

## INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE

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*Papers with this report*

Northern Trust Performance Report

### SUMMARY

This is the main report which focuses on the investment of the Fund's assets. The report includes an overview of fund performance as at 31 March 2017, an update on recent investment decisions, and progress of the London CIV.

The total size of the fund was £956m at 31 March 2017 an increase from £931m at the end of last quarter, with an overall investment return over the quarter was 2.88%, giving rise to relative under-performance of the benchmark by 0.26%. Included with this report is the Northern Trust performance.

Part II includes a review of the Fund's current strategy and how the existing asset allocation links to the future direction of the strategy, written by KPMG. In addition there is an update on each Fund Manager and the detailed current market backdrop. These papers all form background reading to inform Committee and to aid discussion.

### RECOMMENDATIONS

**It is recommended that Pensions Committee, following consideration of the Part II papers:**

- 1. Discuss the Fund performance update and agree any required decisions in respect of mandates or Fund Managers;**
- 2. Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group;**
- 3. Note the follow up activity to previous investment decisions and progress in the development of the London CIV.**

### INFORMATION

#### 1. Fund Performance

Over the last quarter to 31 March 2017, the Fund returned 2.88% (3.85% to December 2016) against the fund benchmark of 3.14% (2.78% September 2016) resulting in an underperformance for the quarter. The value of the Fund increased

over the quarter by £25.8m, to bring the fund balance to £956.5m as at 31 March 2017.

<b>Period of measurement</b>	<b>Fund Return %</b>	<b>Benchmark %</b>	<b>Arithmetic Excess</b>
<b>Quarter</b>	2.88	3.14	-0.26
<b>1 Year</b>	18.46	16.65	1.81
<b>3 Year</b>	9.96	9.34	0.62
<b>5 Year</b>	9.80	8.94	0.86
<b>Since Inception (09/1995)</b>	7.23	7.07	0.16

During the quarter the most notable attributer to the underperformance on investments were Newton and Private Equity with a positive swing from GMO shortly before these funds were disinvested.

Outperformance over a one year rolling period was 1.55% ahead of the benchmark with the largest contributions from UBS UK Equity and Ruffer Funds.

During the quarter the GMO mandate was terminated and transferred into a passive portfolio managed by LGIM. In addition, excess cash was invested into the JP Morgan bond portfolio, as agreed by Pensions Committee in March.

## **2. Asset Allocation**

The current asset allocation, the key strategic tool for the Committee, is outlined in the table below. The assets of the Fund are currently invested across 13 different Fund Managers in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long term horizon.

### **Current Asset Allocation by Asset Class**

<b>ASSET CLASS</b>	<b>Market Value As at 31 March 2017</b>	<b>Actual Asset Allocation</b>	<b>Benchmark Allocation</b>
	<b>£'000</b>	<b>%</b>	<b>%</b>
UK Equities	211,500	22.1	47.0
Global Equities	244,296	25.6	
UK Index Linked Gilts	63,279	6.6	12.0
Corporate Bonds (Global)	85,538	9.0	
Property	114,999	12.0	12.0
DGF/Absolute Returns	104,451	10.9	12.0
Private Equity	27,118	2.9	4.0
Infrastructure	27,002	2.8	3.0
Private Credit	60,627	6.4	10.0
Cash & Cash Equivalents	16,276	1.7	0.0
<b>Totals</b>	<b>955,086</b>	<b>100.0</b>	<b>100.0</b>

The underweight in Private Credit is due to a further £27.6million committed to Permira awaiting drawdown of investment.

## Current Asset Allocation by Manager

		<b>Market Value As at 31 March 2017</b>	<b>Actual Asset Allocation</b>
<b>FUND MANAGER</b>	<b>ASSET CLASS</b>	<b>£'000</b>	<b>%</b>
ADAMS STREET	Private Equity	17,624	1.9
LGT	Private Equity	9,453	1.0
AEW	Property	47,565	5.0
JP MORGAN	Corporate Bonds (Global)	54,622	5.7
LCIV RUFFER	DGF/Absolute Returns	104,451	11.0
M&G	Private Credit	22,394	2.3
MACQUARIE	Infrastructure	27002	2.8
NEWTON	Global Equities	137,953	14.5
PERMIRA	Private Credit	38,233	4.0
LGIM	UK Equities	86,960	9.1
	Global Equities	63,279	6.6
	UK Index Linked Gilts	30,916	3.2
	Corporate Bonds (Global)	106,343	11.1
UBS EQUITIES	UK Equities	124,540	13.0
	Property	22	0.0
	Private Equity	41	0.0
	Cash & Cash Equivalents	5,516	0.6
UBS PROPERTY	Property	67,412	7.1
	Cash & Cash Equivalents	1,087	0.1
Non Custody	Cash & Cash Equivalents	9,673	1.0
		<b>955,086</b>	<b>100.0</b>

Note: Asset Market Valuation is at BID price, as per accounting requirements, which differs from the attached Northern Trust Performance report which is measured at MID price.

During the quarter £11.6 million matured from the Private Equity allocation; £7.2 million matured from the M&G private credit fund; and £2.5 million was called by Permira as the first tranche of investment in the second Permira fund. In line with regulations, to avoid holding excess cash, £7.2 million was invested with JPMorgan.

### 3. Market and Financial climate overview

Global equities continued to rise during Q1 of 2017 posting positive gains and ending up on the quarter. However through this period markets were both up and down reflecting uncertainty about the feasibility of President Trump's pro-business agenda. Europe continues to provide good news with its fourteenth consecutive quarter of growth, falling unemployment and business sentiment at a six year high.

The second estimate of the UK's Q1 GDP showed a growth of 0.2% in the quarter and 2% year-on-year. The Service sector once again was the largest contributor adding 0.2%, whilst Production, Agriculture and Construction had no positive influence. Going forward the impact of inflation is likely to reduce real earnings and as a result dampen economic growth through reduced consumer spending power. In March Article 50 was officially triggered and with uncertainty over negotiations this may depress UK business investment.

#### 4. LCIV update

The London CIV (LCIV) now have 8 active sub funds open after 2 new sub funds launching in May 2017, with a further 4 lined up for launch by the end of September.

##### Sub funds available on the platform currently

Fund Name	Manager	Fund Type
LONDON LGPS CIV GLOBAL EQUITY ALPHA FUND	Allianz	Global equity
LONDON LGPS CIV GLOBAL ALPHA GROWTH FUND	Baillie Gifford	Global equity
LCIV RF ABSOLUTE RETURN FUND	Ruffer	Diversified growth Fund
LCIV PY GLOBAL TOTAL RETURN FUND	Pyrford	Absolute return
LONDON LGPS CIV DIVERSIFIED GROWTH FUND	Baillie Gifford	Diversified growth Fund
LCIV NW REAL RETURN FUND	Newton	Absolute return
LCIV MJ UK EQUITY FUND	Majedie	UK Equity
LCIV NW GLOBAL EQUITY FUND	Newton	Global equity

Future sub funds in the pipeline are Longview Global Equity Fund and the first three Global sub funds resulting from the procurement exercise, confirmed as Epoch (Income), RBC (Sustainable), Henderson (Emerging markets).

The next step for the CIV is further development and options appraisal for cash flow generating assets to support the many funds which are faced with negative cashflows. The CIV is currently looking at structures that could bring more alternative assets onto the platform through a mixed credit option.

#### Hillingdon Fund Investment with the London CIV

The Hillingdon Pension Fund currently invests in Ruffer on the LCIV platform and LGIM alongside the LCIV Platform accessing the economies of scale via the LCIV. The Fund has total LCIV holdings of £392m at 31 March 2017 accounting for 41% of total assets.