INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)	ITEM X

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Papers with this report	Northern Trust Performance Report

SUMMARY

This item will be preceded with a training item from KPMG covering the roles and responsibilities with in the Pension Fund and a recap on the fund investment strategy and asset classes

This report focuses on the investment of the Fund's assets. The report includes an overview of fund performance as at 31 March 2018, an update on strategy decisions made in March 2018, sub funds available within the London CIV, recent voting and engagement.

As part of this item KMPG will present a paper looking into the implementation options of investing in long-dated inflation linked property.

The total size of the fund was £1,014m at 31 March 2018 an increase £5m from £1,009m at the end of last quarter. There was an overall investment return over the quarter of -2.6%; mitigating the negative returns the fund received a bulk transfer in relation to the Harrow College merger. Included with this report is the Northern Trust performance report.

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. **Discuss implementation options for Long- Dated inflation linked property**
4. **Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group.**

INFORMATION

1. Fund Performance

Over the last quarter to 31 March 2018, the Fund returned -2.60%, an under-performance of 27 basis points relative to the fund benchmark of -2.34%. The Fund value increased over the quarter by £5m, to £1,014m as at 31 March 2018. A fall in market value was mitigated by dividends and the cash inflow from Harrow College as a result of the merger with Uxbridge College.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	(2.60)	(2.34)	(0.26)
1 Year	2.96	3.71	(0.75)
3 Year	7.42	7.08	+0.34
5 Year	7.92	7.56	+0.36
Since Inception (09/1995)	7.03	6.92	+0.11

During the quarter, distributions received from Private Equity (€3.1m, & $200k) and Permira (£1.7m) were utilised to fund drawdowns of outstanding commitments. All fund managers except London CIV, JP Morgan, UBS property and LGIM had positive returns, relative to their respective benchmarks.

Relative performance over a one-year rolling period was 0.73% behind the benchmark with the largest detractors being Adams Street Partners, UBS Property and London CIV (Ruffer). Macquarie, Permira, LGT Capital and UBS Equity portfolios significantly outperformed their relative benchmarks during this period.

2. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below. The assets of the Fund is invested across 11 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 31 March 2018	Actual Asset Allocation	Benchmark Allocation
ASSET CLASS	**£'000**	**%**	**%**
UK Equities	214,730	21.2	47.0
Global Equities	240,999	23.8	
UK Index Linked Gilts	66,778	6.6	12.0
Corporate Bonds (Global)	87,702	8.7	
Property	127,807	12.6	12.0
DGF/Absolute Returns	103,270	10.2	12.0
Private Equity	19,585	1.9	4.0
Infrastructure	27,374	2.7	3.0
Private Credit	71,334	7.0	10.0

Cash & Cash Equivalents	53,991	5.3	0.0
Totals	**1,013,570**	**100.0**	**100.0**

The underweight position in Private Equity is due the maturity profile of the investments, with more distributions than drawn-downs. The underweight position in Private Credit is due to committed funds in Permira yet to be drawn-down, totalling £18m.

The Benchmark allocations above are those in place during the quarter and do not take into account the strategy decisions made at the March committee.

The Fund received £31.0m from the Harrow and Uxbridge College merger in March 2018, this cash was immediately deposited in the custody account at Northern Trust. The funds have since been invested temporarily with JP Morgan and LGIM in bond products in line with investment management advice and the revised investment strategy.

Current Asset Allocation by Manager

		Market Value As at 31 Mar 2018	**Actual Asset Allocation**
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**
ADAMS STREET	Private Equity	13,206	1.3
LGT	Private Equity	6,338	0.6
AEW	Property	54,361	5.4
JP MORGAN	Corporate Bonds (Global)	56,312	5.6
LCIV - EPOCH	Global Equities	129,750	12.8
LCIV - RUFFER	DGF/Absolute Returns	103,270	10.2
M&G	Private Credit	13,220	1.3
MACQUARIE	Infrastructure	27,374	2.7
PERMIRA	Private Credit	58,114	5.7
LGIM	UK Equities	86,422	8.6
	Global Equities	111,249	11.0
	UK Index Linked Gilts	66,778	6.6
	Corporate Bonds (Global)	31,390	3.1
UBS EQUITIES	UK Equities	128,308	12.7
	Property	22	0
	Private Equity	41	0
	Cash & Cash Equivalents	4,762	0.5
UBS PROPERTY	Property	73,424	7.2
	Cash & Cash Equivalents	1,768	0.2
Non Custody	Cash & Cash Equivalents	47,461	4.68
		1,013,570	**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

The FTSE All-Share fell 6.9% over the period under review. UK equities performed poorly as gilt yields rose in line with a broad-based sell-off in global bonds. Bond market yields rose amid signs that the world economy is moving from the recovery to expansion phase of the economic cycle, with a consequent increase in inflationary pressures and tighter monetary policy.

As bond yields rose there was movement away from more stable and defensive areas of the market, a trend exacerbated by sterling strength. Sterling was supported by expectations that the Bank of England could increase base rates faster than previously anticipated, albeit the currency's relative strength was partly a function of weakness in the US dollar. While UK economic growth remained sluggish, it continued to surpass low expectations. In its February inflation report, the Bank of England nudged up its growth forecast for 2018, from 1.7% to 1.8%. There was further progress with Brexit negotiations over the period with an initial agreement struck on the terms of a transition period for after the UK formally exits the EU.

US equities began 2018 strongly, buoyed by ongoing strength in economic data, robust earnings and the confirmation of a major tax reform package. US business confidence reached an unexpected, multi-decade high in March. GDP for Q4 2017 was revised upwards to show growth of 2.9%, and while industrial activity slowed, it continued to indicate expansion. However, the latter part of the quarter saw a marked increase in volatility. Investors first digested the destabilising potential of an elevated US inflation reading and the possibility that the Federal Reserve (Fed) may need to become more proactive in raising interest rates in order to keep upward price pressures under control. The Fed raised rates by 25 basis points (bps) in March and escalating US-China trade sanctions precipitated a renewed bout of turbulence in March. Eurozone equities delivered negative returns in the first quarter, with the bulk of the declines coming in March.

4. Implementation of strategy and decisions from March Pensions Committee

Pensions Committee in March 2018 agreed to a number of changes to the strategy, some of which are long-term directional changes and will take longer to implement.

Within the strategy changes agreed, Committee agreed to invest 5% of the portfolio in Long Lease Property: Long dated, inflation linked, contractual income. Existing manager AEW provides a product that can provide this strategy as can a number of other managers. Pensions Committee asked officers investigate further into AEW and other offerings and put forward a recommendation on allocating the funds to a future meeting of the Committee. KPMG have carried out analysis into the best managers to meet the needs of the fund to supply this product, and discussions were held with the London CIV to understand how the pool will provide for this strategy now and into the future.

Pensions Committee need to consider whether to invest now outside the pool to implement current strategy to comply with fiduciary responsibilities; with consideration of unwinding at a later point when an offering is available with the pool. Otherwise, the Pensions Committee could defer investment until the LCIV is able to provide a suitable product, which would be a number of years away, during which time the fund could hold the allocation in index linked yields in the interim. KMPG have shortlisted potential managers to meet the investment strategy and meet the specific requirements of the fund, if Pensions Committee decide to implement this strategy as early as possible. Alternatively, the fund can defer implementation of this asset class until the London CIV has a suitable platform. The London CIV option could take a number of years before the investment would be placed in cash terms. If the decision to invest is deferred the funds could be held in index linked gilts to provide the same risk parameters, although return would be significantly lower. KPMG will present on this item to provide further information, associated costs and returns of the two options.

As a result of the revised strategy and requirement to invest all cash balances, which are not immediately required to make payments, excess cash held by the fund has been invested. The excess cash includes the £31m asset transfer received from Harrow College; cash has been placed in JP Morgan (£25m) and LGIM index Linked Gilts (£20m). The funds will be retained here until the new asset allocation can be fully implemented and committed cash calls are made. These two mandates allow cash to be drawn down as required to meet liquidity on cash calls. Investments were placed over a phased schedule to reduce the risk of any dilution levy costs being charged.

5. LCIV update

LCIV currently has 13 open sub-funds. LCIV RBC Sustainable Equity Fund opened in April enabling investment in active equities focusing on sustainable investments and the LCIV MAC Fund opened in May invested through CQS as a multi asset credit fund investing in a range of liquid / leveraged loans, high yield corporate credit, convertible bonds, and asset-backed securities.

Sub funds available and coming soon on the platform currently

Fund Name	Manager	Launch Date
UK Equities		
LCIV MJ UK Equity Fund	Majedie Asset Management	18-May-17
Global Equities		
LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Global Equity Alpha Fund	Allianz Global Investors GMBH	02-Dec-15
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17

LCIV RBC Sustainable Equity Fund	RBC Global Asset Management (UK) Limited	18-Apr-18
Emerging Market Equities		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
Multi-Asset		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16
Fixed Income		
LCIV Global Bonds Fund	London CIV	Not yet launched
LCIV Liquid Loans Fund	London CIV	Not yet launched
LCIV Long Short MAC Fund	London CIV	Not yet launched
LCIV MAC Fund	CQS	31-May-18
LCIV Private Debt Fund	London CIV	Not yet launched

The LCIV undertook a governance review in 2017, which resulted in a number of areas for suggested improvement. There have been a number of structural governance changes implemented as a result including the revocation of the Pensions Sectorial Joint Committee and introduction of a Shareholder Committee as well as the addition of two non-executive Directors, a Treasurer Observer, and a member of the Shareholder Committee.

Hillingdon Fund Investment with the London CIV

The Hillingdon Pension Fund currently invests in Ruffer and Epoch 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 £529m at 31 March 2018 accounting for 52.3% of total assets of the Pension Fund.

6. Voting and Engagement

As part of the Pension Committees role in making investment decisions it is required to take into account factors that 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, due to 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 31 March 2018 the Hillingdon, investment managers made the following votes

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	1,302	10,598	9,249	1,349	0
JP Morgan	188	2,442	2,247	195	3
LGIM	555	5,711	4,997	649	65

Voting reports obtained from managers mirrored the pattern of the last three quarters. UBS were the most active fund manager by attending and voting at more meetings. On average, the reported managers opposed about 12% of proposals at meetings attended.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.