East Sussex Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2017

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For and on behalf of Hymans Robertson LLP

August 2017

Contents

Hymans Robertson LLP

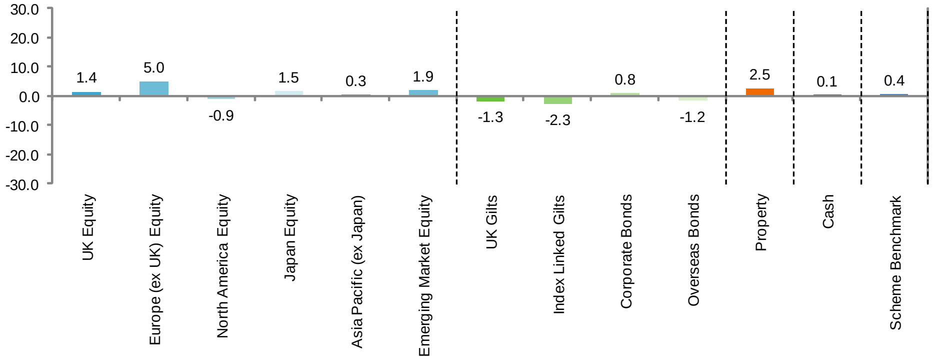
Capital Market Outlook

	March 2017	June 2017	Comment
Index-linked gilts	Negative	Negative	Modest Rise in real yields, however still remain at low levels. We expect real yields to closely follow nominal yields over 2017, with higher levels of inflation already baked into pricing.
Conventional gilts	Negative	Negative	Whilst recent momentum may point to higher yields on the horizxon, sluggish growth in the UK and continued uncertainty surrounding Brexit eases some pressure on the BoE to raise interest rates in the near future. Either way, there is little value in current yields and future returns are expected to be low.
Sterling non-government bonds	Cautious	Cautious	Yield spreads have moved below long-term average lows. Technicals remain supportive in the short term, however the start of the rates normalisation and the potential impact of the unwinding of QE should act as a break on further spread compression and may ultimately pose a risk of spread widening. We continue to prefer the floating nature of ABS, which benefits from the additional credit spread.
Equities	Cautious	Cautious	The equity rally still has wind in its sails and there is greater bullishness in markets due to a resurgence in earnings growth. However, global equities continue to be trading at elevated prices compared to historical averages. With market volatility remaining low and other assets looking equally fully priced, this may be a time to look at structured equity strategies.
UK property	Neutral	Neutral	Yields across sectors are relatively stable with industrials and some alternative sectors trending stronger and retail and offices mostly stable with some weakening in certain locations. Current Yields remain low relative to their long term average, but continue to provide a reasonable absolute level of income and a buffer relative to gilts and corporate bonds to absord the risk of rates rising or a lack of (or even negative) rental growth.
Absolute Return Strategies	Neutral	Neutral	In an environment of market volatility (or risk market volatility), cash provides flexibility to capture more attractive buying opportunities. While volatility remains low, it will be hard for multi-asset managers to display significant alpha from tactical asset allocations. However, with many assets looking stretched on valuation managers will look to benefit from market

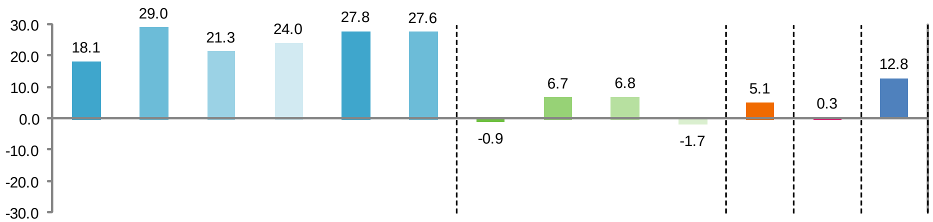
Historic Returns for World Market to 30 June 2017

Historic Returns - Chart 1 [1] [i]

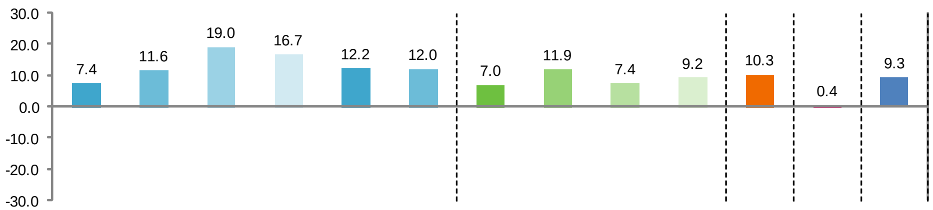
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Comment

The economic weather followed a similar pattern to Q1. Survey data pointed to decent momentum in global growth. This was generally reflected in hard data from the Eurozone and Japan, but there were signs that any rebound from disappointing Q1 growth in the UK and US might be subdued.

The Federal Reserve raised US interest rates again in June, to a range of 1-1.25% p.a., ignoring unexpected weakness in short-term inflation data. They also indicated their intention to start unwinding their QE programme later in the year.
Headline inflation in the UK continued to rise, with May's UK CPI inflation of 2.9% p.a. as high as it has been for over five years. The BoE has held rates at 0.25% p.a., citing the moderation in pay growth. Three members of the MPC (out of 8) voted for a rate rise in June, and markets have adjusted to imply a better than evens chance of a rate rise before the end of the year.

Gilt yields rose over the quarter. A rise after the announcement of the election in mid-April had been quickly unwound, but yields rose again at the end of June as investors grew more concerned about the possibility of tighter monetary policy.

Sterling investment-grade credit markets had another good quarter relative to gilts – yield spreads on AA-rated bonds hit their lowest levels for over 12 years. Across global credit markets, lower-rated credit led the gains. In the US, the yield premium on speculative grade BB-rated bonds relative to investment-grade AA-rated bonds is as low as it has been since the early days of the credit crunch.

Within currency markets, the euro strengthened against the US dollar and the yen. Sterling fared relatively well in spite of post-election uncertainties towards the end of the quarter.

Brent crude fell from $53 to $48 a barrel over the quarter, erasing most of the gains that followed OPEC's announcement of an output cut last November.

Global equity indices rose over the quarter, establishing new all-time highs in June, while levels of volatility implied by options markets fell to new lows. However, sterling's strength towards the end of June offset earlier gains.
The best regional performance came from Japan and Europe, both perhaps boosted by their robust economic momentum. Global equity sector performance was again dominated by the weakness of Oil & Gas. Outperformance from the Healthcare sector reflected the more general outperformance of growth stocks relative to value stocks – a reversal of the trend of late 2016.

UK property values continued to edge higher in Q2, but remain a little below pre-referendum levels. The strongest gains are still coming from the industrial sector, where rental growth is also slightly ahead of a modest overall rise.

[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.

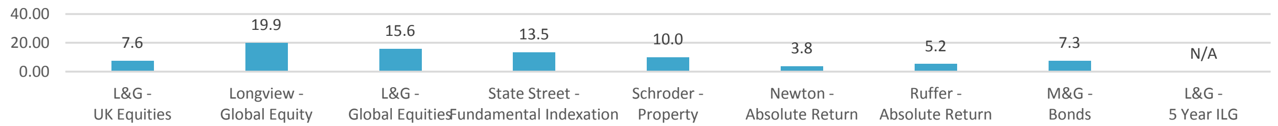
Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Summary of mandate absolute performance to 30 June 2017

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)

The Fund's equity mandates were broadly flat in Sterling terms over the quarter. All of the Fund's equity mandates delivered strong absolute returns over the year ended 30 June 2017 and three year period.

Diversification/Income oriented (Property/Absolute Return)

Gilt yields rose over the quarter (causing prices to fall) but the absolute return funds were buoyed to an extent by equity performance. Newton outperformed the LIBOR benchmark over the quarter, however, Ruffer lagged the benchmark.

Protection (Bonds)

Over the second quarter of 2017, gilt yields rose as investors became increasingly concerned about the possibility of tighter monetary policy. This had a negative impact on the absolute value of the Fund's bond holdings. The M&G mandate performed better due to the absolute return component of their benchmark.

Fund Asset Allocation and Performance

Valuation Summary

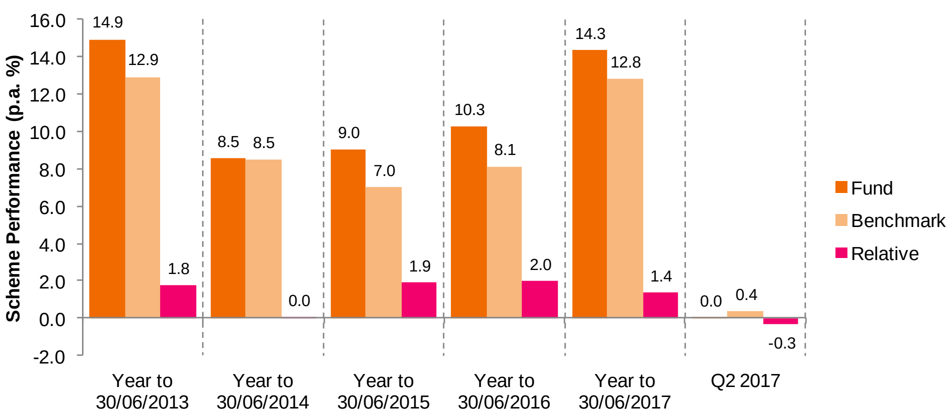
Asset Class	Value (£m) Q1 2017	Value (£m) Q2 2017	Actual Proportion %	Target Proportion %	Re-balancing range %	Difference
Global Equity	1443.3	1442.7	43.0	38.0	45.0 - 55.0	5.0
UK Equity	319.7	324.3	9.7	12.0		-2.3
Fixed Interest	129.2	130.4	3.9	3.5	2.5 - 4.5	0.4
Index-Linked Gilts	179.7	175.3	5.2	5.0	4.0 - 6.0	0.2
Property	336.0	342.2	10.2	10.0	7.0 - 13.0	0.2
Infrastructure	36.8	30.3	0.9	2.0	0.0 - 4.0	-1.1
Private Equity	191.3	188.2	5.6	5.5	3.5 - 7.5	0.1
Absolute Return Funds	578.7	581.1	17.3	20.0	17.0 - 23.0	-2.7
Cash	53.1	68.3	2.0	0.0	0.0 - 2.0	2.0
UK Financing Fund	5.2	2.0	0.1	1.0	0.0 - 2.0	-0.9
Absolute Return Bonds	72.3	73.3	2.2	3.0	2.0 - 4.0	-0.8
Total Client	**3345.4**	**3358.1**	**100.0**	**100.0**		

Fund performance [1]

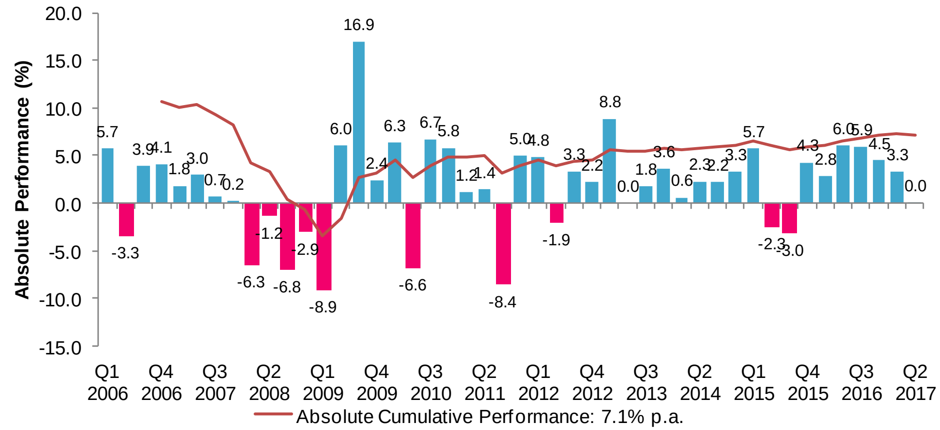
Over the quarter to end June 2017, the Fund returned 0.0%, lagging the aggregate benchmark by -0.4%. Over the longer time periods considered, the Fund has outperformed the aggregate benchmark.

Ruffer's Absolute Return Fund lagged its benchmark as did the L&G Global Equity fund and the 5yr Index-Linked Gilt fund. Offsetting this slightly was Newton's Real Return fund, Schroder's property mandate, Longview's Global Equity fund and M&G bonds which all outperformed over the quarter. The estimated performance of the Funds' private market investments over the quarter detracted from overall Fund performance.

Performance Summary [i]



Absolute Quarterly and Absolute Cumulative Performance [ii]



[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

Over the quarter to 30 June 2017, there were no changes to manager ratings. We will continue to monitor developments closely.

The Fund continues to be underweight to UK Equities and both the absolute return funds. Global Equity and cash are overweight. All asset classes are within their re-balancing range therefore we do not propose any rebalancing activity.

[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) Q1 2017	Value (£m) Q2 2017	Actual Proportion %	Target Proportion %	Difference %
L&G - Global Equities	552.2	554.6	16.5	15.5	1.0
Longview - Global Equity	233.3	235.8	7.0	5.0	2.0
State Street - Fundamental Indexation	657.8	652.4	19.4	17.5	1.9
L&G - UK Equities	319.7	324.3	9.7	12.0	-2.3
Newton - Absolute Return	286.3	290.0	8.6	10.0	-1.4
Ruffer - Absolute Return	292.3	291.1	8.7	10.0	-1.3
L&G - 5yr ILG	179.7	175.3	5.2	5.0	0.2
M&G - Bonds	201.6	203.7	6.1	6.5	-0.4
Schroder - Property	336.1	342.2	10.2	10.0	0.2
M&G - Infrastructure Fund	14.0	7.9	0.2	1.0	-0.8
UBS - Infrastructure	22.8	22.4	0.7	1.0	-0.3
Adams Street - Private Equity	101.6	96.3	2.9	2.8	0.1
HarbourVest - Private Equity	89.8	92.0	2.7	2.8	-0.0
M&G - UK Financing Fund	5.2	2.0	0.1	1.0	-0.9
Cash account	53.1	68.3	2.0	0.0	2.0
Total	**3345.5**	**3358.1**	**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 (net of fees)

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

Period		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	0.4	1.1	-0.8	1.4	1.1	-0.7	-2.5	0.9	2.4	-0.0
	Benchmark	0.5	0.4	-0.8	1.4	0.1	0.1	-2.4	0.3	2.3	0.4
	Relative	-0.1	0.7	0.0	0.0	1.0	-0.8	-0.1	0.6	0.1	-0.4
12 Months (%)	Absolute	22.8	22.1	24.2	18.5	-1.4	6.5	6.8	7.8	5.9	14.0
	Benchmark	23.0	22.2	24.5	18.1	0.3	0.3	7.1	4.1	6.0	12.8
	Relative	-0.2	-0.1	-0.2	0.3	-1.6	6.2	-0.3	3.6	-0.1	1.1
3 Years (% p.a.)	Absolute	15.5	19.1	13.4	7.5	3.1	4.3	8.4	6.9	9.8	10.8
	Benchmark	15.6	14.9	13.5	7.4	0.4	0.4	8.7	5.2	9.5	9.3
	Relative	0.0	3.7	-0.1	0.1	2.7	3.9	-0.3	1.6	0.3	1.4
10 Years (% p.a.)	Absolute	11.6	18.3	11.9	6.3	4.2	4.6	N/A	7.3	8.4	6.5
	Benchmark	11.6	12.8	12.0	6.2	0.5	0.5	N/A	5.4	8.2	5.7
	Relative	0.0	4.9	-0.1	0.1	3.7	4.0	N/A	1.8	0.2	0.7

[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. From Q3 2016 total fund performances has been calculated using estimated valuations for private market investments.

Source: [i] DataStream, Hymans Robertson

Legal and General - UK and Global Equities

HR View Comment & Rating

We rate Legal & General Investment Management's index-tracking equity capability at '5 - Preferred strategy'.

There were no significant developments over the quarter.

L&G UK Fund Performance [i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.4	18.5	7.6	6.4
Benchmark	1.4	18.1	7.4	6.2
Relative	0.0	0.4	0.2	0.2

* Inception date 21 November 2007

Performance Attribution Comment

Both the Legal & General equity funds performed in line with their respective benchmarks over the quarter, as expected from passive mandates.

The UK fund returned 1.4% over the quarter. Over all longer periods considered, the mandate remains broadly in line with its benchmark. The UK equity market continues to lag its global counterpart.

The Global equity fund returned 0.4% over the second quarter of 2017, broadly in line with its benchmark. Over the 12 month, 3 year periods and since inception, the fund remains broadly in line with the benchmark.

L&G Global Fund Performance [ii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.4	22.9	15.6	11.7
Benchmark	0.5	23.0	15.6	11.6
Relative	0.0	-0.1	0.1	0.1

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

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

Legal and General - 5 year ILG

HR View Comment & Rating

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

There were no significant developments over the quarter.

Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-2.4	7.1	8.7
Benchmark	-2.4	7.1	8.7
Relative	0.0	0.0	0.0

* Inception date 11 Mar 2015.

Performance Attribution Comment

The Index-Linked Gilt fund delivered a negative performance of -2.4% over the quarter (in line with its benchmark) as yields rose, causing prices to fall. Over the 12 month period and since its inception, the fund remains in line with benchmark.

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'.

There were no significant changes over the quarter.

Performance Summary - Table

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.8	24.3	13.5	12.0
Benchmark	-0.8	24.5	13.5	12.0
Relative	-0.0	-0.2	-0.0	-0.1

* Inception date 06 Aug 2013.

Performance Attribution Comment

State Street's Fundamental Indexation Global Equity Fund returned -0.8% over the second quarter of 2017, in line with its benchmark, as expected from a passively managed fund. Over all longer periods considered, the fund remains broadly in line with benchmark.

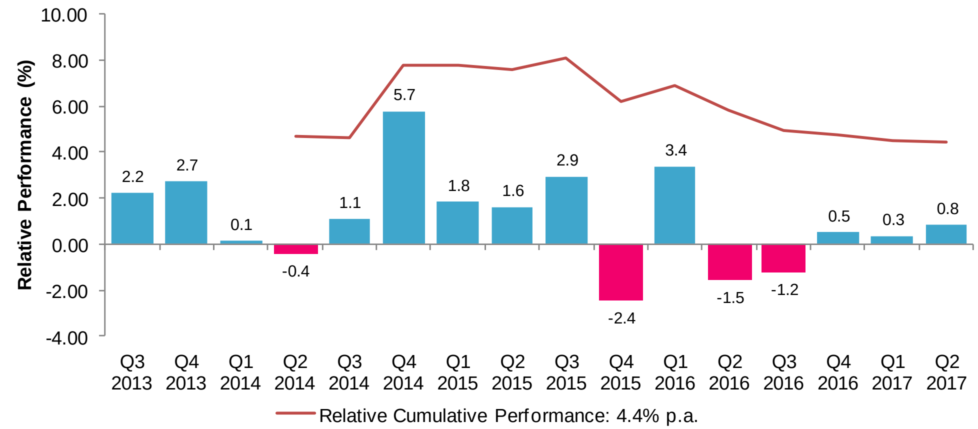
Longview - Global Equity

HR View Comment & Rating

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

There were no significant developments over the quarter to end June 2017.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Attribution Comment

The global equity portfolio returned 1.2% over the quarter, comfortably ahead of the benchmark. Performance over all longer periods considered remains ahead of the MSCI World Index benchmark.

One of the main contributors to relative outperformance during Q2 was the portfolio’s underweight exposure to typically "stable" sectors Utilities, Telecoms and Consumer Staples, all of which performed poorly. The fund's exposure to the Healthcare and Financial sectors contributed to performance. At stock level, Aon, UnitedHealth and Oracle were among the best performing holdings with all three publishing better than expected Q1 results. In particular, Aon’s new plan to drive margins higher through cost cutting led to an increase in stock price and Oracle’s positive results coming from its cloud business, an area of concern over previous years, gave rise to its strong quarter.

Offsetting this outperformance over the quarter was exposure to industrial supply company WW Grainger, health services company MEDNAX and residential service provider, ServiceMaster. WW Grainger announced more plans to reduce prices amid concerns over competition from Amazon. Longview remain confident that the company's sales will increase in the long term. In addition, low birth rates and higher than expected costs caused MEDNAX to announce disappointing Q1 results. ServiceMaster also detracted from portfolio performance after higher than expected marketing expenses and poor growth in one of their key business areas.

Performance Summary to 30 June 2017 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.2	22.9	19.9	18.9
Benchmark	0.4	22.2	14.9	12.8
Relative	0.8	0.5	4.3	5.4

* Inception date 16 Apr 2013.

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

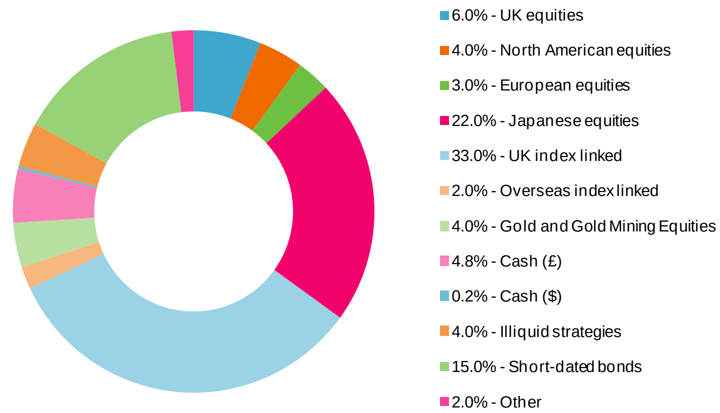
Ruffer - Absolute Return

HR View Comment & Rating

There were no significant developments over the quarter.

We continue to rate Ruffer's Absolute Return Fund '5 - Preferred manager'.

Asset Allocation



Performance Attribution Comment

Over the quarter to end June 2017, the absolute return fund underperformed its cash benchmark, returning -0.5%. Over all longer periods considered, the fund has outperformed the cash benchmark and its target.

The main performance detractor over the quarter was the fund's exposure to long-dated index-linked gilts. UK index-linked gilt yields rose (prices fell) over the quarter, as did conventional bonds as Mark Carney hinted at the possibility of the Bank of England increasing interest rates despite signs of weakness in the UK economy. Gold and gold equities also detracted from returns over the quarter as the price of gold fell. At individual stock level, exposure to retail store Tesco had a negative impact on performance as the share price dropped over the quarter.

However, the fund's Japanese equities contributed to performance over the quarter given Japan's economic strength and robust global trade. In particular, exposure to Sony and Nomura Real Estate contributed. Other equities, particularly in the financial sector also had a positive impact on performance as UK banks benefitted from rising interest rates.

Performance Summary to 30 June 2017 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.5	7.3	5.2	5.4
Benchmark	0.1	0.3	0.4	0.5
Relative	-0.6	7.0	4.7	4.8

* Inception date 06 May 2010.

Source: [i] DataStream, Hymans Robertson

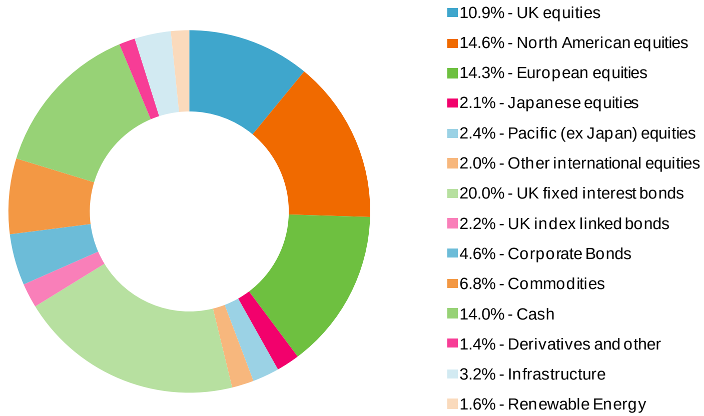
Newton - Absolute Return

HR View Comment & Rating

Newton has announced that Peter Hensman, a macroeconomic strategist in the Real Return team, has left the firm to pursue other opportunities. Hensman joined the team in June 2016 and provided macroeconomic support for Iain Stewart. Hensman is replaced by Brendan Mulhern, who has transferred over from the research team at Newton. We are cautious about this development and are to meet the team in August for an update to help us assess whether the current rating for the fund remains appropriate.

We continue to rate Newton's Real Return Fund '5 - Preferred manager'.

Asset Allocation [i]



Performance Attribution Comment

Newton's Real Return fund outperformed the benchmark over the quarter, returning 1.2%. Performance over the 12 month period lagged the benchmark but the fund continued to outperform the LIBOR benchmark over 3 years and since inception.

Exposure to global equities was the main contributor to performance over the quarter, particularly in Japan and Europe. Health-Care and Consumer Goods were among the best performers at sector level with Japan Tobacco, RELX and Vivendi all announcing strong returns. The technology sector also benefited from a strong quarter, with CA Technologies among the top contributors, aided by news of a potential takeover bid from BMC Software. In addition, the fund's exposure to Infrastructure, Renewable Energy and Corporate Bonds also positively impacted relative performance.

Uncertainty surrounding future actions of the European Central Bank negatively impacted government bonds and gold holdings, detracting from fund performance. However, Newton remain positive about both exposures, with gold being used to hedge against currency movements. Going forward, to ensure positive returns while such a high level of uncertainty exists in the markets, the manager continues to maintain a cautious stance in the portfolio.

Performance Summary to 30 June 2017 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.2	-0.8	3.8	4.8
Benchmark	0.1	0.3	0.4	0.5
Relative	1.1	-1.0	3.3	4.3

* Inception date 06 May 2010.

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

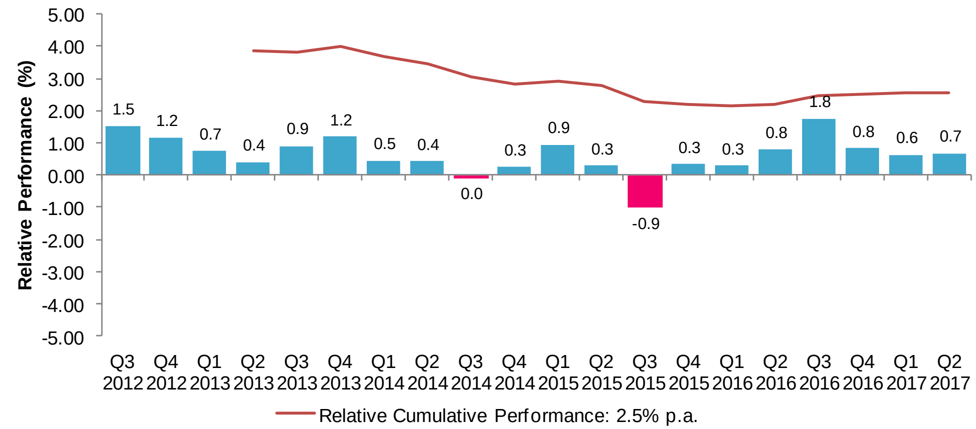
M&G - Bonds

HR View Comment & Rating

There were no significant changes to report during the quarter to 30 June 2017.

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 portfolios 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.

Over the quarter credit spreads tightened further (driving corporate prices upwards) across major developed markets.

On 3rd May 2017, the Fund's segregated bond mandate was terminated and all holdings were transferred into a pooled bond fund made up of the same underlying bond funds.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 0.7%. The aggregate performance is comfortably ahead of benchmark over the longer periods of three and five years.

Performance Summary to 30 June 2017 [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	1.0	8.2	7.3	7.3
Benchmark	0.3	4.1	5.2	4.7
Relative	0.7	3.9	2.0	2.5

[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: [i] DataStream, Hymans Robertson

M&G - Bonds - Performance Attribution

Performance Attribution Performance [i]

		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	0.7	1.5	1.0
	Benchmark	0.4	0.1	0.3
	Relative	0.3	1.4	0.7
12 Months (%)	Absolute	8.4	7.8	8.2
	Benchmark	6.3	0.3	4.1
	Relative	2.0	7.5	3.9
3 Years (% p.a.)	Absolute	9.7	3.5	7.3
	Benchmark	8.7	0.4	5.2
	Relative	0.9	3.0	2.0
5 Years (% p.a.)	Absolute	9.0	4.8	7.3
	Benchmark	7.9	0.4	4.7
	Relative	1.0	4.3	2.5

Source: [i] DataStream, Hymans Robertson

Schroders - Property

HR View Comment & Rating

During Q2 Schroder communicated that Neil Turner is stepping away from day to day fund management. Turner was brought into the team around 18 months ago when the team suffered from significant departures at the senior level. His involvement in day to day fund management was always likely to be temporary; it provided Schroder with time to recruit at the senior level without being under any more immediate pressure (4 from a team of 6 had left). Turner will become a Senior Advisor to the Real Estate business and will continue to Chair RECaP's Investment Committee and the Risk Committee. Naomi Green who joined the business last year will become Fund Manager for RECaP's pooled funds (SIRE, CEF I and CEF II) and a couple of Turner's separate account clients. Graeme Rutter, head of the team, will be responsible for other separate accounts. It is a good sign that Schroder feel the team is in a good enough position to carry on without Turner on a day to day basis. In monitoring RECaP over the last 18 months, we highlighted a considerable threat to the business posed by the Local Government Pension Scheme pooling initiative. LGPS make up two thirds of RECaP's client base therefore we expect the viability of the RECaP business, at least in its current form, to be challenged by this initiative. We see this as a significant long term threat rather than immediate causing us to hold our "on watch" rating for much longer than normal.

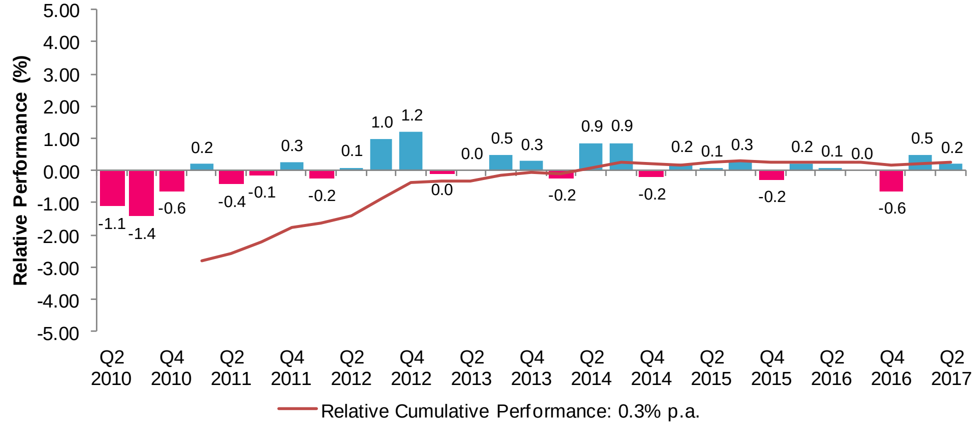
Performance Attribution Comment

Schroder's property portfolio outperformed the IPD benchmark over the quarter to end June 2017, returning 2.5% in absolute terms. Over all longer periods considered, it has outperformed the benchmark.

The main contributor over the quarter was the fund's allocation to the Industrials sector and in particular exposure to the Industrial Property Investment Fund (IPIF) as rental growth continued to strengthen across the sector and competition increased.

Exposure to the Legal and General Managed Property Fund slightly offset this outperformance over the quarter as the fund had a large cash holding over the period. However, this fund has been one of the main contributors over the 12 month period. In addition, transaction costs incurred negatively impacted returns over the quarter as exposure to the London offices sector was reduced as the manager believes this sector will be most impacted by Brexit. The portfolio is now underweight to London offices relative to the benchmark. Schroder continues to increase exposure to the regional office sector where they feel the impact of Brexit will be less than in London.

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 30 June 2017 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.5	6.1	10.0	8.6
Benchmark	2.3	6.0	9.5	8.2
Relative	0.2	0.1	0.5	0.4

* Inception date 20 Feb 2010.

Source: [i] DataStream, Hymans Robertson

Summary of Alternative Funds

Adams St	2003 Non US Fund	HarbourVest	HIPEP 4 Europe	M&G	Infracapital
	2003 US Fund		HIPEP 5 Europe		UK Financing Fund
	2005 Non US Fund		HIPEP 6 Europe		
	2007 Direct Fund		HIPEP 7 Europe	UBS	International Infrastructure Fund
	2007 Non US Fund		HIPEP 8		
	2007 US Fund		HarbourVest Partners VII - Buyout		
	2008 Direct Fund		HarbourVest Partners VII - Mezzanine		
	2008 Non US Fund		HarbourVest Partners VII - Venture		
	2008 US Fund		HarbourVest Partners VIII - Buyout		
	2009 Direct Fund		HarbourVest Partners VIII - Mezzanine		
	2009 Non US Developed Markets Fund		HarbourVest Partners VIII - Venture		
	2009 Non US Emerging Markets Fund		HarbourVest Partners IX - Venture		
	2009 US Fund		HarbourVest Partners IX - Buyout		
	2010 Direct Fund		HarbourVest Partners IX - Credit Opps		
	2010 Non US Developed Markets Fund		HarbourVest CleanTech		
	2010 Non US Emerging Markets Fund		HarbourVest CleanTech II		
	2010 US Fund				
	2011 Direct Fund				
	2011 Non US Developed Markets Fund				
	2011 Non US Emerging Markets Fund				
	2011 US Fund				
	2013 Non US Developed Markets Fund				
	2013 Non US Emerging Markets Fund				
	2013 US Fund				
	2014 Global Fund				
	Co-Investment Fund II				

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	0.4	1.2	-0.8	1.4	1.2	-0.5	-2.4	1.0	2.5	0.0
	Benchmark	0.5	0.4	-0.8	1.4	0.1	0.1	-2.4	0.3	2.3	0.4
	Relative	0.0	0.8	0.0	0.0	1.1	-0.6	0.0	0.7	0.2	-0.3
12 Months (%)	Absolute	22.9	22.9	24.3	18.5	-0.8	7.3	7.1	8.2	6.1	14.3
	Benchmark	23.0	22.2	24.5	18.1	0.3	0.3	7.1	4.1	6.0	12.8
	Relative	-0.1	0.5	-0.2	0.3	-1.0	7.0	0.0	3.9	0.1	1.4
3 Years (% p.a.)	Absolute	15.6	19.9	13.5	7.6	3.8	5.2	8.7	7.3	10.0	11.2
	Benchmark	15.6	14.9	13.5	7.4	0.4	0.4	8.7	5.2	9.5	9.3
	Relative	0.1	4.3	0.0	0.2	3.3	4.7	0.0	2.0	0.5	1.7
10 Years (% p.a.)	Absolute	11.7	18.9	12.0	6.4	4.8	5.4	N/A	7.5	8.6	6.7
	Benchmark	11.6	12.8	12.0	6.2	0.5	0.5	N/A	5.4	8.2	5.7
	Relative	0.0	5.4	-0.1	0.2	4.3	4.8	N/A	2.0	0.4	0.9

[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. From Q3 2016 total fund performances has been calculated using estimated valuations for private market investments.

Source: [i] Fund Manager, Hymans Robertson

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	5.0	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.3	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.4	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.2	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	0.2	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-1.1	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.1	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-2.7	-	-	-	-	-	-	-	-	-	-
Cash	0.0	2.0	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.9	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.8	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	**-**	-	**2.8**	0.1	**0.0**	2.0	**2.8**	0.0	**5.0**	0.2	**15.5**	1.0

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	1.5	-	-	-	-	-	-
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	-	-	-	-	37.5	-1.5	-	-	-	-	-	-
Proportion of Total Assets	**12.0**	-2.3	**5.0**	2.0	**6.5**	-0.4	**1.0**	-0.8	**1.0**	-0.9	**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	0.0	-	-	-	-
Infrastructure	-	-	-	-	-	-	100.0	0.0
Private Equity	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	0.0	-	-	-	-	-	-
Cash	-	-	-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-
Proportion of Total Assets	**10.0**	-1.3	**10.0**	0.2	**17.5**	1.9	**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: 6% UK, 55% US, 15% Europe, 6% Asia (ex Japan), 9% 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:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

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

	Arithmetic Method			Geometric Method			Difference
Period	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.