

East Sussex Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2017

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For and on behalf of Hymans Robertson LLP
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Capital Market Outlook

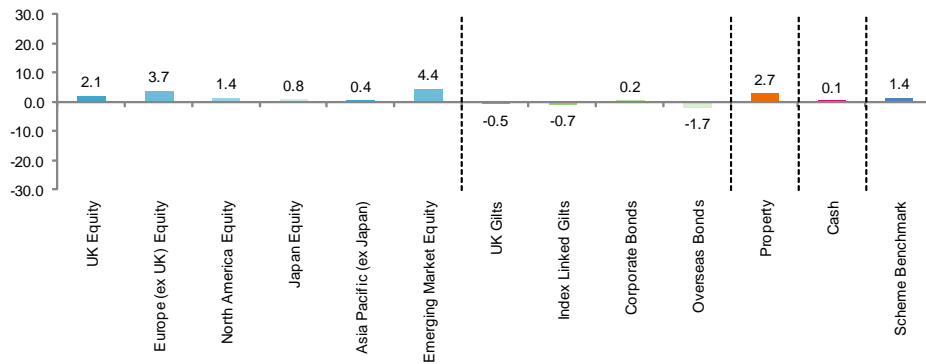
	June 2017	September 2017	Comment
Index-linked gilts	Negative	Cautious to Negative	Marginal rise in real yields over the quarter, however they still remain at low levels relative to long-term history. We expect real yields to closely follow nominal yields, with higher levels of inflation already baked into pricing. Ongoing demand for index-linked gilts by UK institutions should continue to dampen the potential for real yields to rise.
Conventional gilts	Negative	Cautious to Negative	Recent inflation figures suggest higher yields are on the horizon, however outlook for UK growth remains lacklustre and any rises in interest rates is likely to be limited and gradual. Valuation concerns remain with gilt yields very low relative to their fundamentals.
Sterling non-government bonds	Cautious	Cautious	Continued spread compression has left valuations below longer-term averages. Technicals remain supportive in the short term as the demand remains for yield. However, there is the potential for yields to rise as central banks begin to unwind QE. We continue to prefer the floating nature of ABS, which would fare better should yields start to rise, given the lack of interest rate duration of floating rate bonds.
Equities	Cautious	Neutral to Cautious. Neutral with downside protection	We have seen a resurgence in earnings but valuations look expensive relative to history on a long-term P/E basis (Shiller) and traditional P/E basis. Further momentum in earnings growth is required to justify current prices. The recent strength in equity markets, an uncertain global economic and market outlook, coupled with a lack of volatility, might suggest a smart time to underpin current holdings with some protection.
UK Property	Neutral	Neutral to Attractive	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 absorb rate rises to an extent. We have a preference for long lease property given the security of the guaranteed rental growth which becomes increasingly attractive as inflations ticks up.
Infrastructure	Neutral	Neutral to Attractive	We like infrastructure assets with contractual, inflation linked income that have the ability to provide somewhat predictable income based returns. Many of the core assets are highly bid. Nevertheless, active managers are managing to secure core assets on yields up to 7% by focusing on deals with a degree of complexity or on deals where they have a competitive edge.
Absolute Return Strategies	Neutral	Neutral	We expect absolute return strategies to continue to deliver low single-digit returns. Active currency and interest rate calls may remain challenging given the lack of political predictability. Cash provides flexibility to capture more attractive buying opportunities.



Historic Returns for World Market to 30 September 2017

Historic Returns - Chart 1 ^[1]

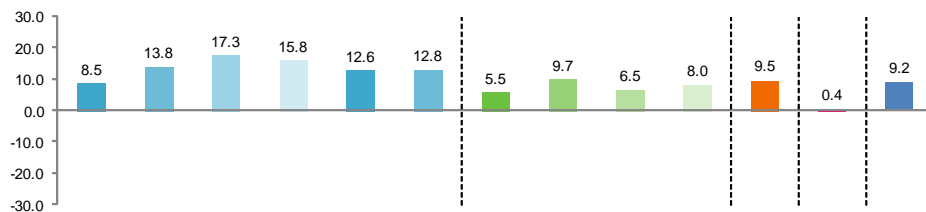
3 Months (%)



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

Reports confirmed the momentum of global growth had increased in Q2. Japan recorded its best quarterly growth in two years, the US bounced back from a sluggish Q1 and the Eurozone maintained its recent revival. However, UK growth of 0.3% was disappointing.

The US Federal Reserve announced its intention to start unwinding its long-standing QE programme from October; as its holdings of government bonds and mortgage-backed securities mature, the extent of reinvestment will be limited.

The rise in UK CPI inflation paused briefly at the start of the quarter, before August matched May's five-year high of 2.9%. Despite above-target inflation, the Bank of England held UK interest rates at 0.25% p.a. However, the Governor indicated in September that rates would rise soon unless economic conditions deteriorated. The ensuing change in interest rate expectations caused gilt yields to rise sharply in the final weeks of the quarter, reversing a fairly steady decline over the quarter.

Credit markets had an uneventful period, although yield spreads, in general, tightened a little more. Buoyant economic conditions and a weak US dollar boosted emerging markets. Yields on the major local currency debt indices fell close to their lowest levels for over four years.

Sterling was under pressure until markets moved to price in a UK rate rise in 2017. Over the quarter as a whole, sterling was ahead of the yen and US dollar and roughly in line with the euro.

Oil prices surged over the quarter – Brent crude rose from \$48 a barrel to a two-year high of \$59 a barrel due to an imbalance between supply and demand. Confidence in supply was hit by US weather disruption and political uncertainty in Kurdistan, while demand in Asia was unexpectedly strong.

The series of Atlantic hurricanes and two Mexican earthquakes caused the first noticeable wobble in insurance-linked markets since Superstorm Sandy hit the east coast of the US in October 2012.

Global equity indices had another strong quarter. Improving corporate earnings and positive economic momentum more than offset growing concerns over equity valuations and rising political tension in the Korean peninsula. A stronger pound detracted from returns to UK investors.

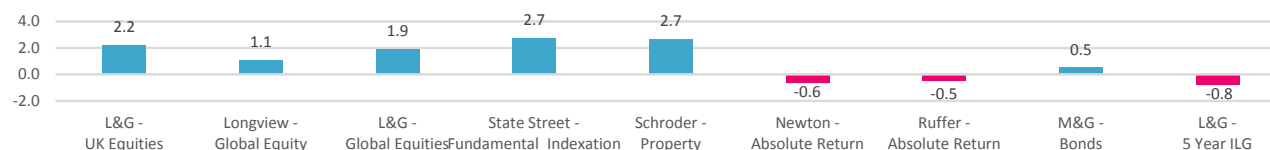
The best regional performance, in local currency terms, came from Emerging Markets. UK equities underperformed again as sterling strengthened. Commodity price strength pushed Oil & Gas and Basic Materials to the top of the global equity sector performance table.

UK property values, as measured by the IPD Monthly Index, are back at pre-referendum levels. Rental growth is showing signs of a modest upturn and industrials continue to have the strongest momentum.

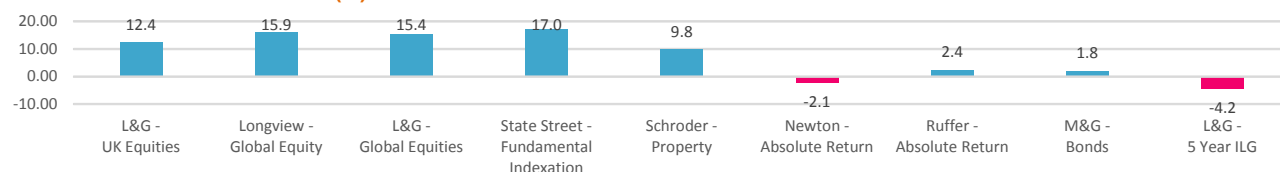


Summary of mandate absolute performance to 30 September 2017

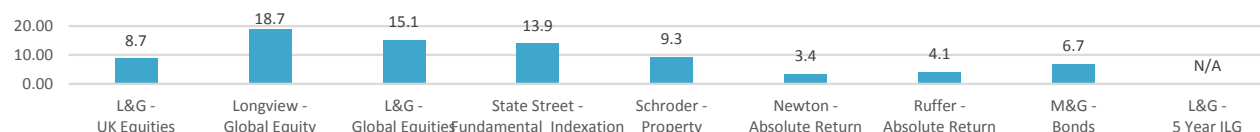
3 Month Absolute Performance (%)



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)

Equities produced positive results over the quarter, in particular, emerging market equities. Over the 12 month period to end September 2017, all the Fund's equity mandates delivered strong absolute returns.

Diversification/Income oriented (Property/Absolute Return)

Gilt yields rose over the quarter (causing prices to fall) but equity exposure offset some of these losses to a certain extent within the absolute return funds. Both Newton and Ruffer lagged the LIBOR benchmark over the quarter and posted negative returns.

Protection (Bonds)

Over the third quarter of 2017, the absolute value of the Fund's bond holdings was negatively impacted as anticipation of a rate rise in the UK added to upward pressure on gilt yields. However, over the longer term, the M&G bond mandates have delivered strong returns, although the L&G index-linked gilt index produced negative returns over the 12 month period.



Fund Asset Allocation and Performance

Valuation Summary

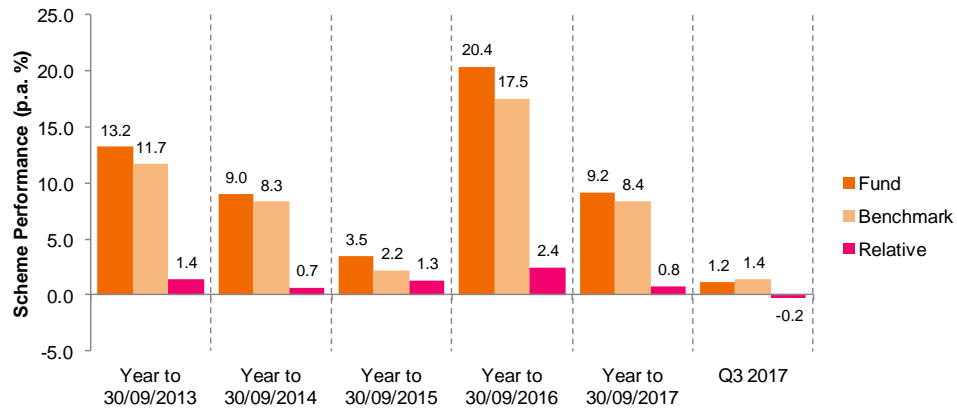
Asset Class	Value (£m)		Actual Proportion	Target Proportion	Re-balancing range %	Difference
	Q2 2017	Q3 2017	%	%		
Global Equity	1442.7	1473.2	43.6	38.0	45.0 - 55.0	5.6
UK Equity	324.3	331.4	9.8	12.0		-2.2
Fixed Interest	130.4	130.7	3.9	3.5	2.5 - 4.5	0.4
Index-Linked Gilts	175.3	174.0	5.2	5.0	4.0 - 6.0	0.2
Property	342.2	348.6	10.3	10.0	7.0 - 13.0	0.3
Infrastructure	30.3	24.2	0.7	2.0	0.0 - 4.0	-1.3
Private Equity	188.2	189.9	5.6	5.5	3.5 - 7.5	0.1
Absolute Return Funds	581.1	576.1	17.1	20.0	17.0 - 23.0	-2.9
Cash	68.3	52.2	1.5	0.0	0.0 - 2.0	1.5
UK Financing Fund	2.0	1.5	0.0	1.0	0.0 - 2.0	-1.0
Absolute Return Bonds	73.3	73.9	2.2	3.0	2.0 - 4.0	-0.8
Total Client	3358.1	3375.5	100.0	100.0		

Fund performance [1]

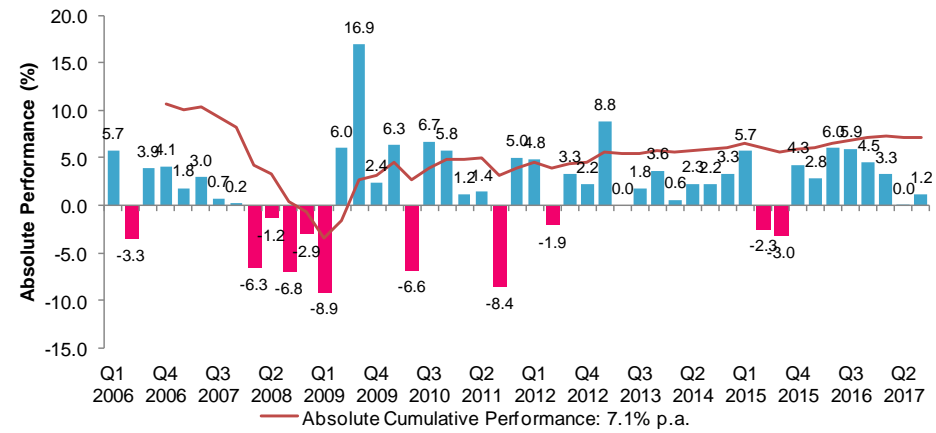
The Fund lagged the aggregate benchmark during the third quarter of 2017, returning 1.2% (gross of fees) in absolute terms. Over the 12 month period the Fund delivered a positive absolute return of 9.2% ahead of benchmark by 0.8%.

At manager level, M&G bonds and Schroder's property portfolio outperformed over the quarter. However, the Newton and Ruffer Absolute Return Funds underperformed their cash benchmarks whilst Longview also underperformed relative to its benchmark.

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

The rating for Newton's Real Return Fund was downgraded from a '5 – Preferred' to a '4 – Retain' over the quarter, reflecting our concerns over the team and corporate stability at Newton. There were no other changes to manager ratings over the third quarter. 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. A rebalancing from global equities to absolute return funds is being implemented this quarter.

[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 2017	Q3 2017			
L&G - Global Equities	554.6	565.0	16.7	15.5	1.2
Longview - Global Equity	235.8	238.0	7.1	5.0	2.1
State Street - Fundamental Indexation	652.4	670.2	19.9	17.5	2.4
L&G - UK Equities	324.3	331.4	9.8	12.0	-2.2
Newton - Absolute Return	290.0	287.7	8.5	10.0	-1.5
Ruffer - Absolute Return	291.1	288.5	8.5	10.0	-1.5
L&G - 5yr ILG	175.3	174.0	5.2	5.0	0.2
M&G - Bonds	203.7	204.6	6.1	6.5	-0.4
Schroder - Property	342.2	348.6	10.3	10.0	0.3
M&G - Infrastructure Fund	7.9	2.2	0.1	1.0	-0.9
UBS - Infrastructure	22.4	22.0	0.7	1.0	-0.3
Adams Street - Private Equity	96.3	98.2	2.9	2.8	0.2
HarbourVest - Private Equity	92.0	91.7	2.7	2.8	-0.0
M&G - UK Financing Fund	2.0	1.5	0.0	1.0	-1.0
Cash account	68.3	52.2	1.5	0.0	1.5
Total	3358.1	3375.5	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 (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	1.9 1.9	0.9 1.8	2.7 2.8	2.2 2.1	-0.8 0.1	-0.7 0.1	-0.9 -0.8	0.4 0.0	2.6 2.4	1.1 1.4
	Relative	0.0	-0.9	0.0	0.0	-0.8	-0.8	-0.1	0.4	0.2	-0.3
12 Months (%)	Absolute Benchmark	15.3 15.5	15.2 14.9	16.9 17.1	12.3 11.9	-2.7 0.2	1.6 0.2	-4.6 -4.2	1.5 -0.8	9.5 9.3	8.9 8.4
	Relative	-0.2	0.3	-0.1	0.3	-2.9	1.3	-0.3	2.3	0.2	0.5
3 Years (% p.a.)	Absolute Benchmark	15.0 15.1	18.0 14.4	13.8 13.9	8.7 8.5	2.8 0.4	3.3 0.4	7.1 7.5	6.3 4.5	9.0 8.9	10.5 9.2
	Relative	0.0	3.1	-0.1	0.1	2.4	2.9	-0.3	1.7	0.1	1.2
10 Years (% p.a.)	Absolute Benchmark	11.4 11.5	17.4 12.5 4.4	11.8 12.0	6.4 6.3	4.0 0.5 3.5	4.3 0.5 3.8	N/A N/A	6.9 5.0	8.5 8.3	6.5 5.8
	Relative	0.0	4.4	-0.1	0.1	3.5	3.8	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.



Legal and General - UK and Global Equities

HR View Comment & Rating



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

There were no significant developments over the quarter to 30 September 2017.

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 2.2% 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 1.9% over the third 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 UK Fund Performance ^[i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.2	12.4	8.7	6.5
Benchmark	2.1	11.9	8.5	6.3
Relative	0.0	0.4	0.2	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	1.9	15.4	15.1	11.5
Benchmark	1.9	15.5	15.1	11.5
Relative	0.0	-0.1	0.1	0.0

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

Legal and General - 5 year ILG

HR View Comment & Rating



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

There were no significant developments over the quarter to 30 September 2017.

Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-0.8	-4.2	7.5
Benchmark	-0.8	-4.2	7.5
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 -0.8% over the third quarter of the year (in line with its benchmark) as yields broadly rose over the quarter, causing prices to fall. Over the 12 month period and since its inception, the fund remains in line with benchmark.



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 has announced that Mike Karpik, Head of EMEA, has resigned and will leave the company at the end of this year following a 20 year service. Karpik is being replaced by Cuan Coulter, Chief Compliance Officer. We do not believe this will impact the management of any of State Street's index strategies and have no concerns over the news.

Performance Attribution Comment

State Street's Fundamental Indexation Global Equity Fund returned 2.7% over the period to end September 2017, broadly 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.

Performance Summary - Table

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.7	17.0	13.9	11.9
Benchmark	2.8	17.1	13.9	12.0
Relative	-0.0	-0.1	-0.0	-0.1

* Inception date 06 Aug 2013.

Longview - Global Equity

HR View Comment & Rating



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

Longview have a flexible style and focused 35 stock portfolio. Their aversion to commodity sectors has served it well in spite of the more recent rally; that stance is unlikely to change. The strategy's regional positioning remains robust with circa 70% exposure to listed US equity (albeit lower when analysed by revenue) and zero exposure to the Far East / Japan. Nonetheless, we continue to have confidence in Longview's ability to manage its relative and absolute risk profile.

There were no significant developments over the quarter.

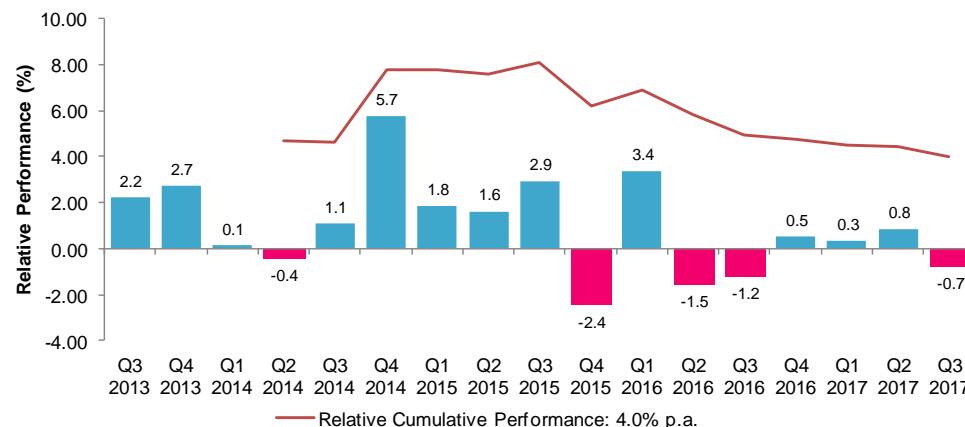
Performance Attribution Comment

During the third quarter of 2017, Longview's Global Equity portfolio returned 1.1%, underperforming the benchmark by 0.7%. Over all longer periods considered, the fund has outperformed the benchmark.

Holdings in the auto-parts company Continental had a positive impact on performance as it continues to benefit from the move to electric and self-driving cars. Discount chain store operator Dollar General also contributed to outperformance as it reported better than expected revenue and sales. Auto-parts company Delphi Automotive, like Continental, will benefit from the move to electric and self-driving cars and has reported better than expected results over the last quarter.

However, WPP, the advertising company detracted from returns amid advertising cuts at large consumer goods companies. Longview believe that there are no structural issues of concern and this will be a temporary setback for the company. The medical equipment company Zimmer Biomet Holdings Inc also underperformed this quarter as supply chain issues continued to impact sales. In addition, healthcare company MEDNAX detracted as weak revenues and increased cost pressures have dragged margins down.

Relative Quarterly and Relative Cumulative Performance [i]



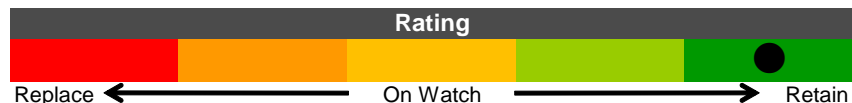
Performance Summary to 30 September 2017 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.1	15.9	18.7	18.0
Benchmark	1.8	14.9	14.4	12.5
Relative	-0.7	0.9	3.7	5.0

* Inception date 16 Apr 2013.

Ruffer - Absolute Return

HR View Comment & Rating



We rate Ruffer's Absolute Return Fund at '5 - Preferred strategy'.

There were no significant developments over the quarter to 30 September 2017.

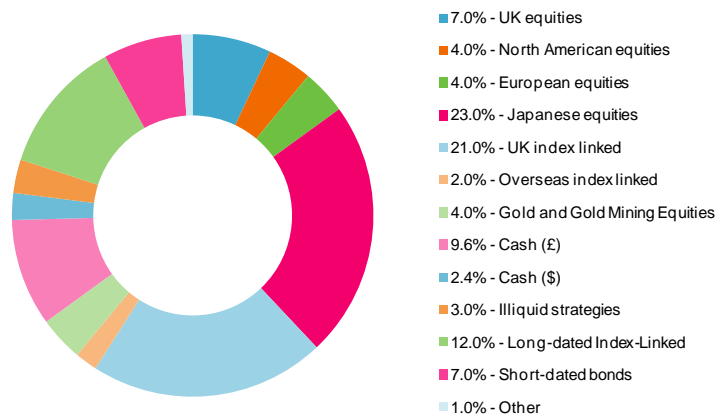
Performance Attribution Comment

The Ruffer Absolute Return Fund returned -0.5% over the quarter compared to its cash benchmark, resulting in an underperformance of 0.6%. Over the 12 month, 3 year periods and since inception, the portfolio remains comfortably ahead of its benchmark.

Global economic growth was strong over the quarter with most assets holding steady in relatively benign conditions. Central banks continued on the path of slowly raising interest rates even as wage growth continued to disappoint. The manager's protective strategies were the main detractor over the quarter, especially those designed to profit from falls in equity markets or rising asset price volatility. Inflation-linked bonds were another detractor.

At stock level, the portfolio's allocation to BP benefited from rising oil prices. It also benefited from its position in Vivendi, a company primarily focusing on digital entertainment, as the music industry performed well over the quarter. The manager continues to hold a cautious outlook and highlights a number of similarities between current conditions and those just before the financial crisis. The current positioning of the portfolio with its focus on downside protection is a clear manifestation of this outlook.

Asset Allocation



Performance Summary to 30 September 2017 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.5	2.4	4.1	5.1
Benchmark	0.1	0.2	0.4	0.5
Relative	-0.6	2.1	3.7	4.6

* Inception date 06 May 2010.

Hymans Robertson LLP

Newton - Absolute Return

HR View Comment & Rating



We rate Newton's Real Return Fund at '4 – Retain'. Newton has announced the appointment of Duncan Bulgin as Head of Research. Bulgin shared oversight of the research team at Newton with Roger Wilkinson but following a review has decided to make Bulgin sole head. Consequently, Wilkinson (like Peter Hensman) has left Newton to pursue other opportunities. Whilst this development does not change our opinion of the strategy, this is evidence of new CEO Hanneke Smits making changes as she attempts to grow the business. Newton has also announced that Curt Custard joined as its CIO from 14 August 2017. Custard joins from UBS Asset Management where he was Head of Global Investment Solutions. The decision to appoint a CIO is interesting considering it has operated without a CIO since Simon Pryke, left the business in 2015. We are due to meet CEO Hanneke Smits later in the month and will get more detail on the motivations behind this appointment before we comment further. In addition, Newton has announced that it has decided to absorb the cost of external research rather than passing it on to clients through higher fees. We believe this is a positive move by Newton that puts its clients' interests ahead of their own and would note that Newton was one of the first firms to publicly state they would be adopting such a policy.

Post quarter end, Newton announced that Iain Stewart's involvement within the Real Return strategy is to change. From the start of 2018, Suzanne Hutchins and Aron Pataki will be named as co-lead portfolio managers on the fund alongside Stewart. In addition, Hutchins will assume all of Stewart's people management responsibilities. From the start of Q3 2018, Stewart will no longer be a named portfolio manager on the fund and will instead solely focus on its macroeconomic strategy. Whilst the changes are being phased in over the next three quarters, the fact that Stewart's involvement in the fund is being reduced is a negative development. Whilst we have met Hutchins and Pataki a number of times over the years, Stewart is the most important person within the team and a reduction in his involvement reduces our conviction in the fund. We will continue to monitor the situation.

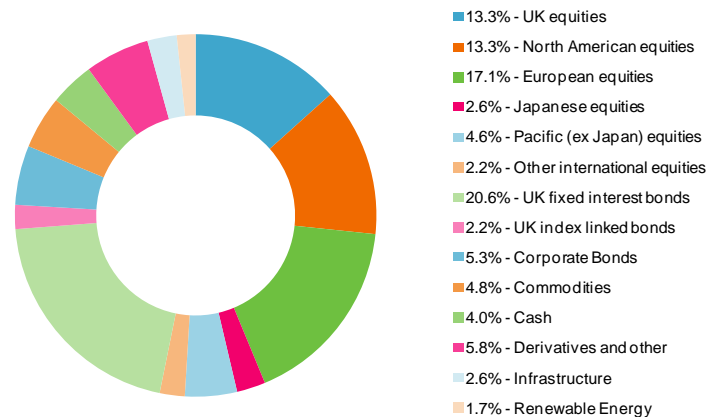
Performance Attribution Comment

The fund produced a return of -0.6% over Q3 2017. Over the 12 month period, the fund underperformed the cash target but over the 3 year period and since inception, the fund is ahead of target.

The fund's equity portfolio underperformed equity markets which were driven by more cyclical sectors. In addition, the portfolio's derivative position (used to reduce equity-market exposure) detracted from performance as the indices used for protection increased in value during the quarter. The fund's allocation to government bonds also detracted from performance, most notably due to US Treasuries which were negatively impacted by the weakening dollar and rising yields over the quarter. At stock level, the fund's holdings in Teva Pharmaceutical hurt performance due to the poorer outlook for the company's US business. The manager continues to hold Teva due to their belief in the new management team and strong franchising ability once the firm has resolved its debt issues. Offsetting this slightly was the fund's equity allocation although it underperformed wider equity markets. At stock level, strong performance was seen from Dong Energy, battery maker Samsung SDI and lithium producer Albemarle.

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

Asset Allocation [i]



Performance Summary to 30 September 2017 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.6	-2.1	3.4	4.6
Benchmark	0.1	0.2	0.4	0.5
Relative	-0.7	-2.3	3.0	4.1

* Inception date 06 May 2010.

M&G - Bonds

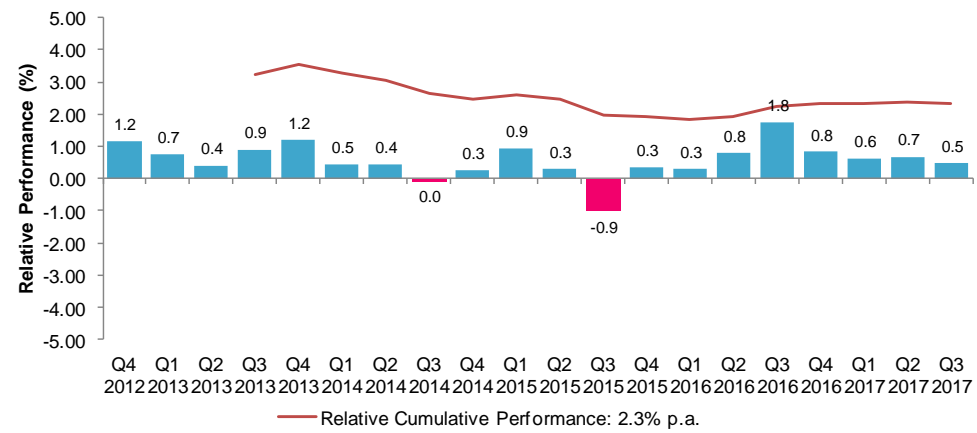
HR View Comment & Rating



We rate M&G Bonds at '5 – Preferred strategy'.

There has been no significant news to report to end 30 September 2017.

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.

Credit spreads continued to tighten further (driving corporate prices upwards) across major developed markets.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 0.5%. The aggregate performance is comfortably ahead of benchmark over the longer periods of three and five years.

Performance Summary to 30 September 2017 ^[1] [0]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	0.5	1.8	6.7	6.4
Benchmark	0.0	-0.8	4.5	4.0
Relative	0.5	2.6	2.1	2.3

[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]

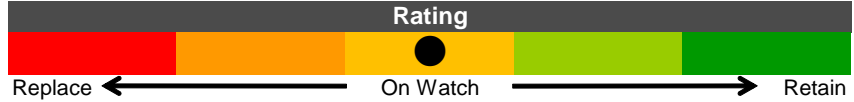
		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	0.3	0.9	0.5
	Benchmark	0.0	0.1	0.0
	Relative	0.3	0.8	0.5
12 Months (%)	Absolute	0.2	5.2	1.8
	Benchmark	-1.5	0.2	-0.8
	Relative	1.7	4.9	2.6
3 Years (% p.a.)	Absolute	8.5	3.9	6.7
	Benchmark	7.3	0.4	4.5
	Relative	1.1	3.4	2.1
5 Years (% p.a.)	Absolute	7.7	4.5	6.4
	Benchmark	6.7	0.4	4.0
	Relative	0.9	4.0	2.3

Source: [i] DataStream, Hymans Robertson



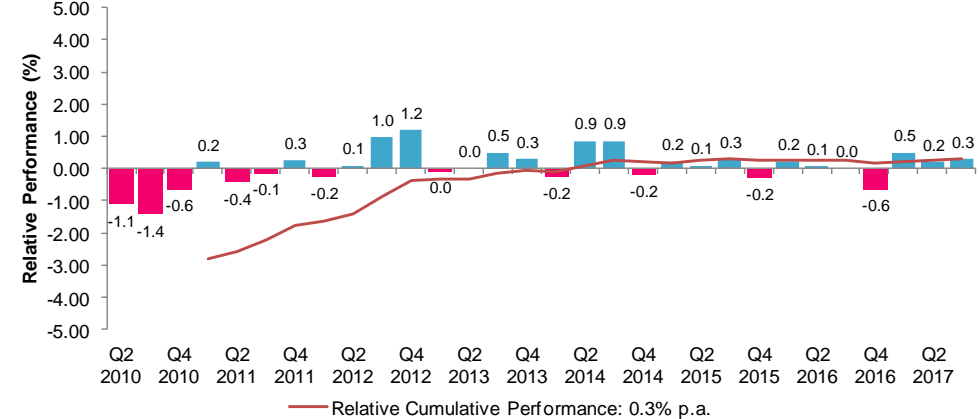
Schroders - Property

HR View Comment & Rating



We believe Schroder RECaP is a suitable manager of property assets but continue to have concerns over the long term viability of the business. In monitoring RECaP over the last 2 years, we highlighted a considerable threat to the business posed by the LGPS pooling initiative. LGPS make up two thirds of RECaP's client base and 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.

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

Over the quarter to end September 2017, the property mandate outperformed the IPD benchmark by 0.3%, returning 2.7% in absolute terms. The portfolio remains ahead of benchmark over all longer periods considered.

The Industrial Property Investment Fund ('IPIF') positively contributed to performance over the quarter due to rental growth in the industrial sector. The Metro PUT also contributed to performance due to its large weighting to the industrials sector. The manager is currently looking to increase exposure to regional offices and over the quarter, made an additional £1m commitment to the Regional Office PUT.

The portfolio's cash holding was the weakest contributor to performance during the quarter due to the rising market. The Mayfair Capital PUT detracted as the manager purchased £3m worth of units in the fund and transaction costs impacted performance. Over the quarter, the manager sold units in the Aviva Investors Pensions Property Fund to reduce exposure to the underperforming balanced fund.

Performance Summary to 30 September 2017

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.7	9.8	9.3	8.7
Benchmark	2.4	9.3	8.9	8.3
Relative	0.3	0.4	0.3	0.4

* Inception date 20 Feb 2010.

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 Benchmark	1.9 1.9	1.1 1.8	2.7 2.8	2.2 2.1	-0.6 0.1	-0.5 0.1	-0.8 -0.8	0.5 0.0	2.7 2.4	1.2 1.4
	Relative	0.0	-0.7	0.0	0.0	-0.7	-0.6	0.0	0.5	0.3	-0.2
12 Months (%)	Absolute Benchmark	15.4 15.5	15.9 14.9	17.0 17.1	12.4 11.9	-2.1 0.2	2.4 0.2	-4.2 -4.2	1.8 -0.8	9.8 9.3	9.2 8.4
	Relative	-0.1	0.9	-0.1	0.4	-2.3	2.1	0.0	2.6	0.4	0.8
3 Years (% p.a.)	Absolute Benchmark	15.1 15.1	18.7 14.4	13.9 13.9	8.7 8.5	3.4 0.4	4.1 0.4	7.5 7.5	6.7 4.5	9.3 8.9	10.8 9.2
	Relative	0.1	3.7	0.0	0.2	3.0	3.7	0.0	2.1	0.3	1.5
10 Years (% p.a.)	Absolute Benchmark	11.5 11.5	18.0 12.5	11.9 12.0	6.5 6.3	4.6 0.5	5.1 0.5	N/A N/A	7.2 5.0	8.7 8.3	6.7 5.8
	Relative	0.0	5.0	-0.1	0.2	4.1	4.6	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.



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	5.6	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.2	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.4	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.2	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	0.3	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-1.3	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.1	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-2.9	-	-	-	-	-	-	-	-	-	-
Cash	0.0	1.5	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-1.0	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.8	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.2	0.0	1.5	2.8	0.0	5.0	0.2	15.5	1.2

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	-2.2	5.0	2.1	6.5	-0.4	1.0	-0.9	1.0	-1.0	10.0	-1.5

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	-1.5		10.0	0.3		17.5	2.4		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, 54% US, 16% Europe, 6% Asia (ex Japan), 8% Japan and 10% 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.

