

East Sussex Pension Fund

Review of Investment Managers' Performance for Fourth Quarter of 2017

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Capital Market Outlook

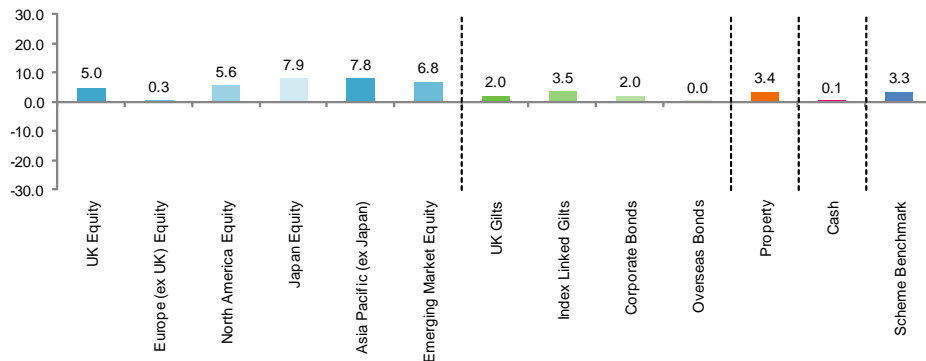
	September 2017	December 2017	Comment
Index-linked gilts	Cautious to Negative	Cautious to Negative	Inflation protection remains very expensive, particularly in the UK where the demand for index-linked gilts is greater than the supply. We expect real yields to closely follow nominal yields over 2018, with higher levels of inflation already baked into pricing. Any potential increase of cash rates earlier than expected has the potential to impact the short-end of the curve, however, ongoing demand for index-linked gilts by UK institutions should continue to dampen the potential for real yields to rise.
Conventional gilts	Cautious to Negative	Cautious to Negative	Valuations remain unattractive relative to historic levels. With probably just as much, if not more, Brexit uncertainty, we don't see the BoE raising rates much in the short-term. Demand for gilts to hedge pension and insurance liabilities remains strong.
Sterling non-government bonds	Cautious	Cautious	Marginal tightening of spreads over the quarter leaves valuations below longer-term averages and underlying interest rates are low. However, positive macro-economic conditions and strong corporate earnings continues to support current spreads. We continue to prefer the floating nature of ABS, which would fare better should yields start to rise given the lack of duration risk.
Equities	Neutral to Cautious	Neutral to Cautious	Earnings growth continues to emerge although equity valuations remain high relative to history. We have seen a resurgence in earnings over the last three quarters, but further momentum is still required to justify current prices. Low implied volatility means structured equity and outright downside protection may provide alternative predictable return solutions.
UK Property	Neutral to Attractive	Neutral to Attractive	Yields are still low, but provide a reasonable buffer relative to gilts and IG bonds. Expectations on rents are mixed. Some sub-sectors, prime industrial in particular, are experiencing higher rental growth due to tight supply whilst other sectors continue to be burdened by structural vacancies eg. High Street retail outside of Central London. We have a preference for long lease property given the security of the contractual rental growth which becomes increasingly attractive as inflation ticks up.
Infrastructure	Neutral to Attractive	Neutral to Attractive	Many 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.



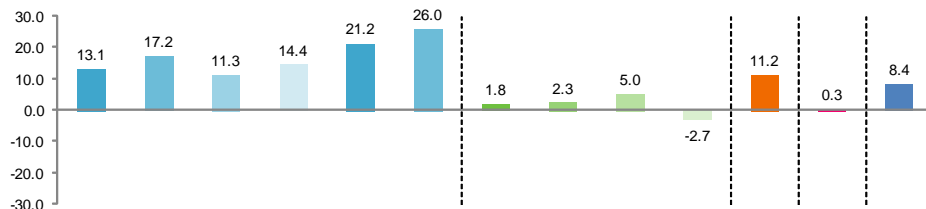
Historic Returns for World Market to 31 December 2017

Historic Returns - Chart 1 [1] [i]

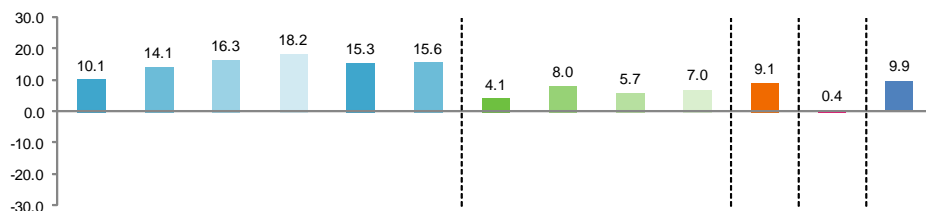
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Comment

Q3 data confirmed continued robust growth in the US, Eurozone and Japan. UK growth in Q3 was ahead of estimates, but remains sluggish at 0.4%. Survey evidence suggested the global economy maintained momentum in the final quarter.

'Core' inflation (i.e. excluding food and energy) was stable across most developed economies. However, headline UK CPI inflation rose above 3% for the first time in 6 years.

Oil reached its highest price since 2015; Brent crude finished the year at \$67 a barrel. Industrial metals were again strong – broad sector indices rose over 30% in 2017.

The Bank of England's Monetary Policy Committee increased interest rates by 0.25% p.a. to 0.5% p.a. in November. There was little surprise about the tightening of monetary policy announced elsewhere – a tapering of quantitative easing in the Eurozone and another US interest rate rise.

There were no significant exchange rate movements among the major currencies over the period. Sterling was barely changed in trade weighted terms.

Long-dated gilt yields drifted lower over the quarter, finishing 2017 little changed from the end of 2016.

Credit spreads finished close to end September levels; sentiment recovered quickly from a wobble in the high yield market.

Yields on emerging market debt indices drifted a little higher. US dollar weakness further undermined returns during the quarter, but was unwound by the end of the year.

Global equity indices had another strong quarter, bolstered by a continued positive economic outlook. Sentiment was also boosted by the agreement of significant reductions to US corporate tax rates, although the relative performance of the US equity market was unexceptional over the quarter.

Japan, enjoying its longest economic expansion since the 1990s, led the regional equity rankings. European equities underperformed – euro strength is seen as likely to depress future profits growth.

Defensive stocks – Healthcare, Telecommunications and Utilities – lagged. The best performers were typical beneficiaries of economic strength – Basic Materials, Technology and Consumer Services.

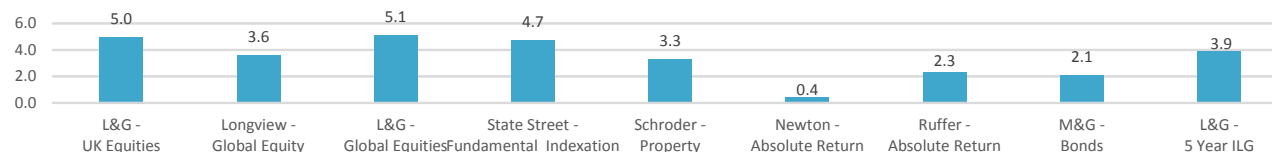
UK commercial property values continued to edge higher. The industrial sector continues to outstrip both office and retail sectors in terms of both total return and rental growth.

[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.

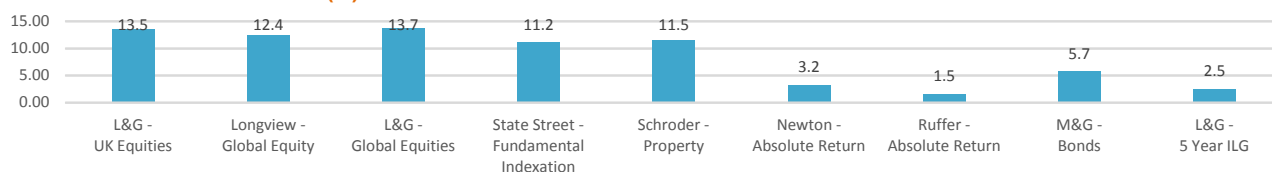


Summary of mandate absolute performance to 31 December 2017

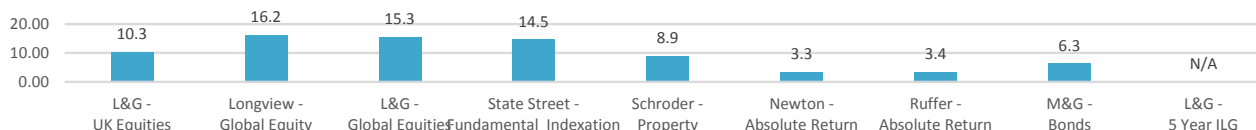
3 Month Absolute Performance (%)



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 continued to deliver strong absolute returns over the quarter ended 31 December 2017 due to positive global economic outlook. The equity mandates delivered strong returns over the one year and three year periods.

Diversification/Income oriented (Property/Absolute Return)

Gilt yields fell slightly over the quarter (causing prices to rise) and the absolute return funds also benefitted from strong equity returns. As a result, both Newton and Ruffer outperformed their LIBOR benchmarks over the quarter. Property returns continued to be supported by strong rental income flows.

Protection (Bonds)

Over the fourth quarter of 2017, gilt yields fell slightly but over the year, were broadly unchanged. This had a positive impact on the absolute value of the Fund's bond holdings, in particular the index-linked gilts held with LGIM.



Fund Asset Allocation and Performance

Valuation Summary

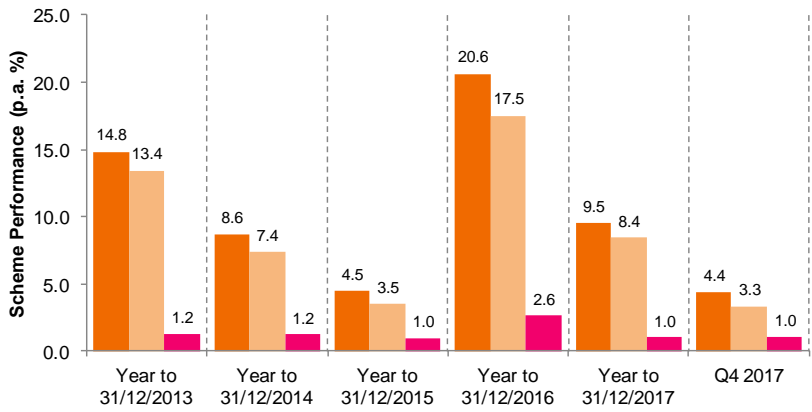
Asset Class	Value (£m)		Actual Proportion	Target Proportion	Re-balancing range %	Difference
	Q3 2017	Q4 2017	%	%		
Global Equity	1473.2	1485.4	42.5	38.0	45.0 - 55.0	4.5
UK Equity	331.4	347.8	10.0	12.0		-2.0
Fixed Interest	130.7	134.3	3.8	3.5	2.5 - 4.5	0.3
Index-Linked Gilts	174.0	180.7	5.2	5.0	4.0 - 6.0	0.2
Property	348.6	357.7	10.2	10.0	7.0 - 13.0	0.2
Infrastructure	24.2	21.6	0.6	2.0	0.0 - 4.0	-1.4
Private Equity	189.9	185.1	5.3	5.5	3.5 - 7.5	-0.2
Absolute Return Funds	576.1	639.8	18.3	20.0	17.0 - 23.0	-1.7
Cash	52.2	66.6	1.9	0.0	0.0 - 2.0	1.9
UK Financing Fund	1.5	1.4	0.0	1.0	0.0 - 2.0	-1.0
Absolute Return Bonds	73.9	74.6	2.1	3.0	2.0 - 4.0	-0.9
Total Client	3375.5	3495.2	100.0	100.0		

Fund performance [1]

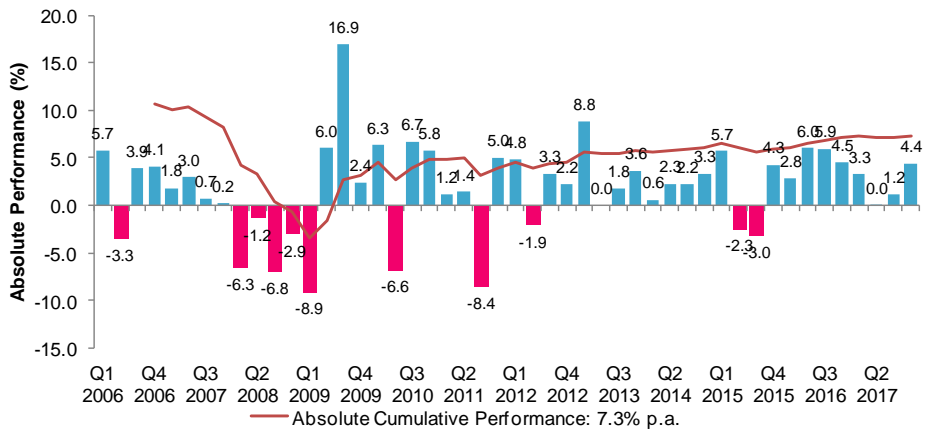
Over the quarter to end December 2017, the Fund returned 4.4%, ahead of the aggregate benchmark. Over the longer time periods considered, the Fund has outperformed the aggregate benchmark.

Ruffer's Absolute Return Fund outperformed its benchmark over the quarter, as did the M&G bonds, Newton Absolute Return and the Schroder property portfolio. Offsetting this slightly was Longview's Global Equity mandate which underperformed 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:- - No Rating - Negative - Suitable - Positive - Preferred

Summary Comment

Over the quarter to 31 December 2017, there were no changes to our views on your investment managers. We will continue to monitor developments closely. We have made some changes to our manager ratings system. These changes aim to bring a greater granularity on our degree of conviction for managers and their funds. Under the new rating system there has been a change to the Newton rating. Please see the separate paper on the new ratings system for more details.

The Fund continued to be underweight to UK Equities and both the absolute return funds. Global Equity and cash were overweight. All asset classes were within their re-balancing range. Market movements in 2018 will have impacted on relative allocations.

Post quarter end, the Fund began to transition all of its passive funds to UBS. UBS was selected by the ACCESS pool to hold all the passive funds of the LGPS Funds within the pool.

[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 %
	Q3 2017	Q4 2017			
L&G - Global Equities	565.0	593.8	17.0	15.5	1.5
Longview - Global Equity	238.0	246.1	7.0	5.0	2.0
State Street - Fundamental Indexation	670.2	645.5	18.5	17.5	1.0
L&G - UK Equities	331.4	347.8	10.0	12.0	-2.0
Newton - Absolute Return	287.7	316.6	9.1	10.0	-0.9
Ruffer - Absolute Return	288.5	323.2	9.2	10.0	-0.8
L&G - 5yr ILG	174.0	180.7	5.2	5.0	0.2
M&G - Bonds	204.6	208.7	6.0	6.5	-0.5
Schroder - Property	348.6	357.7	10.2	10.0	0.2
M&G - Infrastructure Fund	2.2	0.0	0.0	1.0	-1.0
UBS - Infrastructure	22.0	21.6	0.6	1.0	-0.4
Adams Street - Private Equity	98.2	97.6	2.8	2.8	0.0
HarbourVest - Private Equity	91.7	87.5	2.5	2.8	-0.2
M&G - UK Financing Fund	1.5	1.4	0.0	1.0	-1.0
Cash account	52.2	66.6	1.9	0.0	1.9
Total	3375.5	3495.0	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]

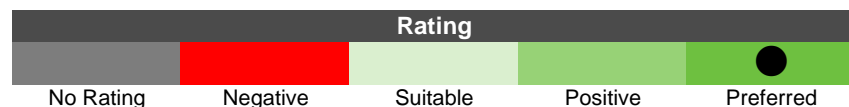
		L&G - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute Benchmark	5.1 5.1	3.4 4.9	4.7 4.8	5.0 5.0	0.3 0.1	2.1 0.1	3.8 3.9	2.1 1.6	3.2 3.1	4.3 3.3
	Relative	0.0	-1.4	0.0	0.0	0.1	2.0	-0.1	0.5	0.1	1.0
12 Months (%)	Absolute Benchmark	13.6 13.9	11.7 13.2	11.1 11.3	13.5 13.1	2.6 0.3	0.7 0.3	2.2 2.5	5.4 3.3	11.2 10.2	9.2 8.4
	Relative	-0.3	-1.4	-0.2	0.3	2.3	0.4	-0.3	2.0	1.0	0.7
3 Years (% p.a.)	Absolute Benchmark	15.2 15.3	15.5 14.6	14.4 14.6	10.2 10.1	2.7 0.4	2.6 0.4	7.9 8.3	5.9 4.0	8.6 8.4	11.2 9.9
	Relative	-0.1	0.8	-0.1	0.1	2.3	2.2	-0.3	1.9	0.2	1.2
10 Years (% p.a.)	Absolute Benchmark	11.8 11.8	17.2 12.9 3.8	12.3 12.4	8.8 8.6	3.9 0.5 3.4	4.5 0.5 3.9	N/A N/A	6.6 4.7	8.6 8.4	6.9 6.1
	Relative	0.0		-0.1	0.1			N/A	1.8	0.2	0.8

[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 to Q3 2017 total fund performances have been calculated using estimated valuations for private market investments. From Q4 2017 total fund performance has been provided by Northern Trust.



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 'Preferred'.

There were no significant developments over the quarter.

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 5.0% over the quarter, in line with its benchmark. Over all longer periods considered, the mandate remains broadly ahead of its benchmark. The UK equity market continues to lag its global counterpart in the long-term.

The Global equity fund returned 5.1% over the fourth 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	5.0	13.5	10.3	6.5
Benchmark	5.0	13.1	10.1	6.3
Relative	0.0	0.4	0.2	0.2

* Inception date 21 November 2007

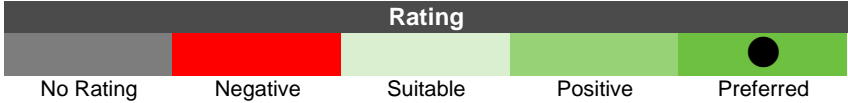
L&G Global Fund Performance ^[ii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.1	13.7	15.3	11.9
Benchmark	5.1	13.9	15.3	11.8
Relative	0.0	-0.1	0.0	0.0

* 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 market cap and fundamental index-tracking equity capability at 'Preferred'.

There were no significant developments over the quarter.

Performance Summary ^[i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	3.9	2.5	8.3
Benchmark	3.9	2.5	8.3
Relative	-0.0	-0.0	0.0

* Inception date 11 Mar 2015.

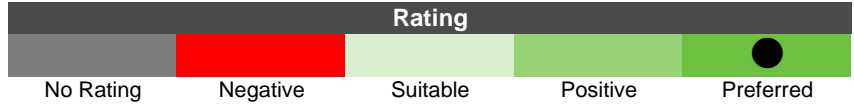
Performance Attribution Comment

The Index-Linked Gilt fund delivered a positive performance of 3.9% over the quarter (in line with its benchmark) as yields fell, causing prices to rise. 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 'Preferred'.

There were no significant developments over the quarter.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	11.2	14.5	12.4
Benchmark	4.8	11.3	14.6	12.4
Relative	-0.0	-0.1	-0.0	-0.1

* Inception date 06 Aug 2013.

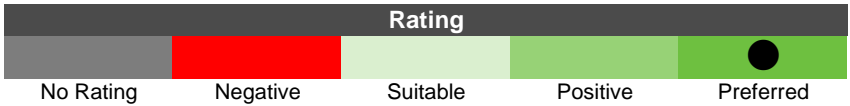
Performance Attribution Comment

State Street's Fundamental Indexation Global Equity Fund returned 4.7% over the second quarter of 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.



Longview - Global Equity

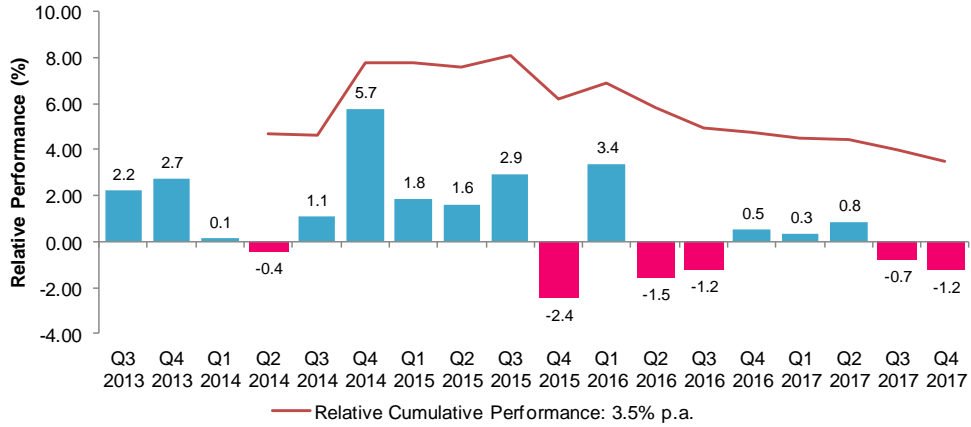
HR View Comment & Rating



We rate Longview's Global Equity strategy at 'Preferred.' Longview's flexible style and concentrated 30-40 stock portfolio has performed exceptionally well over an extended period. Longview's focus on less cyclical companies and sectors has served it well for much of the recent past. The fund retains a significant bias to US equity, with c.80% 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.

Relative Quarterly and Relative Cumulative Performance ⁽ⁱ⁾



Performance Attribution Comment

During the fourth quarter of 2017, Longview's Global Equity mandate returned 3.6%, underperforming the benchmark by 1.2%. Over the 12 month period, the portfolio was behind benchmark but since inception, it is comfortably ahead of benchmark

WW Grainger, Dollar General, and Parker Hannifin were amongst the largest contributors over the quarter, owing partly to the strong US economy and corporate tax cuts. Holdings in industrial supplies distributor, WW Grainger contributed to outperformance as the company's sales continue on an upward trajectory. Discount retailer, Dollar General, also contributed due to strong sales figures over the period to end December 2017. Industrial company, Parker Hannifin, reported strong performance this period. The performance of all three companies also benefited from a strong US economy and corporate tax cuts.

Conversely, the main detractors over the quarter were Willis Towers Watson, Sanofi and AON. As Willis Towers Watson already has a lower domestic tax rate, the US tax cut did not impact the company. This meant that on a relative basis, the company detracted. Similarly, Aon is on a lower domestic tax rate so will not benefit from the corporate tax cuts in the US and has experienced disappointing growth for the quarter. Sanofi's diabetes treatments continued to decline, which contributed to the company's weaker than expected revenue for the period.

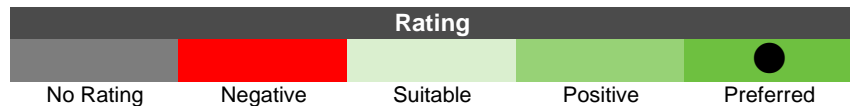
Performance Summary to 31 December 2017 ⁽ⁱⁱ⁾

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.6	12.4	16.2	17.9
Benchmark	4.9	13.2	14.6	12.9
Relative	-1.2	-0.8	1.4	4.4

* Inception date 16 Apr 2013.

Ruffer - Absolute Return

HR View Comment & Rating



We rate Ruffer Absolute Return Fund at 'Preferred'.

There were no significant developments over the quarter.

Performance Attribution Comment

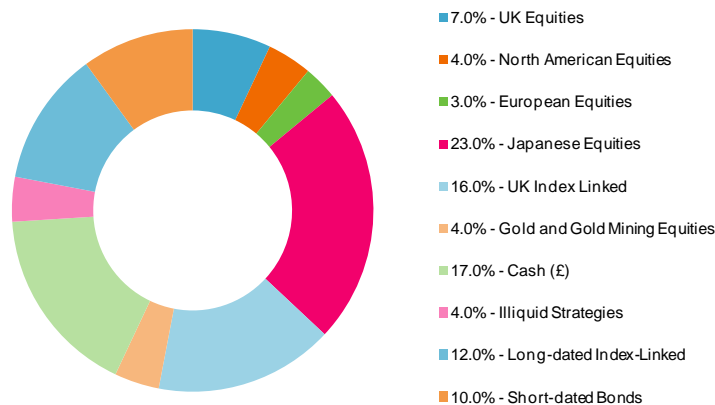
The Ruffer Absolute Return Fund returned 2.3% over the quarter compared to its 7 day LIBOR benchmark of 0.1%, resulting in an outperformance of 2.2%.

During Q4, the fund's long-held strategic positions in both Japanese equities and index-linked gilts provided solid returns and were the main drivers of performance, and assisted the 12 month return. The fund's option protection strategies were the largest detractor, which was an expected development given the strong market conditions of Q4. The portfolio's holding in short-dated index-linked gilts was cut, roughly by half, in expectation of prices falling at the short-end of the curve as rates rose.

As global growth and asset returns continued to strengthen, Ruffer finished the year on a better note after uninspiring returns over 2017. Market sentiment and focus on a low yield environment was not beneficial to the portfolio's positioning, and index-linked gilt holdings and the manager's stock selection in particular have constrained returns over the year.

Ruffer continue to highlight the wide range of geopolitical risks currently affecting the world and suggest that current buoyant asset markets do not price in these dangers. This sentiment explains their commitments to keeping hold of their protective strategies.

Asset Allocation



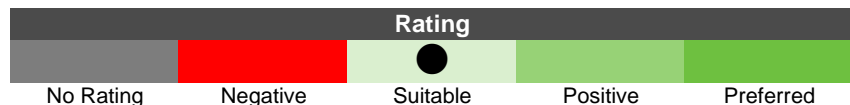
Performance Summary to 31 December 2017 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.3	1.5	3.4	5.3
Benchmark	0.1	0.3	0.4	0.5
Relative	2.2	1.2	3.0	4.7

* Inception date 06 May 2010.

Newton - Absolute Return

HR View Comment & Rating



We rate Newton's strategy at 'Suitable - On Watch'. Newton has announced that Iain Stewart is to step back from the fund's day-to-day portfolio management in Q3 2018 to focus on its macroeconomic input. Suzanne Hutchins and Aron Pataki have been named as lead portfolio managers on the fund and will lead the strategy when Stewart steps back. In addition, Paul Brain, Newton's Head of Fixed Income, has been named as a member of the Real Return team. Finally, Matthew Brown will devote his full time to the strategy, following the decision for him to give up portfolio management duties on another multi-asset strategy. We view Stewart's change of role as a negative development and feel that under the new system, the 'Suitable' rating is the most appropriate given that Stewart will still be involved in the fund. We do not believe anything more negative is warranted at this stage. To reflect our concerns however, the 'Suitable' rating will be flagged as being 'On Watch' and we will meet with the Real Return team (including Paul Brain) during the first half of 2018 for a further update before re-assessing the rating.

Performance Attribution Comment

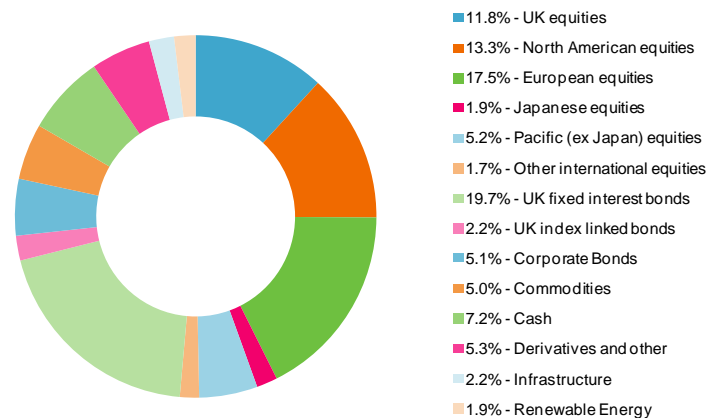
The fund delivered a positive return of 0.4% over the quarter, 0.3% ahead of benchmark, but 0.7% behind the fund's LIBOR+4% p.a. performance objective. The fund has lagged this target return over 12 months and 3 years.

The fund continues to rely on its equity allocation to drive returns, and they added to absolute performance over Q4, with notable contributors in the fund's holdings in the technology sector. The fund's foreign currency hedging positions also added value over the period, as a basket of global currencies depreciated against Sterling.

The fund's protective derivative positions, designed to insulate the portfolio from sharp falls in equity valuations, detracted from returns as global equity markets continued their upward trend. The fund's allocation to equities in the Utility sector also had a detrimental impact on performance, with Centrica selling off in the face of price caps being introduced into the energy-supply market.

In terms of portfolio activity, the manager introduced several new holdings over the quarter, particularly in the Technology and Defence sectors. These new positions were offset by a number of sales over the period, meaning the overall exposure to return seeking assets has stayed broadly constant. The team anticipate that equity markets are not likely to accelerate higher, given the bull run of the last two years. Despite the fact that headline valuations look expensive, the manager believes attractive opportunities are still available at stock level.

Asset Allocation ^[i]



Performance Summary to 31 December 2017 ^[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.4	3.2	3.3	4.5
Benchmark	0.1	0.3	0.4	0.5
Relative	0.3	2.9	2.9	4.0

* Inception date 06 May 2010.

M&G - Bonds

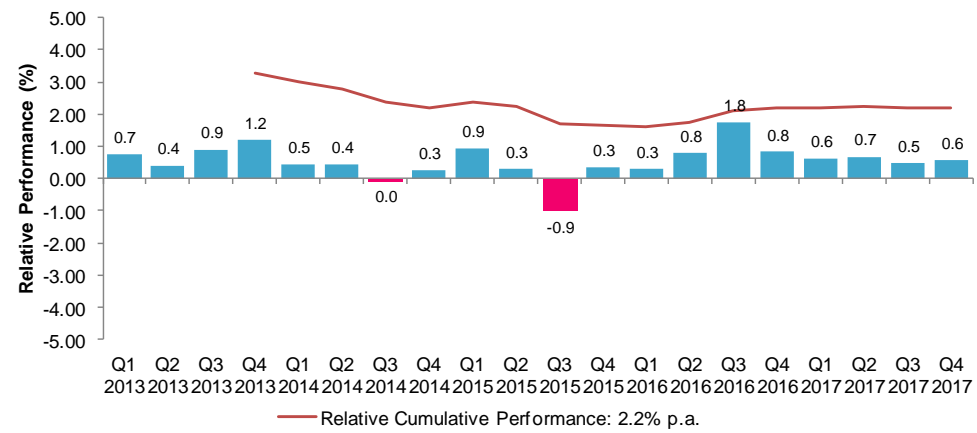
HR View Comment & Rating



We rate M&G bonds at 'Preferred'.

No significant news to report in the quarter to end December 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.

Over the quarter credit spreads tightened in the main but ended the quarter at September levels across major developed markets.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 0.4%. The aggregate performance is comfortably ahead of benchmark over the longer periods of three and five years.

Performance Summary to 31 December 2017 ^[1] ^[2]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.1	5.7	6.3	6.4
Benchmark	1.6	3.3	4.0	4.1
Relative	0.6	2.4	2.2	2.2

[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]

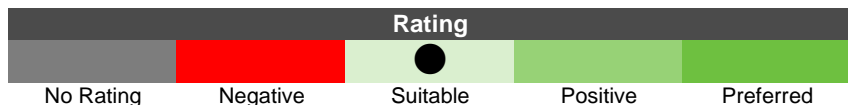
		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute Benchmark	2.9	0.8	2.1
		2.4	0.1	1.6
	Relative	0.4	0.7	0.6
12 Months (%)	Absolute Benchmark	6.5	4.5	5.7
		5.1	0.3	3.3
	Relative	1.3	4.2	2.4
3 Years (% p.a.)	Absolute Benchmark	7.6	4.1	6.3
		6.3	0.4	4.0
	Relative	1.3	3.7	2.2
5 Years (% p.a.)	Absolute Benchmark	7.8	4.2	6.4
		6.8	0.4	4.1
	Relative	0.9	3.7	2.2

Source: [i] DataStream, Hymans Robertson



Schroders - Property

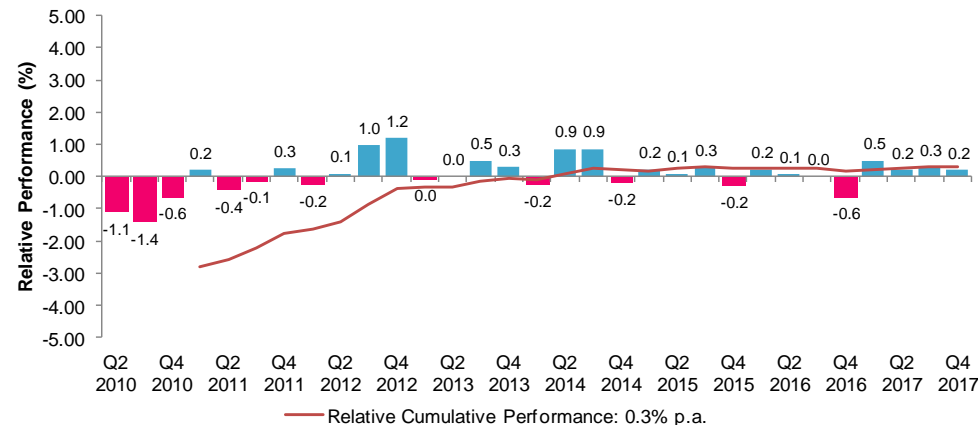
HR View Comment & Rating



We rate Schroders Property at 'Suitable - On Watch'.

There were no significant developments over the quarter.

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

Schroder's property portfolio outperformed the IPD benchmark over the quarter to end December 2017, returning 3.3% 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) which is also the strongest contributor for the portfolio over the year. Also, exposure to the Metro PUT, Mayfair Capital PUT and the Multi-Let Industrial PUT contributed to performance.

Cash held in the portfolio detracted over the quarter as did exposure to the Local Retail Fund and the Aviva Investors Pensions Limited. The portfolio is now underweight to the weaker parts of the retail sector such as shopping centres.

Given the strategic decision to disinvest from central London offices, the portfolio is now underweight which has proved fruitful as the sector has suffered as a result of the Brexit referendum. Looking ahead, Schroders are looking to increase their exposure to regional offices as they see more value there.

Performance Summary to 31 December 2017 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.3	11.5	8.9	8.9
Benchmark	3.1	10.2	8.4	8.4
Relative	0.2	1.2	0.4	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	5.1 5.1	3.6 4.9	4.7 4.8	5.0 5.0	0.4 0.1	2.3 0.1	3.9 3.9	2.1 1.6	3.3 3.1	4.4 3.3
	Relative	0.0	-1.2	0.0	0.0	0.3	2.2	0.0	0.6	0.2	1.0
12 Months (%)	Absolute Benchmark	13.7 13.9	12.4 13.2	11.2 11.3	13.5 13.1	3.2 0.3	1.5 0.3	2.5 2.5	5.7 3.3	11.5 10.2	9.5 8.4
	Relative	-0.2	-0.8	-0.1	0.4	2.9	1.2	0.0	2.4	1.2	1.0
3 Years (% p.a.)	Absolute Benchmark	15.3 15.3	16.2 14.6	14.5 14.6	10.3 10.1	3.3 0.4	3.4 0.4	8.3 8.3	6.3 4.0	8.9 8.4	11.5 9.9
	Relative	0.0	1.4	0.0	0.2	2.9	3.0	0.0	2.2	0.4	1.5
10 Years (% p.a.)	Absolute Benchmark	11.9 11.8	17.9 12.9 4.4	12.4 12.4	8.8 8.6	4.5 0.5 4.0	5.3 0.5 4.7	N/A N/A	6.9 4.7	8.9 8.4	7.2 6.1
	Relative	0.0		-0.1	0.1			N/A	2.1	0.4	1.0

[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	4.5	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.0	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.3	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.2	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	0.2	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-1.4	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	-0.2	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-1.7	-	-	-	-	-	-	-	-	-	-
Cash	0.0	1.9	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-1.0	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.9	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.0	0.0	1.9	2.8	-0.2	5.0	0.2	15.5	1.5

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	1.8	-	-	-	-	-	-
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	-2.0	5.0	2.0	6.5	-0.5	1.0	-1.0	1.0	-1.0	10.0	-0.9



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	-0.8		10.0	-0.2		17.5	1.0		1.0	-0.4	

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, 15% Europe, 6% Asia (ex Japan), 9% 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:

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

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.

