

East Sussex Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2015



Prepared By:

Linda Selman - Partner

Email: linda.selman@hymans.co.uk

William Marshall - Partner

Email: william.marshall@hymans.co.uk

Nell McRae - Investment Analyst

Email: nell.mcrae@hymans.co.uk

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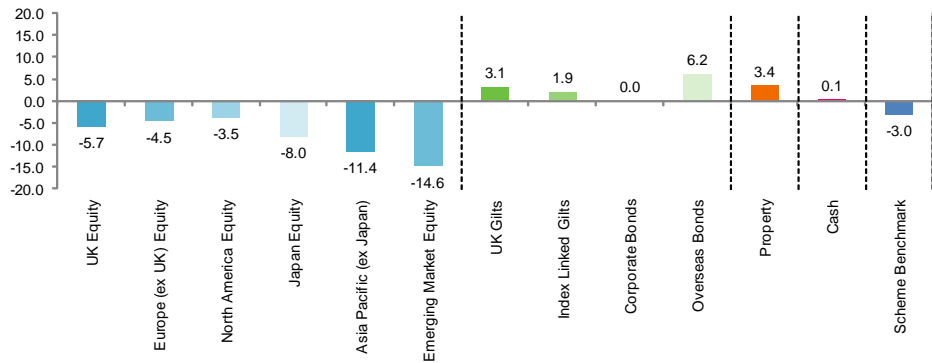
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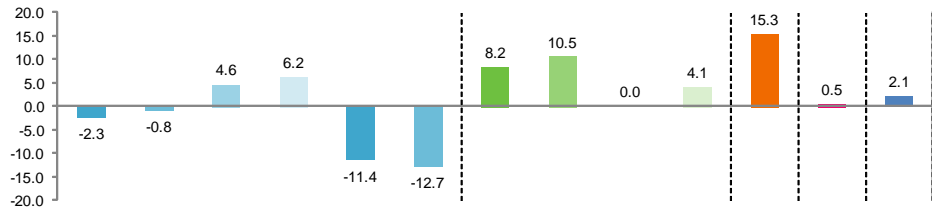
Historic Returns for World Market to 30 September 2015

Historic Returns - Chart 1 ^[1]

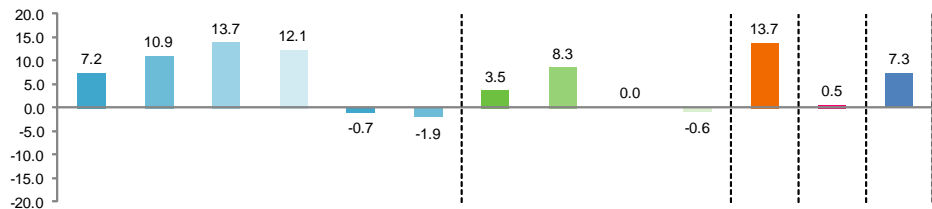
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Comment

Global equity markets recorded their worst three month returns in four years. In the UK the FTSE All Share index fell by 6.9%; in the US, the S&P 500 index fell by 4.1%. August was a particularly difficult month, with global equities falling by more than 5% and government bonds offering little in the way of a safe haven.

The economic slowdown in China dominated the headlines during the quarter, with the country's economy growing at its slowest rate in over six years. In August, the benchmark interest rate was cut for the fifth time since November 2014.

An increase in short-term interest rates in the US had been widely anticipated at the start of the quarter, but developments in China shifted expectations. Many commentators are now anticipating that the first US rate rise will be pushed into 2016. However, the US economy continued to be robust, with falling unemployment and upward revisions to growth forecasts. The chairman of the Federal Reserve suggested, at the end of the quarter, that a US rate rise was still likely before the end of 2015.

Key events during the quarter included;

Global Economy

- Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
- Headline inflation in the US, Eurozone and UK remained close to zero;
- The VIX volatility index spiked on 'Black Monday', more than double the historic average since Jan 1990 as equity markets collapsed;
- Oil prices slid back to their lows of early 2015, dipping under \$50 per barrel;
- Commodity prices suffered their biggest quarterly decline since 2008.

Equities

- The strongest sectors relative to the FTSE All World Index were Utilities (+7.6%) and Consumer Services (+5.1%); the weakest were Basic Materials (-11.4%) and Oil & Gas (-9.9%);
- Emerging market equities struggled; local currency weakness compounded the falls for UK investors.

Bonds and currencies

- Sterling fell against the Dollar, Euro and Yen, largely reversing gains made during the preceding quarter;
- UK gilt yields fell (prices rose), with nominal yields falling further than real yields.

[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.

Fund Asset Allocation and Performance

Valuation Summary [1]

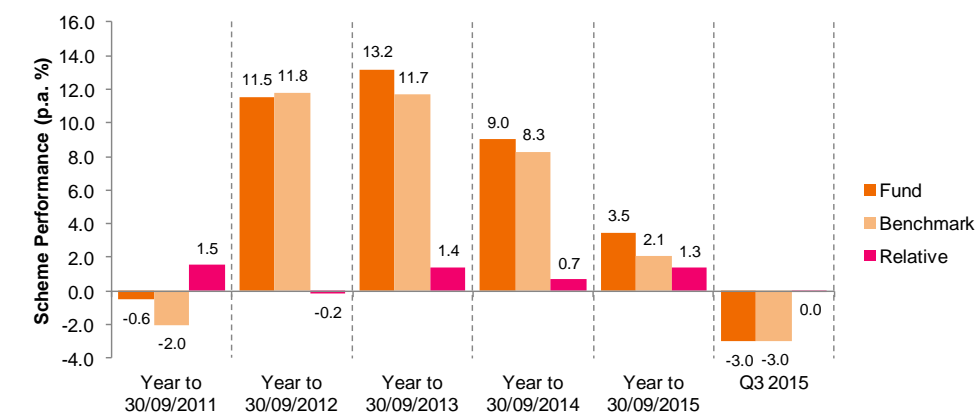
Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2015	Q3 2015			
Global Equity	1038.2	951.6	36.5	38.0	-1.5
UK Equity	267.4	252.2	9.7	12.0	-2.3
Fixed Interest	107.0	107.4	4.1	3.5	0.6
Index-Linked Gilts	139.8	143.0	5.5	5.0	0.5
Property	299.2	306.9	11.8	10.0	1.8
Infrastructure	61.3	43.9	1.7	2.0	-0.3
Private Equity	151.0	162.0	6.2	5.5	0.7
Absolute Return Funds	501.4	483.2	18.5	20.0	-1.5
Cash	44.1	79.2	3.0	0.0	3.0
UK Financing Fund	10.6	10.6	0.4	1.0	-0.6
Absolute Return Bonds	67.8	66.7	2.6	3.0	-0.4
Total Client	2687.9	2606.8	100.0	100.0	

Fund performance [2]

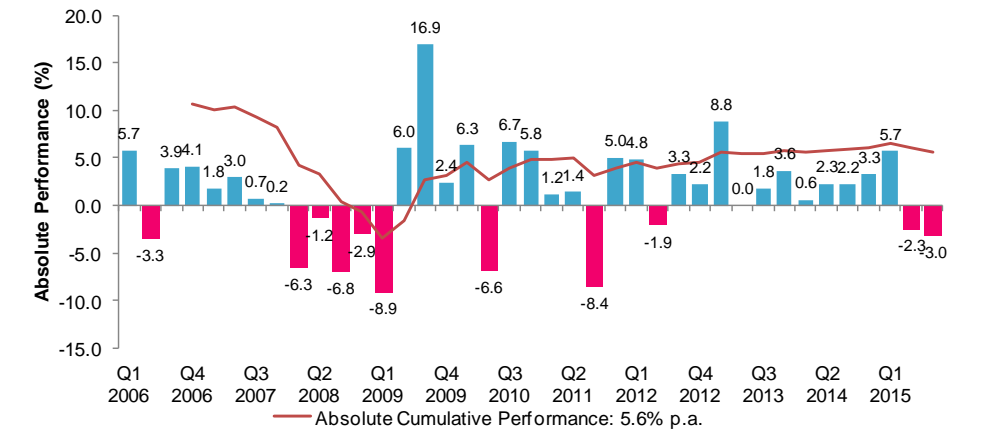
The Fund was in line with the aggregate benchmark during the third quarter of 2015, returning -3.0% in absolute terms. Over the twelve month period to end September 2015, the Fund delivered an absolute return of 3.5%, versus a benchmark return of 2.1%.

At a manager level the Longview global equity mandate outperformed over the quarter. However, this was offset by underperformance from Lazard and both the Absolute Return Funds.

Performance Summary [1]



Absolute Quarterly and Absolute Cumulative Performance [iii]



[1] The cash figure shown includes the cash balances held by managers (the asset class allocations are shown on a 'look-through' basis) , [2] Total Fund return is estimated. Historical returns are backdated with WM figures.

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	<div><div></div><div></div><div></div><div></div><div></div></div>
Lazard - Global Equities	Thematic	26 May 2010	FTSE All World	+3% (gross of fees) over rolling 3 year periods	<div><div></div><div></div><div></div><div></div><div></div></div>
Longview - Global Equity	Active	16 Apr 2013	MSCI ACWI (GBP)	+3% (gross of fees) over rolling 3 year periods	<div><div></div><div></div><div></div><div></div><div></div></div>
State Street - Fundamental Indexation	Passive	06 Aug 2013	FTSE RAFI All-World 3000	Track Index	<div><div></div><div></div><div></div><div></div><div></div></div>
L&G - UK Equities	Passive	21 Nov 2007	FTSE All Share	Track index	<div><div></div><div></div><div></div><div></div><div></div></div>
Newton - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	<div><div></div><div></div><div></div><div></div><div></div></div>
Ruffer - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	<div><div></div><div></div><div></div><div></div><div></div></div>
L&G - 5yr ILG	Passive	11 Mar 2015	FTSE A Index-linked Gilts Over 5 Years	Track index	<div><div></div><div></div><div></div><div></div><div></div></div>
M&G - Bonds	N/A	01 Jan 1997	Bespoke	+0.8% (gross of fees) for corporate bonds only	<div><div></div><div></div><div></div><div></div><div></div></div>
Schroder - Property	Fund of Funds	20 Feb 2010	IPD All Balanced Funds	0.75% p.a. (net of fees) over rolling 3 year periods	<div><div></div><div></div><div></div><div></div><div></div></div>

^{*} For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Manager Summary Comment

There were no changes to manager ratings over the third quarter of 2015. Following agreement by the trustees to terminate the Lazard mandate, a transition will take place in the fourth quarter, with the proceeds transferred into the existing L&G and State Street passive equity mandates.

The Fund continues to be underweight UK equity and due to the significant decline in global equity markets is now underweight global equity. Property and cash remain overweight and the absolute return funds remain underweight. There was no transition activity during the quarter.

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

	3 months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-2.3	9.8	11.1	9.4
WM average Local Authority	-2.4	8.3	10.8	9.7
Relative	0.1	1.4	0.3	-0.3

[1] Ruffer does not have a specific performance target, we have assumed a proxy for measurement purposes. Ruffer's stated objective is to 'preserve capital over rolling 12 month periods', and to grow the portfolio at a higher rate than could be expected from depositing the cash in a UK bank (net of fees), [2] Performance is shown as at 30 June 2015.

Source: [1] WM/State Street

Manager Structure

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2015	Q3 2015			
L&G - Global Equities	205.6	193.6	7.4	8.0	-0.6
Lazard - Global Equities	392.9	358.3	13.7	15.0	-1.3
Longview - Global Equity	168.0	162.2	6.2	5.0	1.2
State Street - Fundamental Indexation	277.0	255.4	9.8	10.0	-0.2
L&G - UK Equities	267.4	252.2	9.7	12.0	-2.3
Newton - Absolute Return	243.3	240.1	9.2	10.0	-0.8
Ruffer - Absolute Return	258.1	243.1	9.3	10.0	-0.7
L&G - 5yr ILG	139.8	143.0	5.5	5.0	0.5
M&G - Bonds	174.8	174.1	6.7	6.5	0.2
Schroder - Property	310.7	320.8	12.3	10.0	2.3
M&G - Infrastructure Fund	41.1	22.8	0.9	1.0	-0.1
UBS - Infrastructure	20.2	21.1	0.8	1.0	-0.2
Adams Street - Private Equity	78.8	85.1	3.3	2.8	0.5
HarbourVest - Private Equity	72.3	76.9	2.9	2.8	0.2
M&G - UK Financing Fund	10.6	10.6	0.4	1.0	-0.6
Cash account	27.4	47.4	1.8	0.0	1.8
Total	2687.9	2606.8	100.0	100.0	0.0

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

Performance Summary (gross of fees)

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

		L&G - Global Equities	Lazard - 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	-5.8	-8.7	-3.3	-7.8	-5.7	-0.8	-5.7	2.3	-0.3	3.3	-3.0
	Benchmark	-5.8	-5.8	-6.0	-7.9	-5.7	0.1	0.1	2.3	0.6	3.0	-3.0
	Relative	0.0		2.9	0.1	0.0			0.0		0.3	
12 Months (%)	Absolute	0.7	-2.1	12.5	-3.4	-2.2	1.3	2.5	6.1	2.9	14.7	3.5
	Benchmark	0.6	0.6	-0.1	-3.5	-2.3	0.5	0.5	6.0	2.4	14.4	2.1
	Relative	0.1		12.6	0.1	0.1	0.8	2.0	0.0	0.5	0.3	1.3
3 Years (% p.a.)	Absolute	10.0	7.5	15.0	2.0	7.4	2.9	6.9	N/A	5.0	13.0	8.5
	Benchmark	9.9	9.9	4.9	2.0	7.2	0.5	0.5	N/A	3.0	11.7	7.3
	Relative	0.1		9.6		0.1	2.5	6.4	N/A	1.9	1.1	1.1
10 Years (% p.a.)	Absolute	7.5	6.4	N/A	N/A	4.5	4.6	5.2	N/A	5.8	9.5	6.0
	Benchmark	7.5	8.2	N/A	N/A	4.3	0.6	0.6	N/A	4.2	9.0	5.5
	Relative	0.0		N/A	N/A	0.2	4.0	4.6	N/A	1.5	0.4	0.5

[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.

Source: [i] DataStream, Hymans Robertson

Performance Summary (net of fees)

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

		L&G - Global Equities	Lazard - 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	-5.8 -5.8	-8.8 -5.8	-3.4 -6.0	-7.8 -7.9	-5.7 -5.7	-0.9 0.1	-5.9 0.1	2.2 2.3	-0.4 0.6	3.2 3.0	-3.1 -3.0
	Relative	0.0	-3.2	2.7	0.1	0.0	-1.1	-6.0	-0.1	-1.0	0.2	-0.1
12 Months (%)	Absolute Benchmark	0.6 0.6	-2.8 0.6	11.8 -0.1 11.9	-3.4 -3.5	-2.2 -2.3	0.7 0.5	1.7 0.5	5.9 6.0	2.5 2.4	14.5 14.4	3.1 2.1
	Relative	0.0	-3.3	0.0	0.1	0.2	1.2	-0.2	0.2	0.1	1.0	
3 Years (% p.a.)	Absolute Benchmark	9.9 9.9	6.8 9.9	14.3 4.9 9.0	1.9 2.0	7.3 7.2	2.3 0.5	6.1 0.5	N/A N/A	4.6 3.0	12.7 11.7	8.1 7.3
	Relative	0.0	-2.8	-0.1	0.1	1.9	5.6	N/A	1.6	0.9	0.8	
10 Years (% p.a.)	Absolute Benchmark	7.4 7.5	5.8 8.2	N/A N/A	N/A N/A	4.4 4.3	4.0 0.6	4.4 0.6	N/A N/A	5.6 4.2	9.3 9.0	5.9 5.5
	Relative	0.0	-2.2	N/A	N/A	0.1	3.4	3.8	N/A	1.3	0.2	0.3

[1] We have estimated net returns based on each manager's expected fee levels. The table shows since inception returns in place of three year and ten year performance for some of the managers, if the mandate has been in place for a shorter period.

Legal and General - UK and Global Equities

HR View Comment & Rating



In September LGIM announced that Chad Rakvin will succeed Ali Toutouchi as Global Head of Index Funds. Rakvin was recruited from Northern Trust in 2013 to lead LGIM's index funds expansion in the US. Toutouchi will work through a handover period with Rakvin and will continue to be involved with LGIM in a strategic and advisory capacity. Julian Harding, Director of Index Fund Management in the UK is leaving LGIM and Colm O'Brien, who joined from Irish Life in 2012, will take over his responsibilities. Eve Finn, who joined LGIM in 2009, expands her role from engaging with clients on LDI de-risking solutions to a much broader, newly created role as Head of Portfolio Solutions.

In our view Harding was a good manager who understood the UK market very well and his departure is an unfortunate consequence of these changes. Rakvin and O'Brien have plenty of relevant investment experience but have also had much less time at LGIM and less involvement with the UK market than the individuals they are replacing. Notwithstanding the incidence of change in senior personnel at LGIM, we see no reason to question the continuity of the business at this point and maintain our rating of LGIM's passive capability at '5 - Preferred Manager'.

Performance Attribution Comment

Both the Legal & General global and UK equity mandates performed broadly in line with their respective benchmarks over the quarter.

The UK equity fund delivered a negative absolute return of -5.7% over the quarter. Over the 3 year period, fund performance remains positive and is broadly in line with the benchmark.

The global equity mandate also performed in line with the benchmark over Q3, delivering an absolute return of -5.8%. Long term performance remains broadly in line with the FTSE All World Index at both 3 years and since the mandate's inception.

L&G UK Fund Performance [i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-5.7	-2.2	7.4	4.5
Benchmark	-5.7	-2.3	7.2	4.3
Relative	0.0	0.1	0.1	0.2

* Inception date 21 November 2007

L&G Global Fund Performance [iii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-5.8	0.7	10.0	7.5
Benchmark	-5.8	0.6	9.9	7.5
Relative	0.0	0.1	0.1	0.1

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

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

Legal and General - 5 year ILG

HR View Comment & Rating



There were no significant changes to report over the quarter to 30 September 2015.

We continue to rate the manager '5 - Preferred Manager' for passive fixed income

Performance Summary - Table [i]

	3 Months (%)	Since Inception*
Fund	2.3	6.1
Benchmark	2.3	6.0
Relative	0.0	0.0

* Inception date 11 Mar 2015.

Performance Attribution Comment

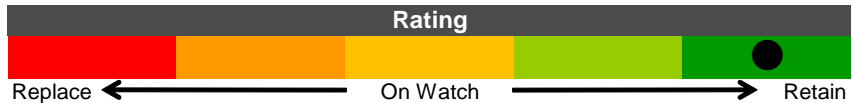
Over the quarter and since inception, Legal & General's 5 year index linked gilts fund performed in line with the benchmark, delivering a positive absolute return of 2.3% over the last 3 months.

Source: [i] DataStream, Hymans Robertson



State Street - Fundamental Indexation

HR View Comment & Rating



We rate the FTSE RAFI 3000 global equity index at '5 - Preferred strategy'.

There were no relevant business issues reported over the period.

Performance Summary - Table

	3 Months (%)	12 Months (%)	Since Inception*
Fund	-7.8	-3.4	2.0
Benchmark	-7.9	-3.5	2.0
Relative	0.1	0.1	-0.0

* Inception date 06 Aug 2013.

Performance Attribution Comment

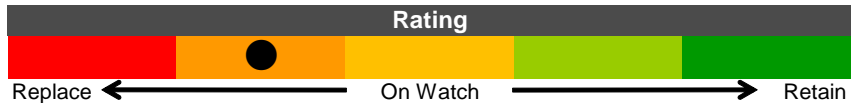
State Street's fundamental indexation fund performed slightly ahead of benchmark during the third quarter of 2015, returning -7.8% in absolute terms. Since inception, the fund is broadly in line with the benchmark.

RAFI moderately underperformed the equivalent cap weighted index in Q3 2015 as the value style underperformed; performance also lags the index in the year to date but RAFI remains true to its 'contrarian' principles e.g. overweight to Energy, Utilities, Europe and Japan and underweight to Health Care, Technology and the US.



Lazard - Global Equity

HR View Comment & Rating



There were no relevant business issues reported over the quarter to 30 September 2015.

We continue to rate Lazard's Global Thematic Equity strategy at '2 Sell – review options'. We are still comfortable with Lazard's structure as an independent team focused on a single, unconstrained strategy and building portfolios with low turnover based on the portfolio managers' long term views. Unfortunately we have lost confidence in the Lazard team's ability to execute this approach effectively.

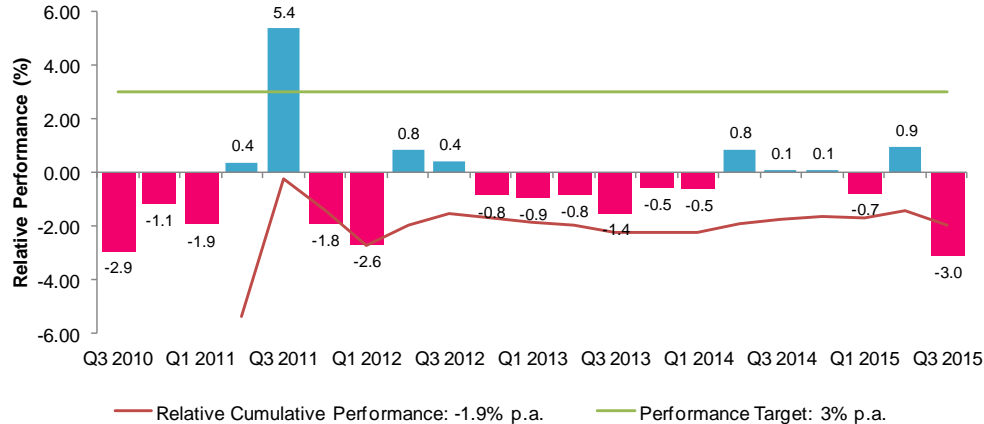
The Fund's mandate with Lazard is due to be terminated during Q4.

Performance Attribution Comment

The Global Equity strategy underperformed the benchmark over the quarter by 3%, returning -8.7% in absolute terms. Over all longer periods considered, the mandate remains behind the benchmark.

The biggest detractor over the quarter was the mandate's Oil and Gas theme as commodity prices fell (oil prices fell by 24% and gas prices fell by 15%) significantly affecting the performance of the industry. At stock level, there was a struggle to maintain profitable production. The National Platforms theme also had a significant negative impact over the quarter as Chinese shares were suspended and Hong Kong shares were sold off. Specifically, the mandate's exposure to Hong Kong Exchanges and Clearing, which operates the stock market and derivatives market in Hong Kong, detracted as the number of transactions in the market fell. Additionally the Information Systems theme negatively impacted on performance. The mandate's underweight positioning to utilities and other traditional defensive stocks and consumer staples also detracted. However, Lazard maintained this position in the belief that the utilities sector will begin to decline when interest rates rise and that consumer staples sector will suffer as competition diminishes.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary to 30 September 2015 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-8.7	-2.1	7.5	6.4
Benchmark	-5.8	0.6	9.9	8.2
Relative	-3.0	-2.7	-2.2	-1.6

* Inception date 26 May 2010.

Longview - Global Equity

HR View Comment & Rating



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

There were no relevant business issues reported over the period.

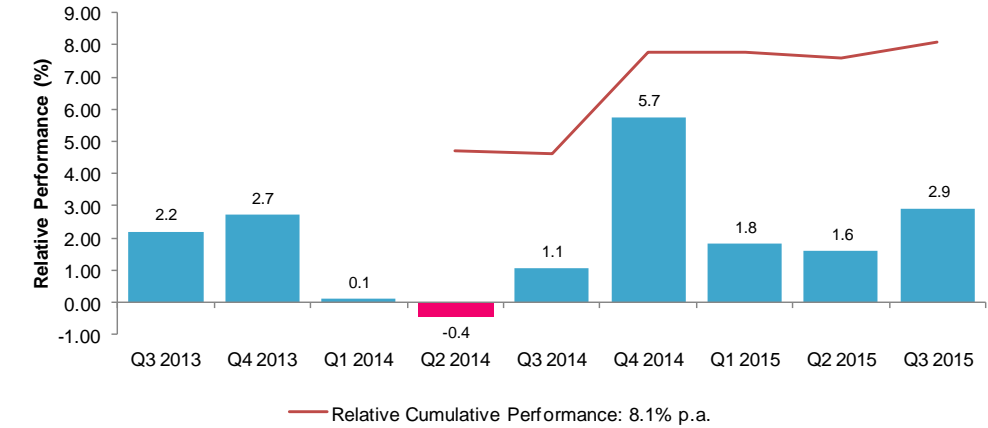
Performance Attribution Comment

Although the quarter saw equity markets fall significantly, Longview's global equity mandate outperformed the benchmark by 2.9%. Over the longer term, the fund has outperformed the benchmark since inception delivering an absolute return of 15% p.a.

Stock selection in the Information Technology sector and the mandate's zero exposure to Energy and Commodities sectors all contributed to the outperformance over the quarter. Individual holdings Imperial Tobacco, Advanced Auto Parts and Fidelity National Information Services performed well over the quarter and had a positive impact on relative performance. Advanced Auto Parts, the automotive replacement parts retailer announced revenue growth over the quarter which in turn improved the company's earnings per share. Imperial Tobacco reported stable profitability over the quarter and continues to benefit from dividend sustainability. IT company, Fidelity National benefitted due to the announcement of their plans to acquire Sunguard, an American multi national company.

Over the quarter, detractors included stock selection within the Consumer Discretionary and Industrials sectors and individual holdings in Parker Hannifin, Viacom and Emerson Electric. Viacom posted poor quarterly results for the third quarter and underperformed as TV viewing ratings fell. Within the Industrials sector, Emerson Electric and Parker Hannifin suffered due to weakness in the industrial economy as growth in the sector declined.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary to 30 September 2015 [ii]

	3 Months (%)	12 Months (%)	Since Inception* (%)
Fund	-3.3	12.5	15.0
Benchmark	-6.0	-0.1	4.9
Relative	2.9	12.6	9.6

* Inception date 16 Apr 2013.

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

Ruffer - Absolute Return

HR View Comment & Rating



In Q1 2015 Ruffer asked investors to approve the inclusion of new illiquid strategies, designed to provide protection against the tail-risk associated with credit markets. The team have now implemented this change and it has been a challenging period for the strategy this year. We continue to support the Ruffer approach to absolute return investing but are mindful of style divergence.

There were no significant changes over the third quarter to end September 2015.

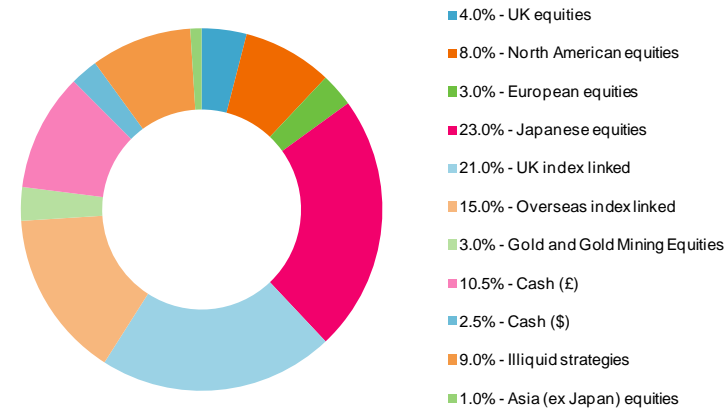
Performance Attribution Comment

Ruffer's Absolute Return Fund underperformed the Libor benchmark by 5.8% over the quarter to 30th September, returning -5.7% in absolute terms. Over 12 months, 3 years and since inception the mandate outperformed.

As equity markets fell over the quarter, the mandate was badly affected and the protection strategies did not manage to offset the scale of the equity losses. In particular, exposure to Japanese equities had the biggest negative impact on performance due to it's liquid nature within the otherwise illiquid Asian market. However, Ruffer is confident that the losses were not due to domestic issues and believes that the Japanese market will regain momentum. The manager subsequently added to its Japanese holdings. The mandate's option contracts (in place to hedge risks should equity and bond markets fall sharply together) also detracted in spite of providing strong protection in August as markets fell. The value of the options then decreased in September as market volatility receded.

The mandate's exposure to the Japanese yen provided a small positive contribution to relative performance, as the yen appreciated over the quarter. Exposure to the US dollar also had a positive impact on performance as it appreciated amidst expectations the Fed would increase US rates. Ruffer's new Illiquid Multi Strategies Fund also contributed to performance as the nature of the vehicle seeks to benefit from rising volatility and widening credit spreads. UK index linked gilt contributed as yields fell causing prices to rise.

Asset Allocation



Performance Summary to 30 September 2015 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-5.7	2.5	6.9	5.2
Benchmark	0.1	0.5	0.5	0.6
Relative	-5.8	2.0	6.4	4.6

* Inception date 06 May 2010.

Newton - Absolute Return

HR View Comment & Rating



We rate Newton at ‘5 - Preferred Manager’. The Real Return Fund is an unconstrained multi-asset strategy that seeks to generate a return through both dynamic asset allocation and security specific selection. We like the unconstrained nature of the Newton approach and the real focus on downside protection. It is this focus on risk as the loss of capital rather than a measure of portfolio volatility that distinguishes ‘absolute return’ managers such as Newton. While the approach draws on a range of inputs from various investment staff in the wider Newton team, we believe that the success or otherwise of the strategy is heavily reliant on the head of the team, Iain Stewart, and there is therefore a high level of key man risk. As at the end of the third quarter the Real Return strategy had assets under management of £12.6bn. Capacity is a consideration due to the portfolio investing in single stock names, however at this level Newton do not believe this is a concern.

There were no significant changes to report over the third quarter to 30 September 2015.

Performance Attribution Comment

The Real Return underperformed the LIBOR +4% target by 0.9% over the quarter, returning -0.8% in absolute terms. Over 12 months and 3 years the Fund lags the LIBOR +4% target but since inception is in line with the target.

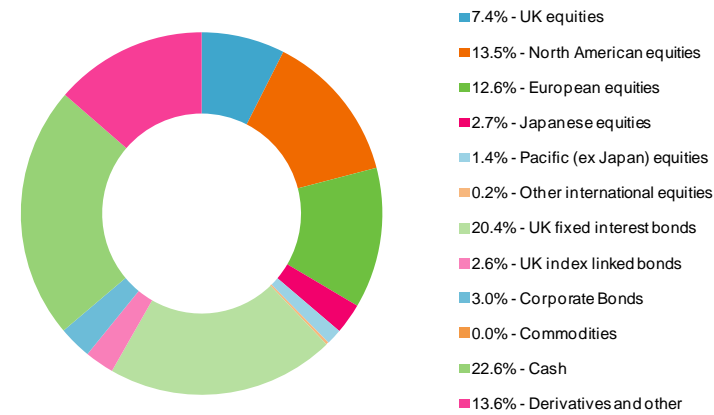
The third quarter of 2015 proved difficult for equity markets globally and volatility peaked to a level not seen since 2008. With equities making up the majority of the mandate's return-seeking investments, this sector had an overall negative impact on performance. Exposure to the telecommunications sector also detracted with Danish company, TDC affected by the European regulator's decision to prevent the company's planned market consolidation. Japanese multinational, Softbank affected the mandate's performance as it decision to increase it's investment in Sprint, the declining wireless carrier was viewed sceptically by the market.

The biggest contributor to performance over the quarter were the derivative protection positions held in the mandate. The manager's direct equity index protection helped cushion the losses made within the equity markets, acting as an insurance for the fund. Protection futures held against the FTSE 100 and S&P 500 also protected the mandate's positioning. Portfolio holdings in tobacco manufacturers Reynolds American and British American Tobacco also had a positive impact on relative performance. The mandate also benefitted from individual holdings in technology stocks Microsoft and Accenture.

[1] The Fund maintains a high level of derivatives protection. On a notional basis, 30% of the Fund is protected. The manager uses options to achieve this and so the delta adjusted equity exposure will vary with changing market levels.

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

Asset Allocation ^{[1] [i]}



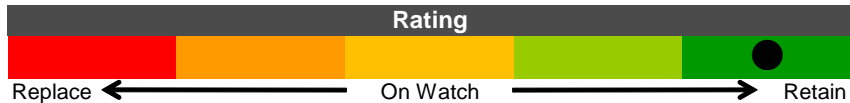
Performance Summary to 30 September 2015 ^[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-0.8	1.3	2.9	4.6
Benchmark	0.1	0.5	0.5	0.6
Relative	-0.9	0.8	2.5	4.0

* Inception date 06 May 2010.

M&G - Bonds

HR View Comment & Rating



M&G is rated '5 – Preferred Manager' for fixed income.

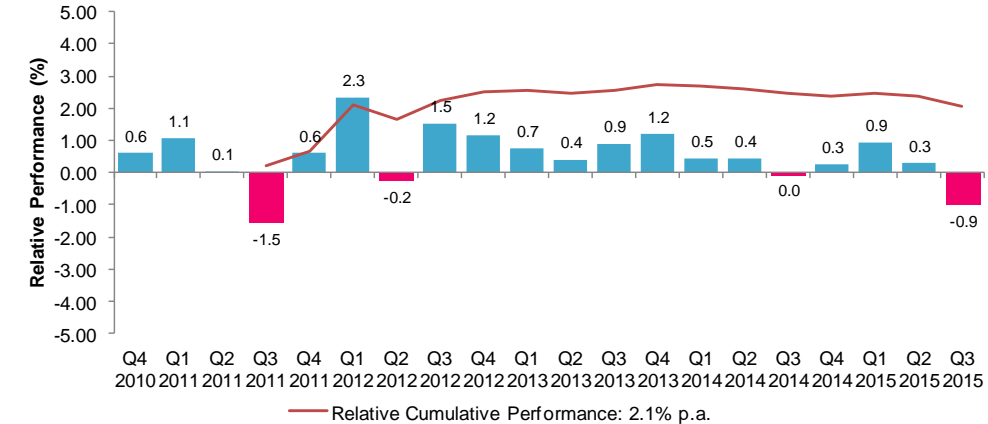
There were no significant changes to report over the quarter to end September 2015.

Performance Attribution Comment

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

The Alpha Opportunities fund delivered a negative absolute return of -1.5% over the quarter, lagging the LIBOR benchmark by -1.6%. The corporate bond fund returned 0.5% during the third quarter, underperforming its benchmark by 0.5%. Aggregate performance from the two bond funds underperformed the composite benchmark during the quarter. Over 12 months, 3 years and 5 years, aggregate relative performance remains ahead of the benchmark.

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 30 September 2015 ^[1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-0.3	2.9	5.0	5.9
Benchmark	0.6	2.4	3.0	3.7
Relative	-0.9	0.5	1.9	2.1

[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.

M&G - Bonds - Performance Attribution

Performance Attribution Performance [i]

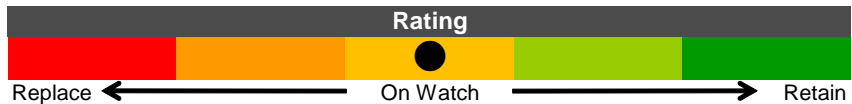
		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	0.5	-1.5	-0.3
	Benchmark	1.0	0.1	0.6
	Relative	-0.5	-1.6	-0.9
12 Months (%)	Absolute	4.6	0.3	2.9
	Benchmark	4.6	0.5	2.4
	Relative	0.0	-0.2	0.5
3 Years (% p.a.)	Absolute	5.8	3.7	5.0
	Benchmark	5.3	0.5	3.0
	Relative	0.5	3.2	1.9
5 Years (% p.a.)	Absolute	7.2	3.9	5.9
	Benchmark	6.6	0.6	3.7
	Relative	0.6	3.4	2.1

Source: [i] DataStream, Hymans Robertson



Schroders - Property

HR View Comment & Rating



Schroder has announced that Portfolio Manager Tony Doherty has resigned from the property multi-manager team to take up a position at LGIM. Schroder had recently undertaken a review of the resourcing requirements for their indirect property business with the consequence that Jennifer Murray, a portfolio manager with responsibility for both separate account clients and SIRE (the Schroder Indirect Real Estate Fund) left the business. Whilst we concluded that no immediate change in rating was necessary, we noted that a further loss of personnel from the team would prompt a review.

Doherty's resignation was completely unexpected to Schroder given the previous change and places a significant resource constraint on the team. In particular, this leaves Rutter as the sole senior fund manager on the team and consequently with significant additional portfolio management and client responsibilities in the immediate short term. There is an increased risk that opportunities for/threats to portfolios may be missed with consequence that future performance will suffer. Whilst Schroder will recruit to fill this gap and have some ability to draw on other internal resource, these changes will not be immediate.

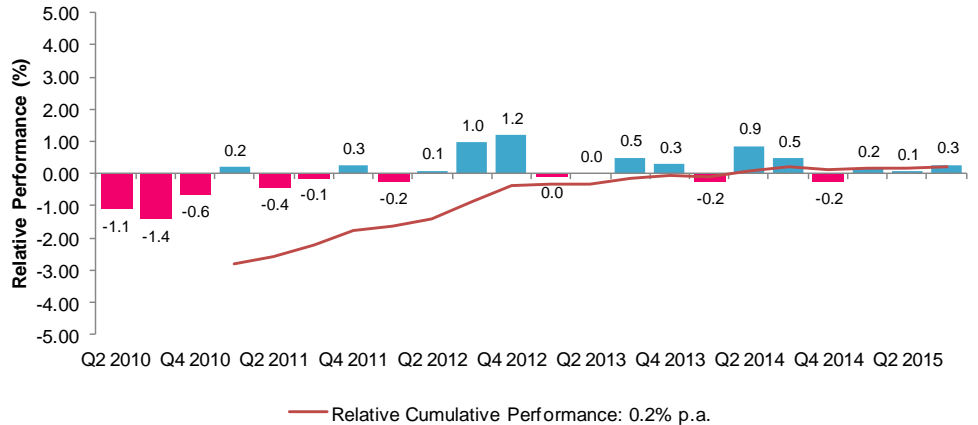
Given the increased risk that this change places on portfolios, we are downgrading our rating of Schroder's indirect property management capabilities to "3 -On Watch". We will consider how Schroder address this resourcing issue before any further change to the rating is made. However, we recognise that in light of historic performance concerns, some clients may wish to use this as a catalyst for a broader review of Schroder.

Performance Attribution Comment

The property mandate returned 3.3% in absolute terms over the quarter, outperforming the benchmark by 0.3%. The mandate remains ahead of benchmark over all longer periods considered.

The property market continued to outperform equity markets throughout the third quarter of 2015. The Industrial and London Office sectors delivered solid absolute performances, with the Industrial Property Investment Fund and West End of London Property Unit Trust outperforming the IPD benchmark. Retail funds continued to underperform over the quarter, specifically with the Henderson UK Retail Warehouse Fund lagging the IPD benchmark.

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 30 September 2015

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception*
Fund	3.3	14.7	13.0	9.5
Benchmark	3.0	14.4	11.7	9.0
Relative	0.3	0.3	1.1	0.4

* Inception date 20 Feb 2010.

Summary of Benchmarks

Summary of Benchmarks

	Total Fund		Adams Street - Private Equity		Cash account		HarbourVest - Private Equity		L&G - 5yr ILG		L&G - Global Equities	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	38.0	-1.5	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.3	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5		-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0		-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0		-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-0.3	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5		100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-1.5	-	-	-	-	-	-	-	-	-	-
Cash	0.0		-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.6	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.4	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.5	0.0	1.8	2.8	0.2	5.0	0.5	8.0	-0.6



Summary of Benchmarks (Cont.)

Summary of Benchmarks

	L&G - UK Equities		Lazard - Global Equities		Longview - Global Equity		M&G - Bonds		M&G - Infrastructure Fund		M&G - UK Financing Fund	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	100.0	-5.0	100.0	0.0	-	-	-	-	-	-
UK Equity	100.0	0.0	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	-	-	62.6	-0.9	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-	-	-
UK Property	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	100.0	0.0	-	-
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	-	-	-	-	-	-	-	-	-	-	-	-
Cash	-	-	0.0	5.0	-	-	-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-	100.0	0.0
Absolute Return Bonds	-	-	-	-	-	-	37.5	0.9	-	-	-	-
Proportion of Total Assets	12.0	-2.3	15.0	-1.3	5.0	1.2	6.5	0.2	1.0	-0.1	1.0	-0.6



Summary of Benchmarks (Cont.)

Summary of Benchmarks

	Newton - Absolute Return		Ruffer - Absolute Return		Schroder - Property		State Street - Fundamental Indexation		UBS - Infrastructure	
	Target %	Difference %	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	-4.3	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	100.0	0.0
Private Equity	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	0.0	100.0	0.0	-	-	-	-	-	-
Cash	-	-	-	-	0.0	4.3	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	10.0	-0.8	10.0	-0.7	10.0	2.3	10.0	-0.2	1.0	-0.2

Benchmarks Summary Comment

The main points to note from this table are:

- The L&G global equity mandate and the Lazard global equity mandate are benchmarked against the FTSE All World Index. Longview is benchmarked against a similar index (the MSCI All Countries). The FTSE All World Index covers around 2800 global firms, with a large or mid size market capitalisation and constitutes around 90%-95% of the world's investible markets. The index focuses on around 45 different countries, including 24 in the so called developed markets, and 21 in the emerging markets. The approximate allocations of the index to the regional stock markets is as follows: 7% UK, 55% US, 16% Europe, 6% Asia (ex Japan), 8% Japan and 8% emerging markets.
- M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. The target shown is an assumed target based on the size of the initial allocation of the Fund made to the M&G Alpha Opportunities fund (absolute return bonds).

Performance Calculation Explanation

Geometric vs Arithmetic Performance

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

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

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.

