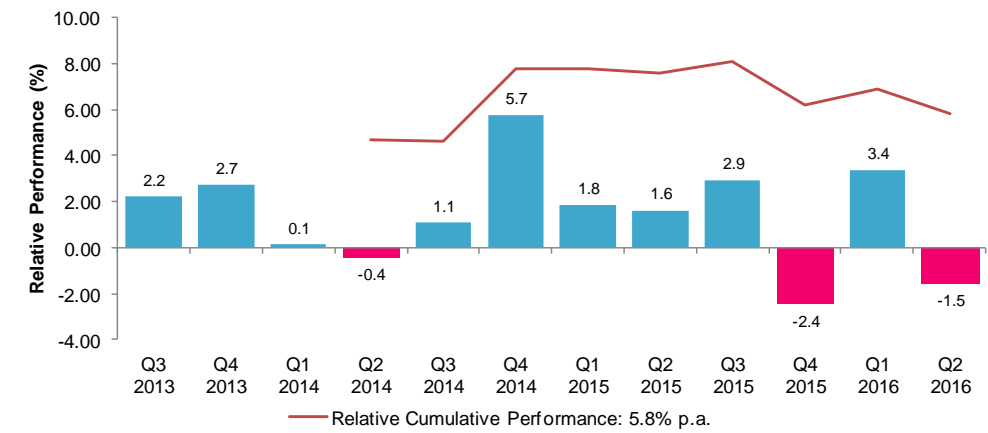
HR View Comment & Rating



There were no significant changes to report over the quarter to 30 June 2016.

We continue to rate the manager '5 - Preferred Manager' for global equity.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Attribution Comment

Longview's Global Equity fund returned 6.9% over the quarter, underperforming the benchmark by -1.5%. The fund remains ahead of the benchmark over all longer time periods.

Sector allocation was the biggest detractor to overall performance with a zero allocation to the Energy sector proving detrimental as oil prices stabilised. At stock level Delphi Automotive and Continental detracted from returns. Many automotive companies saw share prices fall due to fears that the EU referendum may negatively impact car sales within Europe. Fears of a slowing UK economy due to the EU referendum impacted UK dependent business' with the portfolio's holding in Lloyds also detracting from relative performance. Two thirds of Lloyds business is focused on UK mortgages.

Exposure to US pharmaceutical company Pfizer was the highest individual contributor as the share price rose following news that the planned merger with Allergan was no longer taking place. Compass group also outperformed as they benefited from the weakness in Sterling relative to global currencies. Stock selection within the IT and Healthcare sectors also contributed to relative performance.

Despite the market volatility following the EU Referendum, Longview remain confident that uncertainty should subside and earnings growth should improve. Uncertainty and volatility helps generate more stock-specific investment opportunities for the manager and Longview continue to find interesting stocks to invest in.

Performance Summary to 30 June 2016 [ii]

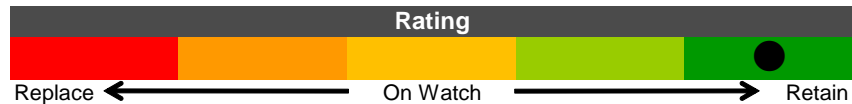
	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	6.9	15.8	17.7
Benchmark	8.6	13.3	10.0
Relative	-1.5	2.3	7.0

* Inception date 16 Apr 2013.

Source: [i] Fund Manager, [ii] DataStream, Hymans Robertson

Ruffer - Absolute Return

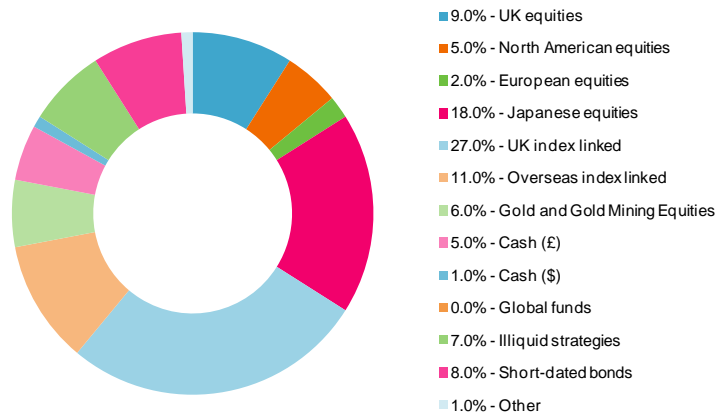
HR View Comment & Rating



There were no significant business changes over the quarter.

We continue to rate Ruffer '5 - Preferred Manager'.

Asset Allocation



Performance Attribution Comment

Ruffer's Absolute Return Fund returned 3.6% over the quarter, comfortably ahead of its benchmark. Over the 12 month period, the Fund underperformed but continues to outperform over all longer periods considered.

The fund has a significant allocation to index-linked bonds, both in the UK and abroad, and this was the largest positive contributor to returns over the quarter as the EU Referendum outcome and continued concerns over global economic growth prospects led to a significant fall in yields, driving prices upwards. The uncertainty surrounding the vote also benefited the Fund's gold allocations (6% of the Fund) where prices rose as investors sought a 'safe haven' from riskier assets such as equities.

Outperformance was partially offset by the fund's allocation to Japanese equities, largely its bank and insurance company holdings which were already weak due to the fiscal and monetary problems faced by the government and questions over their ability to support the financial system. Financial stocks also had a negative impact on performance as the reduced likelihood of interest rate rises affected banks and insurance companies.

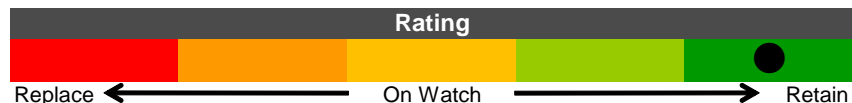
Performance Summary to 30 June 2016 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.6	-3.4	1.8	5.0
Benchmark	0.1	0.5	0.5	0.6
Relative	3.5	-3.9	1.3	4.4

* Inception date 06 May 2010.

Newton - Absolute Return

HR View Comment & Rating



During the quarter Newton announced that Peter Hensman had transferred into the Real Return team from the Global Research Team. Hensman's role is to support Iain Stewart in providing the macroeconomic inputs into the strategy, a role that was previously held by James Harries who left the firm late last year.

We continue to rate Newton '5 - Preferred Manager'.

Performance Attribution Comment

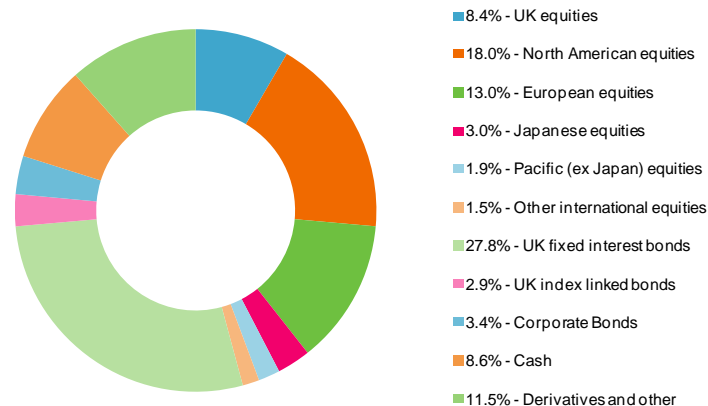
The fund generated an absolute return of 4.9% over the second quarter of 2016, outperforming its benchmark. Over the longer term, the fund continues to outperform.

Equity markets throughout the world fell and then steadied over the quarter due to uncertainty surrounding the EU Referendum. Sterling plummeted by 10% against most major currencies reaching its lowest level in 30 years against the US Dollar and 10-year gilt yields fell to record lows, driving prices upwards, as they became a "safe haven".

The fund's return seeking portfolio continues to outperform broad global equities over the year to date. The fund's selective approach to equities has proved beneficial with strong performance from consumer goods/services and utilities. The fund's allocation to alternatives (infrastructure, convertible bonds and renewable-energy assets) also provided a positive contribution to performance. Gold has continued to play a vital role in the fund's strategy and was up 15% over the quarter.

The manager sold the last of the fund's Financial holdings, the Israeli Bank Hapoalim despite the bank displaying solid growth. Newton believes that emerging market-focused businesses should be avoided given the global backdrop.

Asset Allocation ^[1] ^[i]



Performance Summary to 30 June 2016 ^[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.9	9.8	5.9	5.8
Benchmark	0.1	0.5	0.5	0.6
Relative	4.8	9.2	5.4	5.2

* Inception date 06 May 2010.

[1] The Fund maintains a high level of derivatives protection. On a notional basis, 25% of the Fund's equity positions are protected.

M&G - Bonds

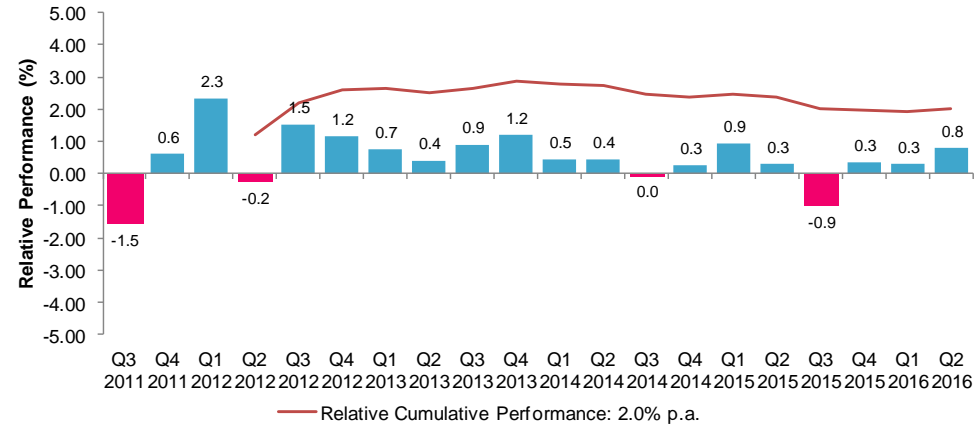
HR View Comment & Rating



There were no significant changes to report in the quarter to end June 2016.

We continue to rate M&G '5 - Preferred Manager' for fixed income.

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

M&G does not allocate between the corporate bonds and the absolute return bonds which it manages for the Fund. We have therefore provided performance estimates based on the sizes of the allocation to each. The current allocation of the M&G bond mandate is c.60% to the traditional portfolio and c.40% to the Alpha Opportunities fund.

During the second quarter of 2016, the Alpha Opportunities fund returned 1.2%, outperforming its cash benchmark by 1.0%. The Corporate Bond fund also delivered positive returns and outperformed its benchmark by 0.6%.

Corporate bonds performed strongly over the quarter, supported by the rebounding commodity sector and positive decisions from central banks. The European Central Bank announced plans of a corporate bond buying programme in April which was a welcome surprise for investors. Following the EU referendum vote in June, yields have fallen on the whole, driving prices upwards.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 0.8%. The aggregate performance remains comfortably ahead of benchmark over all longer periods considered.

Performance Summary to 30 June 2016 [1] [2]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	4.8	8.2	7.1	7.3
Benchmark	4.0	7.7	5.4	5.2
Relative	0.8	0.5	1.6	2.0

[1] The longer term performance figures shown are for bonds only. Performance of the holding in the M&G property fund is no longer shown.

Source: [1] DataStream, Hymans Robertson

M&G - Bonds - Performance Attribution

Performance Attribution Performance [i]

		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	7.0	1.2	4.8
	Benchmark	6.3	0.1	4.0
	Relative	0.6	1.0	0.8
12 Months (%)	Absolute	12.7	1.2	8.2
	Benchmark	12.2	0.5	7.7
	Relative	0.4	0.6	0.5
3 Years (% p.a.)	Absolute	9.8	2.9	7.1
	Benchmark	9.3	0.5	5.4
	Relative	0.5	2.4	1.6
5 Years (% p.a.)	Absolute	9.8	3.7	7.3
	Benchmark	9.1	0.5	5.2
	Relative	0.6	3.1	2.0

Source: [i] DataStream, Hymans Robertson



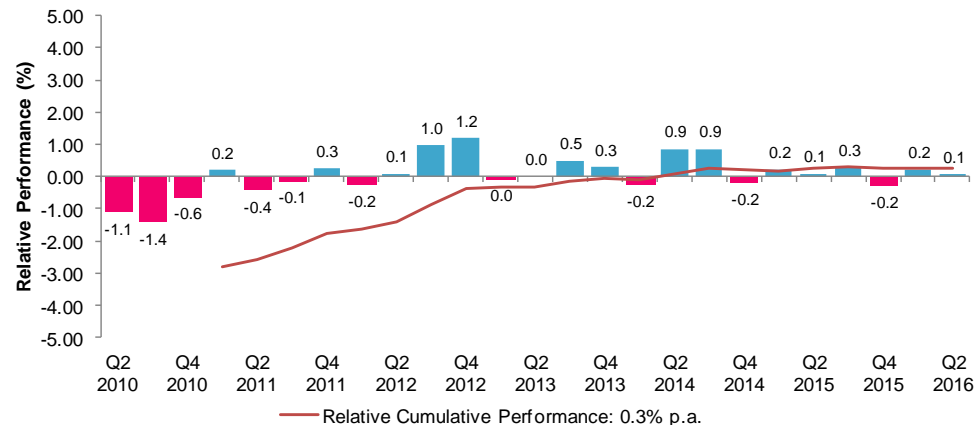
Schroders - Property

HR View Comment & Rating



Schroder RECaP is a business that experienced considerable personnel change during the second half of 2015, with four departures from the team of six. This resulted in a change in our rating to '3 - On Watch' in August 2015. A further risk, that we have raised with you and the manager previously, relates to LGPS pooling. Two thirds of the RECaP's assets under management are managed on behalf of Local Government Pension Scheme. There is considerable uncertainty as to what, if any, demand there will be for fund of fund property managers (and therefore RECaP's business) in a post-pooling world. We continue to monitor them with a rating of '3 - On Watch'.

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

The property portfolio returned 0.2% over the quarter, ahead of the IPD benchmark by 0.1%. The fund remains ahead of the benchmark over all longer periods considered.

Exposure to multi-let industrials, the strongest performing sector, through the allocation to the Industrial Property Investment Fund boosted the portfolio's performance. In addition, the Lothbury Property Trust and the West End of London Property Unit Trust contributed positively to performance. Following the result of the EU Referendum, property valuations are being caveated by valuers in light of the short-term uncertainty, suggesting they are a less reliable indicator of the price that could be achieved. The caveats are expected to remain in place for at least a few months. The benchmark is a peer group index and some property funds, including 2 of the underlying funds: Standard Life Pooled Property Fund (PPF) & L&G Managed Property Fund (MPF), have introduced a downward "fair value adjustment" (FVA) to reflect this uncertainty. Both funds made a -5% adjustment to their respective Net Asset Values at the end of June, which impacted performance of both the portfolio and the peer group benchmark index. A further -5% (totalling FVA of 10%) was implemented by L&G after the quarter end and then amended back to -7.5% in total before the end of July; unless it is removed before the end of September this additional 2.5% will hurt performance in Q3. As a result, both of these funds were the largest negative contributors to relative performance.

The Aviva property fund also received a large amount of redemptions, which impacted the liquidity of the fund. This has resulted in Aviva suspending dealing and deferring redemption requests on the fund until properties can be sold and the amount of cash held in the Trust increases.

Performance Summary to 30 June 2016 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.2	7.5	13.3	9.0
Benchmark	0.1	7.2	12.5	8.6
Relative	0.1	0.4	0.7	0.4

* Inception date 20 Feb 2010.

Summary of Benchmarks

Summary of Benchmarks

	Total Fund		Adams Street - Private Equity		Cash account		HarbourVest - Private Equity		L&G - 5yr ILG		L&G - Global Equities	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	38.0	1.8	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.7	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.6	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.6	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	1.3	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-0.3	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.6	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-2.5	-	-	-	-	-	-	-	-	-	-
Cash	0.0	2.0	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.7	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.7	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.5	0.0	1.9	2.8	0.2	5.0	0.6	15.5	-0.1



Summary of Benchmarks (Cont.)

Summary of Benchmarks

	L&G - UK Equities		Longview - Global Equity		M&G - Bonds		M&G - Infrastructure Fund		M&G - UK Financing Fund		Newton - Absolute Return	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	100.0	0.0	-	-	-	-	-	-	-	-
UK Equity	100.0	0.0	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	62.6	1.3	-	-	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-	-	-
UK Property	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	100.0	0.0	-	-	-	-
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	-	-	-	-	-	-	-	-	-	-	100.0	0.0
Cash	-	-	-	-	-	-	-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	100.0	0.0	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	12.0	-2.7	5.0	1.6	6.5	-0.1	1.0	0.0	1.0	-0.7	10.0	-1.0



Summary of Benchmarks (Cont.)

Summary of Benchmarks

	Ruffer - Absolute Return		Schroder - Property		State Street - Fundamental Indexation		UBS - Infrastructure	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	-	-	100.0	0.0	-	-
UK Equity	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-
UK Property	-	-	100.0	-0.3	-	-	-	-
Infrastructure	-	-	-	-	-	-	100.0	0.0
Private Equity	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	0.0	-	-	-	-	-	-
Cash	-	-	0.0	0.3	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-
Proportion of Total Assets	10.0	-1.5	10.0	1.3	17.5	0.4	1.0	-0.2

Benchmarks Summary Comment

The main points to note from this table are:

The L&G global equity mandate is benchmarked against the FTSE All World Index. Longview is benchmarked against a similar index (the MSCI All Countries). The FTSE All World Index covers around 2800 global firms, with a large or mid size market capitalisation and constitutes around 90%-95% of the world's investible markets. The index focuses on around 45 different countries, including 24 in the so called developed markets, and 21 in the emerging markets. The approximate allocations of the index to the regional stock markets is as follows: 7% UK, 55% US, 15% Europe, 6% Asia (ex Japan), 8% Japan and 9% emerging markets.

M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. The target shown is an assumed target based on the size of the initial allocation of the Fund made to the M&G Alpha Opportunities fund (absolute return bonds).

Performance Calculation Explanation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left(\left(1 + \text{Fund Performance} \right) / \left(1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months			-0.25%			0.96%	-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	0.34%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

