



East Sussex Pension Fund
Mike Thomas and David Parsons
8 February 2016
A PRUDENTIAL Company



East Sussex Pension Fund

Performance and valuations as at 31 December 2015

Corporate bond mandate

Portfolio	Current investment value	Performance from 01/01/1997
East Sussex Pension Fund	£107,885,847.40	7.82%

Multi-Asset Credit mandate

Portfolio	Current investment value	Performance from 04/01/2010
East Sussex Pension Fund Alpha Opportunities Fund Investment	£67,227,113.24	3.93%

East Sussex Pension Fund

Corporate bond allocation

Corporate bond mandate

- **Benchmark:** 50% - iBoxx Sterling Non-Gilts Over 15 Year Index
50% - iBoxx Sterling Non-Gilts Index
- **Objective:** M&G's objective in managing the assets of your fund is to outperform the above benchmark by 0.75% per annum, net of fees, assessed over rolling three year periods.

Multi-Asset Credit mandate

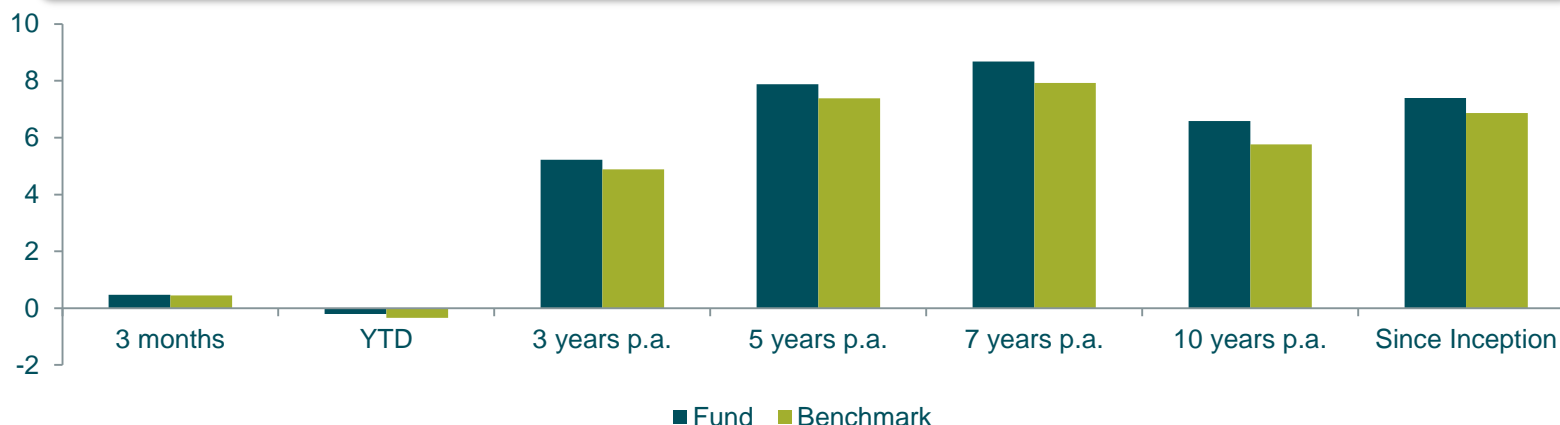
- **Objective:** M&G's objective in managing the assets of the Alpha Opportunities Fund is to outperform LIBOR by 3-5% over a cycle.

Investment performance and attribution

East Sussex Pension Fund

A strong and consistent track record

Annualised gross returns to 31 December 2015 (%)



Discrete annual gross returns (%)

Gross returns to 31 December 2015	3 months (%)	YTD (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
Portfolio	0.47	-0.21	5.25	7.90	8.68	6.59	7.82
Benchmark	0.45	-0.34	4.88	7.38	7.92	5.76	6.87
Difference	+0.02	+0.13	+0.37	+0.52	+0.76	+0.83	+0.95

East Sussex Pension Fund

Q4 attribution

Attribution	Q4 2014 (%)
Corporate sector selection	+0.14
- <i>Overweight US Dollar credit</i>	-0.07
- <i>Overweight Financials</i>	+0.12
- <i>Underweight Supranationals</i>	+0.09
Corporate stock selection	-0.04
Duration	0.00
Bid/offer spread widening/tightening	-0.08
Total	0.02

Corporate Bond Portfolio

- Financial holdings outperformed during the quarter, therefore our overweight position contributed positively to the performance of the fund.
- As credit spreads widened during the quarter, particularly in USD credit, the fund's overweight position in USD credit relative to the benchmark had a negative impact on performance.
- The fund also benefitted from being underweight supranational
- In terms of stock selection, commodity exposed holdings (such as Freeport Mc-Moran) were the largest detractors to performance.
- The long dated fund held a marginal underweight position in interest rate duration relative to the index, this did not contribute materially to returns.
- Long dated Bid/Offer spreads tightened over the quarter leading to a negative contribution to performance for the fund.

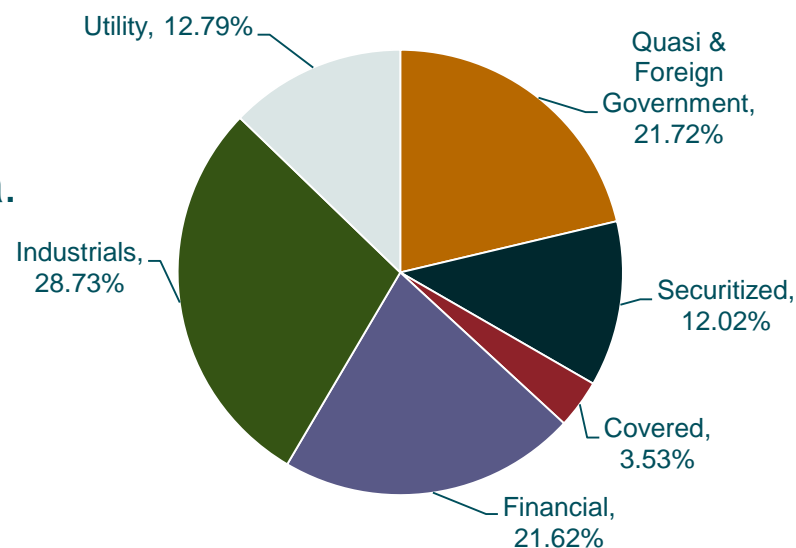
Corporate Bond Allocation

M&G All Stocks Corporate Bond Fund

Fund profile

- Invests predominantly in high quality corporate debt
- Objective is benchmark plus 0.8% gross p.a. over rolling 3 years
- Benchmark is the iBoxx £ Non-gilts Index
- May hold gilts and non sterling bonds (hedged)
- Maximum 10% exposure to high yield bonds, no active currency exposure
- Use of derivatives permitted for efficient portfolio management
- Duration years 7.71, Yield 4.05%

iBoxx Sterling Non-Gilt Index (%)



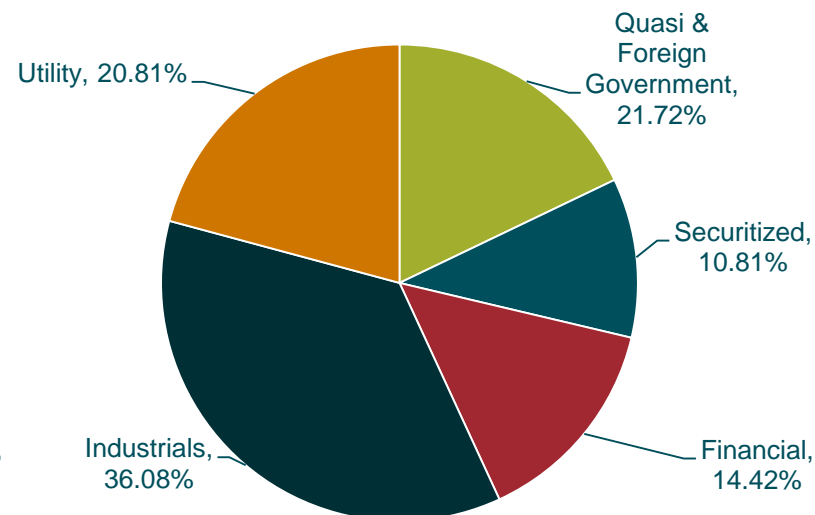
Rating Grade	Benchmark Index (%)
AAA	17.84
AA	17.91
A	26.93
BBB	37.10

M&G Long Dated Corporate Bond Fund

Fund profile

- Invests in high quality sterling corporate bonds with 15 years + to maturity
- Benchmark: iBoxx >15 year £ non-gilt
- Objective to outperform by 0.80%
- Maximum 10% exposure to High Yield Bonds
- Overseas bonds permitted on a fully hedged basis
- Use of derivatives permitted for efficient portfolio management
- Current size: £1,160 million
- Fund yield: 4.19% vs. Benchmark yield 3.92% (semi annual)
- Fund duration: 13.87 years vs. Benchmark duration 13.92 years (semi annual)

iBoxx Sterling Over 15 year Non Gilts Index (%)

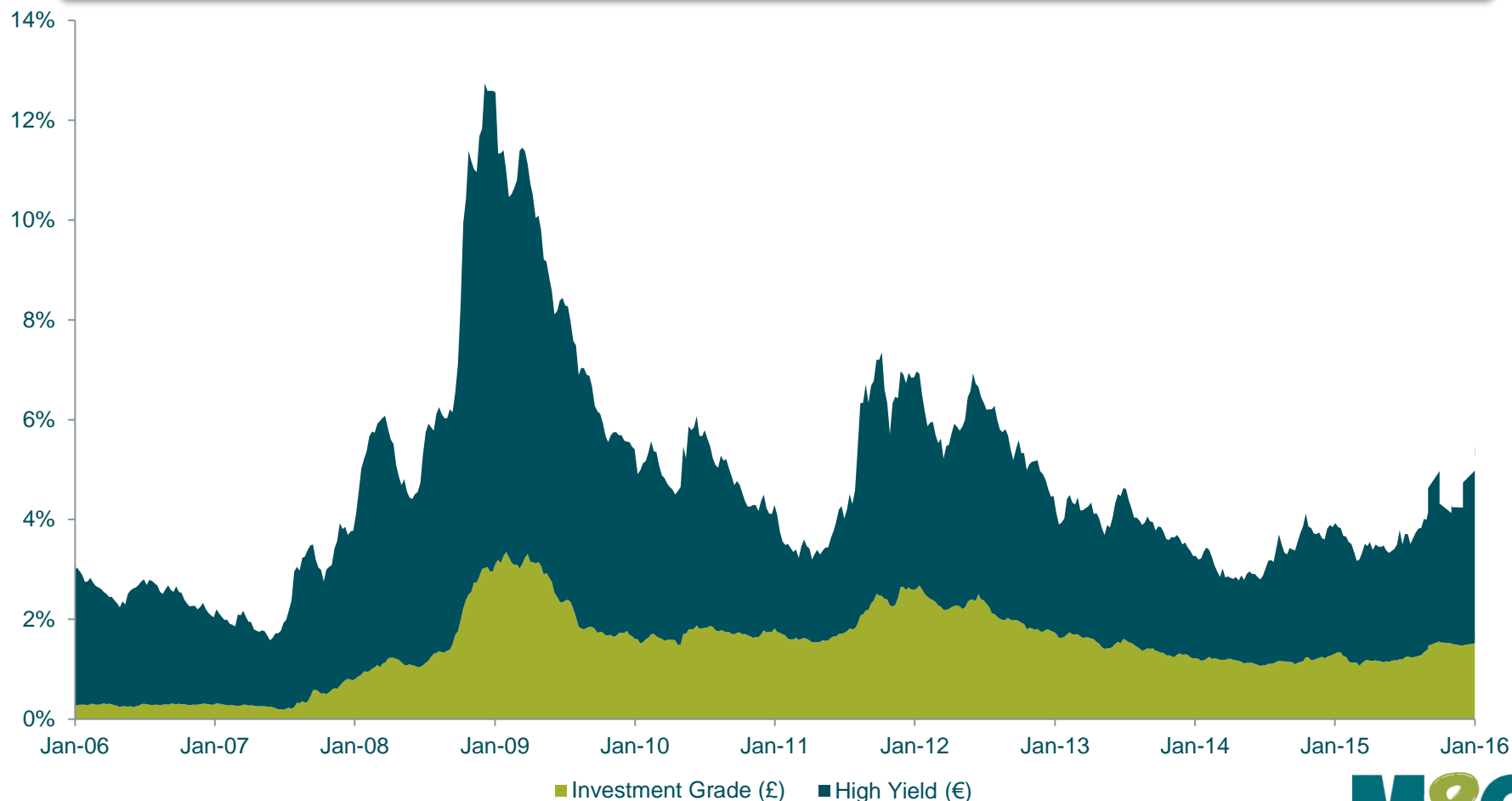


Rating Grade	Benchmark Index (%)
AAA	11.63
AA	21.48
A	37.70
BBB	29.20

Corporate bond market spreads

Market valuations fully reflect the positive liquidity backdrop

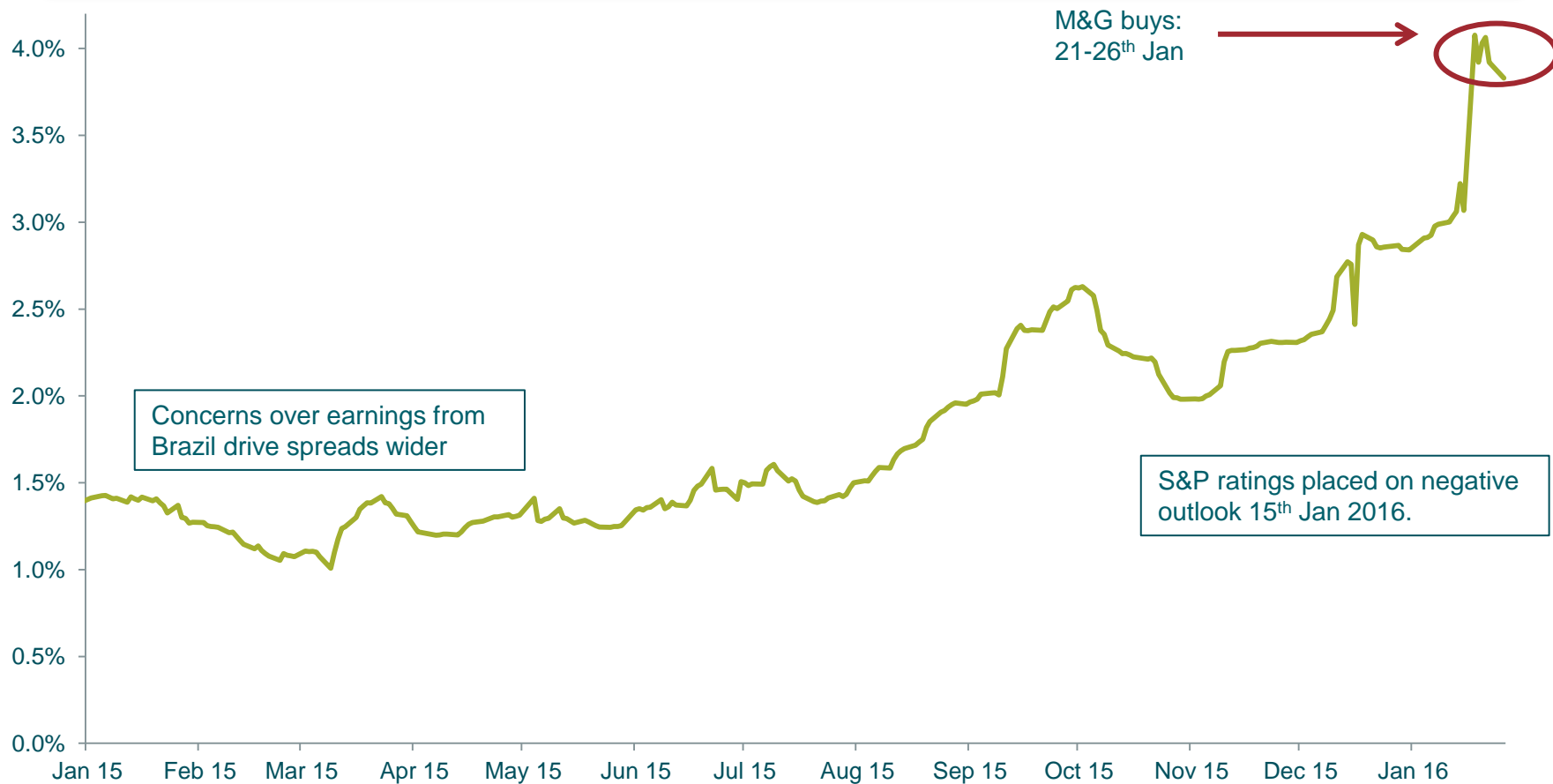
£ investment grade and € high yield (spread)



Issuer selection example – fundamental value

Market not valuing bond structure or risks appropriately

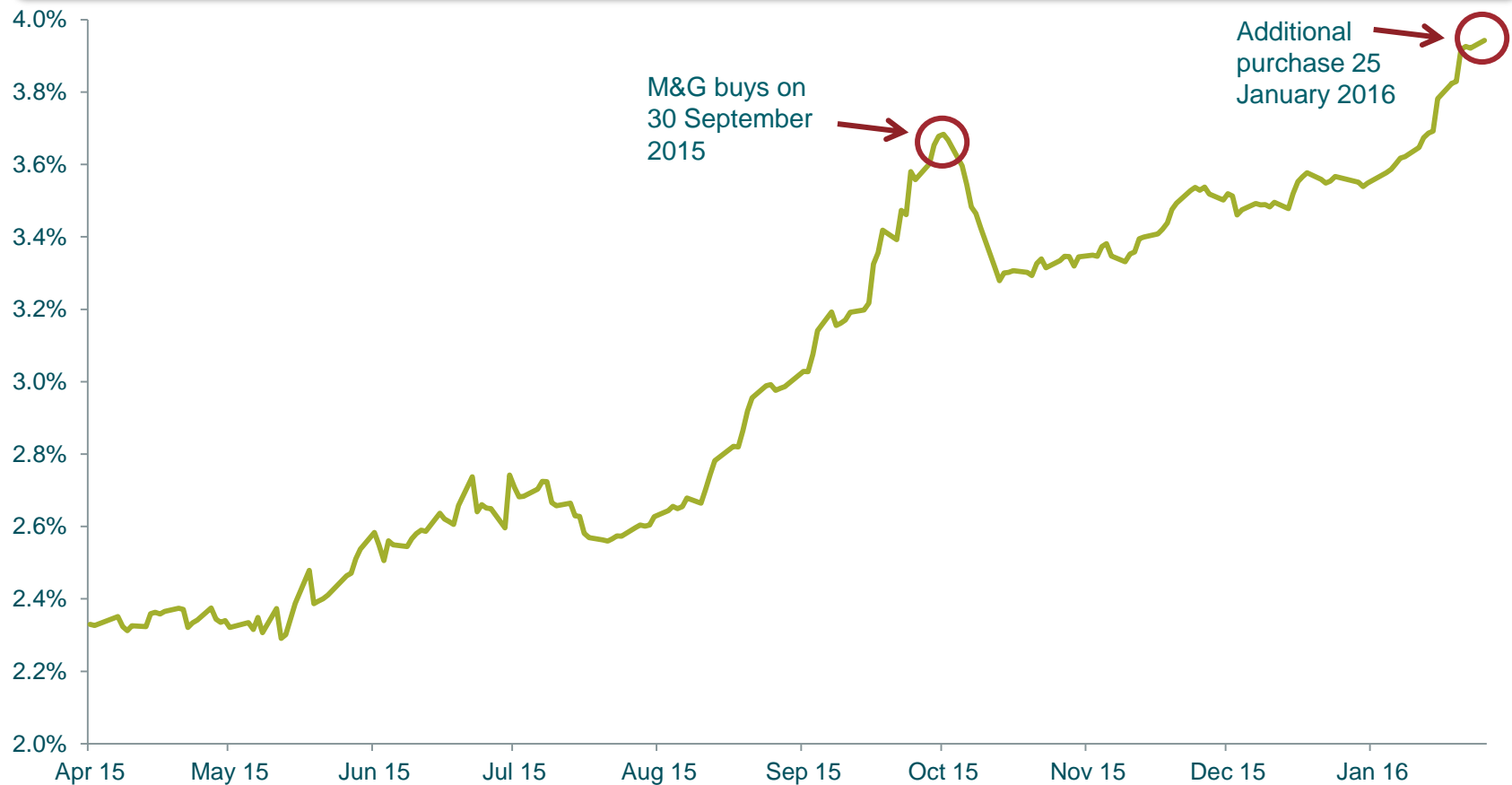
Casino Guichard 2.798% 05/08/2026 (spread, €) – All Stocks Corporate Bond Fund



Issuer selection example – fundamental value

Where credit fundamentals are not reflected in the credit spread

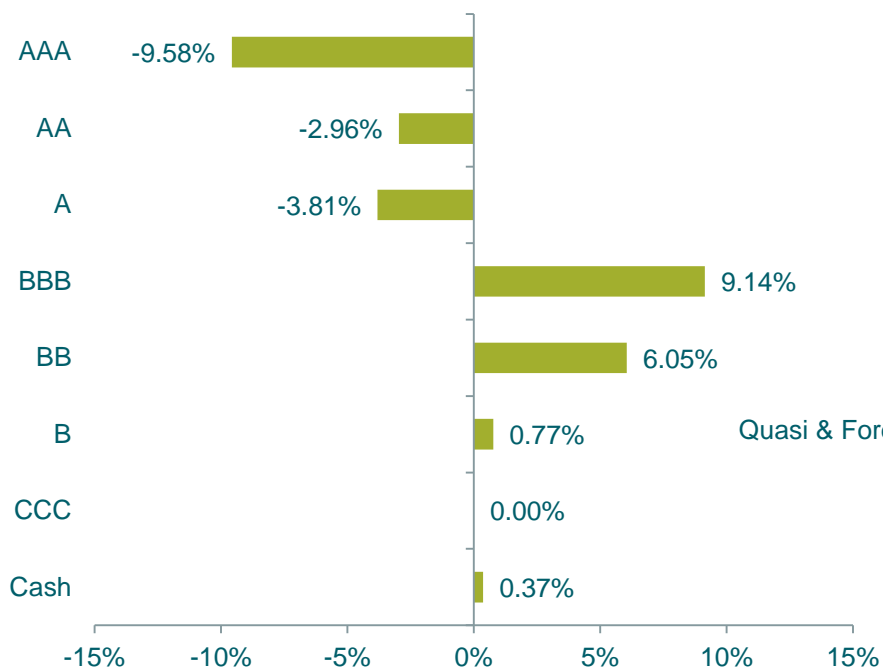
RWE 6.125% 06/07/2039 (spread, £)



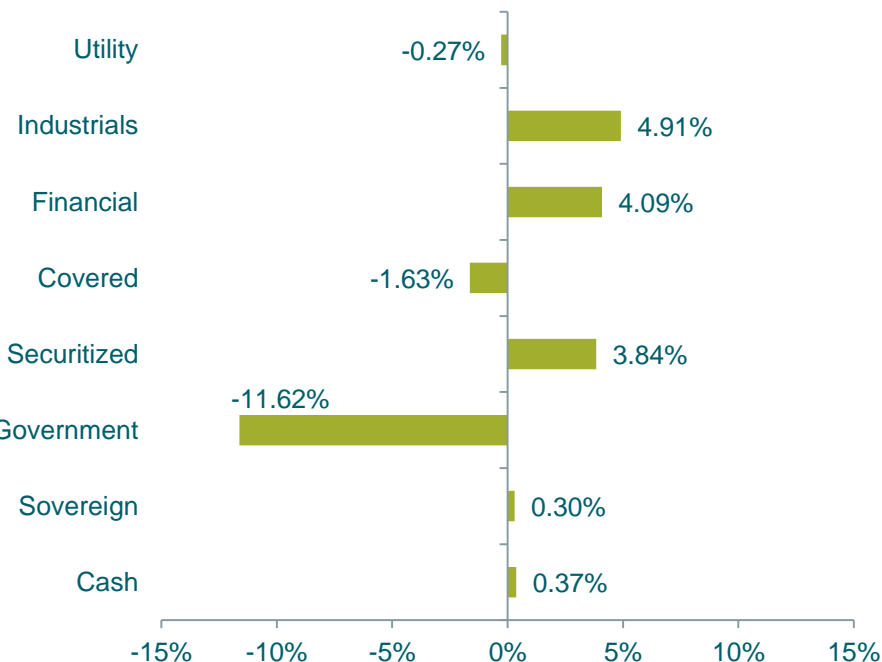
M&G All Stocks Corporate Bond Fund

Current fund risk positions vs benchmark

Credit ratings



Sector

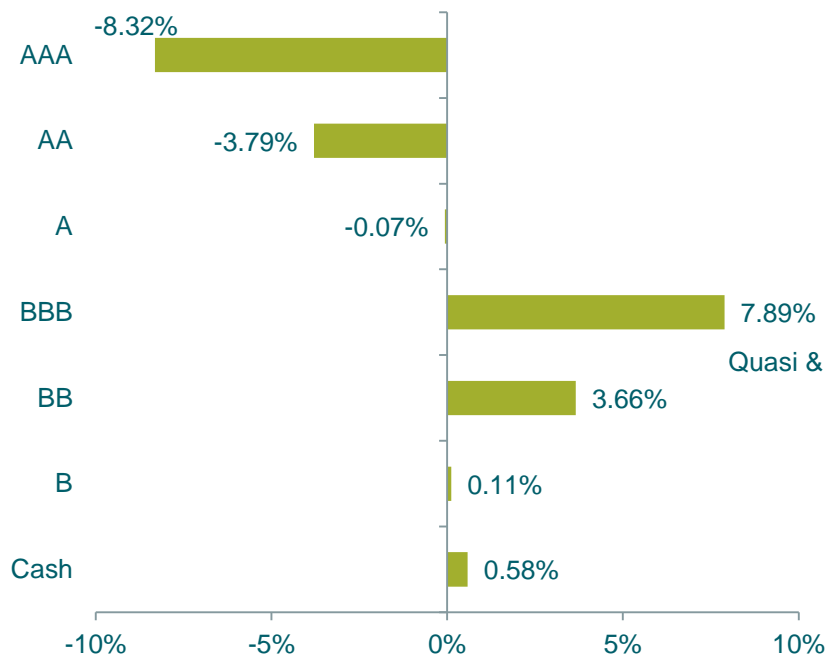


	Fund	Benchmark
Number of positions	486	1,014
Number of issuers	272	371
Average Credit Rating	A-	A
Running Yield (%)	4.82	4.40
Duration (years)	7.71	7.70

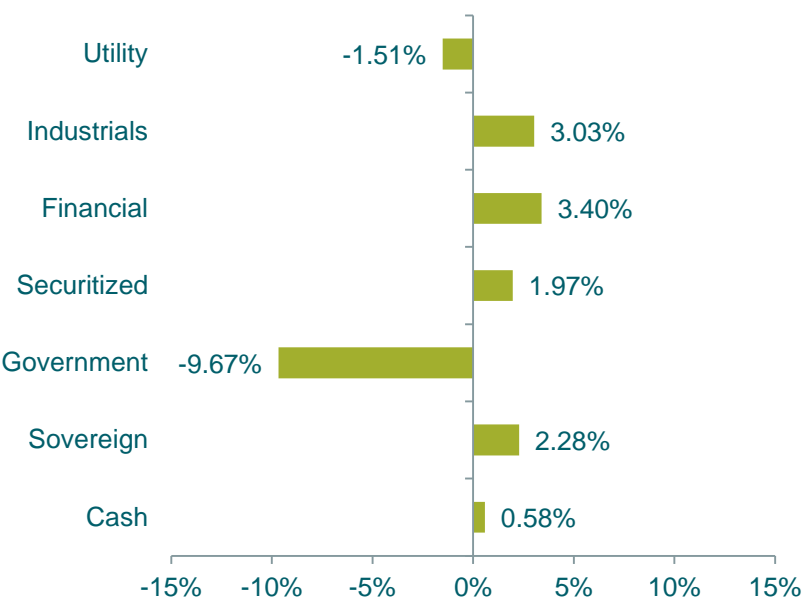
M&G Long Dated Corporate Bond Fund

Current fund risk positions vs benchmark

Credit ratings



Sector



	Fund	Benchmark
Number of positions	264	243
Number of issuers	129	140
Average Credit Rating	A-	A
Yield (%)	4.19	3.92
Duration (years)	13.87	13.92

M&G Alpha Opportunities Fund

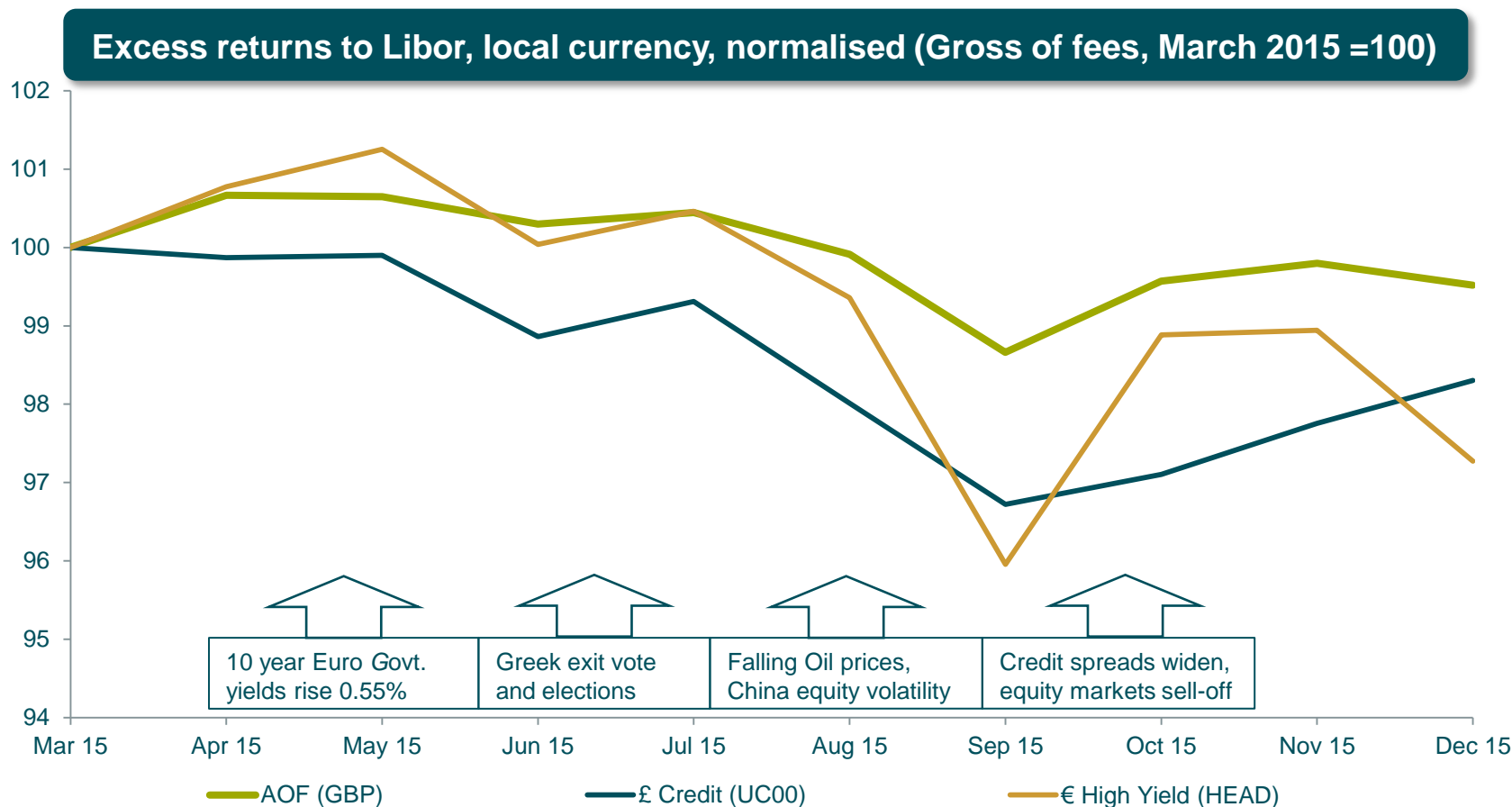
M&G Alpha Opportunities Fund

Key characteristics

- Performance target of **LIBOR + 3-5%** pa gross over a cycle
- A flexible and **unconstrained approach** free from the ties of a benchmark
- Accessing the credit risk premium while **minimising interest rate exposure**
- Access to a **broad range of credit assets**
- An extremely **diversified portfolio seeks to reduce volatility and protect capital**

M&G Alpha Opportunities Fund during recent volatility

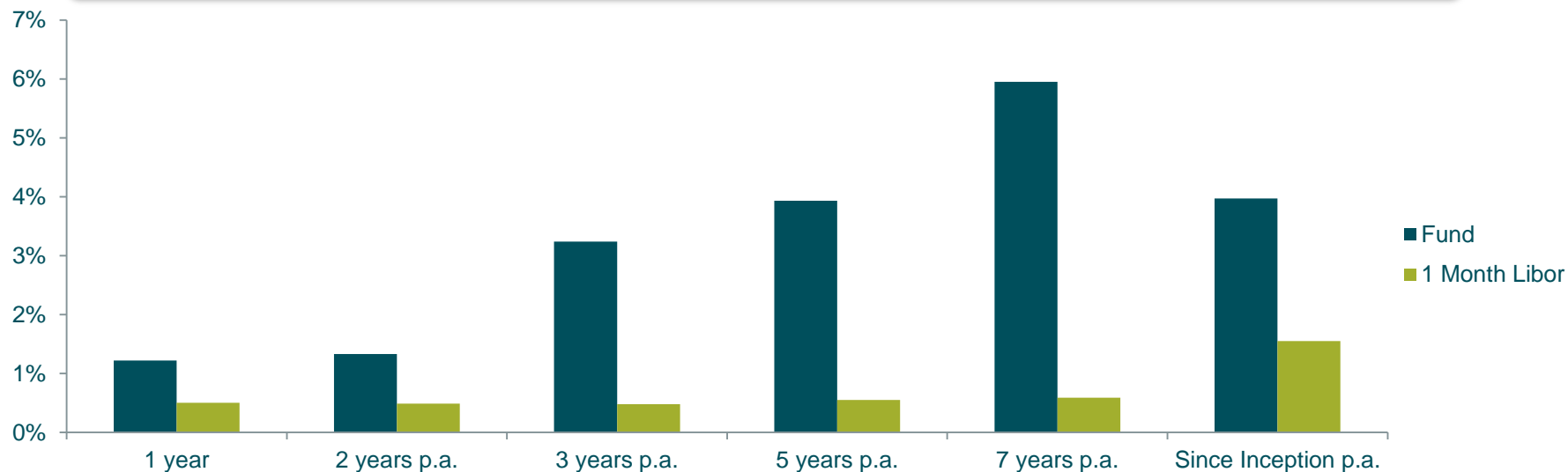
Seeking to preserve capital and take advantage of value opportunities



M&G Alpha Opportunities Fund

Aiming to deliver higher long term performance with lower volatility

Alpha Opportunities Fund performance (Gross of fees)



Gross returns to 31 December 2015	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	7 years (% p.a.)	Since Inception (% p.a.)
A Share Class £	1.22	1.33	3.24	3.93	5.95	3.97
1 month Libor	0.50	0.49	0.48	0.55	0.59	1.55
Difference	+0.72	+0.84	+2.76	+3.38	+5.36	+2.42

Multi-Asset Credit strategies

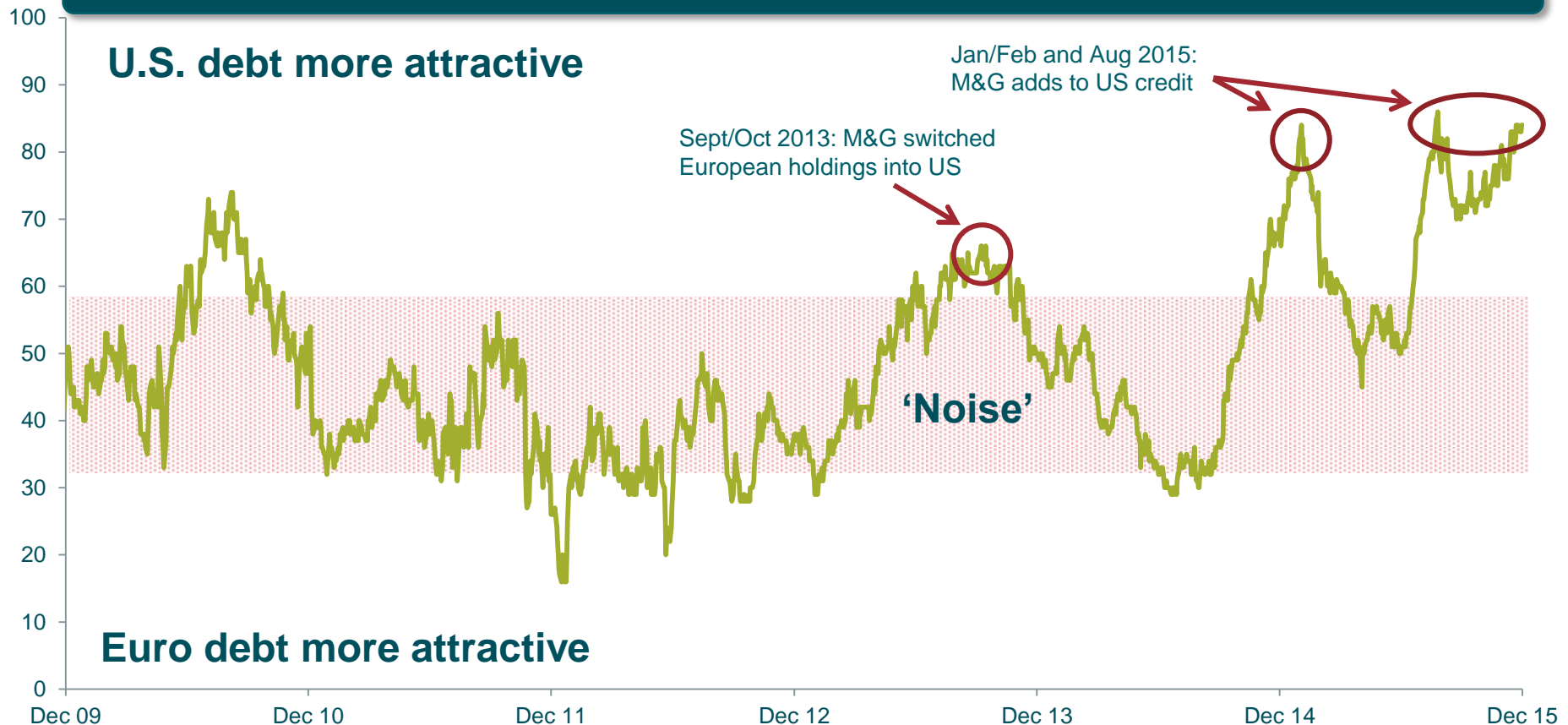
Current themes

- Market weakness abated during the fourth quarter
- Global Risk appetite low and acceptance of uncertainty very poor
 - Increased opportunities for stock picking
- Long dated US dollar, investment grade spreads particularly attractive
 - Industrial, Chemical, Pharma and Telecom issuers
- Continuing to find value across most European sectors
 - Running down cash and defensive assets
 - Energy, Mining and Commodity related sectors represent value
 - Adding further to subordinated insurance holdings

Asset allocation – cross market opportunities

Stock selections between different markets

Spread Differential Between US and Euro Non-Financial Corporates (bps)



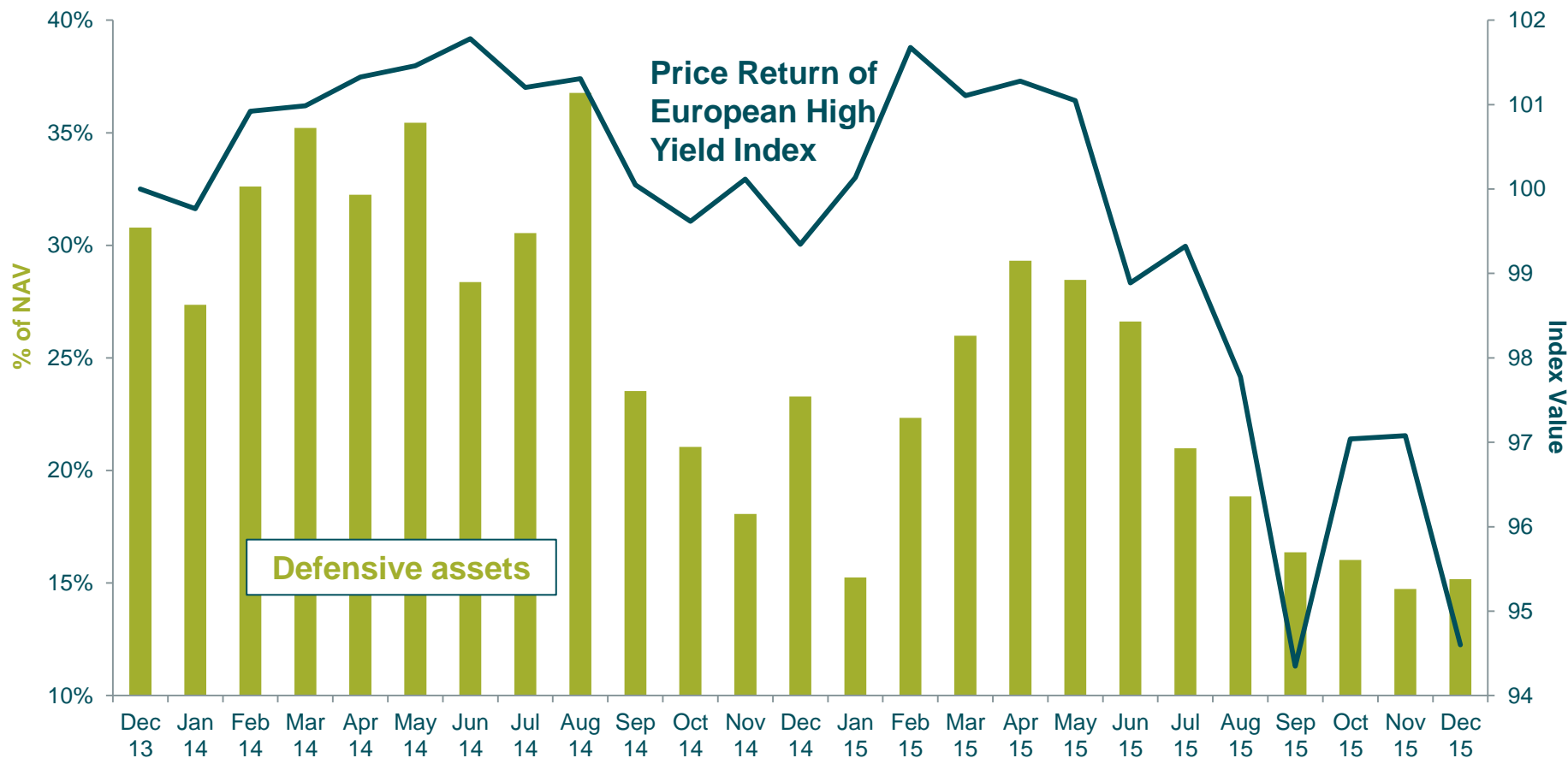
True asset allocation opportunities are infrequent



Asset Allocation – Defensive assets

Seeking to preserve capital where opportunities are not compelling

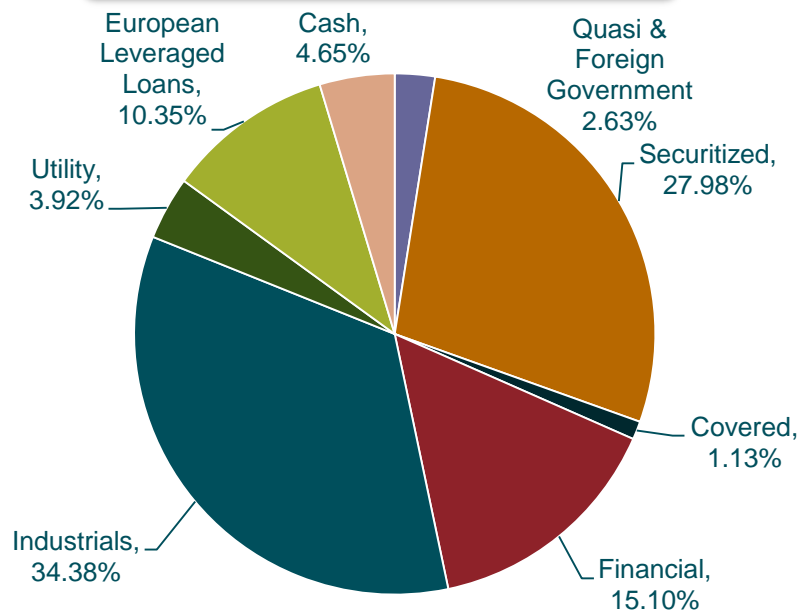
Defensive Asset allocation (LHS) relative to market pricing (Index 31/12/13=100)



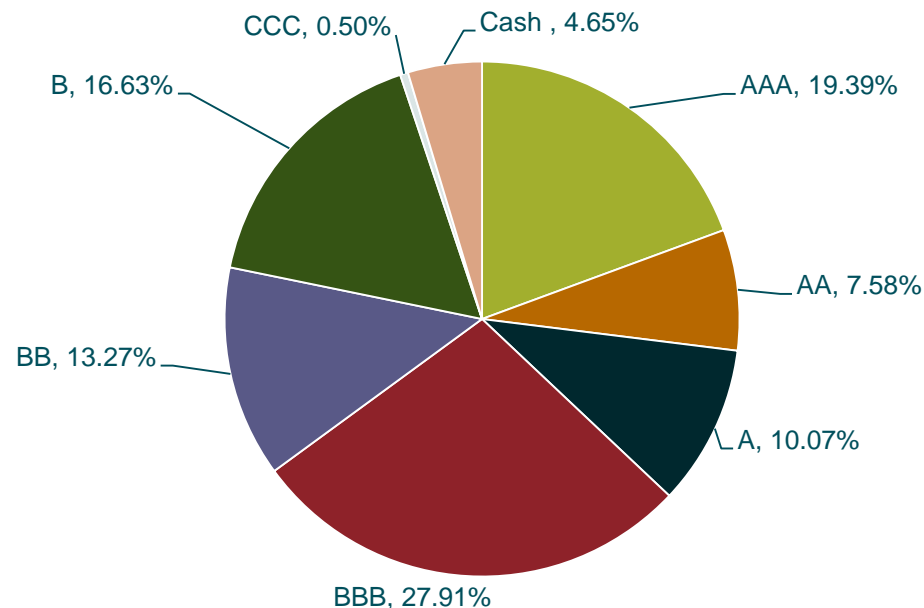
M&G Alpha Opportunities Fund

Current portfolio – 31 December 2015

Sector allocation



Rating allocation



M&G Alpha Opportunities Fund

Size of Fund	£4.6bn
Number of positions	428
Number of issuers	348
Total Duration	0.03
Average Credit Rating	A-



Market outlook

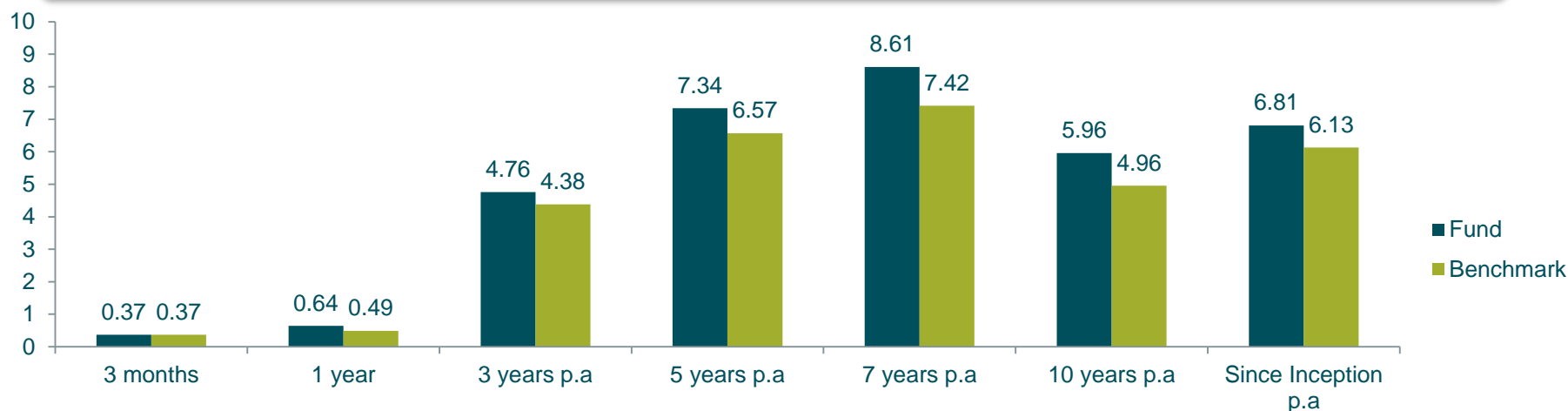
- Market confidence remains fragile as we enter 2016
- Global uncertainties, such as a slowing Chinese economy, weak equity markets and divergent monetary policies are creating opportunities
- US Monetary policy tightening is underway; UK policy is expected to tighten. 'Brexit' concerns have yet to be reflected in market pricing.
- Euro Quantitative Easing likely to suppress government yields and ultimately prove supportive of asset prices
- Pockets of value to be found in subordinated financials, US Dollar credit and long dated corporates.

Appendix

M&G All Stocks Corporate Bond Fund

A strong and consistent track record

Annualised gross returns to 31 December 2015 (Gross of fees, %)



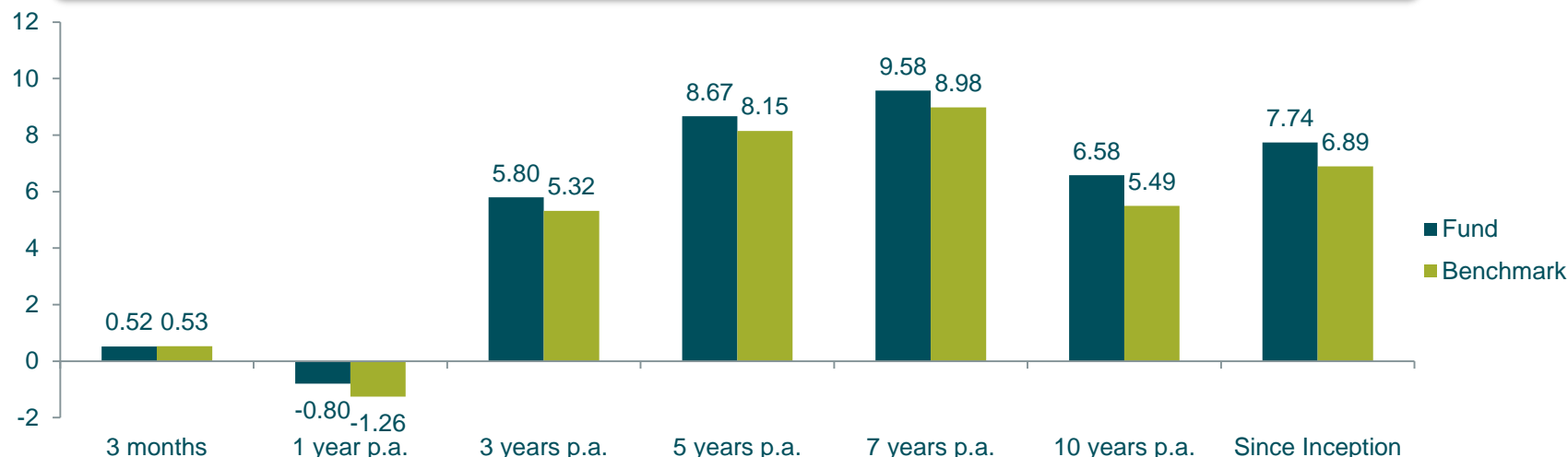
Discrete annual returns (Gross of fees, %)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Portfolio	7.3	9.2	1.4	1.8	-3.1	14.4	9.4	8.3	14.4	1.8	12.2	0.64
Benchmark	6.9	8.7	0.7	1.8	-4.1	10.8	8.4	6.9	13.1	0.9	12.2	0.49
Difference	+0.4	+0.5	+0.7	0.0	+1.0	+3.6	+1.0	+1.4	+1.3	+0.9	+0.0	+0.15

M&G Long Dated Corporate Bond Fund

A strong and consistent track record

Annualised gross returns to 31 December 2015 (Gross of fees, %)



Discrete annual returns (Gross of fees, %)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Portfolio	8.43	11.87	0.40	-0.16	-0.57	14.11	9.71	12.19	14.09	0.27	19.06	-0.80
Benchmark	7.70	11.51	-0.39	-1.15	-5.06	12.71	9.46	12.00	13.05	-0.56	18.99	-1.26
Difference	+0.73	+0.36	+0.79	+0.99	+4.49	+1.40	+0.25	+0.19	+1.04	+0.83	+0.07	+0.46

M&G All Stocks Corporate Bond Fund

12 month attribution (quarterly)

Attribution	Q1 2015 (%)	Q2 2015 (%)	Q3 2015 (%)	Q4 2015 (%)	TOTAL
Stock selection	+0.24	-0.03	-0.20	-0.09	-0.08
Sector selection	+0.22	+0.08	-0.50	+0.09	-0.11
Yield Curve/duration positioning	-0.08	+0.14	0.00	0.00	+0.06
Bid/offer spread widening/tightening	-0.02	+0.09	+0.20	0.00	+0.27
Total	+0.36	+0.28	-0.50	0.00	+0.14

M&G Long Dated Corporate Bond Fund

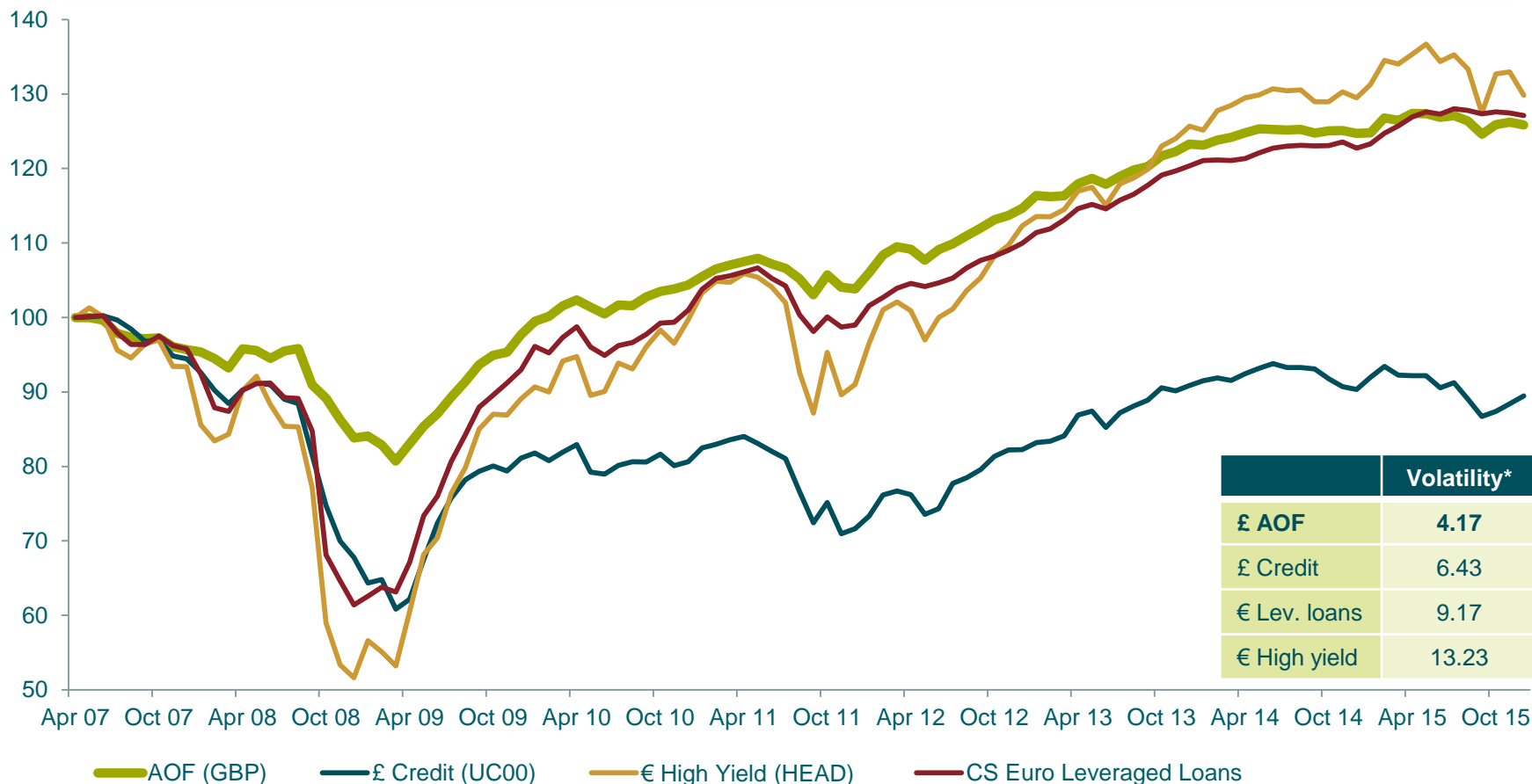
12 month attribution (quarterly)

Attribution	Q1 2015 (%)	Q2 2015 (%)	Q3 2015 (%)	Q4 2015 (%)	TOTAL
Stock selection	+0.24	+0.06	-0.11	-0.02	+0.17
Sector selection	+0.09	+0.12	-0.38	+0.19	+0.02
Yield Curve/duration positioning	-0.09	+0.15	0.00	0.00	+0.06
Bid/offer spread widening/tightening	-0.01	+0.07	+0.30	-0.17	+0.19
Total	+0.23	+0.40	-0.19	0.00	+0.44

M&G Alpha Opportunities Fund

Delivering higher performance with lower volatility

Excess returns to Libor, local currency, normalised (Gross of fees, April 2007 =100)

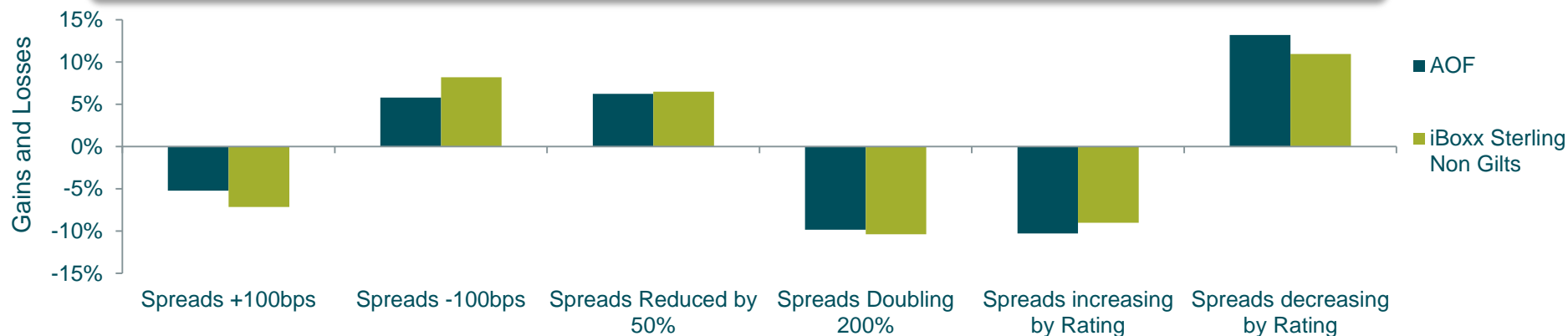


Source: M&G, BofA Merrill Lynch indices (Ref. UC00, HEAD), Credit Suisse Euro Leveraged Loan index, as at 31 December 2015. *Standard deviation of gross excess returns since inception 26 April 2007

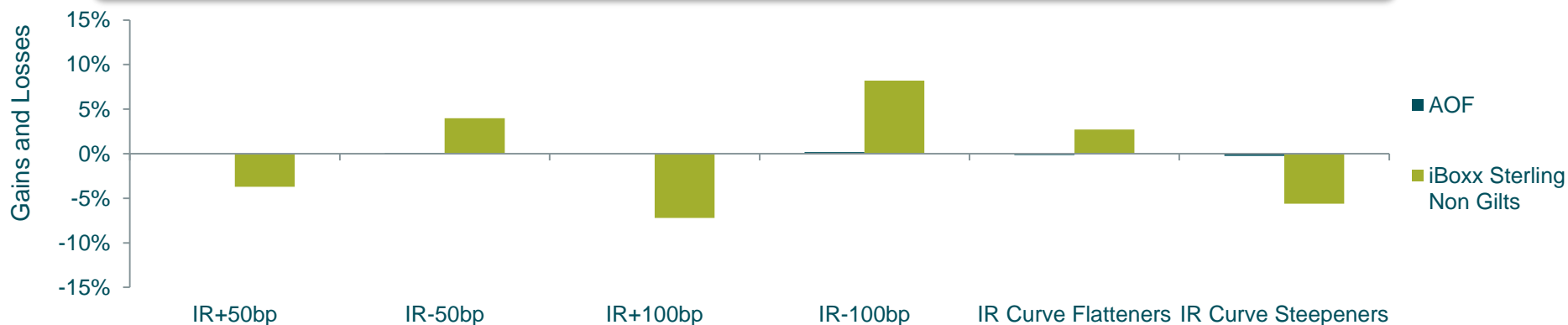
The most important risk metric

How much capital could be lost in extreme scenarios?

Risk analysis – AOF credit scenarios relative to UK Sterling Credit Index



Risk analysis – AOF Interest rate scenarios relative to UK Sterling Credit Index



Biography



Mike Thomas

Director of Fixed Income

Mike joined M&G Investments in 2009, as a Director of Fixed Income. His primary focus is on managing and servicing our Institutional Fixed Income client relationships.

Prior to joining M&G, Mike was a Client Services Executive with Western Asset Management Ltd where he was responsible for looking after a number of the firms' fixed income corporate pension fund client relationships.

Mike's background is in fixed income whereby he spent over 20 years as a bond salesman, latterly with UBS, before moving over to the investment management side of the business with Western Asset Management.

Biography



David Parsons Investment Specialist

David joined M&G in 2013 and is an investment specialist working closely with our fund management, client service and distribution teams.

Prior to joining M&G, David worked for 7 years at Blackrock as a Senior Product Strategist for the company's Sterling fixed income business.

Before this David was a Senior Fixed Income Portfolio Manager at Lombard Odier, responsible for strategy, portfolio construction and risk management for a wide variety of UK and European segregated clients. He was also responsible for managing Global, US and Euro Investment fund vehicles and advising high net worth clients and third party distribution channels. Prior to that he was a fixed income portfolio manager for JP Morgan Asset Management.

GIPS compliant presentation

Composite:	UK Corporate Bonds All Maturities allowing High Yield Composite
Benchmark:	iBoxx Sterling Non Gilts Index
Base Currency:	Pound Sterling
Gross Returns as at:	30 September 2015

Year	Composite return	Benchmark return	Number of portfolios (throughout period)	Dispersion	Market Value at end of Period	Percentage of Firm Assets	Total Firm GIPS Assets	3yr Std Dev: Composite	3yr Std Dev: Benchmark
2015 (Sept)	0.25%	0.12%	2 (1)	N/A	4,559,803,643	-	-	5.68%	5.87%
2014	12.24%	12.20%	1 (1)	N/A	4,885,734,728	4.26%	114,656,400,884	4.94%	4.97%
2013	1.81%	0.87%	1 (1)	N/A	4,985,239,315	4.71%	105,851,354,323	5.25%	5.28%
2012	14.38%	13.05%	1 (1)	N/A	4,419,696,613	4.00%	110,541,000,000	4.68%	4.72%
2011	8.34%	6.91%	1 (1)	N/A	3,587,004,315	3.71%	96,686,648,571	6.09%	5.86%
2010	9.41%	8.38%	1 (1)	N/A	3,126,714,728	3.70%	84,470,441,044	7.09%	6.80%
2009	14.41%	10.78%	1 (1)	N/A	2,209,453,125	2.90%	76,139,730,626	6.78%	6.37%
2008	-3.11%	-4.06%	1 (1)	N/A	1,753,897,643	2.84%	61,663,616,805	5.01%	4.90%
2007	1.81%	1.81%	1 (1)	N/A	1,565,137,643	2.53%	61,812,085,471	3.37%	3.28%
2006	1.38%	0.68%	1 (1)	N/A	1,019,166,243	1.72%	59,092,359,913	3.13%	3.24%

For the purposes of GIPS®, the firm is defined as the Pooled, Life and Segregated Fixed Income Business of M&G Investments.

A complete listing and description of all composites is available on request.

M&G Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. M&G Investments has been independently verified for the periods 1 January 2000 to 31 December 2014. The verification reports are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Additional information regarding policies for valuing funds and for calculating and reporting returns is available upon request.

Performance figures are presented gross of management fees, custodial fees, and withholding taxes but net of all trading expenses and irrecoverable taxes.

Dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. If the composite contains less than 5 portfolios for the full year, a measure of dispersion is not shown.

The three-year annualized ex-post standard deviation of both the composite and the benchmark is calculated using monthly returns. If the composite and benchmark contains less than 36 months performance history, standard deviation will not be shown.

The creation date for this Composite is the 6th April 2009.

The inception date for this Composite is the 31st January 2000.

The benchmark for this composite is the iBoxx Sterling Non Gilts Index. From the 30th of September 2003 until the 31st of January 2006 the benchmark was the Merrill Lynch Sterling Non-Gilts Index (UN00). Prior to the 30th September 2003 the benchmark was the Merrill Lynch Sterling Non-Gilts All Stocks Index (UNP0).

The change from Merrill Lynch to iBoxx index series reflects M&G's view at the time of change that iBoxx was using a wider variety of pricing sources, consolidating into a fairer value of assets more consistent with the market price. It does not reflect a change in investment strategy.

This Composite contains all portfolios managed to a UK Corporate Bond all Maturities Index where the fund is allowed to invest in High Yield securities.

The Management Fee applicable for this Composite is 0.35% p.a. A sliding fee scale is available for larger mandates. A performance related fee is available on request. The minimum Management Fee is £150,000 per annum.

GIPS compliant presentation

Composite:	UK Corporate Bonds Over 15 Years Composite
Benchmark:	iBoxx Sterling Over 15 Year Non Gilts Index
Base Currency:	Pound Sterling
Gross Returns as at:	30 September 2015

Year	Composite return	Benchmark return	Number of portfolios (*throughout period)	Dispersion	Market Value at end of Period	Percentage of Firm Assets	Total Firm GIPS Assets	3yr Std Dev: Composite	3yr Std Dev: Benchmark
2015 (Sept)	-1.37%	-1.77%	2 (2)	N/A	1,384,318,904	-	-	9.90%	10.08%
2014	19.08%	18.99%	2 (1)	N/A	1,549,061,145	1.35%	114,656,400,884	7.83%	7.97%
2013	0.27%	-0.56%	2 (2)	N/A	1,272,083,136	1.20%	105,851,354,323	7.90%	7.98%
2012	14.12%	13.05%	2 (2)	N/A	1,344,985,547	1.22%	110,541,000,000	7.52%	7.68%
2011	12.17%	12.00%	2 (2)	N/A	1,230,621,632	1.27%	96,686,648,571	9.12%	9.30%
2010	9.72%	9.46%	2 (2)	N/A	1,198,562,046	1.42%	84,470,441,044	10.10%	10.52%
2009	14.09%	12.71%	2 (1)	N/A	1,109,122,568	1.46%	76,139,730,626	9.29%	9.59%
2008	-0.57%	-5.06%	1 (1)	N/A	920,518,529	1.49%	61,663,616,805	7.15%	7.38%
2007	-0.16%	-1.15%	1 (1)	N/A	622,666,656	1.01%	61,812,085,471	5.34%	5.34%
2006	0.40%	-0.39%	1 (1)	N/A	560,788,618	0.95%	59,092,359,913	4.75%	4.94%

For the purposes of GIPS®, the firm is defined as the Pooled, Life and Segregated Fixed Income Business of M&G Investments.

A complete listing and description of all composites is available on request.

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Performance figures are presented gross of management fees, custodial fees, and withholding taxes but net of all trading expenses and irrecoverable taxes.

Dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. If the composite contains less than 5 portfolios for the full year, a measure of dispersion is not shown.

The three-year annualized ex-post standard deviation of both the composite and the benchmark is calculated using monthly returns. If the composite and benchmark contains less than 36 months performance history, standard deviation will not be shown.

The creation date for this Composite is the 31st March 2005.

The inception date for this Composite is the 31st December 1999.

The benchmark for this composite is the iBoxx Sterling Over 15 year Non Gilts Index. From the 30th of September 2003 until the 31st of January 2006 the benchmark was the Merrill Lynch Sterling Over 15 Years Non-Gilts Index (UN08). Prior to the 30th September 2003 the benchmark was the Merrill Lynch Sterling All Stocks Over 15 Years Non-Gilts Index (UNP8).

The change from Merrill Lynch to iBoxx index series reflects M&G's view at the time of change that iBoxx was using a wider variety of pricing sources, consolidating into a fairer value of assets more consistent with the market price. It does not reflect a change in investment strategy.

This composite contains all portfolios managed from the 31st January 2006 to the iBoxx Sterling Over 15 year Non Gilts Index, from the 30th of September 2003 until the 31st of January 2006 to the Merrill Lynch Sterling Non-Gilts Over 15 Year Index, and prior to that to the Merrill Lynch Sterling Non-Gilt All Stocks Over 15 Year Index.

The Management Fee applicable for this Composite is 0.35% p.a. A sliding fee scale is available for larger mandates. A performance related fee is available on request.

The minimum Management Fee is £150,000 per annum.

The Composite name was changed from Merrill Lynch Sterling Non-Gilts Over 15 Year Composite to UK Corporate Bonds Over 15 Years Composite.



GIPS compliant presentation

Composite:	Total Return Composite GBP
Benchmark:	UK Interbank 1 Month Rate (LIBOR)
Base Currency:	Pound Sterling
Gross Returns as at:	30 September 2015

Year	Composite Return	Benchmark Return	Number of Portfolios (*throughout period)	Dispersion	Market Value at end of Period	Percentage of Firm Assets	Total Firm GIPS Assets	3yr std dev: Composite	3 yr std dev: Benchmark
2015 (Sept)	0.21%	0.37%	5 (5)	0.10%	4,373,968,865	-	-	2.01%	0.01%
2014	1.47%	0.49%	5 (3)	N/A	2,796,997,854	2.45%	114,656,400,884	2.31%	0.03%
2013	7.21%	0.49%	3 (1)	N/A	1,410,962,205	1.33%	105,851,354,323	3.25%	0.03%
2012	9.98%	0.62%	1 (1)	N/A	684,092,320	0.62%	110,541,000,000	3.41%	0.02%
2011	0.21%	0.65%	1 (1)	N/A	243,840,109	0.25%	96,686,648,571	4.45%	0.08%
2010	6.79%	0.56%	1 (1)	N/A	246,773,685	0.29%	84,470,441,044	5.67%	0.65%
2009	15.76%	0.83%	1 (1)	N/A	204,719,149	0.27%	76,139,730,626		
2008	-6.35%	5.35%	1 (1)	N/A	159,682,011	0.26%	61,663,616,805		
2007 (May)	-0.13%	4.22%	1 (1)	N/A	49,246,364	0.08%	61,812,085,471		

For the purposes of GIPS®, the firm is defined as the Pooled, Life and Segregated Fixed Income Business of M&G Investments.

A complete listing and description of all composites is available on request.

M&G Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. M&G Investments has been independently verified for the periods 1 January 2000 to 31 December 2014. The verification reports are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Additional information regarding policies for valuing funds and for calculating and reporting returns is available upon request.

Gross performance figures are presented gross of management fees, custodial fees, and withholding taxes but net of all trading expenses and irrecoverable taxes.

Dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. If the composite contains less than 5 portfolios for the full year, a measure of dispersion is not shown.

The three-year annualized ex-post standard deviation of both the composite and the benchmark is calculated using monthly returns. If the composite and benchmark contains less than 36 months performance history, standard deviation will not be shown.

Net performance figures are presented net of management fees, custodial fees, withholding taxes and net of all trading expenses and irrecoverable taxes.

The management fee applicable to this composite is 0.50% p.a.

The creation date for this composite is 27th July 2011.

The inception date of this composite is 30th April 2007.

The benchmark of this composite is the sterling 1 Month LIBOR.

This composite contains all portfolios aiming to seek to maximise total return, consistent with prudent investment management.



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