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 30 September 2017, an update on recent investment decisions, and progress of the London CIV.

The total size of the fund was £978m at 30 September 2017 an increase £13m from £965m at the end of last quarter, with an overall investment return over the quarter of 1.59%, resulting in a relative under-performance of the benchmark by 0.01%. Included with this report is the Northern Trust performance.

Part II includes 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. **Consider and discuss any issues raised in the training item**
2. **Discuss the Fund performance update and agree any required decisions in respect of mandates or Fund Managers;**
3. **Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group;**
4. **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 30 September 2017, the Fund returned 1.59% (0.94% June 2017) just 1 basis point below the fund benchmark of 1.60% (0.95% June 2017). The value of the Fund increased over the quarter by £13m, to bring the fund balance to £978.2m as at 30 September 2017.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	1.59	1.60	-0.01
1 Year	9.55	8.75	+0.80
3 Year	9.74	9.00	+0.74
5 Year	10.09	9.21	+0.88
Since Inception (09/1995)	7.18	7.03	+0.15

During the quarter distributions were received from various alternative investment mandates with funds utilised to fund the commitment to Permira. Positive impacts were seen from M&G, AEW and UBS Equities negated by negative performance from Newton and Adams Street.

Relative outperformance over a one year rolling period was 0.74% ahead of the benchmark with the largest contributions from UBS Equities and M&G. Only the Private Equity, UBS Property & Newton portfolios underperformed to their relative benchmarks during this period.

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 12 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

	Market Value As at 30 Sept 2017	Actual Asset Allocation	Benchmark Allocation
ASSET CLASS	**£'000**	**%**	**%**
UK Equities	217,427	22.2	47.0
Global Equities	248,147	25.4	
UK Index Linked Gilts	63,616	6.5	12.0
Corporate Bonds (Global)	87,254	8.9	
Property	122,587	12.5	12.0
DGF/Absolute Returns	103,231	10.6	12.0
Private Equity	22,893	2.3	4.0
Infrastructure	27,280	2.8	3.0
Private Credit	61,642	6.3	10.0
Cash & Cash Equivalents	24,107	2.5	0.0
Totals	**978,184**	**100.0**	**100.0**

The underweight in Private Credit is due to a further £30.8 million committed to Permira awaiting drawdown of investment.

Current Asset Allocation by Manager

FUND MANAGER	ASSET CLASS	Market Value As at 30 Sept 2017 £'000	Actual Asset Allocation %
ADAMS STREET	Private Equity	14,646	1.5
LGT	Private Equity	8,206	0.8
AEW	Property	51,618	5.3
JP MORGAN	Corporate Bonds (Global)	56,101	5.7
LCIV RUFFER	DGF/Absolute Returns	103,231	10.6
M&G	Private Credit	17,512	1.8
MACQUARIE	Infrastructure	27,280	2.8
NEWTON	Global Equities	138,263	14.1
PERMIRA	Private Credit	44,130	4.5
LGIM	UK Equities	88,363	9.0
	Global Equities	109,884	11.2
	UK Index Linked Gilts	63,616	6.5
	Corporate Bonds (Global)	31,153	3.2
UBS EQUITIES	UK Equities	129,064	13.2
	Property	22	0
	Private Equity	41	0
	Cash & Cash Equivalents	5,292	0.6
UBS PROPERTY	Property	70,017	7.2
Non Custody	Cash & Cash Equivalents	19,745	2.0
		978,184	**100**

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.

3. Market and Financial climate overview

In the third quarter of 2017, UK equities rose over the period amid a stable global growth outlook. Sterling strengthened against a weak dollar, and noticeably so in September after the Bank of England (BoE) indicated it would normalise base rates relatively soon (Base rate has since been increased by 0.25% to 0.5% in November 2017). The appreciation in the currency negatively weighed on the market and the FTSE All-Share rose 2.1% on a total return basis, a relatively poor performance versus global equities. The S&P 500 recorded a total return of 4.5% over the period. US equities were supported by generally positive macroeconomic data, including news that the economy grew at a healthy 3.1% rate in the second quarter (annualised). A robust quarterly reporting season and further weakness in the dollar were additional tailwinds as US equities recorded new record highs.

European equities performed moderately in the third quarter. The MSCI EMU index returned 4.3%. Eurozone economic data remained robust over the three months. GDP growth was confirmed at 0.6% in the second quarter, up from 0.5% in the first quarter. After a flattish performance in July and August, the Japanese market rose in September to record a gain of 4.7% for the quarter. The market rise was led by oil and mining stocks although a weaker tone for the currency later in the quarter also helped auto stocks to outperform. One persistent feature for much of the period was the underperformance of financial-related and real estate stocks, with all the subsectors declining in absolute terms despite the market's rise. Emerging markets (EM) equities recorded a robust return in Q3 with a backdrop of steady global growth and modest inflation proving supportive. US dollar weakness, continued momentum in the Chinese economy and a pickup in commodity prices were all positive for Emerging Market equities.

Bond yields oscillated over the quarter, with the exception of the UK, which sold-off sharply in September, were ultimately little changed against a largely unchanged global economic backdrop. While the late-June selloff initially continued in July, it came to a halt as growing expectations of a hawkish shift among central banks were reined in. Yields moved lower in August, precipitated by safe haven buying, before reversing course once more in September as risk appetite returned.

4. Investment Decision update

It was agreed in principle at September committee to transition Global Equities mandate to the London CIV pool, transitioning assets from Newton to Epoch. Confirmation was obtained in respect of ongoing management fees which are slightly lower than the previous manager and the move is in line with government objectives to transition all Pension Fund assets into 6 pools for investment purposes. As part of the transition a pre trade analysis was carried out to understand the associated costs involved in the transition. The transition of assets from Newton to the London CIV Epoch sub-fund was completed on 8 November. The transition benefited from a favourable movement in equity prices and transition costs which include taxes, transaction fees commission, and foreign exchanges costs came in below estimates.

As a result of the transition the London Borough of Hillingdon Pension Fund became the first investor in the London CIV "first launch and fund" of the phase 2 of their investment sub-funds, where assets were transitioned without the "lift and shift" through commonality of mandates which the Fund utilised in the movement of assets from Ruffer to the London CIV platform last year.

5. LCIV update

LCIV currently has 9 sub-funds; no new sub-funds we opened in Q3. However Epoch opened with the Hillingdon investment in November and a further 2 sub-funds are expected to be open before the end of the calendar year.

Sub funds available on the platform currently

Fund Name	Manager	Fund Type

Global Equity		
LONDON LGPS CIV GLOBAL EQUITY ALPHA FUND	Allianz	Global equity
LONDON LGPS CIV GLOBAL ALPHA GROWTH FUND	Baillie Gifford	Global equity
LCIV NW GLOBAL EQUITY FUND	Newton	Global equity
LCIV LV GLOBAL EQUITY FUND	Longview	Global equity
UK Equity		
LCIV MJ UK EQUITY FUND	Majedie	UK Equity
Multi assets/Total retrun		
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

The London CIV is developing its plans to add fixed income options with the liquid products to be available in the new year. For more illiquid products the LCIV are requesting FCA approval for an extension of permissions to be able to support products outside of the current ACS structure, this requires approval from all shareholders and will take approximately 3 months for the FCA process the approval.

Hillingdon Fund Investment with the London CIV

The Hillingdon Pension Fund currently invests in Ruffer on the LCIV platform and LGIM which sits alongside the LCIV Platform accessing the economies of scale created via the LCIV. The Fund has total LCIV holdings of £396m at 30 September 2017 accounting for 41% of total assets, which increases to 55% after transition in November of the global equities mandate.

Voting and Engagement

As part of the Pension Committees role in making investment decisions it is required to take into account factors which are financially material to the performance of an investment and balancing returns against risks. This includes risks to the long-term sustainability of a company's performance which could arise from a number of factors including poor governance, environmental degradation, or the risks to a company's reputation arising from the way it treats its customers, suppliers or employees.

During the quarter ended 30 September 2017 the Hillingdon investment managers made the following votes

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	1,137	9,921	8,870	1,051	0
Newton	79	221	146	75	0
JP Morgan	171	2,133	12,014	116	3
LGIM	472	5,282	4,740	541	1

Q3 is normally the quietest period in terms of voting volumes and AGM's. UBS were the most active fund manager by attending and voting at 1,137 meetings, with Newton attending 79 shareholder meetings, the least, during the period under review On average, UBS and LGIM opposed about 10% of proposals at meetings attended..

Overall, Newton Asset Management was quite distinct in their opposition of most management resolutions by voting against 34% of such proposals.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.