



# London Borough of Hillingdon

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## Investment Risk & Analytical Services

March 31, 2019

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## Client Commentary

### Total Scheme Commentary

The weak end to the year, characterised by trade struggles and volatility and resulting in a correction to equity markets, has weighed on economic activity over the first three months of 2019. Equity markets however, have pushed on with largely double digit returns in the black across the board over Q1. 2018 started strongly as well, before collapsing in the February, so it is encouraging that the new year has commenced in steadier fashion. Although February and March again tailed off somewhat, there was no crash. Concerns about expansion are well founded though based on the following; loss of US momentum, failing Eurozone growth, Chinese slow down and endless Brexitting. HSBC's full year results came in below predictions after revenues collapsed in the final weeks of 2018. Tesco put 9k jobs at risk in a major cost cutting drive. The UK is matching growth within the Eurozone despite the Brexit uncertainty; both regional figures varied between zero and 0.6% until finally settling on 0.2% for the final quarter of 2018. From the last quarter of 2018 when Telecoms was the top performer, it is now the weakest performing sector both short and long term. I.T. is now the best performer over both the most recent quarter and the year. The FTSE All Share was up 9.4% (GBP) over the first quarter and is ahead over one year by 6.4% (GBP).

Global bond markets rallied at the end of March. Disappointing economic data in China, Europe and the US as well as the marked shift in tone of the European Central Bank and the Federal reserve were the headline issues during quarter one. The ECB restarted a 'crisis – era' bank lending programme and the Fed dropped plans to raise interest rates. In the UK, Q1 2019 saw Sterling strengthen against the Dollar, Euro and Yen. Brexit dominated much of the news in the UK in Q1 2019 culminating in Prime Minister Teresa May losing a third vote for the exit deal in the House of Commons. In its March meeting, the Bank of England Monetary Policy Committee voted unanimously to maintain the bank rate at 0.75%. The UK Manufacturing PMI rose from 52.1 in February to 55.1 in March, outperforming the market's expectation of 51.0. The consumer price index including owner occupiers' housing costs rose by 1.8% in the year to February 2019, down from the 2.2% in November 2018. Increasing food, alcohol and tobacco prices were the main upward contributors offset by clothing and footwear. Consumer confidence remained low in March with the uncertainty of the outcomes of Brexit leaving shoppers fearing for the health of the UK economy. The GfK index was recorded at -13 in March compared to -13 in February and -14 in January.

Within this environment the London Borough of Hillingdon returned +5.10% which was below the Total Plan benchmark of +5.64%. In monetary terms this is a gain in assets of £51.6 million and the value of the combined scheme now stands at £1,062 million as at 31<sup>st</sup> March 2019.

The Scheme's one year return of +5.02% is 0.96% behind the benchmark of +6.05% following four consecutive quarters of underperformance. While over the longer periods, with ten positive quarters over the last 3 years, the Scheme has narrowly underperformed, producing a return of 8.60% over three year versus 8.66%. Then the scheme falls in line over the 5 year period where we benchmark neutral performance with figures of 7.53% per annum. Then since inception in September 1995, the Fund remains ahead of target by 6 basis points with an annualised return of 6.95% against a target of 6.88%.

### Manager Commentary

#### AEW UK

The AEW UK Property Fund posted a total return of -7.27%, trailing behind the IPD UK PPF I AI Balanced Funds Index for the first time since September 2018. Rolling one year returns now sees losses, with the mandate returning -0.32% versus 4.88% for the IPD Index

They continue to be behind over the three year period returning 6.41% against the benchmark of 6.67%. This translates as a 0.24% relative underperformance. With positive absolute returns in all but two periods and only five quarters in the red on a relative basis, growth ahead of benchmark is seen since the fund inception. Since the funds inception date of July 2014, the fund return is 9.16%, leading to an outperformance of 0.22% when compared to the IPD figure of 8.92%.

#### JP Morgan

In the latest quarter JP Morgan posted an increase in assets of +4.44% leading to an outperformance of +3.36% when compared to the 1.04% target for the 3 Month LIBOR + 3% p.a. Then with positive results in only two of the last four quarters, the one year return of +1.54% is in modest territory and behind the 4.05% target by -2.41%. Then over three years they post returns above the benchmark with figures of 4.22% vs 3.71%. Since the mandate funded their return of 3.66% is just below the target return of 3.69% on an annualised basis.

#### Legal & General 1

There was a reorganisation of assets in both Legal & General 1 and 2 portfolios towards the end of 2018. Equity assets were moved to the No 1 account and fixed income to the No2 account. Over the last three months the Legal & General No. 1 mandate post a return of +10.48 in line with the custom fixed weight blended benchmark. In the period since inception in October 2016, they return 5.79%, which is below the benchmark return of 5.89%.

#### Legal & General 2

The No 2 Legal & General mandate returned +6.25% against +6.21% for the first quarter against the custom fixed weight blended benchmark consisting of FTSE Index Linked 15+ years, FTSE Index Linked and iBoxx UK Non-Gilts. In the short period since inception, they return 5.90% against 6.41% for the benchmark.

## Client Commentary (cntd)

### Manager Commentary

#### London CIV Ruffer

The absolute return strategies employed by London CIV Ruffer translated into a 284 basis point outperformance of the 3-mth Sterling LIBOR target. The investment remains underwater over the one year time period. Outperformance remains in the longer periods. This is seen in a three year return of 3.42% versus 0.70%, then similarly for the five years with figures of 3.98% against 0.69%, culminating in since inception (May 2010) figures of 4.78% versus 0.84% per annum, which translates as a relative return of 3.91%. This manager shows one of the largest outperformance of all the schemes managers over the since inception period.

#### M&G Investments

M&G posted a loss in Q1 by producing a return of -2.24% against the 3 Month LIBOR +4% p.a. target of 1.29%, demonstrating an underperformance of 3.48%. This is the fourth consecutive quarter of underperformance and the full year return now trails behind the benchmark by 8.47%, coming from figures of -3.84% against 5.05%. Over the three and five year the account registers figures of 7.93% vs 4.70% and 7.15% vs 4.68% respectively; since inception (May 2010) return falls slightly to 6.23% pa whilst the benchmark is 4.71% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 8.18% opposed to the comparator of 4.60%.

#### Macquarie

Over the last three months, Macquarie produced a modest growth of 0.40%, against the 1.04% for the 3 Month LIBOR +3% p.a. this translates as an underperformance of 0.63%. With twelve consecutive quarters of positive absolute returns and eleven positive relative returns, outperformance is seen in all longer periods. Over the rolling year a double digit growth of 14.97% beats the target of 4.05% by 10.50%, similarly the three year result of 15.45% versus 3.70% exhibits positive relative return at 11.33%. The annualised return over 5 years rises to 15.78%, and remains ahead of the 3.68% seen for the benchmark; then since inception (September 2010) the 5.83% is ahead of the target of 3.71%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.58%, which is ahead of the benchmark figure of 3.68%.

#### UBS

During Q1 the UBS UK Equity investments returned +8.50%, behind the +9.41% for the FTSE All Share. Looking into the attribution analysis this underperformance was largely due to allocation effects. The most significant being the underweighting in Consumer goods (-62bps) and overweighting in Telecommunications (-22bps), while the largest positive impact comes from Basic Materials (+23 bps). Selection decisions had a small positive impact with the most significant being the performance in Financials (+49 bps) although this was muted by returns in Utilities (-50bps). The manager remains behind over the one year, stemming from figures of +2.30% vs +6.36% which translates as a relative return of -3.82%. This is largely attributable to selection effects, the biggest impacts come from both Financials (-135bps) and Industrials (-181 bps). The longer time periods show a positive picture, with three and five years ahead of the index, culminating in a since inception (January 1989) return of 9.83% versus 8.59% on an annualised basis.

### Manager Commentary

#### Premira Credit

The Premira Credit Fund saw a growth of 1.48% over the first quarter of 2019, this was just ahead of the 3 Month LIBOR +4% p.a. target of 1.29%. The fund has outperformed in two of last four quarter's and are still ahead of target, leading to an outperformance of 0.12%, created from figures of 5.18% against 5.05%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 8.38% against the benchmark of 4.66%, leading to a relative position of 3.55%.

#### UBS Property

In continuation from the previous period, the latest quarter for the UBS Property posted an underperformance of -0.21%, generated from a return of 0.09% against the IPD UK PPFI All Balanced Funds index of 0.30%. Over the one year the manager is now behind the index, with a full year return of +4.43% vs +4.88%. The previous good run of results particularly during 2015 leads to high absolute returns staying ahead of the IPD target over the five year periods with a return of 9.81% against 9.07%. Then since inception, in March 2006, the fund return falls to 4.03% per annum which manages to stay just ahead of the benchmark figure of 4.01%.

#### Private Equity

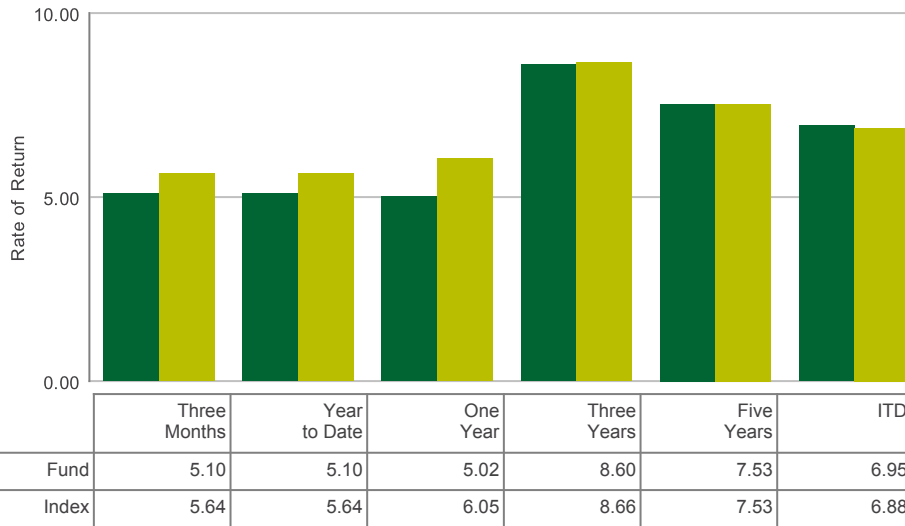
The private equity assets saw a 0.62% fall in value for LGT. Adam Street also saw a decrease of 6.63%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. LGT maintain a run of over 3 years of growth with figures of 18.62%, 18.84% and 17.64% for the one, three and five year periods respectively, while Adam Street posted 14.77%, 12.68% and 15.54% over the same periods. Adam St are behind the proxy benchmark of MSCI AC World +4% p.a. over the three and five year period (which shows 19.06% and 16.59%). LGT are ahead over the five year outperforming by 90bps. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 6.91% pa, while LGT sees a more modest dip to 11.36%.

#### Epoch

Over the first quarter the relatively new investment in Epoch's income equity fund generated a return of +8.03%. Since inception (November 2017) the fund has observed a modest rise in value +2.77% compared to the MSCI World figure of +4.38%, this leads to a relative return of -1.54%.

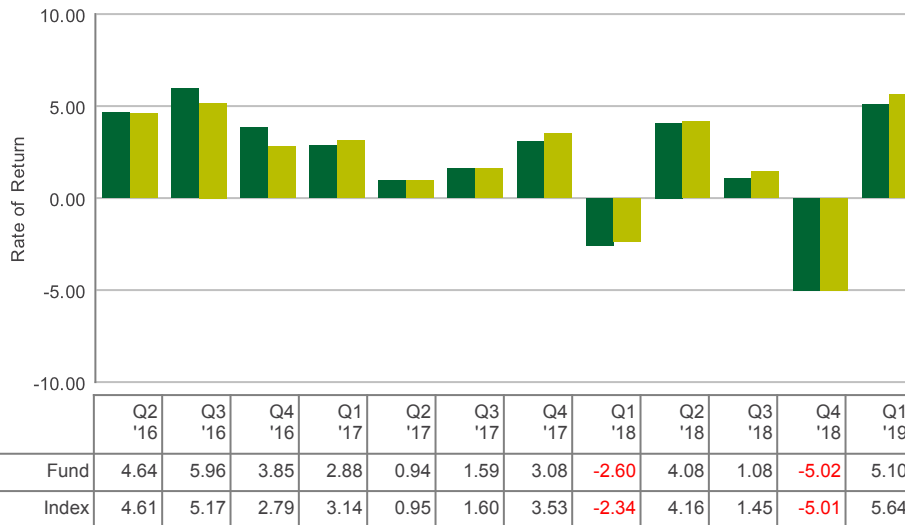
# Executive Summary

## LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



Index: Total Plan Benchmark

## LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



Index: Total Plan Benchmark

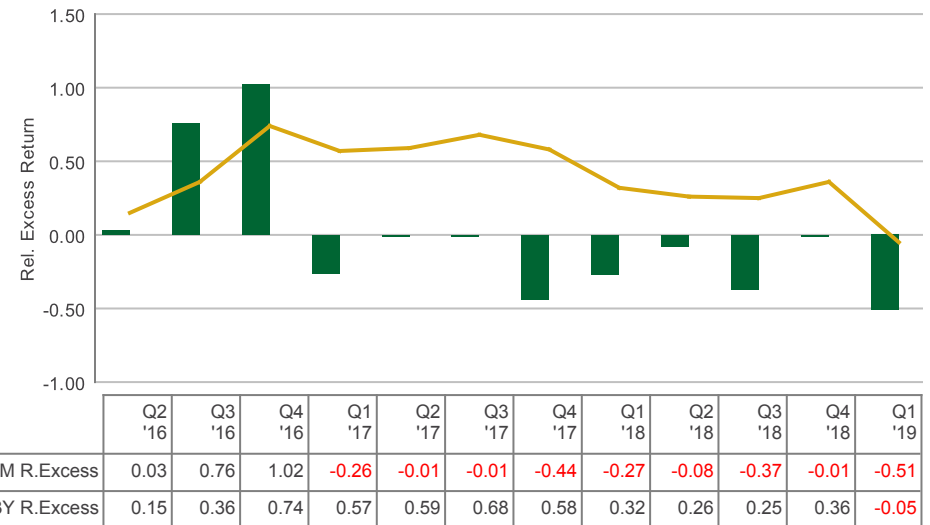
## RISK STATISTICS

	1 Yr	3 Yrs	5 Yrs
Return	5.02	8.60	7.53
Index Return	6.05	8.66	7.53
Relative Excess Return	-0.96	-0.05	-0.00
Standard Deviation	5.19	5.00	4.92
Index Standard Deviation	5.53	4.79	4.77
Tracking Error	0.93	1.11	1.08
Information Ratio	-1.10	-0.05	-0.00
Sharpe Ratio	0.77	1.58	1.39
Index Sharpe Ratio	0.91	1.66	1.44
Sortino Ratio	-	3.57	2.67
Treynor Ratio	4.31	7.77	6.81
Jensen's Alpha	-0.62	-0.18	-0.03
Relative Volatility (Beta)	0.93	1.02	1.01
R Squared	0.97	0.95	0.95

Index: Total Plan Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)

Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



Index: Total Plan Benchmark

## Investment Hierarchy

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Three Months			Year to Date			One Year		
			Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess
<b>London Borough of Hillingdon</b>	<b>1,062,249,838</b>	<b>100.00</b>	<b>5.10</b>	<b>5.64</b>	<b>-0.51</b>	<b>5.10</b>	<b>5.64</b>	<b>-0.51</b>	<b>5.02</b>	<b>6.05</b>	<b>-0.96</b>
Total Plan Benchmark											
<b>AEW UK</b>	<b>54,186,487</b>	<b>5.10</b>	<b>-7.27</b>	<b>0.30</b>	<b>-7.54</b>	<b>-7.27</b>	<b>0.30</b>	<b>-7.54</b>	<b>-0.32</b>	<b>4.88</b>	<b>-4.96</b>
LBH22 AEW Benchmark											
<b>JP Morgan</b>	<b>82,707,366</b>	<b>7.79</b>	<b>4.44</b>	<b>1.04</b>	<b>3.36</b>	<b>4.44</b>	<b>1.04</b>	<b>3.36</b>	<b>1.54</b>	<b>4.05</b>	<b>-2.41</b>
LBH15 JPM LIBOR +3%pa											
<b>Legal &amp; General 1</b>	<b>214,195,555</b>	<b>20.16</b>	<b>10.48</b>	<b>10.48</b>	<b>-0.00</b>	<b>10.48</b>	<b>10.48</b>	<b>-0.00</b>	<b>6.53</b>	<b>6.79</b>	<b>-0.23</b>
LBH26 L&G Benchmark											
<b>Legal &amp; General 2</b>	<b>128,804,757</b>	<b>12.13</b>	<b>6.25</b>	<b>6.21</b>	<b>0.04</b>	<b>6.25</b>	<b>6.21</b>	<b>0.04</b>	<b>5.40</b>	<b>6.13</b>	<b>-0.69</b>
LBH27 L&G Benchmark											
<b>M&amp;G Investments</b>	<b>9,259,628</b>	<b>0.87</b>	<b>-2.24</b>	<b>1.29</b>	<b>-3.48</b>	<b>-2.24</b>	<b>1.29</b>	<b>-3.48</b>	<b>-3.84</b>	<b>5.05</b>	<b>-8.47</b>
LBH10 3 Month LIBOR +4%pa											
<b>Macquarie</b>	<b>27,371,997</b>	<b>2.58</b>	<b>0.40</b>	<b>1.04</b>	<b>-0.63</b>	<b>0.40</b>	<b>1.04</b>	<b>-0.63</b>	<b>14.97</b>	<b>4.05</b>	<b>10.50</b>
LBH14 Macquarie LIBOR +3%pa											
<b>Premira Credit</b>	<b>64,440,344</b>	<b>6.07</b>	<b>1.48</b>	<b>1.29</b>	<b>0.19</b>	<b>1.48</b>	<b>1.29</b>	<b>0.19</b>	<b>5.18</b>	<b>5.05</b>	<b>0.12</b>
LBH24 Premira LIBOR +4%pa											
<b>UBS</b>	<b>131,174,064</b>	<b>12.35</b>	<b>8.50</b>	<b>9.41</b>	<b>-0.83</b>	<b>8.50</b>	<b>9.41</b>	<b>-0.83</b>	<b>2.30</b>	<b>6.36</b>	<b>-3.82</b>
LBH04 UBS Benchmark											
<b>UBS Property</b>	<b>76,520,613</b>	<b>7.20</b>	<b>0.09</b>	<b>0.30</b>	<b>-0.21</b>	<b>0.09</b>	<b>0.30</b>	<b>-0.21</b>	<b>4.43</b>	<b>4.88</b>	<b>-0.43</b>
LBH06 UBS Property Benchmark											
<b>Adam Street</b>	<b>11,462,175</b>	<b>1.08</b>	<b>-6.63</b>	<b>10.77</b>	<b>-15.71</b>	<b>-6.63</b>	<b>10.77</b>	<b>-15.71</b>	<b>14.77</b>	<b>15.50</b>	<b>-0.64</b>
Adam Street PE Bmark											
<b>LGT</b>	<b>4,688,239</b>	<b>0.44</b>	<b>-0.62</b>	<b>10.77</b>	<b>-10.28</b>	<b>-0.62</b>	<b>10.77</b>	<b>-10.28</b>	<b>18.62</b>	<b>15.50</b>	<b>2.70</b>
LGT PE Bmark											
<b>Epoch Investment P Income</b>	<b>147,156,298</b>	<b>13.85</b>	<b>8.03</b>	<b>9.94</b>	<b>-1.74</b>	<b>8.03</b>	<b>9.94</b>	<b>-1.74</b>	<b>13.42</b>	<b>11.98</b>	<b>1.29</b>
LBH11001 MSCI World ND											
<b>London CIV Ruffer</b>	<b>102,707,895</b>	<b>9.67</b>	<b>3.15</b>	<b>0.30</b>	<b>2.84</b>	<b>3.15</b>	<b>0.30</b>	<b>2.84</b>	<b>-0.55</b>	<b>1.05</b>	<b>-1.58</b>
LBH11003 Ruffer BM Libor											

## Investment Hierarchy(2)

Account/Group -% Rate of Return	Three Years			Five Years			Inception to Date			Inception Date
	Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess	
<b>London Borough of Hillingdon</b> Total Plan Benchmark	8.60	8.66	-0.05	7.53	7.53	-0.00	6.95	6.88	0.06	30/09/1995
<b>AEW UK</b> LBH22 AEW Benchmark	6.41	6.67	-0.24	-	-	-	9.16	8.92	0.22	30/06/2014
<b>JP Morgan</b> LBH15 JPM LIBOR +3%pa	4.22	3.71	0.50	3.14	3.69	-0.53	3.66	3.69	-0.03	08/11/2011
<b>Legal &amp; General 1</b> LBH26 L&G Benchmark	-	-	-	-	-	-	5.79	5.89	-0.10	31/10/2016
<b>Legal &amp; General 2</b> LBH27 L&G Benchmark	-	-	-	-	-	-	5.90	6.41	-0.48	22/02/2017
<b>M&amp;G Investments</b> LBH10 3 Month LIBOR +4%pa	7.93	4.70	3.09	7.15	4.68	2.36	6.23	4.71	1.44	31/05/2010
<b>Macquarie</b> LBH14 Macquarie LIBOR +3%pa	15.45	3.70	11.33	15.78	3.68	11.67	5.83	3.71	2.04	30/09/2010
<b>Pemira Credit</b> LBH24 Pemira LIBOR +4%pa	7.51	4.70	2.68	-	-	-	8.38	4.66	3.55	30/11/2014
<b>UBS</b> LBH04 UBS Benchmark	12.35	9.51	2.59	6.45	6.10	0.32	9.83	8.59	1.15	31/12/1988
<b>UBS Property</b> LBH06 UBS Property Benchmark	5.06	6.17	-1.05	9.81	9.07	0.68	4.03	4.01	0.02	31/03/2006
<b>Adam Street</b> Adam Street PE Bmark	12.68	19.06	-5.36	15.54	16.59	-0.90	6.91	-	-	31/01/2005
<b>LGT</b> LGT PE Bmark	18.84	19.06	-0.19	17.64	16.59	0.90	11.36	-	-	31/05/2004
<b>Epoch Investment P Income</b> LBH11001 MSCI World ND	-	-	-	-	-	-	2.77	4.38	-1.54	08/11/2017
<b>London CIV Ruffer</b> LBH11003 Ruffer BM Libor	3.42	0.70	2.70	3.98	0.69	3.27	4.78	0.84	3.91	28/05/2010

## Market Value Summary - Three Months

Account/Group	31/12/2018 Market Value	31/12/2018 Weight	Net Contribution*	Income	Fees	Appreciation	31/03/2019 Market Value	31/03/2019 Weight	Change in Weight
<b>London Borough of Hillingdon</b>	<b>1,011,198,397</b>	<b>100.00</b>	<b>-506,098</b>	<b>4,438,681</b>	<b>4,262</b>	<b>47,118,860</b>	<b>1,062,249,838</b>	<b>100.00</b>	<b>0.00</b>
AEW UK	58,432,213	5.78	0	0	0	-4,245,726	54,186,487	5.10	-0.68
JP Morgan	79,188,982	7.83	0	0	0	3,518,384	82,707,366	7.79	-0.05
Legal & General 1	193,872,278	19.17	0	0	0	20,323,277	214,195,555	20.16	0.99
Legal & General 2	121,234,111	11.99	-4,262	0	4,262	7,574,908	128,804,757	12.13	0.14
M&G Investments	9,471,853	0.94	0	211	0	-212,437	9,259,628	0.87	-0.06
Macquarie	27,262,151	2.70	0	28,051	0	81,795	27,371,997	2.58	-0.12
Premira Credit	60,938,582	6.03	2,560,000	340,000	0	601,762	64,440,344	6.07	0.04
UBS	121,739,128	12.04	-863,979	1,480,512	0	8,818,403	131,174,064	12.35	0.31
UBS Property	77,003,116	7.62	-555,218	685,624	0	-612,909	76,520,613	7.20	-0.41
Adam Street	12,851,931	1.27	-540,892	0	0	-848,865	11,462,175	1.08	-0.19
LGT	5,260,344	0.52	-528,513	-622	0	-42,970	4,688,239	0.44	-0.08
Cash & Other Assets	8,148,740	0.81	-573,235	16,222	0	-17,305	7,574,421	0.71	-0.09
Epoch Investment P Income	136,219,737	13.47	0	1,047,765	0	9,888,795	147,156,298	13.85	0.38
London CIV Ruffer	99,575,230	9.85	0	840,917	0	2,291,749	102,707,895	9.67	-0.18
Cash & Other Assets	0	0.00	0	0	0	0	0	0.00	0.00
Transition	0	0.00	0	0	0	0	-	-	-

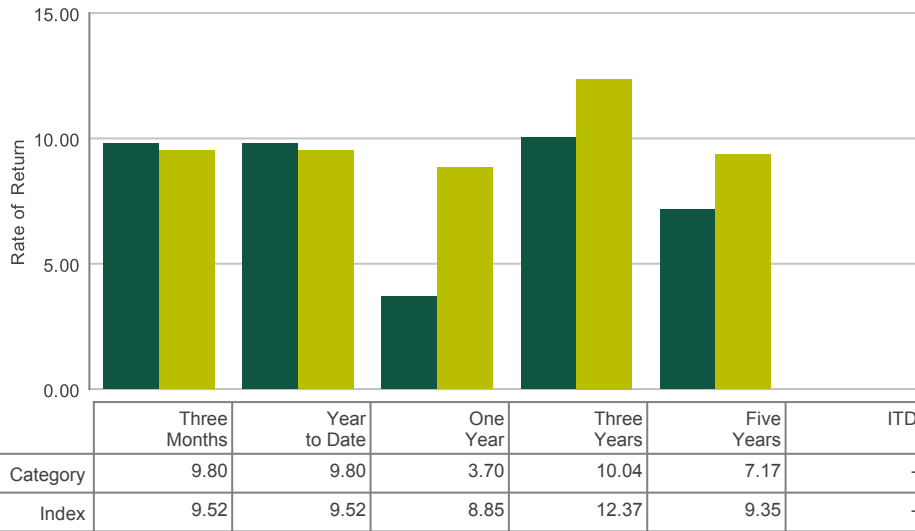
Min -0.68  0.99 Max

\*Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.  
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.



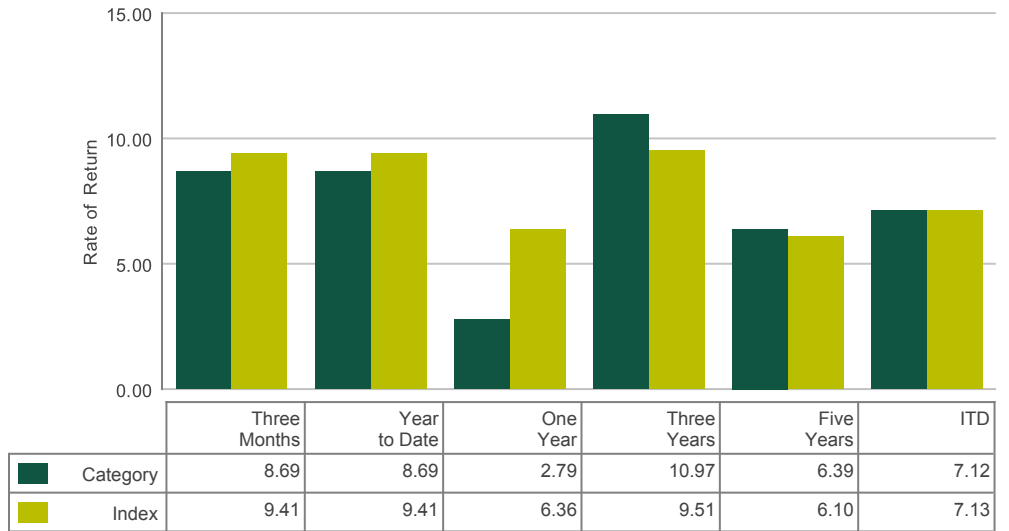
# Historical Performance

## EQUITY



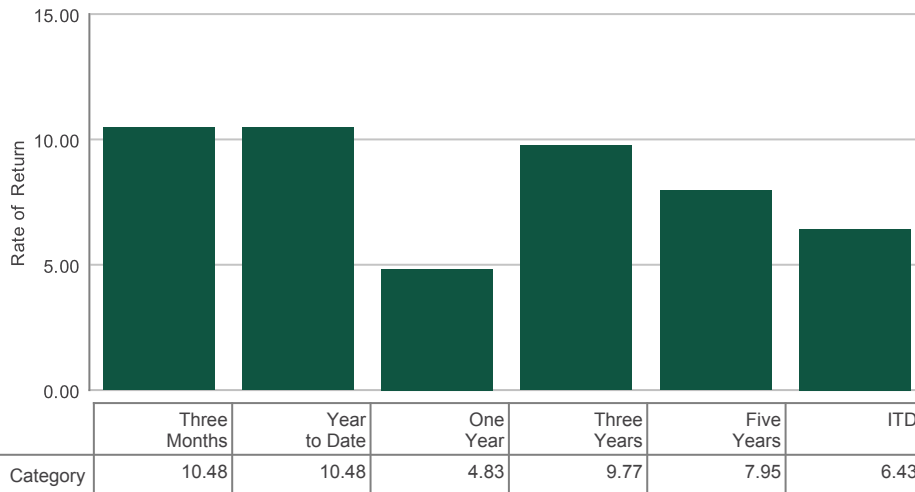
Index: Total Equity Benchmark

## UNITED KINGDOM

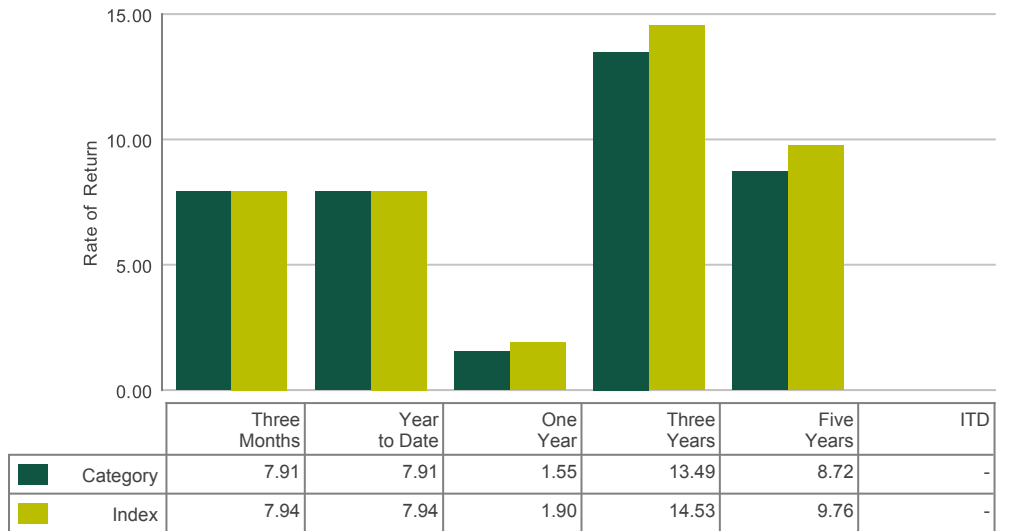


Index: FTSE All Share UK Equity

## OVERSEAS EQUITIES



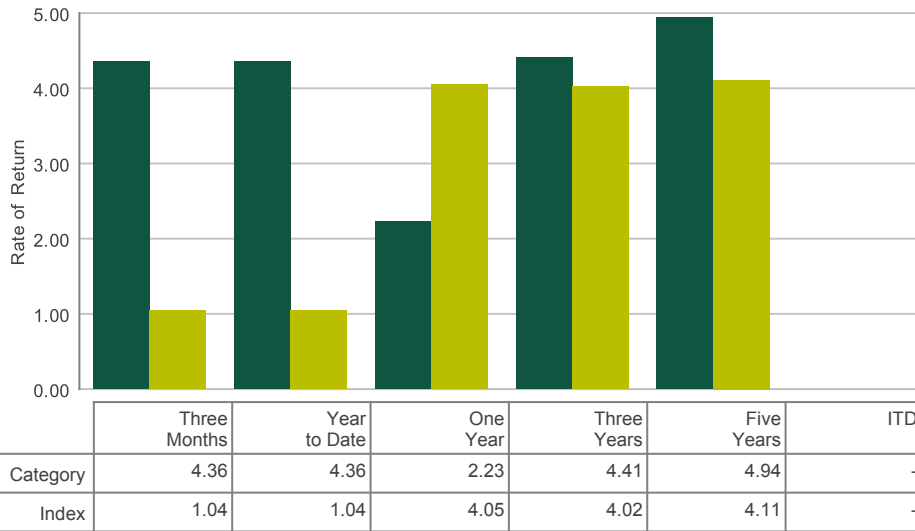
## EMERGING MARKETS



Index: LBH Emerging Markets

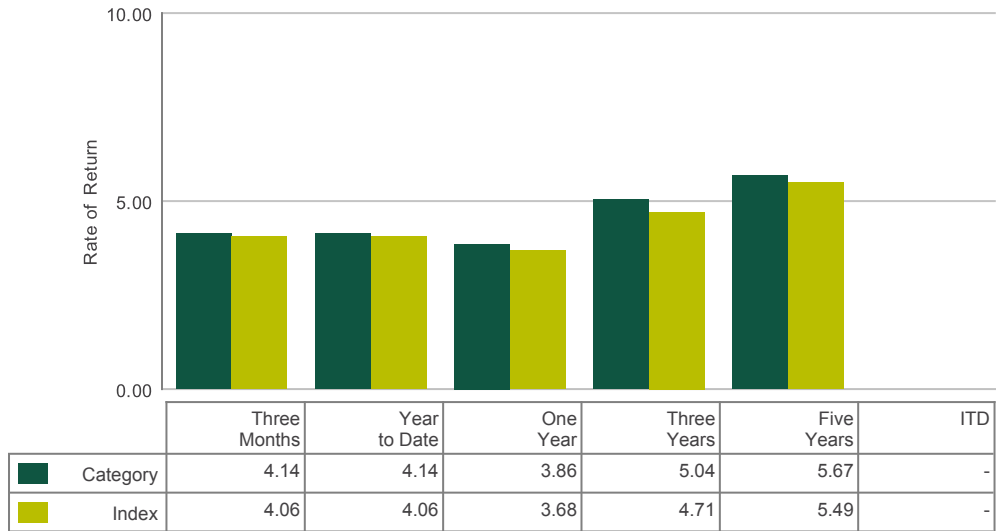
# Historical Performance

## FIXED INCOME



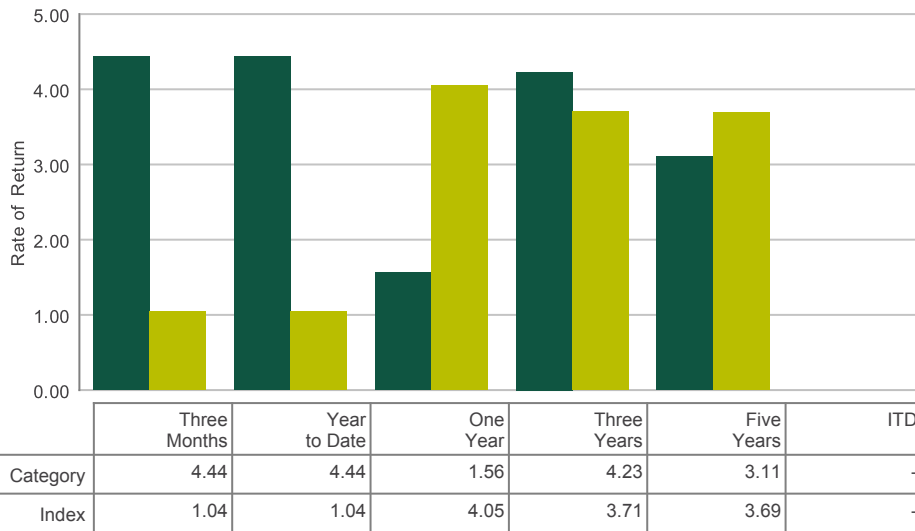
Index: LBH Fixed Income Benchmark

## UK CORPORATE BONDS



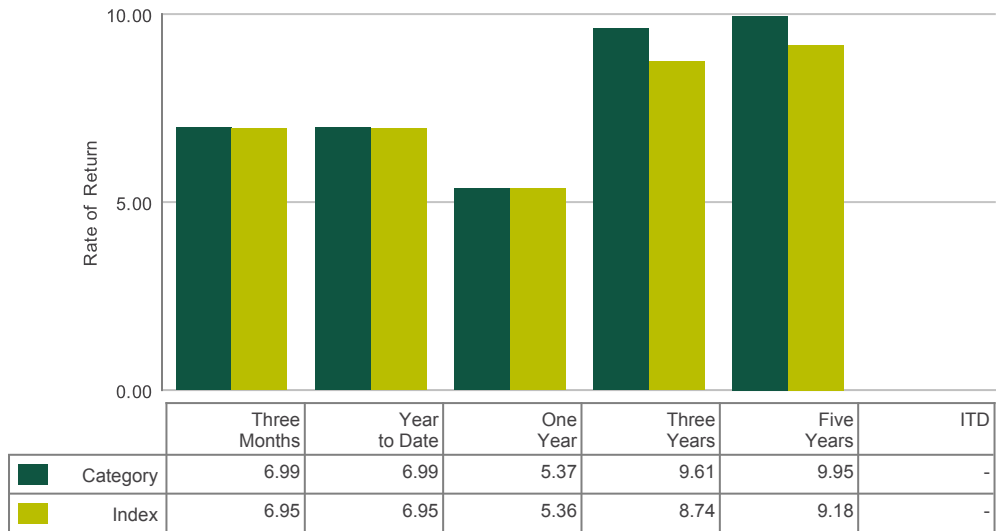
Index: LBH Non-Gilts Benchmark

## GLOBAL CORPORATE BONDS



Index: LIBOR GBP 3 Month +3% pa

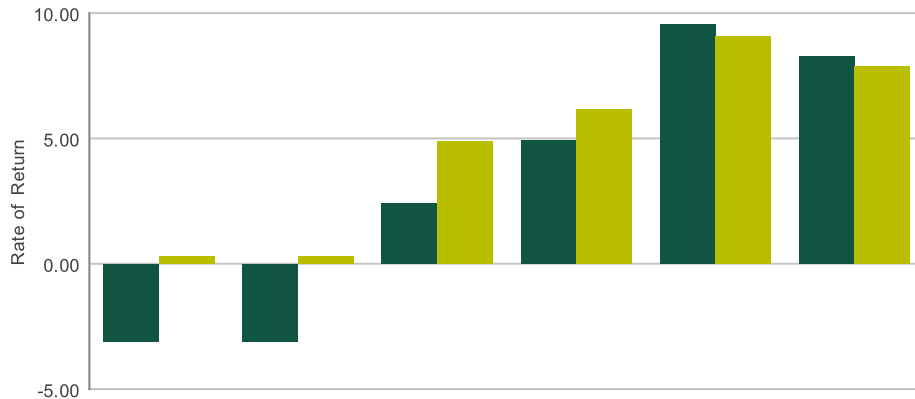
## INDEX LINKED GILTS



Index: LBH Index Linked Benchmark

# Historical Performance

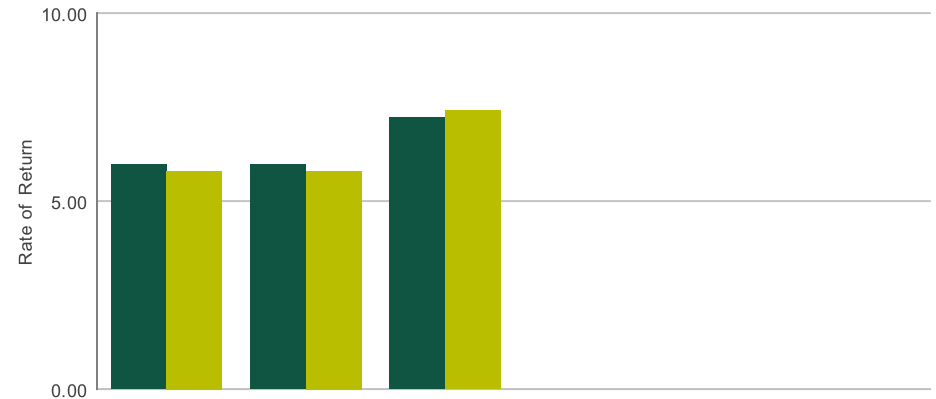
## REAL ESTATES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-3.10	-3.10	2.41	4.93	9.56	8.29
Index	0.30	0.30	4.88	6.17	9.07	7.86

Index: IPD UK PPFI All Bal Funds Index

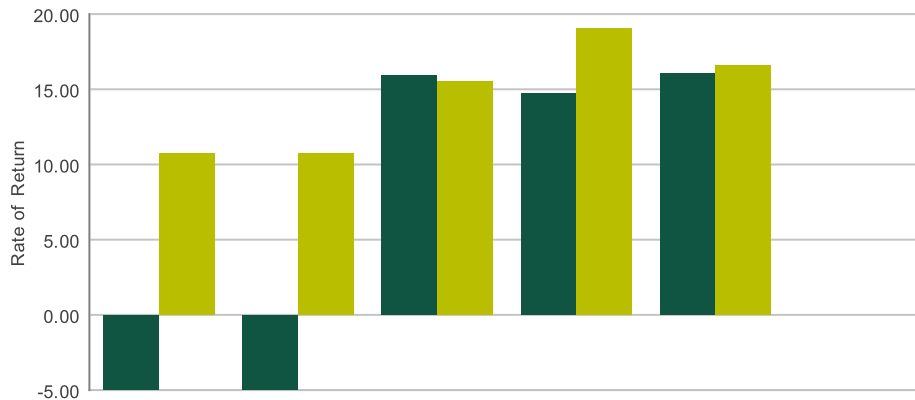
## BALANCED FUNDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.97	5.97	7.23	-	-	-
Index	5.80	5.80	7.41	-	-	-

Index: Balanced Fund Benchmark

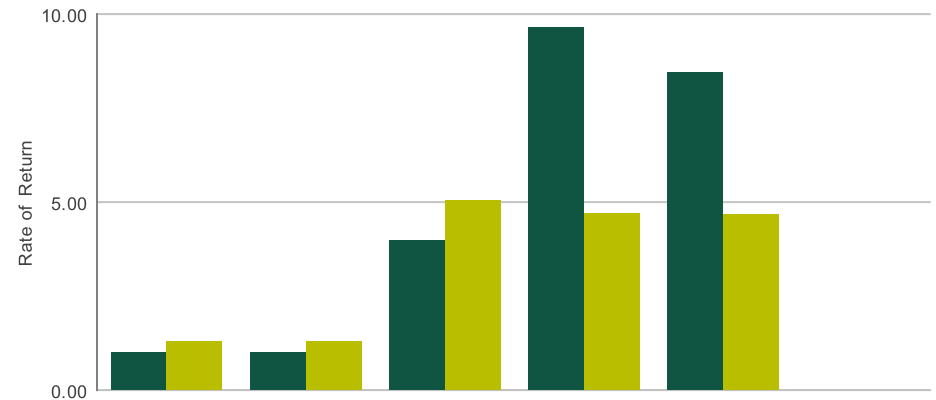
## PRIVATE EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-4.94	-4.94	15.94	14.75	16.07	-
Index	10.77	10.77	15.50	19.06	16.59	-

Index: MSCI ACWI +4% pa

## PRIVATE CREDIT

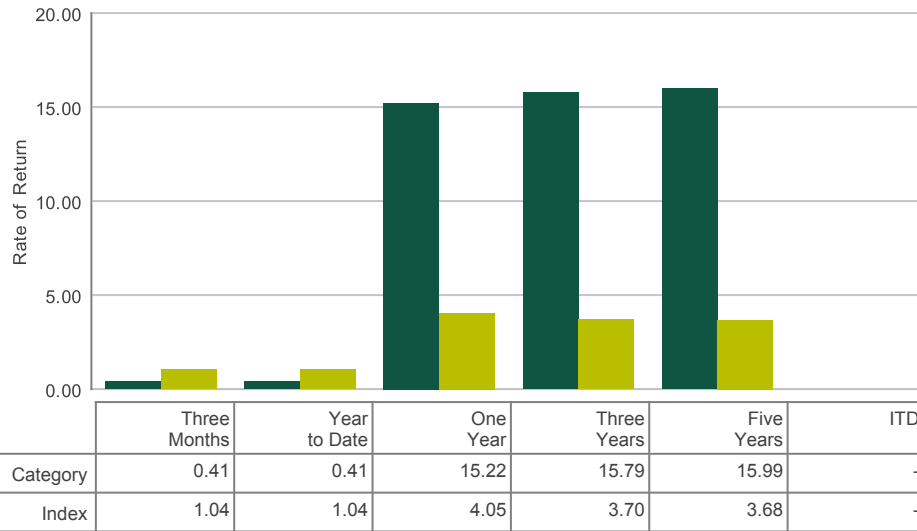


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.99	0.99	3.98	9.65	8.44	-
Index	1.29	1.29	5.05	4.70	4.68	-

Index: LIBOR GBP 3 Month +4% pa

# Historical Performance

## INFRASTRUCTURE



Index: LIBOR GBP 3 Month +3% pa

## Benchmark Composition

<b>Overall Fund BenchMark</b>		
<b>Index</b>	<b>Manager</b>	<b>%</b>
FTSE All Share	UBS LGIM	12.04
FTSE World Developed Equity Index Currency Hedged	LGIM	8.17
FTSE World Developed Equity Index unHedged	LGIM	8.03
FTSE Emerging Markets	LGIM	2.96
IPD UK PFFI All Balanced Funds Index	UBS Property AEW	13.39
3 Month Libor +3%	JP Morgan Macquarie	10.53
MSCI World ND	Epoch/LCIV	13.47
3 Month Libor	Ruffer/LCIV	9.85
3 Month Libor +4%	M&G Permira	6.96
Markit iBoxx £ Non – Gilt	LGIM 2	3.11
FTSE A Govt Index – Linked (All Stocks)	LGIM 2	3.99
FTSE A Govt Index – Linked (Over 15 Year	LGIM 2	4.88
	Non Custody CashCash	0.81
MSCI All Countries World Index	Private Equity	1.79
		<b>100.00</b>

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