

East Sussex Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2016



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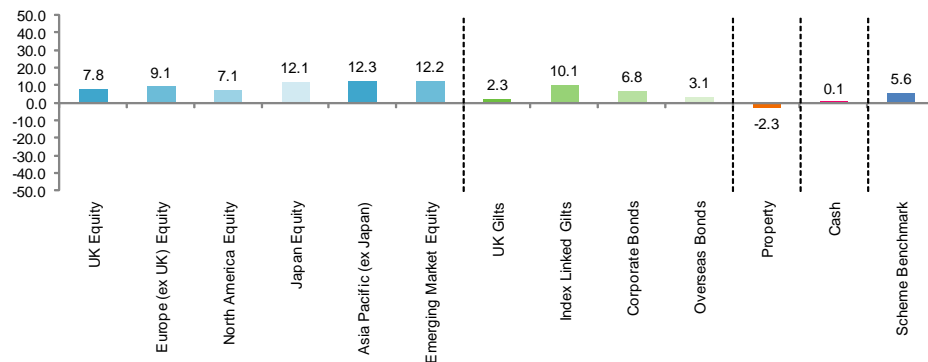
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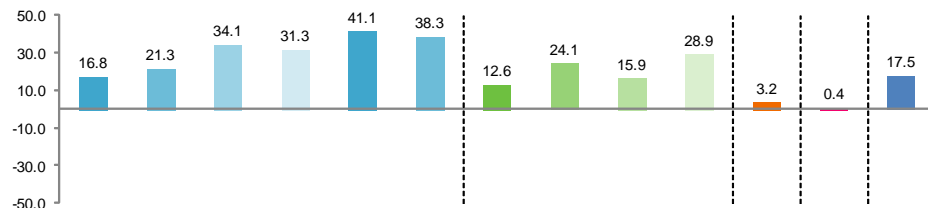
Historic Returns for World Market to 30 September 2016

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

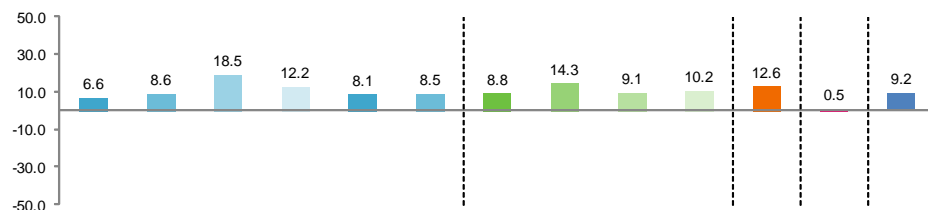
3 Months (%)



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

Global equity markets rose over the quarter – the FTSE All World index returned 5.1% in local currency terms. In the UK, the FTSE 100 rose by 7.1%, boosted by weak sterling and robust UK economic data.

Equities continued to be supported by accommodative monetary policy, although the direction of policy of the major central banks is diverging. Despite forecasting above-target inflation in the next couple of years, the Bank of England cut interest rates from 0.5% p.a. to 0.25% p.a. and extended its quantitative easing (QE) programme. Responding to intensifying deflation, the Bank of Japan reaffirmed its 2% p.a. inflation target and beefed up its own QE programme. In the US, following some signs of flagging economic momentum, the Fed voted (not unanimously) to leave interest rates unchanged in September, but left open the possibility of a rise before the end of the year.

Government bond yields reflected these divergences. 10-year US Treasury Bond yields rose over the quarter as investors priced in an above-evens chance of a rate rise in December. In contrast, the growing expectation that UK rates will not rise for several years saw 10-year gilt yields plunge as low as 0.6% p.a. in August.

UK property valuations, as measured by the IPD Monthly Index, took a post-referendum hit in July. They drifted lower at a more modest rate in August to stand around 4% below year-end levels.

Key events during the quarter included:

- The UK’s manufacturing PMI reached its highest level since June 2014 in September.
- Oil prices rallied at the end of the period as OPEC reached an agreement to cut production. Brent Crude finished the quarter little changed at \$49 per barrel.

Equities

- The strongest sectors relative to the FTSE All World Index were Technology (+7.6%) and Basic Materials (+4.2%); the weakest were Telecommunications (-6.5%) and Utilities (-7.6%).
- In local currency terms, the UK and Emerging Market equities were the strongest performers during the quarter whilst US equities lagged.

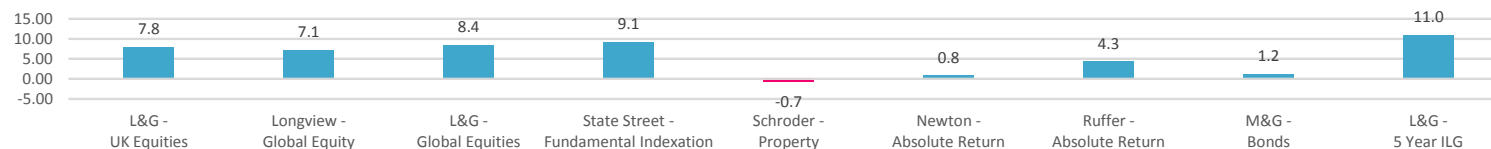
Bonds and currencies

- UK gilt yields fell (prices rose), with real yields falling further than nominal yields.
- UK investment-grade credit spreads continued to tighten, narrowing to their lowest levels for over a year.
- Sterling continued to weaken against the other major currencies, finishing close to its lowest trade-weighted level since Q1 2009.

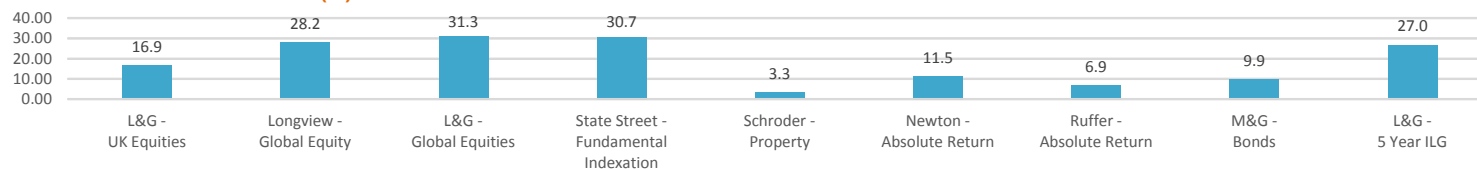


Summary of mandate absolute performance to 30 September 2016

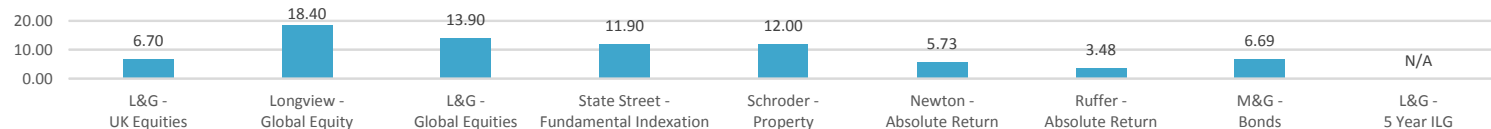
3 Month Absolute Performance (%)



12 Month Absolute Performance (%)



3 Year Absolute Performance (%)



Comments

This page 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)

Growth assets have performed strongly over the quarter, all delivering absolute returns of at least 7%. This has added to returns over longer time periods with L&G Global equities performing best over the past 12 months, returning 31.3%.

Diversification/Income oriented (Property/Absolute Return)

Government bond exposure and equities provided growth throughout the quarter. Newton had a disappointing quarter, but has outperformed Ruffer over longer time periods.

Protection (bonds)

Gilt yields fell further over the quarter as the Bank of England cut interest rates to 0.25%. This resulted in strong returns from bonds and index-linked gilts. Index linked gilts outperformed conventional gilts as sterling weakness bolstered inflation forecasts.

Fund Asset Allocation and Performance

Valuation Summary

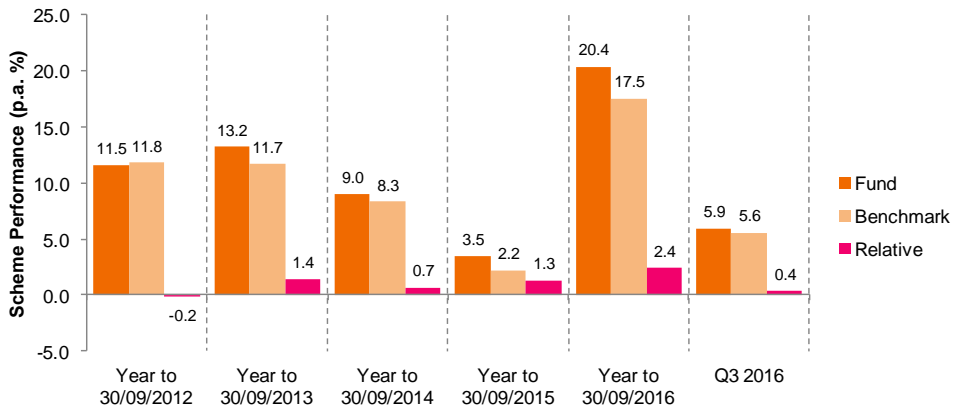
Asset Class	Value (£m)		Actual Proportion	Target Proportion	Re-balancing range %	Difference
	Q2 2016	Q3 2016	%	%		
Global Equity	1169.5	1268.9	40.8	38.0	45.0 - 55.0	2.8
UK Equity	273.5	294.9	9.5	12.0		-2.5
Fixed Interest	120.3	130.6	4.2	3.5	2.5 - 4.5	0.7
Index-Linked Gilts	163.7	181.6	5.8	5.0	4.0 - 6.0	0.8
Property	330.9	324.5	10.4	10.0	7.0 - 13.0	0.4
Infrastructure	51.0	51.0	1.6	2.0	0.0 - 4.0	-0.4
Private Equity	180.2	185.5	6.0	5.5	3.5 - 7.5	0.5
Absolute Return Funds	514.0	527.9	17.0	20.0	17.0 - 23.0	-3.0
Cash	58.2	63.9	2.1	0.0	-2.0 - 2.0	2.1
UK Financing Fund	8.6	8.3	0.3	1.0	0.0 - 2.0	-0.7
Absolute Return Bonds	68.1	70.5	2.3	3.0	2.0 - 4.0	-0.7
Total Client	2938.1	3107.5	100.0	100.0		

Fund performance [1]

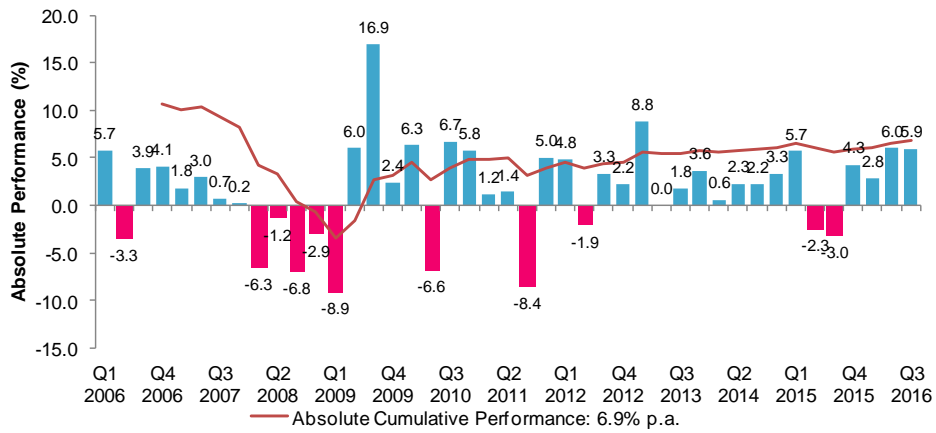
The Fund outperformed the aggregate benchmark during the third quarter of 2016, returning 5.9% in absolute terms. Over the 12 month period the Fund delivered a positive absolute return of 20.4% ahead of benchmark by 17.5%.

At a manager level, Ruffer's Absolute Return fund and Newton's Absolute Return fund outperformed over the quarter. However, this was partially offset by underperformance from Longview's Global Equity fund.

Performance Summary [1]



Absolute Quarterly and Absolute Cumulative Performance [iii]



[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 third 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.

All asset classes are within their re-balancing range with the exception of cash which lies slightly outside its range of -2.0% - 2.0%, comprising 2.1% of the fund.

The Fund's September 2016 Committee meeting included a dedicated session on the Fund's approach to Environmental, Social and Governance ("ESG") matters. The intention is to hold a further ESG session during 2017, which will follow up on the points raised in September, including what other pension funds are doing in this matter (most notably how Funds are dealing with the threat of climate change); industry developments (e.g. carbon-tilted passive mandate, measurement of carbon exposure); how ESG is embedded in managers' processes and identifying areas for further training.

[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)



Manager Structure

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2016	Q3 2016			
L&G - Global Equities	451.4	489.5	15.8	15.5	0.3
Longview - Global Equity	193.2	206.6	6.6	5.0	1.6
State Street - Fundamental Indexation	525.0	572.9	18.4	17.5	0.9
L&G - UK Equities	273.5	294.9	9.5	12.0	-2.5
Newton - Absolute Return	264.5	268.5	8.6	10.0	-1.4
Ruffer - Absolute Return	249.5	259.4	8.3	10.0	-1.7
L&G - 5yr ILG	163.7	181.6	5.8	5.0	0.8
M&G - Bonds	188.4	201.1	6.5	6.5	-0.0
Schroder - Property	331.8	324.5	10.4	10.0	0.4
M&G - Infrastructure Fund	28.6	28.8	0.9	1.0	-0.1
UBS - Infrastructure	22.5	22.1	0.7	1.0	-0.3
Adams Street - Private Equity	94.4	96.6	3.1	2.8	0.4
HarbourVest - Private Equity	85.9	88.9	2.9	2.8	0.1
M&G - UK Financing Fund	8.6	8.3	0.3	1.0	-0.7
Cash account	57.3	63.9	2.1	0.0	2.1
Total	2938.1	3107.5	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	8.4 8.5	7.1 8.4	9.1 9.3	7.8 7.8	0.8 0.1	4.3 0.1	11.0 11.0	6.8 4.9	-0.7 -0.7	5.9 5.6
	Relative	0.0	-1.2	-0.1	0.0	0.7	4.2	0.0	1.8	0.0	0.4
12 Months (%)	Absolute Benchmark	31.3 31.1	28.2 30.6	30.7 30.8	16.9 16.8	11.5 0.5 11.0	6.9 0.5 6.3	27.0 27.0	15.9 12.3	3.3 3.4	20.4 17.5
	Relative	0.2	-1.8	-0.1	0.1	0.0	6.3	0.0	3.2	-0.1	2.4
3 Years (% p.a.)	Absolute Benchmark	13.9 13.8	18.4 13.2	11.9 12.0	6.7 6.6	5.7 0.5	3.5 0.5	15.7 15.7	8.6 6.6	12.0 11.4	10.7 9.2
	Relative	0.1	4.6	-0.1	0.1	5.2	3.0	0.0	1.9	0.6	1.5
10 Years (% p.a.)	Absolute Benchmark	10.9 10.9	18.6 11.8	10.3 10.4	5.8 5.6	5.7 0.6	5.4 0.6	N/A N/A	6.8 4.9	8.6 8.1	6.8 6.0
	Relative	0.1	6.1	-0.1	0.2	5.1	4.9	N/A	1.8	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. In Q2 2016, total fund performance was calculated excluding private market investments. Q3 2016 total fund performance has been calculated using estimated valuations for 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	8.4 8.5	7.0 8.4	9.1 9.3	7.8 7.8	0.6 0.1	4.1 0.1	10.9 11.0	6.7 4.9	-0.8 -0.7	5.9 5.6
	Relative	0.0	-1.3	-0.1	0.0	0.5	4.0	-0.1	1.7	-0.1	0.3
12 Months (%)	Absolute Benchmark	31.2 31.1	27.5 30.6	30.6 30.8	16.9 16.8	10.9 0.5 10.3	6.0 0.5	26.5 27.0	15.5 12.3	3.1 3.4	20.0 17.5
	Relative	0.1	-2.4	-0.2	0.0	0.5	5.5	-0.3	2.8	-0.3	2.1
3 Years (% p.a.)	Absolute Benchmark	13.8 13.8	17.7 13.2	11.8 12.0	6.6 6.6	5.1 0.5	2.7 0.5	15.4 15.7	8.2 6.6	11.8 11.4	10.4 9.2
	Relative	0.0	4.0	-0.2	0.1	4.6	2.2	-0.3	1.6	0.4	1.1
10 Years (% p.a.)	Absolute Benchmark	10.8 10.9	18.0 11.8	10.3 10.4	5.8 5.6	5.1 0.6	4.6 0.6	N/A N/A	6.6 4.9	8.3 8.1	6.6 6.0
	Relative	0.0	5.6	-0.1	0.1	4.5	4.1	N/A	1.6	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 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. In Q2 2016, total fund performance was calculated excluding private market investments. Q3 2016 total fund performance has been calculated using estimated valuations for private market investments.



Legal and General - UK and Global Equities

HR View Comment & Rating



We rate Legal and General Investment Management's market cap and fundamental index-tracking equity capability at '5 – Preferred strategy'.

In October LGIM announced some changes to the standard conditions for its unit-linked pooled life fund insurance policies. We have reviewed these changes and are comfortable that they bring LGIM's conditions into line with industry practice and may provide some marginal benefit to clients in certain pricing scenarios. Clients are not required to take any action in respect of these changes.

Performance Attribution Comment

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

The UK equity fund delivered a positive absolute return of 7.8% over Q3. Long term fund performance remains positive and broadly in line with the benchmark at both 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 8.4% over the quarter, broadly in line with the benchmark. Over the 3 year period, 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	7.8	16.9	6.7	5.8
Benchmark	7.8	16.8	6.6	5.6
Relative	0.0	0.1	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	8.4	31.3	13.9	10.9
Benchmark	8.5	31.1	13.8	10.9
Relative	0.0	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



We rate Legal and General Investment Management's passive fixed income capability at '5 – Preferred strategy'.

In October LGIM announced some changes to the standard conditions for its unit-linked pooled life fund insurance policies. We have reviewed these changes and are comfortable that they bring LGIM's conditions into line with industry practice and may provide some marginal benefit to clients in certain pricing scenarios. Clients are not required to take any action in respect of these changes.

Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	11.0	27.0	15.7
Benchmark	11.0	27.0	15.7
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.

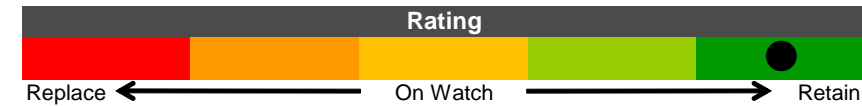
The fund delivered a positive absolute return of 11.0% over the quarter. Significant volatility in equity markets throughout 2016 has resulted in investors favouring the defensive qualities of government bonds, causing yields to fall and driving prices higher.

Source: [i] DataStream, Hymans Robertson



State Street - Fundamental Indexation

HR View Comment & Rating



We rate State Street's market cap and fundamental index-tracking equity capability at '5 – Preferred strategy'.

State Street announced in July that it had completed its acquisition of General Electric Asset Management. This move demonstrates State Street's ambitions to grow its active management business, though we do not expect it 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.

Performance Attribution Comment

Over the quarter, State Street's Fundamental Indexation Fund underperformed its benchmark returning a positive absolute value of 9.1%. The fund remains broadly in line with the benchmark over the longer term.

Performance Summary - Table

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	9.1	30.7	11.9	10.3
Benchmark	9.3	30.8	12.0	10.4
Relative	-0.1	-0.1	-0.1	-0.1

* Inception date 06 Aug 2013.

Longview - Global Equity

HR View Comment & Rating



We rate Longview's Global Equity strategy at '5 – Preferred manager'.

In September Longview announced that senior management had decided that Nigel Masding, one of its longer serving research analysts (6 years), should retire from the partnership. Our understanding is that Masding's work had become increasingly centred around his macro views and efforts to shift his focus back to fundamental stock research proved unsuccessful. The departure of a senior research analyst is unsettling but we have confidence that the team can absorb the departure in terms of resource and should be able to recruit successfully.

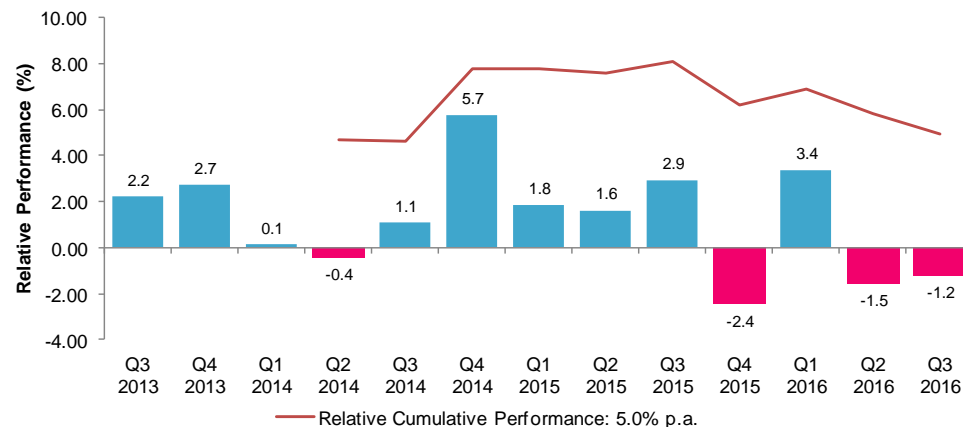
Performance Attribution Comment

Over the quarter Longview posted strong returns of 7.1% falling short of the benchmark return of 8.4%. The mandate is behind benchmark over 12 months, but over longer time periods has outperformed the MSCI All Countries World benchmark.

Technology holdings were the main drivers of performance over the quarter with software company SAP contributing to relative returns on news of strong sales figures. UK based advertising group WPP also outperformed, due to its exposure to dollar revenues and the weakening of sterling. Other contributors over the period were industrial company, Parker Hannifin and auto-parts manufacturer Delphi.

The main detractor from relative performance was zero exposure to tech stocks such as Apple, Google and Facebook which performed strongly over the quarter along with the sector as a whole. Technology solutions company, Fiserv also detracted from performance following a cut in revenue growth expectations for the year. US bank, Wells Fargo suffered a poor quarter amid scandal that a number of its employees had opened additional fee paying bank accounts without permission from its customers. The firm was fined \$185 million, and although not a significantly large sum, Longview believe the reputational damage will have a longer term impact and will consider this in their forecasts going forward.

Relative Quarterly and Relative Cumulative Performance [i]



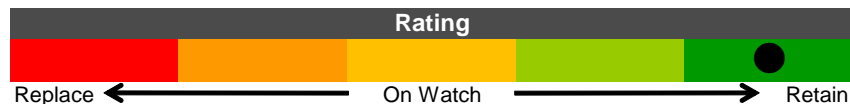
Performance Summary to 30 September 2016 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	7.1	28.2	18.4	18.6
Benchmark	8.4	30.6	13.2	11.8
Relative	-1.2	-1.8	4.6	6.1

* Inception date 16 Apr 2013.

Ruffer - Absolute Return

HR View Comment & Rating



Ruffer confirmed that Paula Walter will join in November as Chief Operating Officer, replacing Dave Francis who is retiring after 5 years with the firm. Walter is currently Chief Technology Officer at Newton Investment Management and joined the firm in 2014 having spent 14 years at Goldman Sachs Asset Management. We do not expect this change to have any material effect on the running of the Fund.

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

Performance Attribution Comment

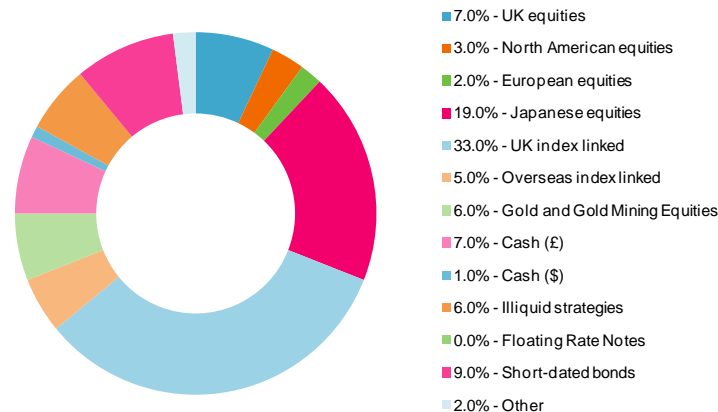
Ruffer's absolute return fund outperformed the cash benchmark by 4.2% over the third quarter of 2016. Fund performance is comfortably ahead of the benchmark over all longer time periods considered.

The fund's UK inflation-linked bond holdings were the main contributor to performance over the quarter. The Bank of England announced a cut to the base rate; prices rose as a result of yields falling further and the weaker pound provoked fears of higher inflation. Contrasting with a poor first half of 2016, Japanese equities increased in value as the Bank of Japan attempted to reduce the impact of the negative interest rates introduced earlier in the year.

This outperformance was partially offset by the fund's protective options positions which were affected by strengthened equity markets and falling yields. Ruffer's Multi-Asset Strategies Fund was another detractor from relative performance as subdued levels of market volatility slightly reduced the value of the holding.

The manager maintains its exposure to gold as protection against a loss of confidence in central banks, and small positions in US Dollar and Japanese Yen to hedge against sterling falling further.

Asset Allocation



Performance Summary to 30 September 2016 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.3	6.9	3.5	5.4
Benchmark	0.1	0.5	0.5	0.6
Relative	4.2	6.3	3.0	4.9

* Inception date 06 May 2010.

Newton - Absolute Return

HR View Comment & Rating



We rate Newton at '5 - Preferred manager'.

In August, Newton announced that Helena Morrissey (the current CEO) is moving to the role of non-executive chair on the board of directors. Hanneke Smits has been appointed as the new CEO and the handover is expected to be completed over the next few months (BNY Mellon's Mitchell Harris is acting as interim CEO over the handover period). Smits previously served as CIO of Adam Street Partners and has strong credentials in the private equity area. Although this role is a significant step for Smits given her background, we are comfortable with this change. We have been monitoring developments and met with Peter Hensman (who provides input as a global strategist) and Phillip Shucksmith (who provides input on credit and infrastructure) in Q2. We are comfortable with the recent changes within the team, as Iain Stewart remains the key decision maker for the strategy and because there is a clear 'Newton' approach to investing which continues to be demonstrated by all members of the team.

Performance Attribution Comment

The Newton fund delivered a positive absolute return of 0.8% over the quarter, slightly behind its performance target (4% over cash). However, the fund remains ahead of its performance target over 1 and 3 year periods.

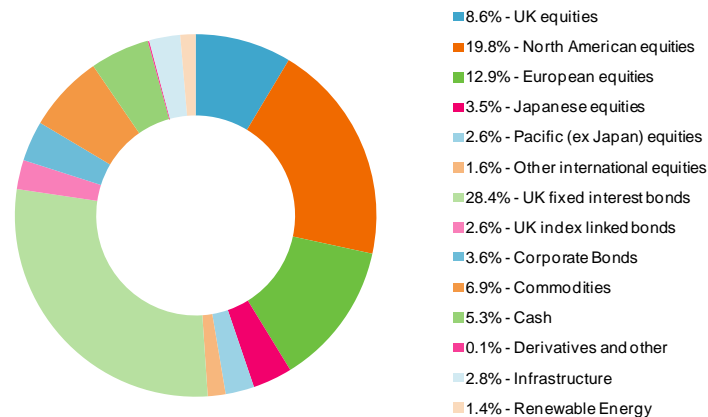
The third quarter was a strong environment for risk assets as equities rallied. As a result the fund's return-seeking core provided the largest contribution to performance, with equity holdings in the technology, media and industrial sectors amongst the top performers. The fund's positive return was also partly founded on strong performance by its government bond exposure, with higher-yielding corporate bond holdings also beneficial. On the downside currency hedging back to sterling was a cost to the fund as sterling continued to weaken. Derivative protection against the S&P 500 index was also detrimental to returns as were some of the fund's healthcare stocks.

Over the quarter Newton sold out of a number of equity positions that had produced strong recent returns. With the proceeds, Newton implemented allocations in food and beverage firm Suntory, semiconductor manufacturer Maxim Integrated and Adecco, an international employment business. Newton also restructured its exposure to commodities/precious metals over the quarter by crystallising some of the profits on the fund's gold mining equities. Newton remains a believer that the current market environment requires a focus on capital preservation rather than the pursuit of short-term gains. Consequently, the fund remains very defensively positioned. Newton expects fundamental analysis will once again come to the fore (as opposed to markets being driven by central-bank interventions) and therefore patience should prove beneficial.

The fund maintains a high level of derivatives protection. On a notional basis, 15% of the Fund's equity positions are protected.

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

Asset Allocation [i]



Performance Summary to 30 September 2016 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.8	11.5	5.7	5.7
Benchmark	0.1	0.5	0.5	0.6
Relative	0.7	11.0	5.2	5.1

* Inception date 06 May 2010.

M&G - Bonds

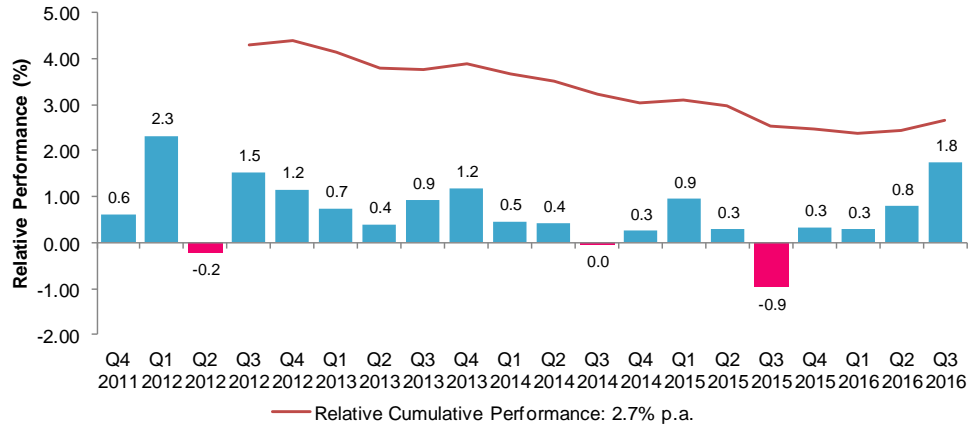
HR View Comment & Rating



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

The Alpha Opportunities fund delivered a positive absolute return of 3.4% over the quarter outperforming the LIBOR benchmark. The Corporate Fund also delivered a small outperformance, returning 8.7%.

Following the EU Referendum at the end of June, there was a temporary sell-off in markets which was short lived. The Bank of England introduced further quantitative easing (including a £10bn purchase of corporate bonds) and cut the base rate by 0.25%. This action saw sterling corporate bond markets outperform their European and US counterparts. However, uncertainty around the future of the UK's trade relationships across the globe weakened the pound further.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 1.8%. The aggregate performance is ahead of benchmark over the longer periods of three and five years.

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

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	6.8	15.9	8.6	8.6
Benchmark	4.9	12.3	6.6	5.8
Relative	1.8	3.2	1.9	2.7

[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]

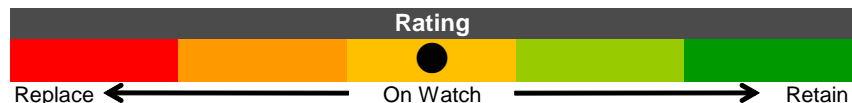
		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	8.7	3.4	6.8
	Benchmark	7.8	0.1	4.9
	Relative	0.8	3.3	1.8
12 Months (%)	Absolute	21.9	6.2	15.9
	Benchmark	19.8	0.5	12.3
	Relative	1.7	5.7	3.2
3 Years (% p.a.)	Absolute	11.9	3.4	8.6
	Benchmark	11.1	0.5	6.6
	Relative	0.7	2.9	1.9
5 Years (% p.a.)	Absolute	10.8	5.1	8.6
	Benchmark	9.9	0.5	5.8
	Relative	0.8	4.6	2.7

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. Whilst Schroder RECaP has completed its recruitment and now has a new team in place, we retain concerns relating to the relationship between RECaP and the broader Schroder business and wish to meet further with the full team to establish how the new team dynamics have developed. We therefore retain our rating at "3: On Watch" at this time, subject to further review. Over the longer term, we regard the threat posed by LGPS pooling to be significant to the Schroder RECaP business. We consider Schroder to be in a weaker position than its peers and an unfavourable outcome from pooling could see the viability of the business in its current form being challenged.

There were no further developments over the quarter.

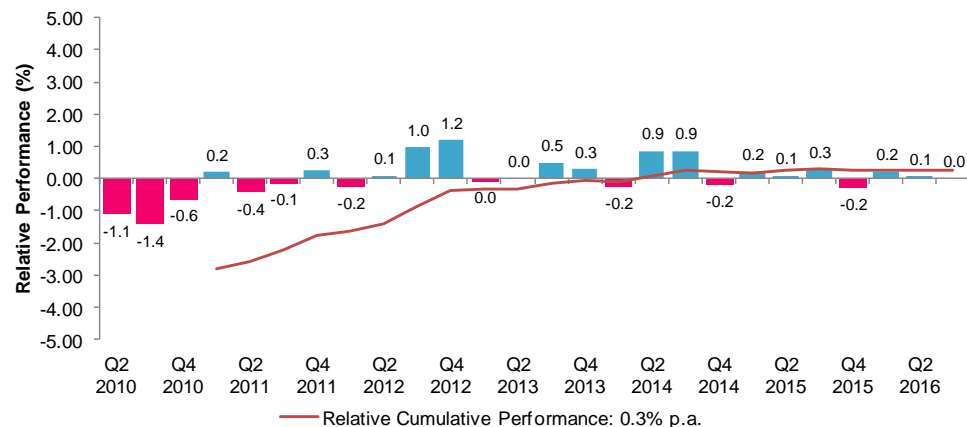
Performance Attribution Comment

Schroders property fund returned -0.7% in absolute terms, in line with the IPD All Balanced Fund benchmark. Over the 12 month period, the fund marginally underperformed the benchmark however over all longer periods considered, the fund remains ahead of benchmark.

Following the EU Referendum, several underlying funds within the mandate made market value adjustments, however many were then removed during the quarter. In particular, following the substantial fair value adjustments (FVAs) that were made at the end of last quarter, the L&G Managed Property Fund was one of the main contributors over Q3 as the 5% discount was removed. Alternative sectors such as student accommodation and healthcare performed strongly over the quarter and within the portfolio, the Schroder Real Estate Real Income Fund (which is exposed to these sectors) was one of the main contributors.

Weakening investor sentiment due to increased uncertainty, had a negative impact on the overall performance of the property sector. Although the portfolio held some cash over the quarter, the manager believes that these proceeds can be utilised in the future to invest quickly in opportunities at attractive prices.

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 30 September 2016 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.7	3.3	12.0	8.6
Benchmark	-0.7	3.4	11.4	8.1
Relative	0.0	-0.1	0.6	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	2.8	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.5	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.7	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.8	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	0.2	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-0.4	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.5	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-3.0	-	-	-	-	-	-	-	-	-	-
Cash	0.0	2.3	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.7	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.7	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.4	0.0	2.1	2.8	0.1	5.0	0.8	15.5	0.3

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	2.4	-	-	-	-	-	-
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	-2.5	5.0	1.6	6.5	0.0	1.0	-0.1	1.0	-0.7	10.0	-1.4

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	-2.6		-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-	100.0	-	0.0
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	-	0.0	-	-	-	-	-	-	-	-	-
Cash	-	-	-	0.0	2.6		-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	10.0	-1.7		10.0	0.4		17.5	0.9		1.0	-0.3	

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), 9% Japan and 8% 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.

