

East Sussex Pension Fund

Review of Investment Managers' Performance for First Quarter of 2016



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For and on behalf of Hymans Robertson LLP

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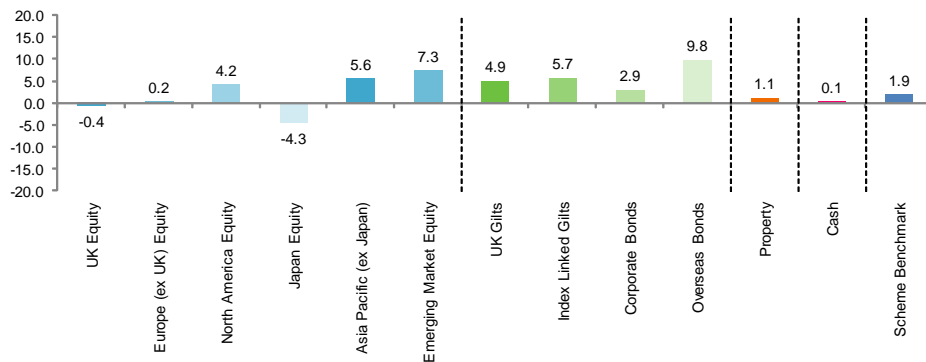
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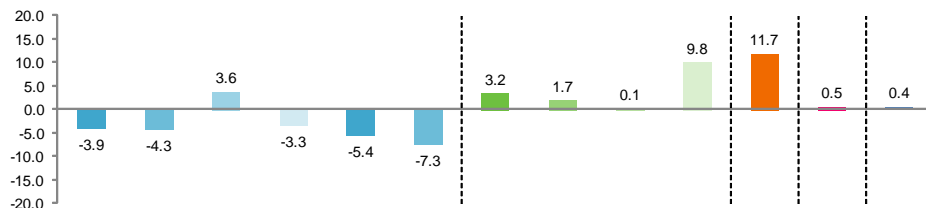
Historic Returns for World Market to 31 March 2016

Historic Returns - Chart 1 ^[1]

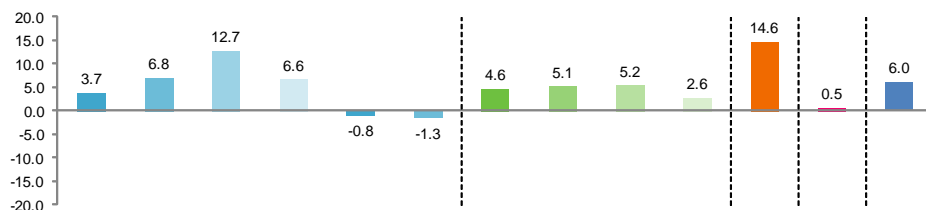
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Comment

It was a turbulent first six weeks for equity and credit markets. The FTSE All World index plummeted over 12%, before rebounding impressively to finish the quarter down 1.3%. As a result of continued weakness in sterling, returns to unhedged UK investors were around 4.3% higher. The defensive qualities of government bonds were in demand and they delivered positive returns over the period.

Investors' nervous start to 2016 reflected various global economic concerns such as the slowdown in China and the US, along with the continuing oil price collapse. This anxiety abated as the quarter wore on, with sentiment buoyed in part by some signs of stabilisation in China.

Once again, central bank action helped to calm nerves. The European Central Bank ('ECB') cut its overnight deposit rate from -0.3% p.a. to -0.4% p.a. The Bank of Japan surprised markets by following the ECB in cutting interest rates below zero. Despite further strength in the US labour market, the Federal Reserve left interest rates unchanged, citing risks posed by weaker global growth and financial market turmoil. Latest forecasts have been more cautious than before, suggesting that rates may rise by only 0.5% p.a. in 2016. In the UK, the latest Inflation Report from the Bank of England suggested a slower return to the 2% p.a. inflation target, further bolstering market conviction that UK interest rates will not be rising in the foreseeable future.

Key events during the quarter included:

Global Economy

- Japan followed Europe by cutting interest rates below zero; in the UK and US, rates were unchanged.
- The UK's current deficit reached a post-war high, widening to 7% of GDP in Q4 2015.
- Brent crude fell to a 12-year low of \$28 per barrel before rebounding to just under \$40 at quarter end.
- The Bank of England expects headline CPI inflation to stay below 1% p.a. throughout this year.
- China's PMI manufacturing index rose to above 50 in March, for the first time since July 2015.

Equities

- The strongest sectors relative to the FTSE All World Index were Utilities (+8.8%) and Telecommunications (+6.7%); the weakest were Health Care (-6.5%) and Financials (-5.3%).
- Emerging Markets outperformed their developed counterparts, reversing a little of the 30% underperformance of the last three years.

Bonds and currencies

- Sterling weakened against the euro, US dollar and yen.
- 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]

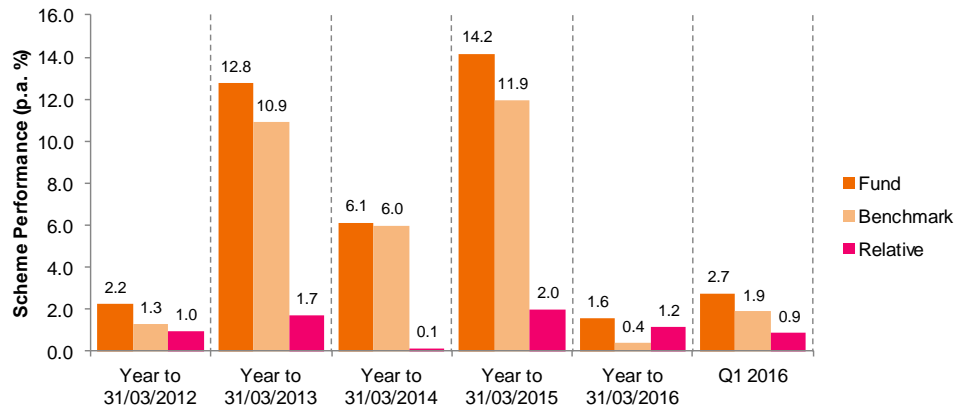
Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2015	Q1 2016			
Global Equity	1041.8	1079.3	38.9	38.0	0.9
UK Equity	262.2	261.2	9.4	12.0	-2.6
Fixed Interest	107.9	112.5	4.1	3.5	0.6
Index-Linked Gilts	138.3	147.3	5.3	5.0	0.3
Property	326.3	332.0	12.0	10.0	2.0
Infrastructure	45.5	49.5	1.8	2.0	-0.2
Private Equity	162.0	167.9	6.1	5.5	0.5
Absolute Return Funds	485.5	493.9	17.8	20.0	-2.2
Cash	53.7	55.6	2.0	0.0	2.0
UK Financing Fund	10.7	8.5	0.3	1.0	-0.7
Absolute Return Bonds	67.2	67.4	2.4	3.0	-0.6
Total Client	2701.1	2775.1	100.0	100.0	

Fund performance [2]

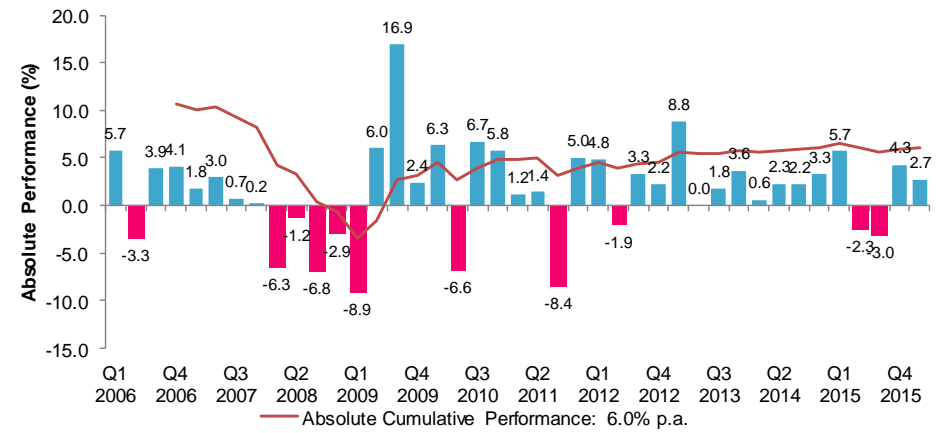
The Fund outperformed the aggregate benchmark during the first quarter of 2016, returning 2.7% in absolute terms. Over the 12 month period the Fund delivered a positive absolute return of 1.6% ahead of benchmark by 1.2%.

At a manager level, Longview's Global Equity and Newton's Absolute return fund outperformed over the quarter. However, this was partially offset by underperformance from Ruffer's Absolute Return fund.

Performance Summary [i]



Absolute Quarterly and Absolute Cumulative Performance [ii]



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

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Summary Comment

LGIM and Newton announced some senior staff departures, however there were no changes to manager ratings over the first quarter of 2016. We will continue to monitor developments closely.

The Fund continues to be underweight to UK Equities and both the absolute return funds. Property and cash both remain overweight.

State Street (aka WM Company) has announced that they will no longer be providing performance measurement services for third party clients, i.e. non custody clients. The knock on impact of this announcement is that State Street have also confirmed that from end March they will stop universe production e.g. WM Local Authority Average etc. This means that they will no longer be producing any of their Universes or the associated analysis and research. State Street is currently looking at alternatives so that this valuable information remains available. We will keep you updated on any implications for the Fund.

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

	3 months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	4.3	4.8	9.5	7.0
WM average Local Authority	4.5	3.9	8.9	7.0
Relative	-0.2	0.9	0.6	0.0

[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 31 December 2015.

Source: [1] WM/State Street



Manager Structure

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2015	Q1 2016			
L&G - Global Equities	402.8	414.9	15.0	15.5	-0.5
Longview - Global Equity	170.6	180.9	6.5	5.0	1.5
State Street - Fundamental Indexation	468.4	483.5	17.4	17.5	-0.1
L&G - UK Equities	262.2	261.2	9.4	12.0	-2.6
Newton - Absolute Return	243.8	253.6	9.1	10.0	-0.9
Ruffer - Absolute Return	241.7	240.3	8.7	10.0	-1.3
L&G - 5yr ILG	138.3	147.3	5.3	5.0	0.3
M&G - Bonds	175.1	180.0	6.5	6.5	-0.0
Schroder - Property	329.1	333.3	12.0	10.0	2.0
M&G - Infrastructure Fund	25.2	28.7	1.0	1.0	0.0
UBS - Infrastructure	20.2	20.7	0.7	1.0	-0.3
Adams Street - Private Equity	85.0	88.6	3.2	2.8	0.4
HarbourVest - Private Equity	77.0	79.3	2.9	2.8	0.1
M&G - UK Financing Fund	10.7	8.5	0.3	1.0	-0.7
Cash account	50.9	54.3	2.0	0.0	2.0
Total	2701.1	2775.1	100.0	100.0	0.0

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



Performance Summary (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	2.9 2.9	6.2 2.8	3.2 3.1	-0.4 -0.4	4.1 0.1	-0.4 0.1	6.5 6.5	2.9 2.6	1.3 1.1	2.7 1.9
	Relative	0.0	3.4	0.0	0.0	4.0	-0.5	0.0	0.3	0.2	0.9
12 Months (%)	Absolute Benchmark	-0.4 -0.5	4.2 -1.2	-3.2 -3.3	-3.8 -3.9	1.8 0.5	-6.5 0.5	1.9 1.9	-0.0 -0.0	11.0 10.6	1.6 0.4
	Relative	0.1	5.5	0.0	0.1	1.3	-7.0	0.0	0.0	0.4	1.2
3 Years (% p.a.)	Absolute Benchmark	8.2 8.1	16.6 7.8	5.5 5.5	3.8 3.7	3.5 0.5	1.6 0.5	1.8 1.8	4.9 3.3	14.0 13.0	7.1 6.0
	Relative	0.1	8.2	0.0	0.1	3.0	1.1	0.0	1.5	0.9	1.1
10 Years (% p.a.)	Absolute Benchmark	8.8 8.8	N/A N/A	N/A N/A	4.6 4.5	5.2 0.6	4.5 0.6	N/A N/A	5.8 4.2	9.4 8.9	5.6 5.0
	Relative	0.1	N/A	N/A	0.2	4.6	4.0	N/A	1.6	0.4	0.6

[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.



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	2.9 2.9	6.1 2.8	3.1 3.1	-0.4 -0.4	4.0 0.1	-0.6 0.1	6.4 6.5	2.8 2.6	1.2 1.1	2.7 1.9
	Relative	0.0	3.2	0.0	0.0	3.8	-0.7	-0.1	0.2	0.1	0.8
12 Months (%)	Absolute Benchmark	-0.5 -0.5	3.6 -1.2	-3.3 -3.3	-3.8 -3.9	1.2 0.5	-7.3 0.5	1.5 1.9	-0.4 -0.0	10.7 10.6	1.2 0.4
	Relative	0.0	4.8	0.0	0.1	0.7	-7.8	-0.3	-0.4	0.1	0.8
3 Years (% p.a.)	Absolute Benchmark	8.1 8.1	16.0 7.8 7.6	5.4 5.5	3.7 3.7	2.8 0.5	0.8 0.5	1.4 1.8	4.5 3.3	13.8 13.0	6.8 6.0
	Relative	0.0	7.6	-0.1	0.1	2.4	0.3	-0.3	1.1	0.7	0.7
10 Years (% p.a.)	Absolute Benchmark	8.7 8.8	N/A N/A	N/A N/A	4.6 4.5	4.6 0.6	3.7 0.6	N/A N/A	5.6 4.2	9.2 8.9	5.4 5.0
	Relative	0.0	N/A	N/A	0.1	4.0	3.2	N/A	1.4	0.2	0.5

[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



During the quarter LGIM announced that Simon Thompson, Chief Operating Officer ('COO') was leaving the firm to take a sabbatical from corporate life and focus on his family and other interests. His responsibilities included Investment Operations, Trading and IT functions. Robert Moore, Chief Executive Officer of LGIM America has previous COO experience, and will take on Thompson's role in addition to his existing responsibilities. This does seem a potential 'stretch' for Moore but at this stage we see no reason to expect a diminution in LGIM's index tracking capability.

We continue to rate the manager '5 - Preferred Manager' for passive equities.

Performance Attribution Comment

Both the Legal and General Global and UK equity mandates performed broadly in line with their benchmarks over the first quarter of 2016, as expected from passive mandates.

The UK equity fund delivered a negative absolute return of -0.4%, however long term fund performance remains positive and broadly in line with the benchmark at both 3 years and since the mandate's inception. UK equities have continued to lag Global markets.

The Global equity fund delivered a positive absolute return of 2.9%, broadly in line with the benchmark. Over the 3 year period, fund performance remains positive and broadly in line with the FTSE All World Index.

L&G UK Fund Performance ^[i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.4	-3.8	3.8	4.6
Benchmark	-0.4	-3.9	3.7	4.5
Relative	0.0	0.1	0.1	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	2.9	-0.4	8.2	8.8
Benchmark	3.0	-0.4	8.1	8.8
Relative	0.0	0.0	0.1	0.0

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

Legal and General - 5 year ILG

HR View Comment & Rating



During the quarter LGIM announced that Simon Thompson, Chief Operating Officer ('COO') was leaving the firm to take a sabbatical from corporate life and focus on his family and other interests. His responsibilities included Investment Operations, Trading and IT functions. Robert Moore, Chief Executive Officer of LGIM America has previous COO experience, and will take on Thompson's role in addition to his existing responsibilities. This does seem a potential 'stretch' for Moore but at this stage we see no reason to expect a diminution in LGIM's index tracking capability.

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

Performance Attribution Comment

Over the quarter and since inception, Legal and General's 5 year index linked gilts fund performed in line with the benchmark.

The fund delivered a positive absolute return of 6.5% over the quarter. Significant volatility in equity markets at the beginning of the year resulted in investors favouring the defensive qualities of government bonds, driving prices higher.

Performance Summary - Table [i]

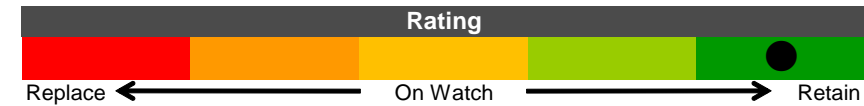
	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	6.5	1.9	1.8
Benchmark	6.5	1.9	1.8
Relative	0.0	0.0	0.0

* Inception date 11 Mar 2015.



State Street - Fundamental Indexation

HR View Comment & Rating



There were no significant business changes to report over the quarter to 31 March 2016.

We continue to rate the manager '5 - Preferred Manager'.

Performance Summary - Table

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	3.2	-3.2	5.5
Benchmark	3.1	-3.3	5.5
Relative	0.0	0.0	-0.0

* Inception date 06 Aug 2013.

Performance Attribution Comment

Over the quarter, State Street's Fundamental Indexation Fund performed marginally ahead of its benchmark returning a positive absolute value of 3.2%. The fund remains in line with the benchmark over the longer term.

RAFI performed broadly in line with market cap-weighted global equities within the RAFI index. Overweights to Energy, Materials and an underweight to Health Care were positive contributors, but were off-set by overweights to Banks, Insurance and Japan and an underweight to US equities relative to the market cap index.

Longview - Global Equity

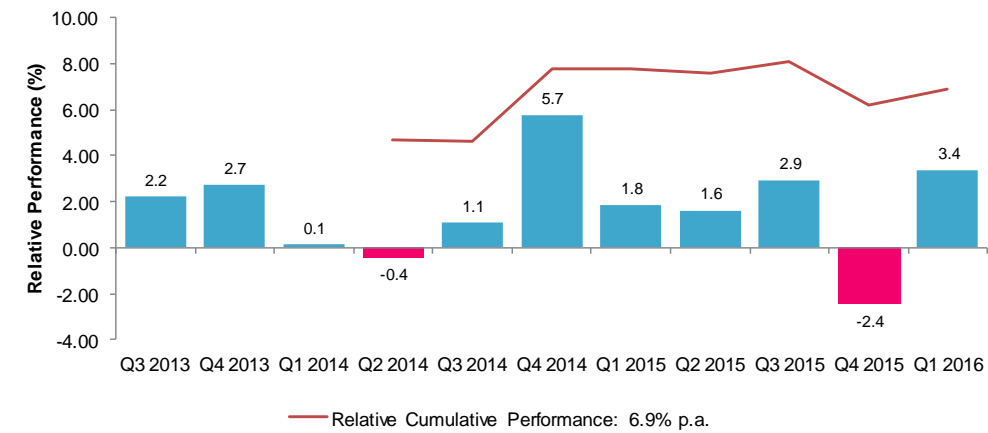
HR View Comment & Rating



There were no significant changes to report over the quarter to 31 March 2016.

We continue to rate the manager '5 - Preferred Manager' for global equity.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Attribution Comment

During a volatile quarter for equities, Longview's global equity mandate significantly outperformed the benchmark by 3.4%, delivering an absolute return of 6.2%. Longer term performance also remains ahead of benchmark.

Longview's stock selection within the Industrials and Healthcare sectors was the biggest contributor to overall performance, whilst overweight allocations to these sectors detracted from performance. Strong end of year financial reports boosted share price for both WW Grainger (a large US industrial distributor) and hospital company HCA. Both companies demonstrated above expected growth and return figures, diminishing previous performance concerns.

Zero allocation to the Energy and Utilities sectors proved detrimental to performance over the quarter, as oil prices rebounded slightly towards the end of the quarter. The energy sector continues to remain volatile as supply outstrips demand. At a stock level, Delphi Automotive and Continental underperformed due to concerns surrounding a potential global slowdown in the car market.

Longview are confident that there remains good opportunities within the market to buy stocks at reasonable prices where earnings have the capacity to grow, and are focusing on this going forward.

Performance Summary to 31 March 2016 [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	6.2	4.2	16.6
Benchmark	2.8	-1.2	7.8
Relative	3.4	5.5	8.2

* Inception date 16 Apr 2013.

Ruffer - Absolute Return

HR View Comment & Rating



We rate Ruffer as '5 - Preferred Manager'. We are confident in Ruffer's abilities as an absolute return manager. The success of the firm's approach is dependent on its ability to construct portfolios which can outperform cash, regardless of the market direction – which they have been successful in achieving since inception and in particular during the difficult period of 2008/09. It was a challenging period for the strategy last year and the team have added portfolio protection in the form of illiquid credit tail risk strategies. We continue to support the Ruffer approach to absolute return investing but are mindful of style divergence.

There were no significant business changes over the quarter to end of March 2016.

Performance Attribution Comment

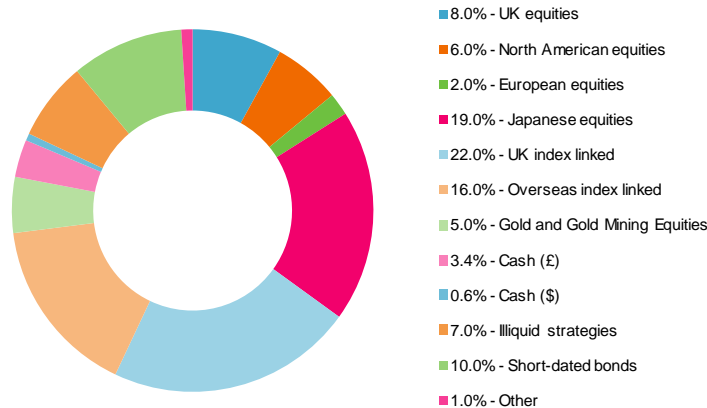
The Ruffer Absolute Return Fund underperformed its benchmark over the quarter, returning -0.4% in absolute terms. The Fund has underperformed the benchmark over the year, but remains ahead over 3 years and since inception.

Ruffer hold a significant proportion (c20%) of Japanese equities in their portfolio, this position was a significant detractor to the fund's performance over the first quarter of 2016. Japan was the worst performing global market over the quarter (the Topix returned -12% over the quarter in local currency terms), despite the Japanese central bank's attempts to stimulate economic growth by cutting short term interest rates to negative levels.

The mandate's defensive allocation to index linked bonds and gold equities partially offset negative returns as yields fell further, driving prices upwards. The price of gold rose 16% due to increased demand and the US dollar depreciating.

Ruffer have failed to achieve their capital preservation objective over the 12 month period. This was mainly driven by the large losses experienced in Q3 of last year. However, Ruffer remain reassured that the portfolio stood up to the pressures of volatility better this quarter than in Q3.

Asset Allocation



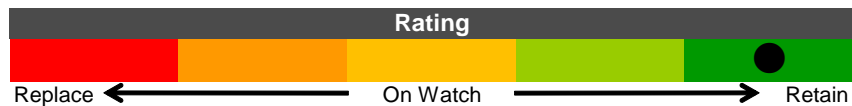
Performance Summary to 31 March 2016 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.4	-6.5	1.6	4.5
Benchmark	0.1	0.5	0.5	0.6
Relative	-0.5	-7.0	1.1	4.0

* Inception date 06 May 2010.

Newton - Absolute Return

HR View Comment & Rating



Newton's Real Return Fund is an unconstrained multi-asset strategy that seeks to generate return through both dynamic asset allocation and security-specific selection, based on the firm's long-established thematic framework. In Q4 2015 Newton announced the departure of James Harries, the alternate lead manager for the strategy after Iain Stewart, the lead portfolio manager. Suzanne Hutchins, one of the senior investment managers in the team, was to take over Harries' responsibilities. In Q1 2016 we met with Hutchins, who is now responsible for chairing the Real Return strategy meetings. She highlighted that the approach to building the portfolio is very bottom up and draws on ideas across the team as well as the wider Newton firm. In our view we do not think that Harries' departure warrants a downgrade of our manager rating, although we continue to monitor developments closely.

We retain our '5 - Preferred manager' rating.

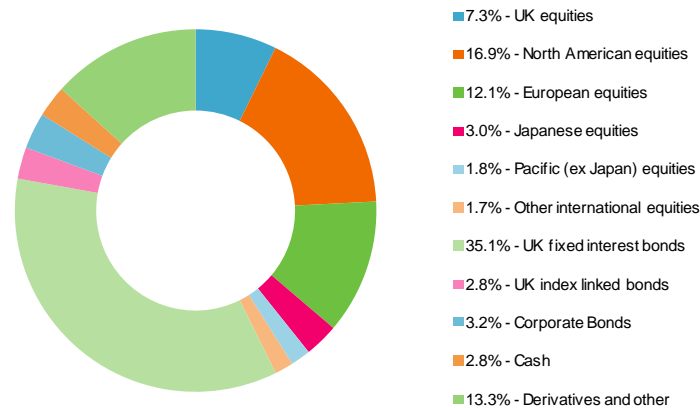
Performance Attribution Comment

Over the quarter the Real Return Fund returned 4.1% in absolute terms, ahead of the LIBOR +4% target and equity markets in general. Over the longer periods considered the Fund is now ahead of its target.

Newton's defensive assets helped to offset losses from equity market volatility over the quarter, with the allocations to gold and government bonds providing a positive contribution to performance. At a stock level, information and software services provider Wolters Kluwer was a top performing asset for the fund after successfully transitioning their business to focus on digital products. Exposure to infrastructure and renewable energy assets also had a positive impact on performance.

Newton's equity protection strategy contributed a small underperformance as equity markets stabilised towards the end of the quarter. This offset the positive impact of the fund's direct equity holdings.

Asset Allocation ^[1] ^[ii]



Performance Summary to 31 March 2016 ^[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.1	1.8	3.5	5.2
Benchmark	0.1	0.5	0.5	0.6
Relative	4.0	1.3	3.0	4.6

* Inception date 06 May 2010.

[1] The Fund maintains a high level of derivatives protection. On a notional basis, 25% of the Fund's equity positions are protected.

M&G - Bonds

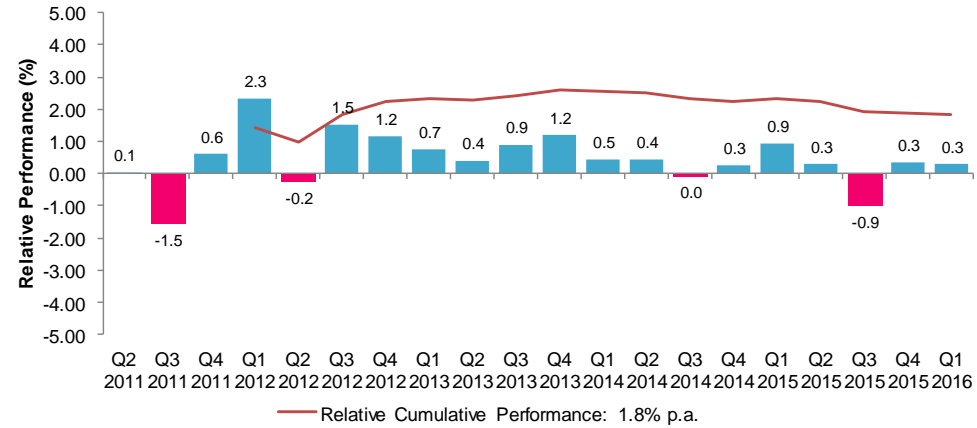
HR View Comment & Rating



There were no significant changes to report over the quarter to 31 March 2016.

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

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

M&G does not allocate between the corporate bonds and the absolute return bonds 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.

The Alpha Opportunities fund delivered a positive absolute return of 0.5% over the quarter outperforming the LIBOR benchmark. The Corporate Fund also delivered a positive absolute return of 4.3% slightly ahead of its benchmark.

Central banks responded to market volatility in a variety of ways. The European Central bank cut interest rates in conjunction with additional easing measures and the Fed announced a cautious view on further interest rate increases. This action saw an increase in risk appetite, and corporate bond prices strengthened, as demand increased towards the end of the quarter.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 0.3%. The aggregate performance is ahead of benchmark over the longer periods of three and five years.

Performance Summary to 31 March 2016 [1] [2]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.9	-0.0	4.9	6.5
Benchmark	2.6	-0.0	3.3	4.6
Relative	0.3	-0.0	1.5	1.8

[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: [1] DataStream, Hymans Robertson

M&G - Bonds - Performance Attribution

Performance Attribution Performance ^[i]

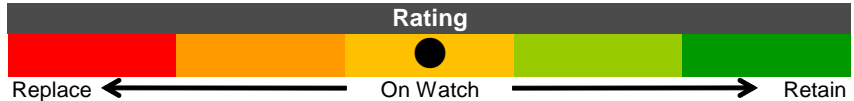
		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute Benchmark	4.3	0.5	2.9
		4.1	0.1	2.6
	Relative	0.3	0.4	0.3
12 Months (%)	Absolute Benchmark	-0.3	0.4	-0.0
		-0.4	0.5	-0.0
	Relative	0.1	-0.1	0.0
3 Years (% p.a.)	Absolute Benchmark	6.2	2.9	4.9
		5.8	0.5	3.3
	Relative	0.4	2.4	1.5
5 Years (% p.a.)	Absolute Benchmark	8.7	3.5	6.5
		8.1	0.5	4.6
	Relative	0.5	2.9	1.8

Source: [i] DataStream, Hymans Robertson



Schroders - Property

HR View Comment & Rating



During the quarter, Schroder RECaP announced the recruitment of Naomi Green who will join the firm in April 2016. This will complete the restaffing of the RECaP team following the departures experienced in the second half of 2015. The rating of Schroder RECaP currently remains at '3 - On Watch' although our review of Schroder will be completed during Q2, 2016.

Performance Attribution Comment

The Schroders Property fund delivered a positive absolute value of 1.3% over the quarter, outperforming the IPD benchmark by 0.2%. The fund remains ahead of benchmark over all longer periods considered.

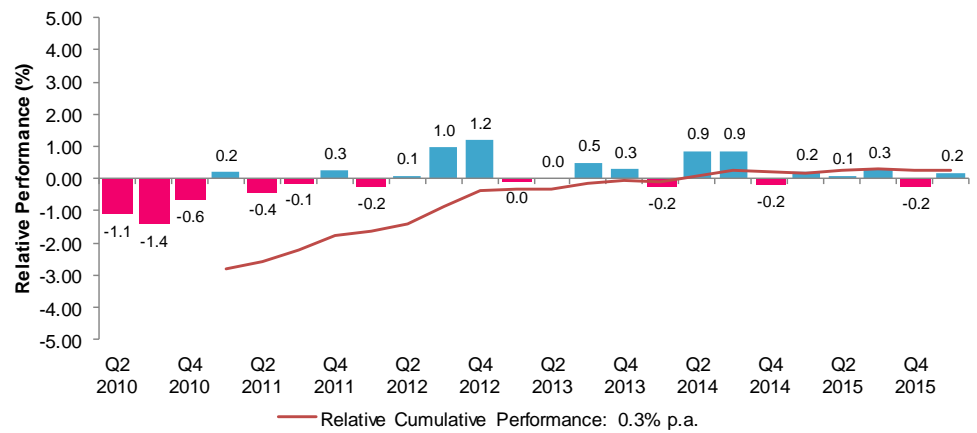
At sector level, industrial, regional offices and alternative property were the top performers. Demand for industrial storage units was buoyant as internet sales remained healthy. As a result, the portfolio's allocation to Industrial Property Investment Fund, who invest in multi-let industrial estates, was the strongest contributor to performance over the quarter. The portfolio's allocation to UNITE UK Student Accommodation Fund was also a strong contributor to performance over the period. Increased demand for central student accommodation has resulted in several high profile developments, and the fund recently invested £6.2m in a 237 bed property at Luton Place. The allocation to the Hermes Property Unit Trust also has a positive impact on relative performance, benefitting from new permitted development rights.

The main detractor from performance over the quarter was the allocation to the Henderson UK Retail Warehouse Fund due to its high exposure to out-of-town retail properties which underperformed. Increased demand for the convenience of internet shopping has resulted in the closure of many local clothing and electrical stores.

Schroders has been instructed to return accumulating income to the Fund from Q2 onwards.

Source: [i] DataStream, Hymans Robertson

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 31 March 2016 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.3	11.0	14.0	9.4
Benchmark	1.1	10.6	13.0	8.9
Relative	0.2	0.4	0.9	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	0.9	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.6	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.6	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.3	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	2.0	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-0.2	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.5	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-2.2	-	-	-	-	-	-	-	-	-	-
Cash	0.0	2.0	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.7	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.6	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.4	0.0	2.0	2.8	0.1	5.0	0.3	15.5	-0.5

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	0.0	-	-	-	-	-	-
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	-2.6	5.0	1.5	6.5	0.0	1.0	0.0	1.0	-0.7	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	-0.4		-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-	100.0	-	0.0
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	-	0.0	-	-	-	-	-	-	-	-	-
Cash	-	-	-	0.0	0.4		-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	10.0	-1.3		10.0	2.0		17.5	-0.1		1.0	-0.3	

Benchmarks Summary Comment

The main points to note from this table are:

- The L&G global equity mandate is benchmarked against the FTSE All World Index. Longview is benchmarked against a similar index (the MSCI All Countries). The FTSE All World Index covers around 2800 global firms, with a large or mid size market capitalisation and constitutes around 90%-95% of the world's investible markets. The index focuses on around 45 different countries, including 24 in the so called developed markets, and 21 in the emerging markets. The approximate allocations of the index to the regional stock markets is as follows: 7% UK, 55% US, 15% Europe, 6% Asia (ex Japan), 9% 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:

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

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

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

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months			-0.25%			0.96%	-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	0.34%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

