# PENSIONS COMMITTEE

**Wednesday, 14 March 2018 at 7.00 p.m.**

**Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG**

**This meeting is open to the public to attend.**

**Members:**
Chair: Councillor Clare Harrisson
Vice Chair**:** Councillor Candida Ronald

Councillor Md. Maium Miah, Councillor Rabina Khan, Councillor Shiria Khatun and Councillor Andrew Wood

Kehinde Akintunde (Unions Representative), Vacant (Co-optee Admitted Bodies Representative)

**Substitutes:**
Councillor Marc Francis, Councillor Gulam Kibria Choudhury, Councillor Sabina Akhtar and Councillor Helal Uddin

[The quorum for this body is 3 voting Members].

**Contact for further enquiries:**
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Web:http://www.towerhamlets.gov.uk/committee

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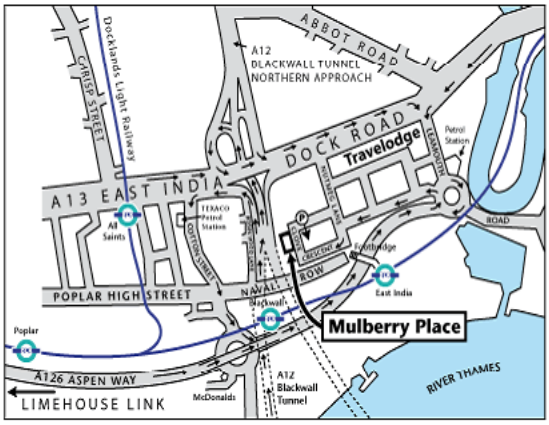


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**APOLOGIES FOR ABSENCE**

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer. **5 - 8**

**2. PETITIONS**

To receive any petitions relating to matters for which the Committee is responsible.

**3. MINUTES OF THE PREVIOUS MEETING(S)**

To confirm as a correct record the minutes of the meeting of the Committee held on 29 November 2017. **9 - 18**

**4. SUBMISSIONS / REFERRALS FROM PENSION BOARD**

**5. DISCUSSION AND PRESENTATION FROM MULTI ASSET CREDIT (MAC) MANAGER AND INVESTMENT CONSULTANT**

**6. REPORTS FOR CONSIDERATION**

**6 .1 Revised Investment Strategy Statement and Investment Options Considerations 19 - 52**

**6 .2 Pension Scheme Administration Update 53 - 78**

**6 .3 London Collective Investment Vehicle (CIV) Latest Development 79 - 88**

**6 .4 Update on Pension Fund Procurement Plans 2017/18 89 - 94**

**6 .5 Pension Fund Business Plan, Pensions Committee Work Plan and Budget for 2018/19 95 - 110**

**6 .6 Investment and Fund Managers Performance Review for Quarter Ending 31st December 2017 111 - 242**

## 7. TRAINING AND EVENTS

## 8. DATE OF FUTURE MEETINGS

Meeting dates for the Pensions Committee for the next Municipal Year to be confirmed

## 9. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

## 10. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

"That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972."

**EXEMPT SECTION (Pink Papers)**

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

## 11. RESTRICTED MINUTES

To confirm as a correct record of the proceedings the restricted minutes of the meeting held on 29 November 2017. **243 - 244**

## 12. ANY OTHER RESTRICTED BUSINESS

The next meeting of the Pensions Committee to be confirmed.

## DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

### Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

### Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

**Further advice**

For further advice please contact:-

Asmat Hussain, Corporate Director for Governance and Monitoring Officer.
Tel 020 7364 4800

**APPENDIX A: Definition of a Disclosable Pecuniary Interest**

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

| Subject | Prescribed description |
|---|---|
| Employment, office, trade, profession or vacation | Any employment, office, trade, profession or vocation carried on for profit or gain. |
| Sponsorship | Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.<br>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992. |
| Contracts | Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—<br>(a) under which goods or services are to be provided or works are to be executed; and<br>(b) which has not been fully discharged. |
| Land | Any beneficial interest in land which is within the area of the relevant authority. |
| Licences | Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer. |
| Corporate tenancies | Any tenancy where (to the Member's knowledge)—<br>(a) the landlord is the relevant authority; and<br>(b) the tenant is a body in which the relevant person has a beneficial interest. |
| Securities | Any beneficial interest in securities of a body where—<br>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and<br>(b) either—<br><br>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or<br><br>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class. |

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**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE PENSIONS COMMITTEE**

**HELD AT 7.00 P.M. ON WEDNESDAY, 29 NOVEMBER 2017**

**ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON E14 2BG**

**Members Present:**

Councillor Clare Harrisson (Chair)

Councillor Candida Ronald (Vice-Chair)
Councillor Andrew Wood

**Union and Admitted Bodies, Non-Voting Members Present:**

Kehinde Akintunde – Unions Representative

**Other Councillors Present:**

None

**Apologies:**

Councillor Md. Maium Miah
Councillor Rabina Khan
Councillor Shiria Khatun
John Jones Chair – Pensions Board

**Others Present:**

Craig Scordellis – CQS
Darren Toner – CQS
Steve Turner – Mercer
Sam Wreford – Mercer

**Officers Present:**

Neville Murton (Divisional Director Finance, Procurement and Audit, Resources)
Ngozi Adedeji (Senior Lawyer, Legal Services)
Kevin Miles (Chief Accountant, Resources)
Bola Tobun (Investments and Treasury Manager, Resources)
Raymond Haines Independent Investment Advisor
Georgina Wills (Committee Officer, Governance)

## 1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

There were no declarations of disclosable interest.

Councillor Harrison advised the meeting that Councillor Andrew Cregan had resigned from the Pensions Committee and that a request will be made to full Council to appoint a Councillor onto the Committee.

## 2. MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes of the previous Pensions Committee held on 21 September 2017 was approved as correct record.

Matters Arising

*Item 5.1 Investment Strategy Review / Strategic Asset Allocation Review 2017/18 and Carbon & Environmental Footprints Analysis Outcome of the Fund.*

The Chair requested that the Fund's Carbon & Environmental Footprint Analysis be revisited in the summer and that that a full review be undertaken and is included as part of the Pensions Committees' Work Plan.

The Chair requested that the London Boroughs of Hackney and Waltham Forest be approached and be requested to share information about their carbon footprint.

## 3. PETITIONS

None received.

## 4. SUBMISSIONS / REFERRALS FROM PENSIONS BOARD

The Committee received a report from the Chair of the Pension Board which detailed the work of the Board. The Committee noted that the Board was supportive of the Investment Strategy Review and had received Presentations from PIRC on the Tower Hamlets Fund and the London CIV. The Board also considered a Report on the Risk Register and welcomed the preparatory work which had been undertaken in relation to the document.

The Chair advised that a joint letter by the chairs of the Pensions Board and Pensions Committee was to be sent to the London CIV. The letter will focus on the Governance at the London CIV. The Chair advised that she will liaise with Officers about the letters content.

**5. DISCUSSION AND PRESENTATION FROM CQS ON MULTI ASSET CREDIT (MAC)**

The Committee received a presentation from Craig Scordellis and Darren Toner from CQS on Multi Asset Credit (MAC). CQS is a credit-focused multi-strategy asset manager which was founded in 1999. CQS provides expertise across the credit spectrum, which includes corporate credit, structured credit, asset backed securities, convertibles and loans. CQS investors include pension funds, insurance companies, sovereign wealth funds, funds of funds, endowments and foundations, and private banks. The Committee during a question and answer session: Noted that

- MAC offers a Broader Opportunity set when compared to vanilla Credit; MAC includes a full spectrum of corporate issuers and asset types.
- With MAC you have access to different Credit asset class with wide range of liquidity profiles over time.
- Credit classes work on different cycles driven by variations in fundamentals, supply/demand dynamics and regulatory environments.
- Within an individual issuer, greater value may be available in selected parts of a capital structure of a loan/credit due to broader technical drivers across the various asset classes.
- Access to substantial floating rate product facilitates a focus on credit risk and mitigates volatility associated with interest rate uncertainty.
- MAC allows access to a Broad Opportunity set which include Investment Grade Bonds, High Yield Bonds, Emerging Market Debt, Secured Loans, Asset Backed Securities (ABS), Convertible Bonds and Private Sub-Investment Grade Debt.
- Extensive fundamental credit research and in-house documentation analysis identifies investment opportunities within capital structures. This includes looking at risks, prices of raw materials, cash flows, jurisdiction surrounding business control and business cycles.
- The main objective is to secure a long-only global portfolio which seeks to exploit opportunities primarily across the sub-investment grade of the credit space via a tactical, multi asset approach.
- Steve Turner, Fund Investment Consultant advised MAC returns are more reliable than the Absolute Return Strategy (ARS) that the Fund has 12% allocation in and MAC usually achieved between 4% to 5% per annum returns.
- London CIV is currently searching for MAC managers and they would be in a position to announce which Fund Managers they will be using in the New Year. The Committee agreed in principle to have asset allocation to MAC pending further work being carried out by the consultant and officers working in collaboration with London CIV. The Committee requested for an update be provided at their next meeting.

Members thanked representatives from CQS for their presentation.

**RESOLVED**

1. That Officers look at potential outcomes in relations to Multi Asset Credit and this should include risk mapping, potential savings and also benchmarking within and outside the CIV and that the report is provided at their next meeting: and

2. That Officers provide recommendation about MAC and that they liaise with Mercer, Fund Investment Consultant about redistributing from Insight and or GSAM in particular whether there should be a percentage reduction from each or all from one and that they assess management selection and that they also obtain a view from the CIV.

## 6. REPORTS FOR CONSIDERATION

### 6.1 Updated Investment Strategy Statement, November 2017

Bola Tobun, Investment and Treasury Manager presented a report which gave an outline of the Updated Investment Strategy Statement. Following the 2016 actuarial valuation; the Pensions Committee initiated an investment strategy review. As a first step, the Pensions Committee received a scoping presentation at its meeting on 31st July 2017. The Committee's investment consultants, Mercer completed the strategy review which was presented to the Committee on 21st September 2017.

At the 21st September 2017 meeting, the Pensions Committee agreed that, in the interests of pursuing further diversification of the Fund's return seeking portfolio, and protecting its current buoyant equity asset value, further work be undertaken to achieve:

- an allocation to Multi-Asset Credit (MAC);
- downside protection with regard to equity risk; and
- Allocating to long-term illiquid asset classes (long lease, private debt and infrastructure.

Members noted that the Equity Portfolio had been repositioned from UK Equity to Global Equity and this was reflected in their strategy statement. Members requested that the Investment Strategy Statement be kept updated and reflect all changes that are made to the LBTH Pensions Fund. The Investment Strategy Statement was viewed as good aide in helping to demonstrate transparency.

The Chair commented that a lot of work had been undertaken around sustainable investment / ESG in particular around Low Carbon and asked that a positive statement be included in point 9.3 (Sustainable Investment / ESG) about where the Fund is in relation to ESG and the reasons why such decisions had been made.

Members noted that further work was being undertaken on long lease, private debt and infrastructure and that they were to receive training in the above areas and also hold further discussion on those topics at a future Committee. The Committee noted the importance of securing the right Fund Managers for the above investments. Members noted that the London CIV may have their own Fund Managers and agreed that this should be reviewed at a future meeting.

**RESOLVED**

1. To note and approve the updated Investment Strategy Statement attached as Appendix 1 of this report;

2. That the decision to agree an allocation of 6% to Multi-Asset Credit (MAC) in line with the investment strategy outcome presented by the investment consultant, Mercer, at the Pension Committee meeting on the 31st July 2017 be deferred to the next meeting

3. That they receive a further paper on Multi-Asset Credit (MAC)

4. That training on Infrastructure is delivered at their next meeting; and

5. That a positive statement be included in point 9.3 (Sustainable Investment / ESG) about the where the Fund is in relation to ESG and the reasons why these decision was made and that Officer liaise with the Chair and Vice- Chair when drafting the summary.

**6.2 Update on Market Outlook and the Fund Investment Managers by the Independent Adviser for Quarter Ending 30th September 2017**

Raymond Haines, the Fund's Independent Advisor presented a report which detailed the views of the Independent Adviser on the performance of the markets and the Pension Fund investment and the Pensions Fund investment managers for the second quarter of 2017/2018.

The Committee was advised that the Global equity markets moved ahead with the MSCI World Index (+2.0 in GBP) reaching record highs despite ongoing geopolitical tensions, tighter US monetary policy and the US Federal Reserve announcing that the size of its balance sheet would be reduced. The UK market underperformed, but UK mid-cap stocks delivered better returns, this was due to the strength of sterling. European markets (+3.6% in GBP) and Emerging markets equities (+4.6 continued to perform well. Rising commodity prices also supported emerging market equities.

The previous concerns raised about risks not being priced properly has been addressed by Jonathan Ruffer who suggest that 'the market was the most difficult market in memory and was comparable to the TMT boom in 1999. This is attributed to the cost of money namely interest rate.

There is a general consensus across the managers that the economic outlook is positive and stable, however fund managers such as Baillie Gifford have

been taking some risk of the table. In the Diversified Growth Fund it is cautioning that there is a clear risk that the path of monetary policy in the developed world, particularly in the US, becomes less supportive for investment markets. The nine year long period of extraordinarily loose monetary policy since the Financial Crisis has driven asset prices higher than wished. This has pushed an increasing number of markets to a point where they are at least fully valued or expensive. An unexpected or sudden removal of stimulus would likely have a detrimental impact on sentiment and market levels. There should be more focus on protection and diversification.

Mr Haines advised the Committee that he was to retire from his position as independent Advisor and that the meeting would be his last. The Chair thanked Mr Haines for his service to the Pensions Committee during the past 15 years and commented on the clarity and contents of his reports. The Committee wished Mr Haines well in his future roles.

**RESOLVED**

That the contents of the report be noted.

**6.3 Investment and Fund Managers Performance Review for Quarter Ending 30th September 2017**

Kevin Miles, Chief Accountant presented a report which informed Members of the performance of the Pension Fund and its investment managers for the second quarter of 2017/18.

The Fund delivered a positive return of 2.2% for the quarter, outperforming its benchmark return of 1.7% by 0.5%. For the twelve months to September 2017, the Fund returned 11.7% outperforming the benchmark of 10.4%. Looking at the longer term performance, the three year return for the Fund was 10.3% also ahead the benchmark return by 0.3% for that period. Over the five years, the Fund posted a return of 10.9% outperforming the benchmark return of 10.3% by 0.6%.

For this quarter end, five out of the nine mandates matched or achieved returns above the benchmark. The four that did not reach the benchmarks were the mandates with LCIV Ruffer, LCIV BG (DGF), Insight and GSAM. Overall for this reporting quarter the Fund performance was ahead of its benchmark.

For 12 months to end of reporting quarter, the Fund is ahead of its benchmark by 1.3%. Three out of the nine mandates underperformed their respective benchmark. The mandates that lagged behind their respective benchmarks were LCIV Ruffer lagged behind by -2.4%, Insight lagged behind by -2.7%and GSAM by -3.3%.

The Fund is still in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight.

Steve Turner, Fund's Investment Consultant, Mercer queried the accuracy of State Street figures for Baillie Gifford Fund and advised that the forecast that

was provided may be erroneous and that this would have an impact on the Funds returns. Officers were advised that they would need to revisit the set of figures provided and make the necessary revisions if required.

Members requested that reports be printed in colour if they contain graphs and figures.

**RESOLVED**

1. To note the contents of the report in respect of the Investment and Fund Managers Performance Review for Quarter Ending 30th September 2017; and

2. That Officers revisits figures provided by State Streets for Baillie Gifford and make any necessary revisions if required.

**6.4 Update on Pension Fund Procurement Plans 2017/18**

Bola Tobun, Investment and Treasury Manager presented a report which provided an update on the ongoing procurement activity in relation to the Pension Fund. The outcome from the current activity will be to secure a new contract with a global custodian and the appointment of the independent adviser to the Fund. In both of these cases, the contracts or arrangements have been in place for long periods of time and therefore it is appropriate to carry out a formal review of the requirements, followed by the appropriate procurement activity.

The Council has an overarching responsibility to maintain the Pension Fund. It is essential that the Fund has the right range of advisers to support the Pension Fund Trustees (Pension Committee) to discharge its responsibilities. It is therefore essential to have both a Global Custodian and an Independent Investment Adviser for the Fund.

Within the terms of reference for the Pensions Committee, they are required ‘to make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, advisers, investment managers and custodians and periodically to review those arrangements.

The contents of this report and the procurement process demonstrate that this Committee is meeting both its regulatory and constitutional requirements.

The Committee held a brief discussion about the vacancies and agreed that the Chair, Councillor Candida Ronald, Councillor Andrew Wood and also Kehinde Akintunde be involved with the appointment of the Independent Advisor. Officers agreed to canvass Members about possible dates and times for holding interviews. It is anticipated that the above vacancy will be filled before the next Committee. Members commented about their current Independent Advisor and noted that his delivery of the economic forecast was clear and easily understood.

**RESOLVED**

1. To note the contents of this report in respect to the update on the Pension Fund Procurement Plans 2017/2018; and

2. That Officer canvasses Members about possible dates and times to hold interviews for the Independent Advisor.

**6.5 Work Plan Update for 2017/18**

Bola Tobun, Investment and Treasury Manager presented a report which outlined the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other scheduled bodies as defined in the Regulations. The Regulations also empower the Fund to admit employees of other defined (e.g. other public bodies, housing corporations) bodies into the Fund.

The work plan for the authority has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Work Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.

The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

Members welcomed their Work Plan and commented that members on the Pensions Committee were reasonably experienced and that it would be prudent to make a number of decisions at their next meeting and also to obtain a steer on the future of the Fund and investments.

**RESOLVED**

That the contents of this report be noted

**6.6 Pension Scheme Admin Report November 2017**

Kevin Mills, Chief Accountant presented a report which covers the activities and performances of the Pensions Administration. Members were advised that a Secondment will be returning to the Pensions Team in December and that a Level 2 apprentice will also be leaving the Team in the same month. The secondment support from Surrey County Council will be providing support to management on an as when needed rather than two fixed days.

Member were provided an update on the various projects which the Team was undertaken which included, GMP reconciliation, Member Self Service, Transfer Amnesty, iConnect and Data Quality. Member held a brief discussion about the report and noted that the Team had performed well in relation to the seven performance indicators but had also had dipped and stalled in the same number of indicators. Members commented that additional support had been provided to the Team and that dips in the Team's performance needed to be guarded. Members requested that feedback is provided about the team's performance. The meeting was advised that the Pensions Board was also taking a lead in relation to the Teams performance.

Members also raised concerns about the contents of the Report and requested that more analysis and better detailed information about the Team's Performance is provided in future reports. Members commented that they had received a report about outsourcing work and noted that the Pensions Administration Team would be included in the Human Resources restructure and that there were proposal for the Team to be moved into Finance. There is ongoing consultation about the restructure

Officers were advised that the Pensions Manager will attend their next meeting.

**RESOLVED:**

1. To note the contents of the report in respect to the activities and performance of the Pensions Administration Team.

2. That the Pension Scheme Administration Report is more detailed and contains more analysis; and

3. That the Pension Manager attends the next Pensions Committee.

## 7. TRAINING EVENTS

Members held a brief discussion about Training and asked the Committee to forward suggestions on how they could be delivered in the future. The Chair stressed the importance of ensuring that the Pensions Committee has the requisite skill set which would enable them to retain their Professional rating. The Chair advised that she will be writing to Political Leaders about allocations to the Pensions Committee and will be requesting that they take into consideration their members' background when appointing to the Committee.

The Chair commented that the Committee's composition would be clearer after the 5 May (Local Elections) and that Training would need to be levied at member's knowledge base. There were concerns with the MIFID training

Members noted that there were a number of absences on the Committee and that Tony Child (Co-Optee Admitted Bodies Representative) had retired. The Chair advised that a request will be made for returning Members to be re-appointed onto the Pensions Committee.

**RESOLVED**

That the Chair writes to Political Leaders about appointing prospective Councillors onto the Pensions Committee in the new municipal year.

## 8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

None.

## 9. DATE OF FUTURE MEETINGS

14 March 2018

## 10. EXCLUSION OF THE PRESS AND PUBLIC

The Chair moved and it was

**RESOLVED**

That press and public be excluded from the remainder of the meeting in that under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972." which relates to information relating to a particular employee, former employee or applicant to become an employee of, or a particular officeholder, former office-holder or applicant to become an office-holder under, the authority.

## 11. RESTRICTED MINUTES

This item was discussed in closed session.

## 12. ANY OTHER RESTRICTED BUSINESS

None.

The meeting ended at 8.45 p.m.

Chair, Councillor Clare Harrisson
Pensions Committee

| Non-Executive Report of the:<br><br>**Pensions Committee**<br><br>14th March 2018 | TOWER HAMLETS |
|---|---|
| **Report of:** Zena Cooke, Corporate Director, Resources | **Classification:**<br>Unrestricted |
| **Revised Investment Strategy Statement and Investment Options Considerations** | |

| | |
|---|---|
| **Originating Officer(s)** | Bola Tobun, Investment & Treasury Manager |
| **Wards affected** | All wards |

**Summary**

This report introduces a revised Investment Strategy Statement (ISS), which has been updated to reflect the work done on carbon and environmental footprints of the Fund and to reinforce the investment approach of the Committee.

The report also outlines the work done so far by officers and advisers in achieving further diversification of the Fund's return seeking portfolio and protecting its current buoyant equity asset value by considering the following:

- an allocation to Multi-Asset Credit (MAC);
- Equity gains protection; and
- Allocating to long-term illiquid asset classes (long lease, private debt and infrastructure.

**Recommendations:**

Pensions Committee are recommended to:

- approve the revised Investment Strategy Statement attached as Appendix 1 of this report;
- agree delegation to the Corporate Director, Resources the ability to implement a downside protection with regard to the equity risk of the Fund as deemed appropriate; subject to officers working with advisers to identify and implement a suitable strategy for the Fund;
- agree a target allocation of 6% to Multi-Asset Credit (MAC);
- approve recommended MAC strategy/manager (a sub fund to be launched on London CIV platform); and
- approve reduction of Fund assets allocation from 6% to 3% for each absolute return manager.

## 1. REASONS FOR THE DECISIONS

1.1 The Investment Strategy Statement has been set out to reflect the funding position of the Fund and the investment beliefs of the Committee.

1.2 Adherence to the principles set out in the Strategy will enable the Fund to take an ordered and prudent approach to the management of its assets, helping to manage the long term costs associated with the Pension Fund.

1.3 The full consideration and approval of the ISS ensures that the Pensions Committee are fulfilling their responsibilities as quasi Trustees of the Fund and that the Fund's investment objectives and policies are clearly set out in line with the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.

1.4 The Investment Strategy Statement (ISS) is a statutory document for LGPS funds, as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.5 There has been a change (amendments to the Social, Environmental or Corporate Governance section to reflect work carried out and investment beliefs of the Committee) to the Fund's investment strategy since the last ISS was approved in November 2017; this report brings back a revised copy of the ISS incorporating these changes.

## 2. ALTERNATIVE OPTIONS

2.1 The Committee could decide to continue with its existing statement. It is however, considered best practice to publish a revised updated statement which reflects the up to date Fund position and investment beliefs of the Committee.

## 3. DETAILS OF REPORT

### AMENDMENTS TO THE ISS

3.1 The ISS must be reviewed and revised by the Council as administering authority when any material changes take place such as changes to the investment beliefs; changes to the types of investment held; or the balance between the types of investments in the Fund. The updated ISS incorporates the changes set out below, to ensure that the ISS remains current.

3.2 At the meeting of the Committee in November 2017, the following matters were agreed:

- Removal of the dedicated UK equity allocation and switch to global equity exposure. This is due to the significant overweight position of the Fund in respect of UK Equity, relative to a market cap weighted index, and hence a materially lower allocation to the US and other regions.
- Allocation to Low Carbon global equities to represent 30% of total equity allocation, 15% of the total assets of the Fund. A Low Carbon Passive Global Equity, which is designed to track broad market indices but with lower carbon footprints; in some cases significantly lower. Allocation to passive global equities to represent 30% of total equity allocation, 15% of the total assets of the Fund.

- To hedge 50% of the overseas currency exposure relating to the global equity allocation. As the Fund has benefitted greatly from lack of currency hedging, the Adviser believes there is an opportunity to bank some of these gains by introducing currency hedging.

**Allocation to Multi-Asset Credit (MAC)**

3.3 At the September meeting the Adviser presented and discussed the expected returns from Absolute Return Bonds (ARB), he believes these are very dependent on the skills of individual managers which are difficult to predict and is wholly reliant on the investment managers. The Adviser advocates a reduction of ARB allocation from 12% to 6% and believes that the reduced ARB allocation should be complemented by a 6% allocation to Multi-Asset Credit (MAC), where the returns are likely to be driven by markets rather than just manager skill.

3.4 The Committee decided to wait and see what the London CIV would be offering in this investment space (Multi-Asset Credit). An officer of the Fund and other London Local Authorities (LLAs) officers worked with LCIV officers to search and select appropriate strategies and funds for LCIV platform.

3.5 London CIV proposed two sub funds and the sub funds were referred to the Fund investment consultant for further due diligence and recommendation as to which sub-fund is suitable to Tower Hamlets Pension Fund investment strategy. Please see Mercers paper on multi asset credit.

**Allocation to long-term illiquid asset classes (Long Lease, Private Debt and Infrastructure)**

3.6 There has been a dramatic growth in the 'long lease' real estate market in the UK over the past decade. The five largest managers now control close to £10bn of assets, either in Funds or in Separate Accounts. This growth has been driven by a series of broader and asset class specific trends including:

- The lowering of yields in other asset classes, specifically in bond markets;
- An increased desire for liability matching products, so those with long duration; and
- Increased scale of the 'long lease' market based on the appetite for corporate entities to sell and leaseback their assets, and the expertise of real estate managers in managing such exposures.

3.7 The market has grown over the past decade and is starting to develop in continental Europe. Running alongside this growth has been increasing concerns over the pricing of long lease assets.

3.8 It is in this context that this report provides a high-level review of the long lease market, and explores other investment options, specifically Infrastructure and Private Debt, that could be considered as substitutes for long lease investments.

**Long Leases**

3.9 Scope of market; Long lease assets tend to comprise one of the following three types, with the largest being those involved in sale and leaseback. They all tend to benefit from long duration and in-built income growth, whether from inflation linked leases or pre-agreed fixed rental increases. The three types are:

- Sale and leaseback - former owner occupied assets that have been sold and leased back to the occupier over a long period of time, generally over 20 years.
- Income strips – the owner occupier also sells the asset to the investor but has the right to repurchase at the end of the lease, usually 30 years.
- Ground rents – where the owner sells the freehold interest to the investor who leases it back to the occupier for a very long period, generally over 100 years.

3.10 Although they possess these general characteristics there are significant variations in terms of the underlying quality of the assets (both the property/location and the credit quality of the occupier/covenant), pricing, the nature of the income profile, and the experience of the manager.

3.11 The weight of appetite for these assets has led to a surge of growth over the past decade, with the most established funds include the following (NAV's at end 2017, based on The Association of Real Estate Funds (AREF) data:

- The M&G Secured Property Income Fund - £3.7bn
- Standard Life Investments Long Lease Property Fund - £2.2bn
- LPI (Limited Price Inflation) Income Property Fund - £1.1bn
- BlackRock UK Long Lease Property Fund - £675m
- PGIM Real Estate UK Ground Lease Fund - £642m

3.12 Although Long Lease Assets can provide attractive duration and inflation linked characteristics, the weight of capital into the sector has raised concerns over their pricing. By the end of 2017, CBRE (world largest Commercial Real Estate) reported that net initial yields stood at 4.9% for sale & leaseback, 3.6% for income strips and 3.1% for Ground Lease Assets, with distribution yields tending to be 50-100bp below these figures. Further evidence of aggressive pricing is the reporting by Property Match that investors are prepared to pay premiums to gain access to long lease funds through the secondary market.

**Alternatives to Long Lease Strategies**

3.13 The downward pressure on the yields for Long Lease Assets has led to increasing interest in other asset classes that provide similar investment characteristics. In this respect, there is considerable interest in Private Debt and Renewable Infrastructure assets.

- ***Private Debt***: non-bank lenders provide loans to small or medium sized companies at different levels of seniority. This market has grown significantly since the financial crisis given the retreat of traditional bank

lenders and the strong demand from private companies and their sponsors.

- ***Renewable Infrastructure***: Having once been a niche subsector within the infrastructure asset class, renewable energy has emerged to become an asset class in its own right and is set to play key role as the decarbonisation agenda continues.

3.14 The key characteristics of the two asset classes are set out below, in comparison with Long Lease strategies.

| Characteristic | Asset Class | | |
|---|---|---|---|
| | **Long Lease** | **Private Debt** | **Renewable energy** |
| **Performance behaviour (Core/Senior)** | | | |
| Yield | | | |
| Return (net IRR) | | | |
| Equities diversification | | | |
| **Cashflow quality** | | | |
| CPI linkage | | | |
| Duration | | | |
| Cashflow credit | | | |
| **Other characteristics** | | | |
| Size of universe | | | |
| Current pricing | | | |
| Leverage | | | |
| Liquidity: Cashflow | | | |
| Liquidity: Capital | | | |
| ESG | | | |

*Note: Five-fold rating with Green indicating strong characteristic and Red indicating weak characteristic.*
*Sources include bfinance; Bloomberg; Deutsche Bank; JPM; Hamilton Lane; Partners Group; preqin*

| Characteristic (for Core/Senior exposure) | Asset Class | | |
|---|---|---|---|
| | **Long Lease** | **Private Debt** | **Infrastructure Renewable energy** |
| **Performance behaviour** | | | |
| Yield | 2-4% | 4-7% | 5-7% |
| Return (net IRR) | 5-7%. Target CPI+2-3% + some terminal value growth | 6-8% | 6-8% |
| Diversification to Equities | Medium | High | Medium |
| **Cashflow quality** | | | |
| CPI linkage | High – generally directly CPI-linked | Weak – no inflation linkage but often floating rates | Medium – often have direct or indirect inflation linkage |

| Characteristic (for Core/Senior exposure) | Asset Class | | |
|---|---|---|---|
| | **Long Lease** | **Private Debt** | **Infrastructure Renewable energy** |
| Duration | 15-25 years | 2-5 years | 10-25 years |
| Cashflow credit quality | Medium - generally good corporate credit | Weak – generally mid-market PE sponsored companies | High – often supported with government subsidies |
| **Other characteristics** | | | |
| Size of fund manager universe | 5-10 | 50+ | 50+ |
| Current pricing | Very aggressive | High | Aggressive |
| Leverage | Medium – very low except for Ground Rents which tend to involve some leverage | Low – UK / European products often unleveraged | Medium – low leverage at fund level |
| Liquidity: Cashflow | Low – low yield relative to duration | High – short duration and fast feedback | Medium – main driver of return over longer duration |
| Liquidity: Capital | Medium – most of the funds are 'open-ended' | Low – generally accessed through closed ended funds | Low – few open end funds |
| ESG | Low – little scope to influence the ESG activity of the underlying credit / occupier | Medium – ESG embedded into credit screening. Focus on defensive, non-cyclical businesses with low headline risks. Beneficial to improve sustainability of underlying businesses. | High – inherently a very ESG friendly asset class. Managers concerned about social impact and improving reporting. |

3.15 In conclusion, in an era of low interest rates, concerns over inflation and desire for liability matching assets, Long Lease strategies have come onto the agenda for many investors. The behaviour of long lease assets means they can play an important role for many investors but this short research note has identified three important considerations for such investors:

1) Diversity of long lease strategies. 'Long Lease' strategies comprise a broad spectrum including Sale and Leaseback, Income Strips and Ground Rents, each with particular characteristics in terms of duration, yield, credit quality etc. Within each category there is an increasing number of managers from which to select, with significant variations in their strategies (geographic and property type exposure, duration etc) and depth and quality of teams.
2) Increased concerns over pricing of long lease strategies. The relatively small size of the market coupled with the strong weight of capital has compressed yields raising concerns of aggressive pricing. This should be a concern for investors anticipating a rise in interest rates as these assets are more 'bond-like' than other real assets.
3) Alternative investment options, including Private Debt and Renewable Infrastructure. These alternative asset classes possess many the characteristics of 'long lease' assets, as well as a series of other potential benefits, such as diversification and ESG potential. They also face concerns over pricing, but the universe tends to be larger than for long lease assets with a broader range of managers, many of whom have strong track records in delivering robust returns through market cycles.

3.16 Each of the asset classes covered here can play important roles in the Fund as they all have strengths, but also a range of potential issues. Given the strong appetite from investors for these asset classes, an overriding concern would be to scrutinise manager capability and discipline through the investment process, particularly related to the quality of the underlying assets and their residual values.

**Equity Gains Protection**

3.17 Options can be used by Funds who want to maintain their exposure to equity holdings but also want greater control over the effect on the scheme funding level. Options can also be used to give greater certainty over the potential returns generated from an equity portfolio.

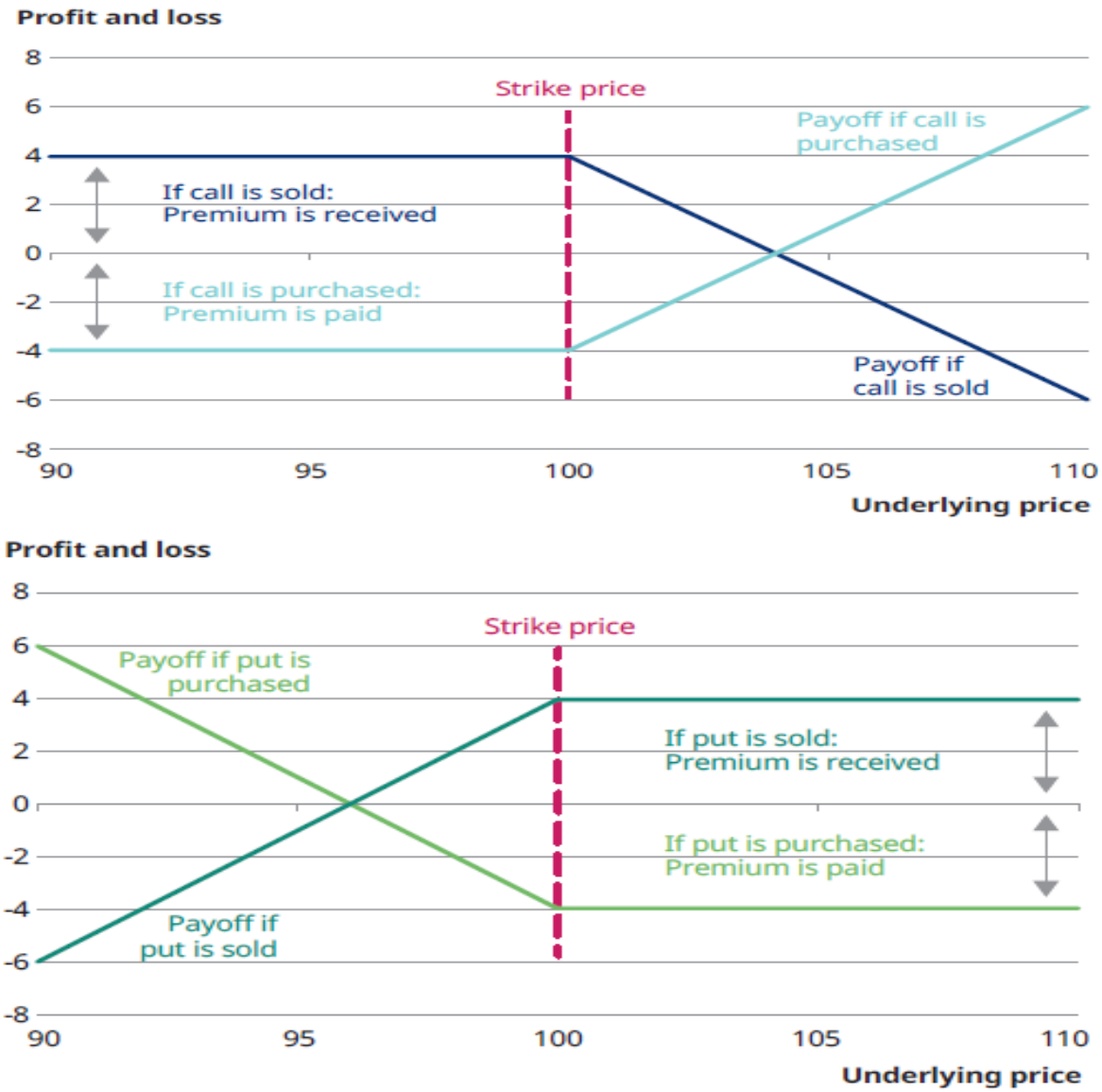
3.18 An option is a contract between two parties that gives the buyer the right to buy or to sell an asset ("the underlying") at a specified point in time ("expiry"), at a price agreed at the outset ("strike"). The buyer pays a fee or "premium" for this privilege. These elements make the potential profit or loss at the expiry date easy to define. The option will also vary in value over its life.

3.19 There are two main types of options – calls and puts. A call gives the buyer the right to buy the underlying, whilst a put gives the buyer the right to sell the underlying. The graphs below illustrate the potential profit or loss at expiry for the buyer and seller of these two types of option1. In these (illustrative) examples the option strike price has been set at a price of £100. The premium is £4.

3.20 The graphs below show that the profit and loss profile from an option is analogous to that of an insurance policy – an investor can pay/receive a premium and if the pre-agreed event doesn't occur then there are no other financial implications. However, if the pre-agreed event has occurred at the

end of the contract's life then the financial implications are in direct proportion to the magnitude of the insured event (i.e. the difference between the underlying asset's market price and strike price). Further information and illustration from Mercers presentation booklet.

**The profit or loss at expiry for a call and a put, for both a buyer and seller**




Source: Schroders. For illustration only.

3.21 The conclusion from this is that Options give Funds enormous flexibility. The ability to buy protection against adverse events, collar the potential returns and of course vary the risk/return profile on a myriad of asset classes represents an enormously powerful investment and risk management tool.

## 4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The Investment Strategy Statement details the decision by Committee on how the Fund's assets will be invested. The Strategy set has been prepared to maximise returns of Fund's assets within acceptable risk parameters and also

to facilitate a reduction in the burden of deficit funding that employers in the Fund are liable for.

4.2 The performance of the Fund's strategy is monitored through a quarterly report that is presented to the Committee. Recent performances have been good and generally either in line with or exceeded target.

4.3 The report recommends that the fund allocate 6% of the total fund value to a Multi-Asset Credit (MAC), diverting resources from the Absolute Return Bonds (ARB) portfolio. Currently total investment allocation in ARB is 12% of the Fund assets and this decision will mean a 50% reduction in investment in ARB as a consequent this will reduce the risk of total reliance on returns expectant from manager's skill.

## 5. LEGAL COMMENTS

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 govern the way in which local authorities are expected to deal with investment of pension funds. Local authorities should take a prudential approach to investment, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk.

5.2 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about asset allocation and ensure that funds are being managed in accordance with the Administering Authority's Investment Strategy Statement.

5.3 The Investment Strategy Statement must include those matters set out in Regulation 7(2) of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016. Under Regulation 7(7) the administering authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

5.4 The contents of this report and the recommendations set out ensure that the Administering Authority is compliant with the LGPS Regulations.

## 6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## 7. BEST VALUE (BV) IMPLICATIONS

7.1 This report helps in addressing value for money through planning to have a rigorous and robust investment strategy in place to aid in bridging the Fund's funding gap.

## 8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## 9. RISK MANAGEMENT IMPLICATIONS

9.1 Any form of investment inevitably involves a degree of risk.

9.2 To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

## 10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- [None]

**Appendices**

Appendix 1 – Revised Investment Strategy Statement, March 2018

**Local Government Act, 1972 Section 100D (As amended)**
**List of "Background Papers" used in the preparation of this report**

**Officer contact details for documents:**

- Bola Tobun Investment &Treasury Manager x4733

TOWER HAMLETS

Appendix 1

# The London Borough of Tower Hamlets Pension Fund Investment Strategy Statement March 2018

# Investment Strategy Statement (March 2018)

## 1. Introduction and background

1.1 This is the Investment Strategy Statement ("ISS") of the Tower Hamlets Pension Fund ("the Fund"), which is administered by Tower Hamlets Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.2 The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS, which was approved by the Committee on 29th November 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate – for example, pensions board, independent adviser, local authority employers such as admitted bodies and scheduled bodies.

1.3 The Committee will invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund.

1.4 The Pensions Committee is charged with the responsibility for the governance and stewardship of the Fund. The Fund has adopted a prudent, risk aware investment strategy, which is kept continually under review. Asset allocation decisions are taken in the best long term interest of Fund employers and member beneficiaries.

1.5 The ISS should be read in conjunction with the Fund's Funding Strategy Statement, which sets out how solvency risks will be managed with regard to the underlying pension liabilities.

## 2.0 Long-term view of investments

2.1 The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

2.2 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

2.3 The strength of the respective employers' covenant and the present cash flow positive nature of the Fund allow a long-term deficit recovery period and enable the Fund to take a long-term view of investment strategy.

2.4 The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers. Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Although, it is more important to avoid being a forced seller in short term market setbacks.

2.5 Participation in economic growth is a major source of long term equity return. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash. Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

2.6 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. (See section 5.6) This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

2.7 The Fund carried out an Asset Outperformance Assumption modelling exercise in conjunction with the 2016 actuarial valuation. The Committee set a target range of 66%-75% chance of achieving their long term funding target – returning to a fully funded position within the next 20 years. (The probability required for each employer to reach its funding target within its time horizon. In general, higher probabilities of success are achieved by paying higher contributions and relying less on volatile investment returns. The probability required for each employer is largely based on each employer's assessed covenant. For instance, a lower probability of success (e.g. 66%) may be required for a secure body as they may be considered to be able to pay higher contributions (or current rates for longer) should they not reach their funding target over their time horizon.

2.8 This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.9 In line with the above overall objective the Fund will invest money in a wide variety of investments, having assessed the suitability of particular investments; the investment objectives, the impact of different economic scenarios on achieving required total Fund returns, and the resulting diversity across the whole Fund. Prior to any such decisions being made the Fund will take appropriate external independent advice.

2.10 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Fund will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations within guidelines from the agreed strategy will be reported to the Pensions Committee, the Pensions Board and the Section 151 Officer so that appropriate corrective actions can be undertaken.

## 3. The investment objectives of the Fund

a) The long-term objective is for the Fund to achieve a funding level of 100% over a maximum fund recovery period of 20 years from April 2016. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

b) The outcome of the last valuation carried out as at 31st March 2016:

- The funding level has improved from 71.8% to 82.7%.

- In monetary terms the deficit has reduced by £130m from £365m (at March 2013) to £235m (March 2016). This was based on the Fund having assets of £1,126m and liabilities of £1,361m.

c) The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected real return on assets of 2% over the long term, a nominal return of 4.2% assuming inflation (CPI) to be 2.2%.

d) The Fund's objective is to perform in line with this target over 10 years, by investing in a diversified portfolio of return-generating assets.

e) In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian, State Street, on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

f) The actuarial funding target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.

## 4. Strategy Review and Strategic Benchmark

4.1 A full Strategic Investment Review will be undertaken by the Fund every three to six years by specialist professional advisors. The investment strategy (including the core investment objectives and asset allocations) will be sufficiently flexible to meet longer term prevailing market conditions and address any short term cash flow requirements. Interim reviews may be undertaken to ensure that the Strategy remains appropriate.

4.2 The Fund will operate a fund-specific benchmark for the investment portfolio, with long-term allocations to the various investment asset classes, which reflect the circumstances of the Fund.

4.3 As is appropriate all asset classes and products will be kept under continual review. In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before any investment decisions are made by the Pensions Committee, professional advice will be sought. If there are any instances where advice received is not to be acted upon reporting to both the Committee and the Pensions Board will ensue.

**Asset classes**

4.4 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

4.5 The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and

considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

4.6 The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

4.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation, s151 officer and her officers have the delegated authority to rebalance the Fund to its strategic asset allocation.

| Asset class | Targeted Strategic Asset Allocation % | Investments Range (%) |
|---|---|---|
| Global equities | 50% | (45% - 55%) |
| **Total equities** | **50%** | **(45% - 55%)** |
| Property | 12% | (10% - 15%) |
| Diversified Growth Funds | 20% | (15% - 25%) |
| Absolute Return Bonds | 12% | (10% - 15%) |
| Index Linked Gilts | 6% | (3% - 9%) |
| **Total** | **100%** | **100%** |

## 5. Restrictions on investment

5.1 The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

5.2 The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

5.3 The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

5.4 The Pensions Committee reviews the suitability of the asset allocation of the Fund on a yearly basis, following advice from the officers, investment consultant and independent advisor.

5.5 It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

5.6 The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

| Asset class | Benchmark |
|---|---|
| **Equities** | |
| Passive Global Equity | FTSE All World Equity Index |
| Passive Global Equity Hedged | FTSE All World Equity Index GBP Hedged |
| Passive Global Equity Low Carbon Hedged | MSCI World Low Carbon Target Index GBP Hedged |
| Active Global Equity | MSCI AC World Index |
| **Bonds and Cash** | |
| UK Index Linked Gilts Over 5 Years | FTSE UK Gilts Index-Linked Over 5 Years Index |
| Absolute Return Bonds (Insight) | 3 Months LIBOR plus 3% |
| Absolute Return Bonds (GSAM) | 3 Months LIBOR plus 4% |
| Cash | LIBID 7 Day |
| **Alternatives** | |
| Property Unit Trusts | UK IPD Monthly Index Property |
| Diversified Growth Funds | 3 Months LIBOR plus 3% |

## 6.0 Managers

6.1 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

6.2 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund.

6.3 The Fund's investment managers will hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

6.4 The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects their respective benchmark indices as set out in section 5.6.

6.5 The Fund's current structure and performance targets are set out in the table below.

| **Current Managers and Mandates** | | | | |
|---|---|---|---|---|
| **Manager** | **Mandate** | **Benchmark Allocation** | **Investment Ranges** | **Performance Target** |
| Baillie Gifford (LCIV) | Global Equities (Active & Growth) | 20% | 15%-25% | Outperform benchmark by 2-3% over a rolling 3 year period |
| | Diversified Growth | 10% | 7.5%-12.5% | 3 Months LIBOR +3% per annum |
| Insight | Pooled Bonds (Absolute Return) | 6% | 4%-8% | 3 Months LIBOR +3% per annum |
| Goldman Sachs | Pooled Bonds (Absolute Return) | 6% | 4%-8% | 3 Months LIBOR +4% per annum |
| Legal & General | UK Index Linked (Passive) | 6% | 3%-9% | FTSE A Gov Index Linked >5yrs |
| | Global Equities (Passive) | 15% | 12%-18% | 33% FTSE All World Equity Index, 67% FTSE All World Equity Index GBP Hedged |
| | Global Equities (Passive Low Carbon) | 15% | 12%-18% | MSCI World Low Carbon Target Index GBP Hedged |
| Ruffer (LCIV) | Diversified Growth | 10% | 7.5%-12.5% | 3 Months LIBOR +3% per annum |
| Schroders | Property | 12% | 10%-15% | Outperform benchmark by 0.75% over a rolling 3 year period |

## 7.0 The approach to Risk

7.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

7.2 The principal risks affecting the Fund and the Fund's approach to managing these risks and the contingency plans that are in place are set below:

**Funding risks**

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. (The impacts is reducing the value of investments/assets and requiring increased employer's contributions).

7.3 The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

7.4 The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

7.5 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

7.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

7.7 **Asset risks**

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

7.8 The Committee measure and manage asset risks as follows:

a) The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has delegated rebalancing arrangements to s151 officer and her officers to ensure the Fund's "actual allocation" does not deviate from its maximum limits. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property; the Committee has recognised the need for access to liquidity in the short term.

b) The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; in addition, the Committee has agreed to hedge 50% of the overseas currency exposure relating to the global equity allocation. This is achieved by investing in pooled currency hedged funds managed by LGIM. Detail of the Fund's approach to managing ESG risks is set out later in this document.

c) The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

7.9 **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

7.10 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

7.11 A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in the Fund's risk register and policy documents.

## 8. Pooling of investments

8.1 The Fund is a participating scheme in the London Collective Investment Vehicle (LCIV) Pool. The proposed structure and basis on which the LCIV Pool will operate was set out in the July 2016 submission to Government.

8.2 The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

8.3 The Fund has already transitioned assets into the London CIV with a target allocation of 30% of total assets, and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

8.4 The Fund has a target allocation of 50% in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being.

8.5 The Fund is monitoring developments and the opening of investment strategy funds on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are **suitable** sub-funds to meet the Fund's investment strategy/ asset allocation requirements.

8.6 Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate **value for money**.

**Structure and governance of the LCIV Pool**

8.7 The July 2016 submission to Government of the LCIV Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured.

8.8 The below diagrams sets out the governance structure for the London CIV. The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities.

8.9 As an AIFM, London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("FCA"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.

8.10 The Pensions Sectoral Joint Committee ("PSJC") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the Authorities as shareholders in London CIV. This Committee will provide **scrutiny and oversight of the CIV** for the Authorities, with each Borough represented on the Committee with voting rights**.**

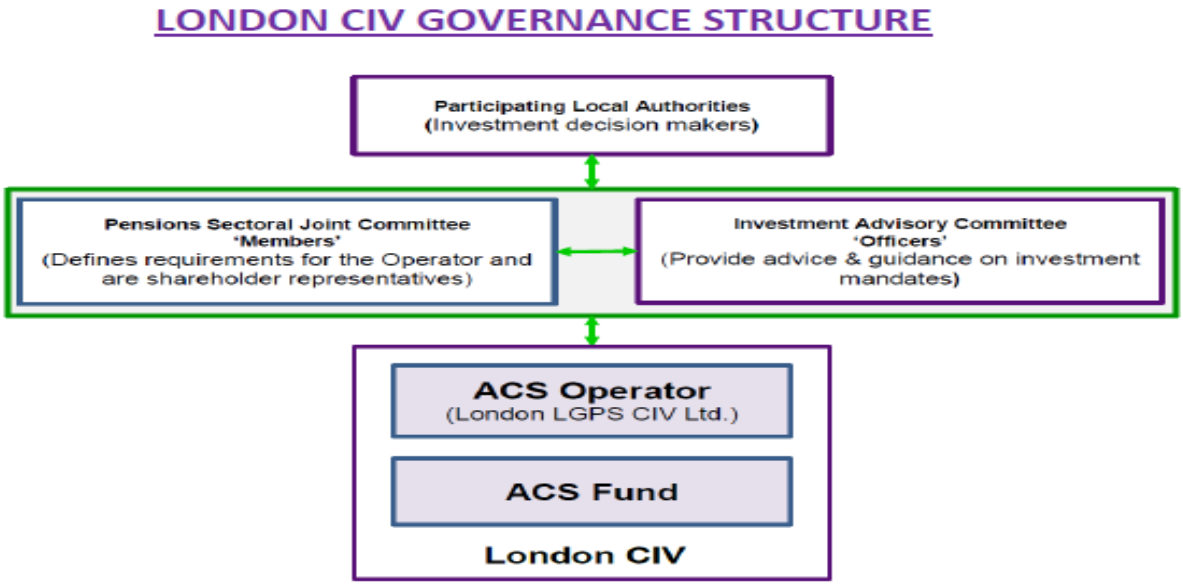
8.11 Borough Pension Committees – In most instances the Chair of the Pensions Committee at a Borough level will be the delegated representative on the PSJC and will be able to provide an overview back to the individual Committee on the work of the London CIV and its effectiveness from attending the PSJC. In addition the London CIV will provide regular updates to Authorities through its written reports and will also attend Committee meetings as and when required and in this way will help to ensure that the individual Pensions Committee are able to provide scrutiny of the London CIV.

8.12 The Investment Advisory Committee (IAC) was formed in September 2015 with the remit to:

- To support the Joint Committee in the investment decision making process
- To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.

8.13 Membership of the IAC was renewed in July 2016 with London Treasurers being asked to nominate themselves and or their officers, 24 nominations were received. Whilst this was greater than allowed for under the Terms of Reference, after consideration, it was agreed that the full complement of nominations should be included in the Committee.

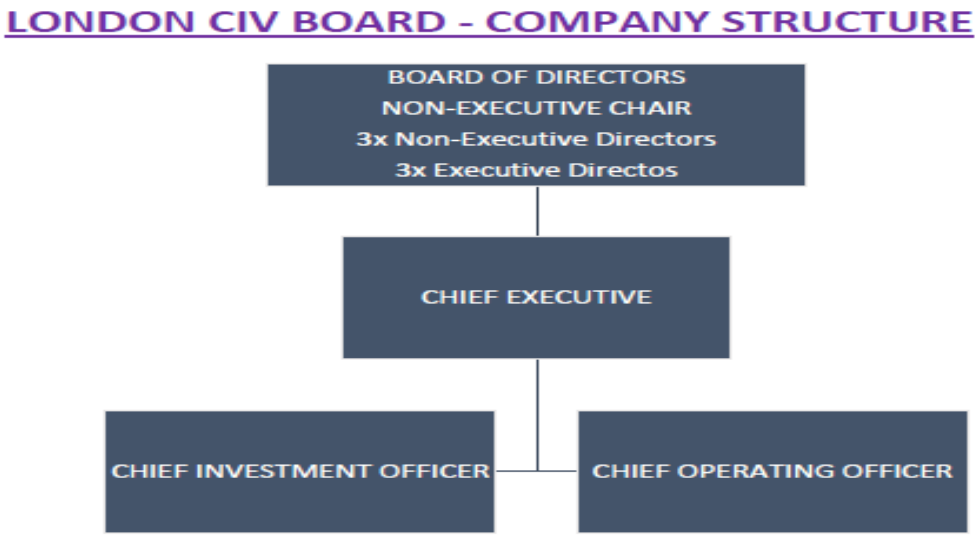
8.14 This was to ensure at a time of rapid development for the London CIV, as many Pension Funds could be engaged fully in the process and that this would also enable a wide range of pension managers to work closely alongside officers of the CIV. The new Committee comprised 9 London Treasurers and 15 Pension Managers.



8.14 At the company level for London CIV, it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers. The Board of the CIV has ultimate responsibility for all aspects of management of the Company. The board will at all times retain and exercise overall control. As a result the board composition seeks to achieve a balance of skills, competencies and expertise to govern on behalf of the shareholders.

8.15 The board will challenge the business, has a strong focus on oversight of both the organisation and third parties, and understands its duties as a regulated Company. The board have a mix of relevant investment, operational and financial experience having held senior roles at regulated entities combined with a strong understanding of local government and the requirements of its shareholders. The governance practices will be commensurate with the business and nature of the investment funds it manages.

8.16 The board is comprised of seven members both executive and non-executive with a range of skills. The non-executive directors are independent third parties with experience gained from either local government or careers in financial services and each have in-depth understanding of their respective fields. The executive team are responsible for the day-to-day operations of the business and setting the strategic direction of the Company. The non-executive directors will provide independent judgment and challenge to the board based on their respective experience.




**Performance measurement**

8.17 Fund performance is measured at a number of different levels. The objective of the Fund is to outperform the actuarial discount rate. The policy portfolio is selected by the Committee, with advice from the Fund Investment Advisers and Officers, and investment managers including LCIV, is expected to generate returns above the discount rate.

8.18 The performance of the pooling arrangements is monitored via regular reporting and through periodic meetings. Performance for LCIV is measured against the policy portfolio. LCIV seeks to outperform the policy portfolio on a risk adjusted basis, via

active sub-funds creation/selection and or selecting the best managers for each of the sub-funds and by implementing investments in a low cost manner. Performance for the investment sub-funds is measured against widely used and transparent benchmarks.

8.19 Where performance falls short of expectations the Committee, Officers and the Investment Advisers for the Fund will identify the cause of this underperformance and will respond appropriately either to alter its policy portfolio (where asset allocation is the underlying cause) or to require changes to the management of the sub fund vehicles (where management skill within LCIV is the underlying cause).

## 9. Social, Environmental and Corporate Governance

9.1 It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- *Sustainable investment / ESG factors* – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- *Stewardship and governance* – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

**Sustainable investment / ESG**

9.2 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training on and information sessions on matters of social, environmental and corporate governance.

9.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

9.4 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

9.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment

managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

9.6 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors where these present financial risks to the delivery of portfolio objectives and therefore impact on the sustainability of the Fund's returns.

9.7 Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. The Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting The exposure that the Fund has to fossil fuels is largely through investments in equity portfolios which aim to outperform, or track the performance of, broad market indices which themselves include allocations to companies that are responsible for carbon emissions.

9.8 Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to fossil fuel reserves within the Fund's portfolio could pose a material financial risk. In spring 2017, a Carbon Risk Audit for the Fund was carried out, quantifying the Fund's exposure through its equity portfolio to fossil fuel reserves and power generation and where the greatest risks lie.

9.9 When a full review of the investment strategy was undertaken, as a result of this strategic review, the following changes to the equity portfolio was agreed, and implemented:

- A reduction in the total equity exposure from 60% to 50% of total assets. With the proceeds invested into multi-asset funds with much lower equity holdings (and hence lower exposure to carbon-intensive assets).
- Of the remaining 50% of the equity portfolio, 15% has been invested into a Low Carbon index-tracking strategy which aims to reduce the carbon exposure of the portfolio by around 70%, relative to the broad market index, whilst still expecting to perform broadly in line with the wider market over the long term

9.10 This will be periodically reviewed to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties.

9.11 Where necessary, the Fund will also engage with its Investment Managers and or the London CIV to address specific areas of carbon risk. The Fund expects its investment managers to integrate financially material ESG factors into their investment analysis and decision making and may engage with managers and the London CIV to ensure that the strategies it invests in remain appropriate for its needs. However, the Fund does not at this time operate a blanket exclusion policy in respect of specific sectors or companies.

9.12 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee reviews its approach to nonfinancial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally,

the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

9.13 The Fund does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

9.14 The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

9.15 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

**Voting rights**

9.16 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries.

9.17 The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

9.18 The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The managers are strongly encouraged to vote in line with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee has elected to monitor the voting decisions made by all its investment managers on a regular basis.

9.19 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

9.20 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council / Pension Fund website.

**Stewardship**

9.21 The Fund complies with the UK Stewardship Code ('the Code') and is preparing a formal statement of commitment with the Code for assessment. The current draft is set out in Appendix A.

9.22 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

9.23 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

9.24 The Committee recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes.
The Fund:

(a) is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;

(b) is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;

(c) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest; and

(d) joins wider lobbying activities where appropriate opportunities arise.

***Myners principles for investment decision making***

9.25 The old regulation requiring administering authorities to state the extent to which they comply with Myners principles for investment decision making no longer applies. However, they should still have regard to the guidance. This section has been kept in this document as Appendix B for Tower Hamlets Funds, with some small amendments to keep the responses current.

**Full compliance**

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website.

Quarterly reports to the Pensions Committee and Pensions Board on the management of the Fund's investments are publicly available on the council's website. http://democracy.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=392

Prepared by: - Bola Tobun (Investment & Treasury Manager)
(For and on behalf of LBTH Pensions Committee)

## Appendices

Appendix A – Draft Statement of Commitment with the UK Stewardship code
Appendix B – Myners Investment Principles – Compliance Statement

**Appendix A -** ***Draft Statement of Commitment with the UK Stewardship Code***

**Principle 1**: ***Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.***

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights as detailed in the Fund's Investment Strategy Statement.

The Fund invests via pooled funds and therefore expects its underlying investment managers to exercise voting and engagement rights on its behalf. The Fund encourages its underlying investment managers to comply with the UK Stewardship Code.

The Fund is subject to the ESG and voting policies of its underlying investment managers. The Pensions Committee ('the Committee') considers these policies when appointing a new manager and when monitoring investment managers, the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.

In considering its stewardship activities, the Fund monitors the activities of its investment managers with regard to the following:

- The exercise of voting rights
- The integration and management of Environmental, Social and Corporate Governance (ESG) issues
- Engagement activities and progress

The Fund is a long-term investor and is committed to being an active owner. It wishes to promote a policy of dialogue on responsible investment issues, through its investment managers, with company management.

The Committee has identified the following ESG issues as a focus for engagement:

- Environmental issues: including conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources
- Human rights: including child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes
- Employment standards: including equal opportunities, health and safety, trade union recognition and employee participation

The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes and is a member of the Local Authority Pension Fund Forum (LAPFF), which aims to promote best practice on corporate governance and RI issues through co-operative action with other local authority funds.

The Fund regularly reviews its approach to responsible investment and the exercise of its stewardship activities.

**Principle 2**: ***Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.***

The Fund expects its investment managers to have effective policies addressing potential conflicts of interest related to stewardship.

In respect of potential conflicts of interest within the Fund, the Committee members are required to make declarations of interest prior to panel meetings.

All declarations are captured in the minutes of the meeting, which are publicly available, potential conflicts, based on declarations, are managed accordingly by the Chair of the Committee.

**Principle 3**: ***Institutional investors should monitor their investee companies.***

While the day-to-day responsibility for managing the Fund's equity holdings is delegated to the Fund's appointed investment managers, the Fund recognises that it cannot delegate its stewardship obligations. The Fund's Committee and Officers monitor the Fund's investment managers on a regular and ongoing basis, including with respect to stewardship activities.

As such the Fund expects its investment managers to monitor investee companies, intervene where necessary, and report back regularly on activity undertaken. This may be via written reports, phone calls, or meetings with the Officers and the Committee.

In addition, the Committee receives an annual report from the Fund's investment consultant on the ESG credentials, including active ownership, of its investment managers.

**Principle 4**: ***Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.***

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary.

The Fund's Officers and Committee monitor the escalation activities undertaken by the Fund's investment managers through the regular reporting provided by the Fund's managers.
On occasion, the Fund may itself choose to escalate activity; this will typically be through its membership of LAPFF or via one of the underlying investment managers.

Escalation activities undertaken by LAPFF may include writing a letter to the board or additional meetings with company management.

**Principle 5**: ***Institutional investors should be willing to act collectively with other investors where appropriate.***

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies.

The Fund undertakes collective engagement activities through its membership of LAPFF as well as through initiatives proposed by the Fund's investment managers or advisors.

In addition, the fund has formally agreed to join the London Collective Investment Vehicle (CIV) and regularly collaborates with other members of the CIV with respect to ESG and stewardship issues.

**Principle 6**: ***Institutional investors should have a clear policy on voting and disclosure of voting activity.***

The Fund invests via pooled funds and is therefore subject to the underlying investment managers' policies. The Fund expects its investment managers to exercise all votes associated with the Fund's equity holdings where practicable. The Fund encourages its investment managers to publicly disclose their voting records.

Generally, the Fund expects its investment managers to support resolutions that are consistent with the UK Corporate Governance Code and represent best practice. In overseas markets, the Committee expects the managers to take account of local best practice principles.

Where resolutions or issues fall short of the expected standards, the Committee expects managers will either abstain or vote against, depending on the individual circumstances of the company and the issues presented. The Committee expects the investment managers to report on their voting activities on a regular basis and the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.
The policy is reviewed at least annually in order to take account of regulatory developments and timely or controversial issues may be discussed at Committee meetings.

**Principle 7**: ***Institutional investors should report periodically on their stewardship and voting activities.***

The Fund expects its underlying investment managers to report regularly to both the Officers and the Committee with respect to voting and engagement activities, including examples of company engagement, progress on engagement over time and collaborative activities. The Fund encourages its investment managers to publicly report on their stewardship activities.

The Fund will report on its stewardship activity to the Committee on an annual basis. In addition, quarterly reports of voting actions are posted as part of the funds reporting to Committee and are available on the Council's website:
http://democracy.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392
The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements, which will be made available publicly.

This statement has been approved by the Committee on 16 March 2017.

## Compliance and monitoring

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

If you have any questions on this statement or the Fund's approach to stewardship, please contact Bola Tobun, Investments and Treasury Manager by e-mail at the following address Bola.Tobun@towerhamlets.gov.uk

## Appendix B - Myners Investment Principles – Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

**Full compliance**

The Pensions Committee and Pensions Board are supported in their decision making/assisting roles by the Corporate Director, Resources and the Investment and Treasury Manager.

Members of the both Committee and Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

**Full compliance**

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles/Investment Strategy Statement.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

**Full compliance**

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of

the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Tower Hamlets Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

**Full compliance**

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles/Investment Strategy Statement. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

**Full compliance**

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern.

The Council requires the Fund Managers to take into account the implications of substantial "extra financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund's managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

Principle 6: Transparency and reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

| Non-Executive Report of the:<br><br>**Pensions Committee**<br><br>**March 2018** | TOWER HAMLETS |
|---|---|
| **Report of:** Zena Cooke, Corporate Director of Resources | **Classification:** |
| **Pension Scheme Administration Update** | |

| | |
|---|---|
| **Originating Officer(s)** | Tim Dean, Pensions Team Leader |
| **Wards affected** | All |


**Summary**

This report covers the activities and performance of the Pensions administration team.


**Recommendations**

Members of the Pensions Committee are asked to:

1. Note the information provided in this report in respect of the scheme administration and the performance metrics;
2. Note the changes of status of the schools that are becoming academies;
3. Note the intention of One Housing to close their scheme;
4. Agree the transfer of East London Arts and Music Academy into the Fund;
5. Agree in principle the admission of the following as Admitted Bodies :
    i. KM Cleaning & Maintenance Limited; and
    ii. Tower Hamlets Youth Sports Foundation
6. Approve the revised Communications Strategy as set out in the appendix to this report
7. Confirm that they have no objection to Tower Hamlets Community Housing converting from a company to a Community Benefit Society.

## 1. STAFFING

1.1 One of the team's Pensions Administrators was seconded to another part of the HR department from 4 December 2017. She was due to return to the section on

1 March 2018 however this arrangement is to be extended until the new Human Resources structure is in place in May 2018.

1.2 A second member of the team is due to return from maternity leave on 11th March 2018, however she has annual leave to take that will take her through to the middle of May. She has indicated that she will not be returning to work and will hand in her notice in the middle of April.

1.3 An officer from the Ideas Store, with a finance background has indicated a desire to progress his finance career, and so will be joining the Pensions team on a temporary secondment, part-time (three days a week) basis from 15th March 2018. This will assist with the workload and may be extended further if it suits both parties.

1.4 Recruitment of another temporary administration assistant is currently under way. This will assist with the resourcing levels and ensure that performance can continue to be improved.

## 2. ACTIVITY AND PERFORMANCE

2.1 The activity levels and performance against service standards are reported in the appendices to this report.

2.2 Activity levels and performance are monitored on a monthly basis. Appendix 1 gives a summary of the performance during the current financial year.

2.3 Overall the Pensions team has completed 85.66% of its workload in line with the services standards measured by the performance indicators. Performance monitoring indicates that Deferred Benefit calculation, Lump Sum Retirement Grant payments and General Enquiries are particular areas for concern with less than 80% completed within target. Deferred Benefit calculations and General Enquiries are processed by the Pensions Administrators. Both of these posts have been vacant for part of the period covered by the performance summary and are still vacant however the actions reported above will start to address this.

2.4 A review of the procedures involved in the payment of Lump Sum Retirement Grants will be undertaken by the Pensions Manager to see if this process can be streamlined which will enable the performance standard to be more easily achieved without reducing the quality of the checking.

2.5 Performance data is produced using Workflow reports from the Altair Pensions administration system. Members of the Pensions team are currently working with the system providers, Aquila Heywood, to improve the Workflow processes so that they better reflect the work of the team and enable the team managers to identify areas where improvements to procedures can be made.

## 3. SCHEME EMPLOYERS

3.1 There are some changes to the status of employers that are admitted to the fund which are being dealt with currently. Some require noting however as

indicated some require the approval of the Committee. Each case is set out below.

3.2 ***Tower Hamlets Youth Sports Foundation*** – Two active LGPS members are likely to be transferred from Langdon Park School to this employer by 1st April 2018 as a result of a change in the way the Foundation provides services and is funded. These two active members have rights under the Transfer of Protection of Employment Regulations (TUPE) to retain their current pension provision. The Fund's Actuary has calculated the employer's contribution rate and discussions are ongoing with the Foundation's Trustees about a range of matters which include the provision of appropriate guarantees for the Pension Scheme. However in order to facilitate a smooth transition, this report requests agreement in principle, that subject to appropriate agreement being in place, that the THYSF become an admitted body to the Pension Fund.

3.3 ***KM Cleaning & Maintenance Ltd*** – Four active LGPS members transferred from Manorfield School on 1 July 2017 to this company as a result of the externalisation of the cleaning contract. As existing employees transferring with the contract award, the four active members have a right to retain membership to the LGPS as described above. The employer contributions rate calculation report has been completed by the fund actuaries and a draft admission agreement has been sent. The company has also been given the cleaning contract for Chisenhale School from 1 April 2018. A further four active members will transfer on that date with similar rights. Agreement is requested to the admission to the fund for KM Cleaning and Maintenance Ltd.

3.4 ***East London Arts & Music Academy*** – This Academy was originally based in Newham when it was formed approximately three years ago. They became a Scheduled Body in the Newham Pension Fund. They have now moved to new premises in Tower Hamlets and have been informed by Newham that they can no longer be a Scheduled Body to their Fund. They should now be a Scheduled Body to the Tower Hamlets Pension Fund. There were two active LGPS members when they moved on 1 May 2017. Agreement is requested to the transfer of this Academy from Newham's Fund to Tower Hamlet's Fund.

3.5 ***One Housing*** – One Housing are intending to withdraw access to the LGPS for their staff from 1 April 2018. They currently have seven active LGPS members. They have written to the members to let them know. Unison has contacted us to ensure that we are aware and ask whether or not One Housing can do this. HR have advised that, as long as delivery of the service is not affected, and as long as One Housing follow the correct procedures, we cannot interfere. One Housing have also contacted us about spreading the cessation cost over a period of time. This is for noting by the Committee at the current time.

3.6 Three Schools are or have become academies with varying numbers of active members. The Schools are Scheduled Bodies in the Fund. These are set out below and are for noting by the Committee.

i. Ian Mikardo Academy – Transferred to academy status from 1 February 2018. Ten active LGPS members.

ii. Letta Trust – Multi academy trust formed from Bygrove and Stebon Schools. Thirty eight active LGPS members
iii. Clara Grant/Stepney Green College – Will be forming a Multi Academy Trust from 1 March 2018. Exact number of active members yet to be confirmed

## 4. i-Connect

4.1 Testing on the i-Connect system has now been completed and it is being used live for the first time in February 2018 by our largest payroll providers. The smaller payroll providers should all be using the system for their March payrolls.

4.2 i-Connect is part of the pensions administration system Altair. It enables Scheme employers and their payroll providers to upload data to the Altair system. This includes starters, leavers, earnings and amendments (posts, hours of work, addresses etc.). The system should require no intervention from the Pensions team. This will greatly reduce the need for the Pension team to manually process payroll data as well as improving the quality of the team's data.

## 5. Pensions Communication Strategy

5.1 The Local Government Pension Scheme Regulations require administering authorities to prepare and maintain a policy statement for its communication strategy regarding the LGPS.

5.2 The strategy has recently been revised to reflect changes in the way the Pensions team communicate with scheme members. A copy of the amended strategy is attached to this report and is for the approval of the Committee.

## 6. Tower Hamlets Community Housing (THCH)

6.1 THCH has notified the council that they are proposing to convert from a company to a Community Benefit Society.

6.2 The legal implications for the Pensions Fund are set out in Section 8 of this report.

## 7. COMMENTS OF THE CHIEF FINANCE OFFICER

7.1 There are no expenditure proposals within the paper. All the projects that are noted in this report are already funded from within existing resources

## 8. LEGAL COMMENTS

8.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration function of the pension fund.

8.2 The Committee is asked to approve in principle the admission of Tower Hamlets Youth Sports Foundation and KM Cleaning & Maintenance Ltd as employers to the pension fund. In accordance with Schedule 2, Part 3, section 1(d)(i) of the Local Government Pension Scheme Regulations 2013, the Committee may approve the admissions.The Committee must satisfy itself that both employers are bodies that are providing or will provide a service or assets in connection with the exercise of a function of a Scheme Employer as a result of –
the transfer of the service or assets by means of a contract or other arrangement.
The Committee must also be satisfied that proper arrangements are in place for both employers to sign an admission agreement with the administering authority and secured an appropriate level of indemnity or bond or a guarantee, taking into account actuarial advice,

8.3 The Committee is asked to agree the transfer of the East London Arts & Music Academy into the Tower Hamlets Pension Fund, the Academy having moved into LB Tower Hamlets from Newham. It is appropriate for the Committee to agree the transfer in accordance with paragraph 20, Part 1, Schedule 2 of the 2013 regulations.

8.4 With regard to the decision of One Housing to withdraw from the Tower Hamlets scheme, there is no legal requirement for them to remain a member of the LGPS.

8.5 The Committee is asked to confirm that it does not object to the conversion of Tower Hamlets Community Housing from a company to a Community Benefit Society. Before confirming its agreement, the Committee must consider the issue of whether it is appropriate for the Council to give up its priority status in respect of THCH's pension deficit. Santander bank as THCH's lender has asked for confirmation that the Council agree to the bank having priority as a creditor in respect of any amounts owed under the Facility Agreement THCH has with them. This could impact on the Council's ability to recoup any pension deficit.

8.6 When carrying out its functions as the administering authority of its pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

## 9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 The administration costs of running the pension scheme are a very small part of the contributions paid. An efficient administration function will contain costs over the long term, minimising the costs falling on the scheme employers, including the Council.

9.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## 10. BEST VALUE (BV) IMPLICATIONS

10.1 In each case decisions to acquire additional services have followed the Council's procurement procedures. All costs are paid for from the assets of the Pension Fund.

## 11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

11.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## 12. RISK MANAGEMENT IMPLICATIONS

12.1 Risks arising from poor administration tend to be reputational but can include additional expenditure through inaccurate benefits, delays in collecting contribution, fines and interest on late payments. This and future reports are designed to provide the Pensions Committee with assurance that pension risks are being adequately managed.

## 13 CRIME AND DISORDER REDUCTION IMPLICATIONS

13.1 There are no crime and disorder reduction implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- Appendix 1- Activity and performance – October 2017
- Appendix 2- Activity and performance – 2017/18 Summary
- Appendix 3 – Revised Communication Strategy

**Local Government Act, 1972 Section 100D (As amended)**
**List of "Background Papers" used in the preparation of this report**

- NONE

**Officer contact details for documents:**

- Tim Dean – Senior Pensions Team Leader Ext. 4530
- 3rd Floor Mulberry Place, 5 Clove Crescent E14 2BG

| | April | May | June | July | August | September | October | November | December | January | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Address Changes | 28 | 37 | 35 | 17 | 37 | 38 | 52 | 20 | 31 | 21 | 316 |
| Bank Account Changes | 6 | 14 | 12 | 11 | 11 | 16 | 8 | 4 | 4 | 10 | 96 |
| Death of a Pensioner | 7 | 4 | 6 | 18 | 17 | 20 | 7 | 23 | 8 | 24 | 134 |
| Deferred Calculations | 15 | 49 | 31 | 27 | 16 | 53 | 34 | 38 | 29 | 30 | 322 |
| Estimates | 11 | 9 | 29 | 22 | 5 | 5 | 4 | 13 | 16 | 31 | 145 |
| General Enquiries | 69 | 113 | 78 | 51 | 31 | 35 | 43 | 32 | 28 | 35 | 515 |
| Lump Sum Payments | 23 | 32 | 13 | 15 | 11 | 10 | 26 | 32 | 28 | 31 | 221 |
| Nomination Updates | 20 | 23 | 14 | 25 | 23 | 22 | 79 | 64 | 28 | 23 | 321 |
| Refund Calculations | 61 | 36 | 30 | 40 | 17 | 39 | 49 | 31 | 18 | 19 | 340 |
| Refund Payments | 18 | 41 | 33 | 31 | 25 | 18 | 41 | 27 | 29 | 17 | 280 |
| Retirements | 4 | 12 | 10 | 16 | 13 | 31 | 42 | 16 | 39 | 34 | 217 |
| Transfers In (Actual) | 5 | 3 | 6 | 8 | 7 | 0 | 7 | 17 | 4 | 4 | 61 |
| Transfers In (Quotes) | 14 | 11 | 16 | 10 | 7 | 2 | 6 | 17 | 9 | 8 | 100 |
| Transfers Out (Actual) | 5 | 8 | 3 | 6 | 3 | 6 | 2 | 2 | 6 | 3 | 44 |
| Transfers Out (Quotes) | 4 | 5 | 17 | 6 | 13 | 6 | 11 | 23 | 14 | 4 | 103 |
| | 290 | 397 | 333 | 303 | 236 | 301 | 411 | 359 | 291 | 294 | 3215 |
| Address Changes | 92.86 | 89.19 | 100.00 | 88.24 | 94.59 | 97.37 | 100.00 | 100.00 | 96.77 | 95.24 | 95.43 |
| Bank Account Changes | 83.33 | 100.00 | 100.00 | 90.91 | 90.91 | 81.25 | 75.00 | 100.00 | 100.00 | 100.00 | 92.14 |
| Death of a Pensioner | 42.86 | 100.00 | 83.33 | 83.33 | 88.24 | 75.00 | 100.00 | 91.30 | 100.00 | 75.00 | 83.91 |
| Deferred Calculations | 33.33 | 71.43 | 93.55 | 81.48 | 81.25 | 92.45 | 85.29 | 81.58 | 96.55 | 80.00 | 79.69 |
| Estimates | 90.91 | 88.89 | 79.31 | 81.82 | 80.00 | 80.00 | 100.00 | 76.92 | 100.00 | 96.77 | 87.46 |
| General Enquiries | 86.96 | 76.11 | 73.08 | 92.16 | 70.97 | 77.14 | 65.12 | 90.63 | 82.14 | 77.14 | 79.14 |
| Lump Sum Payments | 52.17 | 50.00 | 76.92 | 93.33 | 72.73 | 80.00 | 73.08 | 71.88 | 78.57 | 77.42 | 72.61 |
| Nomination Updates | 100.00 | 95.65 | 100.00 | 88.00 | 95.65 | 81.82 | 81.01 | 85.94 | 92.86 | 86.96 | 90.79 |
| Refund Calculations | 98.36 | 97.22 | 86.67 | 85.00 | 88.24 | 74.36 | 77.55 | 83.87 | 55.56 | 84.21 | 83.10 |
| Refund Payments | 100.00 | 100.00 | 93.94 | 67.74 | 76.00 | 72.22 | 78.05 | 74.07 | 89.66 | 88.24 | 83.99 |
| Retirements | 100.00 | 66.67 | 90.00 | 100.00 | 100.00 | 87.10 | 92.86 | 93.75 | 94.87 | 97.06 | 92.23 |
| Transfers In (Actual) | 60.00 | 66.67 | 100.00 | 75.00 | 85.71 | 100.00 | 85.71 | 82.35 | 100.00 | 75.00 | 83.04 |
| Transfers In (Quotes) | 78.57 | 63.64 | 81.25 | 100.00 | 100.00 | 100.00 | 83.33 | 82.35 | 100.00 | 75.00 | 86.41 |
| Transfers Out (Actual) | 80.00 | 62.50 | 100.00 | 100.00 | 100.00 | 83.33 | 100.00 | 100.00 | 83.33 | 100.00 | 90.92 |
| Transfers Out (Quotes) | 50.00 | 100.00 | 100.00 | 83.33 | 69.23 | 100.00 | 90.91 | 60.87 | 85.71 | 100.00 | 84.01 |
| | 76.62 | 81.86 | 90.54 | 87.36 | 86.23 | 85.47 | 85.86 | 85.03 | 90.40 | 87.20 | 85.66 |

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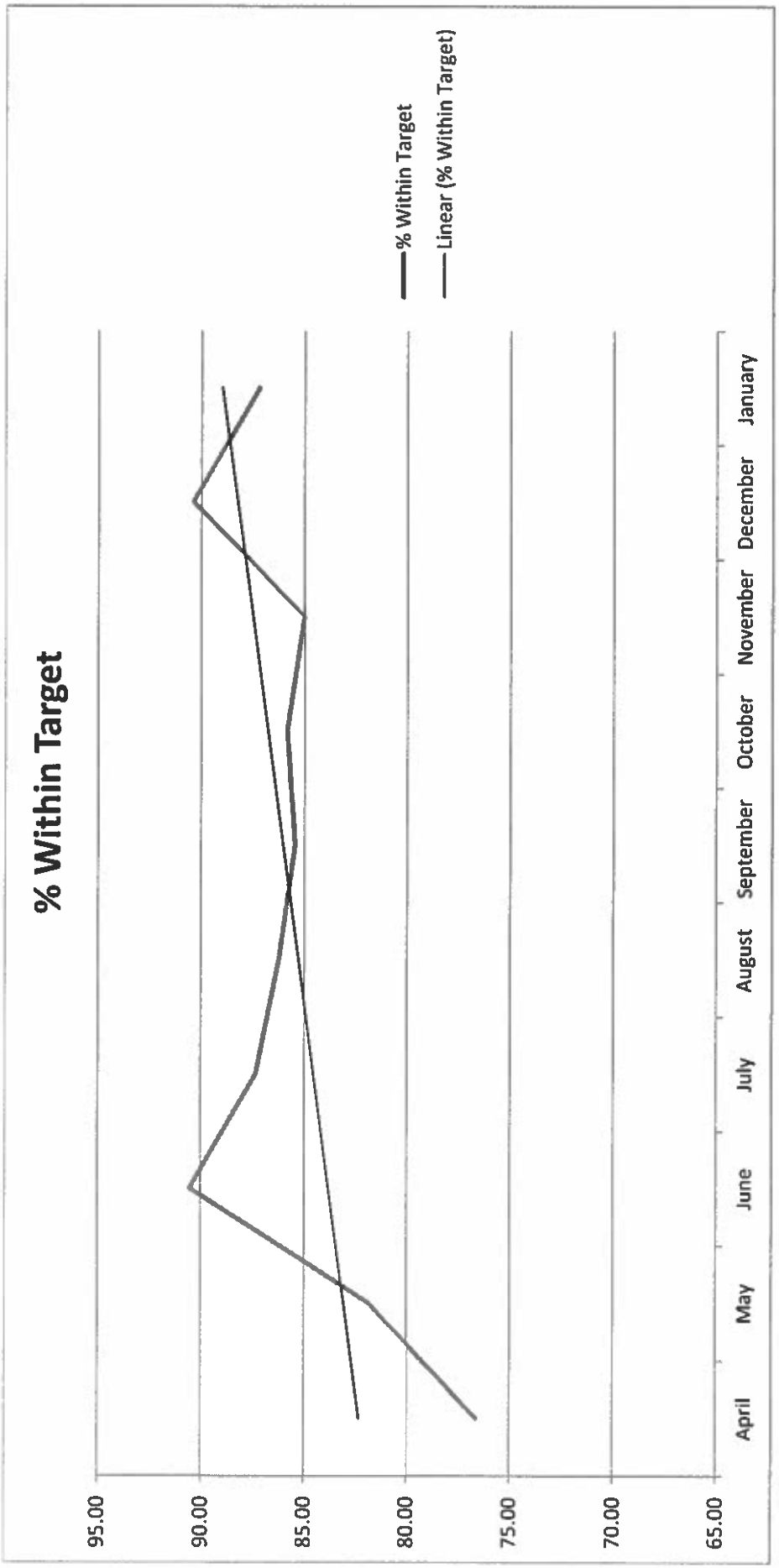
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TOWER HAMLETS

# The London Borough of Tower Hamlets Pension Fund

## Communications Strategy Statement

CONTENTS

**Introduction**
This is the Communications Strategy Statement of London Borough of Tower Hamlets Pension Fund.

The Fund liaises with over 30 employers and approximately 20,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

Any enquiries in relation to this Communication Strategy Statement should be sent to:

London Borough of Tower Hamlets
Town Hall
Human Resources
Pensions Services
3rd Floor Mulberry Place
5 Clove Crescent
London E14 2BG

Telephone: 020 7364 4251
Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

**Regulatory Framework**
This Policy Statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme (LGPS) Regulations 2013. The provision requires us to:

"….prepare, maintain and publish a written statement setting out their policy concerning communications with:

(a) members.
(b) representatives of members.
(c) prospective members.
(d) employing authorities."

In addition it specifies that the Statement must include information relating to:

"(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employing authorities."

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act

2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements were introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose remains very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*. The draft Code of Practice[1] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

**Responsibilities and Resources**

Within the Pension Section, the responsibility for communication material is performed by our Pensions Manager with the assistance of two Principal Pensions Officers.

Although, the team write all communications within the section, all design work is carried out by the Council's Creative & Technical team. The Pensions team are also responsible for arranging all forums, workshops and meetings covered within this Statement.

All printing is carried out by an external supplier, which is usually decided upon by the Council's Creative & Technical team.

**Communication with key audience groups**

We communicate with a number of stakeholders. For the purposes of this Communication Policy Statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities (scheme employers and admitted bodies);
- senior managers;
- union representatives;
- elected members/the Pension Panel;
- Pensions Section staff;

[1] Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Department for Communities and Local Government, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

**How we communicate**

We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will compliment this by use of electronic means such as our intranet. We will accept communications electronically, for example by e-mail and, where we do so, we will respond electronically where possible.

Our pension section staffs are responsible for specific tasks. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person.

**Branding**

As the Pension Fund is administered by London Borough of Tower Hamlets, all literature and communications will conform to the branding of the Council.

**Accessibility**

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically. However, on all communication from the Pension Fund office we will include a statement offering the communication in large print, Braille, on cassette or in another language on request.

**Policy on Communication with Active, Deferred and Pensioner Members**

Our objectives with regard to communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees.
- for better education on the benefits of the LGPS.
- to provide more opportunities for face to face communication.
- as a result of improved communication, for queries and complaints to be reduced.
- for our employers to be employers of choice.
- to increase take up of the LGPS employees.
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail beneath the table:

| | | | | |
|---|---|---|---|---|
| Scheme booklet | On intranet | At joining and major scheme changes | Members notified by letter | Active |
| Newsletters | Paper based and on intranet | Annually and after any scheme changes | Via employers for Actives. Post to home address for deferred & pensioners | Separately for active, deferred and pensioners |
| Pension Fund Report and Accounts | Paper based and on intranet | Annually | On request | All |
| Pension Fund Accounts – Summary | Paper based | Annually | Via employers for actives. Post to home address for deferred and pensioners | All |
| Estimated Benefit Statements | Paper based | Annually | Post to home address for active and deferred members. members. | Active and Deferred. |
| Factsheets | Paper based and on intranet | On request | On request | Active, deferred & pensioners |
| Intranet | Electronic | Continually available | Advertised on all communications | All |
| Road shows/ Workshops | Face to face | Annually | Advertised in newsletters, via posters and pensioners payslips | All |
| Face to face education sessions | Face to face | On request | On request | All |
| Joiner letters | Paper based | On joining | Post to home addresses | Active members |
| Pay advice slip/P60 | Paper based | Conditional | Post to home address | Pensioners |

**Explanation of communications**

Scheme booklet - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Newsletters - An annual/biannual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming road shows, a summary of the accounts for the year, contact details, etc.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Estimated Benefit Statements – For active members these include the current value of benefits as well as the projected benefits as at their earliest retirement date and at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pension's increases.

Intranet – The intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (such as newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Road shows/Workshops – Every year a number of staff will visit the schools/offices around the Borough, providing the opportunity to have a face to face conversation about your pension rights

Face to face education sessions – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights.

Joiner packs – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

Pay advice slip/P60 – The Pay advice slips are sent when the address, pension or tax code changes. The P60 information is communicated using this medium on an annual basis.

**Policy on promotion of the scheme to Prospective Members and their Employing Authorities**

Our objectives with regard to communication with prospective members are:

to improve take up of the LGPS.

for the LGPS to be used as a tool in the attraction of employees.

for our employers to be employers of choice.

for public relations purposes.

As we, in the Pension Team Section, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

| | | | | |
|---|---|---|---|---|
| Overview of the LGPS leaflet | Paper based | On commencing employment | Via employers | New employees |
| Educational sessions | As part of induction workshops | On commencing employment | Face to face | New employees |
| Promotional newsletters/flyers | Paper based | Annually | Via employers | Existing employees |
| Posters | Paper based | Ongoing | Via employers | New and existing employees |

**Explanation of communications**

Overview of the LGPS leaflet - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so.

Educational sessions – A talk providing an overview of the benefits of joining the LGPS.

Promotional newsletters/flyers – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the Scheme and provide guidance on how to join the Scheme.

Posters – These will be designed to help those who are not in the LGPS understand the benefits of participating in the scheme and provide guidance on how to join the Scheme.

**Policy on communication with Employing Authorities**

Our objectives with regard to communication with employers are:

to improve relationships.

to assist them in understanding costs/funding issues.

to work together to maintain accurate data.

to ensure smooth transfers of staff.

to ensure they understand the benefits of being an LGPSemployer.

to assist them in making the most of the discretionary areas within the LGPS.

**Our objectives will be met by providing the following communications:**

| | | | | |
|---|---|---|---|---|
| Employers' Guide | Paper based | At joining and updated as necessary | Post or via email | Main contact for all employers |
| Newsletters | Electronic (e-mail) and intranet | Annually or more frequent if necessary | E-mail | All contacts for all employers |
| Employers' focus groups | Face to face | At least quarterly/half yearly | Invitations by e-mail | Either main contacts or specific groups (e.g. HR or payroll) depending on topics |
| Pension Fund Report and Accounts | Paper based and employer website | Annually | Post | Main contact for all employers |
| Meeting with adviser | Face to face | On request | Invite sent by post or email | Senior management involved in funding and HR issues. |

**Explanation of communications**

Employers' Guide – is a detailed guide that provides guidance on the employer responsibilities, including the forms and other necessary communications with the Pensions Section and Scheme members.

Newsletters – A technical briefing newsletter that will include recent changes to the scheme, the way the Pensions Section is run and other relevant information so as to keep employers fully up to date.

Employers' focus groups – Generally workgroup style sessions set up to debate current issues within the LGPS.

Pensions Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.
Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

**Policy on communication with senior managers**

Our objectives with regard to communication with senior managers are:

to ensure they are fully aware of developments within the LGPS

to ensure that they understand costs/funding issues

to promote the benefits of the Scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

| Method of communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Briefing papers | Paper based and electronic | As and when required | Email or hard copy | All |
| Committee papers | Paper based and electronic | In advance of Committee | Email or hard copy | All |

**Explanation of communications**

Briefing papers – a briefing that highlights key issues or developments relating to the LGPS and the Fund, which can be used by senior managers when attending meetings

Committee paper – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members

**Policy on communication with union representatives**

Our objectives with regard to communication with union representatives are:

to foster close working relationships in communicating the benefits of the Scheme to their members

to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the Scheme

to engage in discussions over the future of the Scheme

to provide opportunities to educate Union representatives on the provisions of the Scheme

Our objectives will be met by providing the following communications:

| Method of communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Briefing papers | Paper based and electronic | As and when required | Email or hard copy | All |
| Face to face education sessions | Face to face | On request | On request | All |
| Pension Committee | Meeting | Quarterly | Via invitation when appropriate | All |

**Explanation of communications**

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Face to face education sessions – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the Scheme, or to explain possible changes to policies.

Pensions Committee – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the Scheme (policies, etc) are taken.

**Policy on communication with elected members/Pensions Committee**
Our objectives with regard to communication with elected members/Pensions Committee are:

- to ensure they are aware of their responsibilities in relation to the Scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the Scheme.

Our objectives will be met by providing the following communications:

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Training sessions | Face to face | When there is a new Pensions Committee and as and when required | Face to face or via the Employers Organisation for local government | All members of the Pensions Committee as well as other elected members |
| Briefing papers | Paper based and electronic | As and when required | Email or hard copy | All members of the Pensions Committee |
| Pension Committee | Meeting | Quarterly | Members elected onto Pension Committee | All members of the Pensions Committee |

**Explanation of communications**
Training sessions – to provide a broad overview of the main provisions of the LGPS to elected members and their responsibilities within it.

Briefing papers - a briefing that highlights key issues and developments to the LGPS and the Fund.

Pension Committee - a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the Scheme (policies, etc.) are taken.

**Policy on communication with pension section staff**
Our objectives with regard to communication with Pension Section's staff are:

ensure they are aware of changes and proposed changes to the scheme

to provide on the job training to new staff

to develop improvements to services, and changes to processes as required

to agree and monitor service standards

Our objectives will be met by providing the following communications:

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Face to face training sessions | Face to face | As required | By arrangement | All |
| Staff meetings | Face to face | As required, but no less frequently than monthly | By arrangement | All |
| Attendance at seminars | Externally provided | As and when advertised | By email, paper based | All |
| Software User Group meetings | Face to face | Quarterly | By email, paper based. | Principal Administrators |
| Regional Officer Group meetings | Face to face | Quarterly | By email, paper based. | Pension Manager/ Principal Administrators |

**Explanation of communications**
Face to face training sessions – which enable new staff to understand the basics of the Scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the Scheme

Staff meetings – to discuss any matters concerning the local administration of the Scheme, including for example improvements to services or timescales

Attendance at seminars – to provide more tailored training on specific issues

Software User Group meeting – to discuss any issues concerning the computer software used to administer the scheme, including future upgrades and improvements

Regional Officer Group meetings - discussion group of principal officers from other administering authorities.

**Policy on communication with tax payers**

Our objectives with regard to communication with tax payers are:

to provide access to key information in relation to the management of the scheme

to outline the management of the scheme

Our objectives will be met by providing the following communications:

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Pension Fund Report and Accounts | Paper based and on website | Annually | Post | All, on request |
| Pension Fund Committee Papers | Paper based and on website | As and when available | Post | All, on request |

**Explanation of communications**

Pension Fund Report and Accounts – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Pension Fund Committee Papers - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

**Policy on communication with other stakeholders/interested parties**

Our objectives with regard to communication with other stakeholder/interested parties are:

to meet our obligations under various legislative requirements

to ensure the proper administration of the scheme

to deal with the resolution of pension disputes

- to administer the Fund's Additional Voluntary Contributions (AVC) scheme

Our objectives will be met by providing the following communications:

| Method of | Media | Frequency of | Method of | Audience |
|---|---|---|---|---|

| Communication | | Issue | Distribution | Group |
|---|---|---|---|---|
| Pension Fund valuation reports<br>• Rates and Adjustments (R&A) certificates<br>• Revised R&A certificates<br>• Cessation valuations | Electronic | Every three years | Via email | Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers |
| Details of new employers entered into the Fund | Hard copy | As new employers are entered into the Fund | Post | Government Departments /HMRC |
| Formal resolution of pension disputes | Hard copy or electronic | As and when a dispute requires resolution | Via email or post | Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman |
| Completion of questionnaires | Electronic or hard copy | As and when required | Via email or post | Government Departments /HMRC/the Pensions Regulator |

**Explanation of communications**

Pension Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

Details of new employers – a legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission of third party service providers into the scheme)

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – various questionnaires that my received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund

**Performance Measurement**

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

**Timeliness**

We will measure against the following target delivery timescales:

| | | | |
|---|---|---|---|
| Notification letter | New joiners to the LGPS | Within two months of joining | |
| Estimated Benefit Statements as at 31 March | Active and deferred members | By 31 August every year | |
| Telephone calls | All | | 95% of phone calls to be answered within 30 seconds |
| Issue of retirement benefits | Active and deferred members retiring | | 95% of retirement benefits to be issued within 10 working days of retirement |
| Issue of deferred benefits | Leavers | | Within one month of notification |
| Transfers in | Joiners/active members | | Within one month of request |
| Issue of forms i.e. expression of wish | Active/deferred members | | Within five working days |
| Changes to Scheme rules | Active/deferred and pensioner members, as required | | Within one month of change coming into effect |
| Annual Pension Fund Report and Accounts | All | | Within ten working days |

**Quality**

| | | | |
|---|---|---|---|
| Active and deferred members | Paper based survey with annual benefit statements | All services | |
| All member types | Annual paper | Service received | One task to be |

| | | | |
|---|---|---|---|
| | based survey on completion of specific tasks | during that task | chosen each quarter from:<br>retirements<br>new starts and transfers in<br>transfers out<br>deferred leavers |
| All member types | Focus group meeting on half yearly basis | All services and identify improvement areas/new services | Representative group of all member types. To include union representatives. |
| Employers | Focus Groups | Their issues | Regular feedback sessions. |

**Results**

Details of the performance figures are reported to the Pensions Committee, the Pensions Board and the Service Head. Feedback is received from the Service Head and from various focus /discussion groups.

**Review Process**

We will review our Communication Policy to ensure it meets audience needs and regulatory requirements at least annually. A current version of the Policy Statement will always be available on our intranet and paper copies will be available on request.

| Non-Executive Report of the:<br>**PENSIONS COMMITTEE**<br>**14 March 2018** | TOWER HAMLETS |
|---|---|
| **Report of:** Zena Cooke, Corporate Director of Resources | **Classification: Exempt** |
| **London Collective Investment Vehicle (CIV) Latest Development and Update** | |

| | |
|---|---|
| **Originating Officer(s)** | Bola Tobun, Investment and Treasury Manager |
| **Wards affected** | All |

**Introduction**

This report provides the Committee with an update on general developments and the progress of the London Collective Investment Vehicle (CIV).

**Recommendations:**

Members are asked to note:

a) the outcome of the governance review of the London CIV undertaken by Willis Towers Watson;
b) a number of issues that currently exist within the LCIV;
c) a number of recommendations for change and improvement to LCIV's current governance arrangements;
d) London CIV consultation process and
e) Fund launches progress.

## 1. REASONS FOR THE DECISIONS

1.1 This is a noting report that assists the effective and efficient management of the Pension Fund.

## 2. ALTERNATIVE OPTIONS

2.1 No alternative as this is a noting report.

## 3. DETAILS OF REPORT

**The Governance Review**

3.1 The Governance Review of the London CIV that was commissioned from Willis Towers Watson by the London Local Authorities (LLAs) and the London CIV was presented at the Pensions CIV Sectoral Joint Committee (PSJC) in December 2017. The Review feedback from the consultants specified that shareholders indicated a need for the London CIV to change its Governance arrangements and clarify its purpose and future strategy.

**The Willis Towers Watson summarised their review as follows:**

3.2 Three years after its incorporation, LCIV finds itself in an unpleasant position, in an attempt on delivering a complex and challenging task of under-resourced and underfunded, while juggling the competing interests of multiple stakeholders, not all of whom are fully engaged and who seem to be growing increasingly disgruntled. Compounding pressure on it, has been the recent departures of a number of key staff. In the absence of some circuit-breaking change it is not at all apparent that it will be able to deliver on the original intention of its 32 local authority shareholders to bring their collective c.£25bn under a common pooling vehicle.

3.3 In our review we have set out to identify whether there are structural issues that are impeding LCIV's progress and damaging its relationships with its local government stakeholders. Having identified those issues we also aim to identify the circuit breakers that might allow all parties to move forward with more confidence.

3.4 It is important that we note here that while LCIV must assume responsibility for the genesis of many of the issues identified – and the potential solutions to them – it does not bear this responsibility alone. The 32 constituent stakeholders in LCIV must all shoulder some collective responsibility. For a structure such as LCIV to succeed stakeholders must be willing to accept trade-offs – not everyone is going to get everything they want. Our discussions with stakeholders identified that it is much easier to identify challenges than it is to propose constructive solutions.

3.5 As we have worked through the governance issues surrounding LCIV we have settled on five key topics under which to organise our thoughts. These are: clarity of purpose; engagement and representation; transparency and trust;

resourcing and the cost model; and, accountability and key performance indicators.

3.6 The core recommendations made by Willis Towers Watson are:

a) Establish and agree a more concise and narrowly defined set of statements of purpose – for LCIV, the PSJC and the Investment Advisory Committee (IAC) in particular. This is an absolute priority. Consistent and focused communication, with clear linkages with business planning and strategy, of this set of purposes is vital for them to be effectively embedded in practice.

b) The committee meeting cycle should be reviewed, reducing the number of full committee meetings and making greater use of subcommittees and working groups. Each committee should be focussed on a clearly defined set of objectives within accompanying measures. The Terms of Reference of the stakeholder committees (PSJC and IAC or replacement equivalents) require concurrent redrafting.

c) A well-resourced Secretariat function is required to support the various committees and governance bodies. This should likely come from LCIV, recognising that this needs to be appropriately funded.

d) There needs to be recognition of the importance of transparency and cultivating trust, and a clear cultural and strategic shift to embedding this at the heart of LCIV pooling arrangements. LCIV and its stakeholders should take this opportunity to reset their relationship. The client portal offers an excellent mechanism for efficient, open and comprehensive information sharing – it should be set up as a 'one-stop shop' to distribute LCIV information to stakeholders, and in turn fully utilised by stakeholders to gather the information they require.

e) An independent resourcing and cost model review is required to give further clarity and recommendations on the appropriate levels of each, including how these develop over time.

3.7 There were further supplementary recommendations made as follows

f) A useful mechanism for stakeholders to express clearly to LCIV their priorities, concerns and key measures of interest would be an annual 'Letter of expectations'. The PSJC (or similar replacement body) would be the most appropriate vehicle for delivering this.

g) The Terms of Reference for the key stakeholders committees and working groups are significantly below those of good practice investment organisations. There are issues over comprehensiveness as well as the over clarity of purpose and scope of responsibilities which need to be remedied.

h) LCIV needs to invest significantly in improving its database (quantitative knowledge) and understanding (qualitative knowledge) of the LLA funds –

this has systems and resourcing (particularly in the Client Relationships function) implications.

i) Reporting to stakeholders should be more streamlined and focussed, bringing out strategic KPIs and measures of success.

j) It seems appropriate at this stage to move away from the London Councils' governance model, with its associated constraints (including some political separations).

**PSJC January meeting**

3.8 Following the outcome of the Governance Review, an exempt report was presented to the PSJC of the LCIV in January to consult with key stakeholders, to clarify the purpose of the London CIV and set out the direction of its future strategy. The report proposed vision of how the London CIV should operate. London CIV advised that it does not purport to be a fully formed proposal and as such they welcome constructive engagement and feedback.

3.9 The design of the London CIV was intended to provide London Local Authorities (LLAs) with an investment organisation to undertake Voluntary Pooling. Difficulties in executing this vision and the Central Government policy of mandated pooling mean that it is now appropriate to revisit the design of the London CIV.

3.10 The need to clarify the vision and strategic direction of the London CIV has been recognised by both LLAs and the London CIV and there is now an appetite to find an effective and sustainable way forward to deliver Pooling alongside the benefits originally envisaged when the London CIV was established.

3.11 It was recognised that the concerns raised need to be addressed by revisiting how the LCIV will operate and engage with LLAs going forward. The Board of the LCIV advised the PSJC that they wish to consult on three key areas: **Governance, Client and Investment**.

3.12 The creation of effective supervisory arrangements to improve the channels of communication between LCIV and LLAs Pooling– a **Shareholder** perspective.

3.13 The needs of Local Authority Pension Funds to achieve their individual pooling objectives – a **Client** perspective.

3.14 That in operating the Pool investment, efficiencies are maximised wherever possible so that the benefits of fee savings and enhanced performance amounting to 50 bp p.a. are realised – an **Investment** perspective.

3.15 It was highlighted that the LCIV budget for 2018 remains unchanged as the LCIV Board believes that the changes outlined in their report to PSJC can be achieved in 2018 within the existing financial framework.

3.16 The London CIV advised of their priority to consult with LLAs throughout the first quarter 2018 (this consultation has started and the deadline for the initial

consultation is 5th March 2018) to develop a sustainable pooling vehicle for London and is initially proposing the following:

3.17 **Governance – Clearer Roles**

a) Host two General Meetings a year with all shareholders and disband the PSJC under the London Councils framework.

b) Form a small consultative shareholder group of 12 Treasurers and Pension Chairs.

c) Invite the Chair of the General Meeting onto the Board of the London CIV and a Treasurer as an observer.

3.18 **Client – More Personalised Engagement**

a) A general service level agreement with the London CIV will be agreed. This would set out how the London CIV would service and consult with LLAs.

b) The London CIV would agree with each LLA individually:

c) The level of investment discretion delegated to the London CIV from three choices of Investment Mandate. This would allow the level of delegation to the London CIV to be personalised for each LLA.

d) A transition plan to agree a match of the strategic asset allocation of each LLA to the London CIV investment offering. The timing of the transition would be agreed to allow LLAs to either be early adopters or late adopters of Pooling.

e) A Responsible Investment Policy framework would be proposed by the London CIV and agreed by shareholders.

3.19 **Investment – Greater Benefits (50bp p.a.)**

a) Develop blended investment mandates for core asset classes that have a number of managers in each fund.

b) Allow LLAs the option to grant investment discretion to the London CIV to gain greater efficiencies.

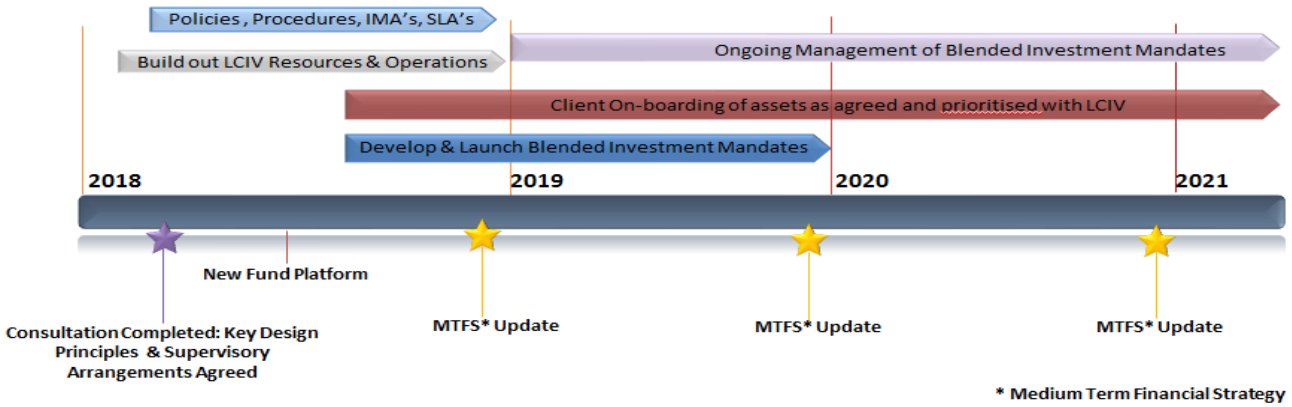
c) Offer Passive Trackers and a Liability Aware Fund as a low cost option.

d) Existing funds continue to be managed as normal.

3.20 LCIV believes a consultation process is essential in ensuring appropriate proposals for LLAs. The key steps in the consultation process and the implementation of any agreed changes are set out in the below indicative timeline diagram and it is hoped that this can be concluded by the end of 2018. This would then allow the London CIV to start building for the future.

## Indicative Timelines of LCIV Proposal

- Detailed planning has not occurred so timelines are only indicative. However, we would aim to have the new arrangements operating by end 2018.
- Key milestones:
  - Complete consultation in 1st quarter 2018
  - Build out LCIV resources and operations during 2018
  - LCIV develops blended investment funds with first funds launched in 2018.
  - First LLA fully transitioned into LCIV by end 2018.
  - The blended investment funds would be further developed over 2019.
  - The transition of all LLAs to the LCIV could exceed two years as we begin to transition LLAs and expect to improve the pace with experience.

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**FUND LAUNCH PROGRESS**

3.21 **Equity Fund Launch Update**

- Henderson Emerging Markets fund launched on the 11th January with £80m seed coming from Lambeth.
- RBC was operationally ready to open on September 21st. The fund will officially launch once we have subscriptions from the boroughs.

3.22 **Fixed Income Update**

The Board agreed to move forward with the appointment of the following fixed income funds pending the successful completion legal and operational due diligence. These new funds will include:

I. LCIV Global Bonds Fund (run by PIMCO )

II. LCIV Liquid Loans Fund (run by Ares)

III. LCIV Private Debt Fund (run by Ares)

IV. LCIV Multi Asset Credit Fund – Long Only (run by CQS)

V. LCIV Multi Asset Credit Fund – Long/Short (run by MidOcean)

3.23 Real Asset and Illiquid Asset Update

The FCA has notified LCIV that they have successfully approved the application to manage Unauthorised Alternative Investment Funds. This paves the way for LCIV to now launch illiquid asset funds such as investments in Private Debt, Infrastructure, Property and Private Equity. LCIV will now work towards the OJEU procurement of a fund administrator and depository to launch these new investments.

## Fund Launch Status Report

2017/18 Fund Launch Status as of January 2018

LONDON CIV

| Plan Phase | Vehicle Type/On-Off Platform | Fund | Current Launch Date | MTFS Launch Date | Launch Date RAG | Launch £AUM (m) | MTFS £ AUM (m) | AUM vs. Plan and/or Commitments | Current AUM | Boroughs Indications of Interest / Comment |
|---|---|---|---|---|---|---|---|---|---|---|
| Global Equities | Delegated/On Platform | Henderson Emerging Markets | Jan '18 | Sep | | £80 | £150 | -£70 | £0 | £80m Lambeth seed investor. Indications of interest: £20m Enfield |
| | Delegated/On Platform | RBC Sustainable | Mar '18 | Sep | | £180 | £200 | -£20 | £0 | Hackney £180mil seed investor |
| | Delegated/On Platform | RWC Core Equity | tbc | Dec | | tbc | £150 | -£150 | | |
| Fixed Income | Delegated/On Platform | Global Bond (PIMCO) | tbc* | Mar '18 | | tbc | £300 per fund (on avg) | N | | * Contingent on written soft commitments being received from LLAs<br>^ Contingent on both written soft commitments being received from LLAs and completion of the OJEU process for the UAIF administrator and depository. Assuming commitments in the next 2 months this would be launched in July '18 |
| | Delegated/On Platform | Liquid MAC (CQS) | Mar '18 | Mar '18 | | tbc | | | | |
| | Delegated/On Platform | Liquid MAC (MidOcean) | tbc* | Mar '18 | | tbc | | N | | |
| | Direct/On Platform | Private Debt: Liquid Loans (Ares) | tbc* | July '18 | | tbc | | N | | |
| | Direct/On Platform | Illiquid MAC | tbc^ | July '18 | | tbc | | N | | |
| | Direct/On Platform | Private Debt: Illiquid Direct Lending (Ares) | tbc^ | Oct '18 | | tbc | | N | | |
| Infrastructure | tbc | Infrastructure Fund | tbc | Dec '18 | | tbc | £300 | N | | |
| | | | | | | MTFS Aum | £3.1bn | | | |

G on track | A AUM commitments delayed | R No firm AUM commitments / impact: delayed fund launches | N Fund structure & plan to be developed

## 4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The Pension Fund has in excess of £590m invested directly with the London Collective Investment Vehicle (CIV) and consequently has vested interests in good governance arrangements within LCIV. There are no specific financial implications arising as a result of this report.

## 5. LEGAL COMMENTS

5.1 This report provides an update on general developments affecting the London Pooling arrangements. As a member of the London CIV, the Council must be

mindful of its statutory duty to ensure the proper and efficient management of the Fund. Improvements to the pooling arrangements for the Tower Hamlets pension fund in the London CIV should assist the Council to meet its statutory duties.

## 6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment management and performance will reduce the contribution and increase the funds available for other corporate priorities.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## 7. BEST VALUE (BV) IMPLICATIONS

7.1 The effective and efficient management of Fund assets and achievement of performance targets are essential to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

## 8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## 9. RISK MANAGEMENT IMPLICATIONS

9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pensions Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

## 10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

**Local Government Act, 1972 Section 100D (As amended)**
**List of "Background Papers" used in the preparation of this report**

- NONE

**Officer contact details for documents:**

- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

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| Non-Executive Report of the:<br><br>**Pensions Committee**<br><br>14 March 2018 | TOWER HAMLETS |
|---|---|
| **Report of:** Zena Cooke, Corporate Director, Resources | **Classification:**<br>unrestricted |
| **Update on Pension Fund Procurement Plans 2017/18** | |

| | |
|---|---|
| **Originating Officer(s)** | Bola Tobun, Investment and Treasury Manager |
| **Wards affected** | All wards |

**Summary**

This report provides an update on the ongoing procurement activity in relation to the Pension Fund. The current activity has secured a new contract with a global custodian and also progressed in the appointment of the independent adviser to the Fund. These are the last of the appointments that have been undertaken during 2017/18 to bring up to date all the contractual arrangements with advisers to the Fund.

**Recommendations:**

The Pensions Committee is recommended to note the contents of this report and confirm which Members will be involved with the appointment of Independent Adviser.

## 1. REASONS FOR THE DECISIONS

1.1 The Council has an overarching responsibility to maintain the Pension Fund. It is essential that the Fund has the right range of advisers to support the Pension Fund Trustees (Pension Committee) to discharge its responsibilities. It is therefore essential to have an Independent Investment Adviser for the Fund.

1.2 Within the terms of reference for the Pensions Committee, they are required to 'to make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, advisers, investment managers and custodians and periodically to review those arrangements.'

1.3 The contents of this report and the procurement process demonstrate that this Committee is meeting both its regulatory and constitutional requirements.

## 2. ALTERNATIVE OPTIONS

2.1 There are no alternative options.

## 3. Progress Update on the appointment for Global Custody Services

3.1 The Global Custodian performs a key function for the Pension Fund by being responsible for the safekeeping of the Fund's securities. This function can be carried out by a custodian appointed directly by the fund or by appointed fund managers; however it is currently regarded as best practice for funds to appoint their own custodian. The cost of providing the custody services varies from year to year depending on the value, type of assets in custody and investment classification; that is whether pooled or segregated management of the assets. The cost for the Tower Hamlets Fund has recently been in the region of £60k to 150k per annum. Given the value of the Fund's assets is in excess of £1.3bn as at the end of March 2017, this is a relatively insignificant cost for ensuring an independent safekeeping, performance monitoring and recording keeping of the Fund's securities.

3.2 This approach to the safekeeping of the Fund's securities enables the Pensions Committee to discharge both its statutory obligations and its fiduciary responsibilities as Quasi Trustees of the Pension Fund.

3.3 State Street had been providing the global custody services for over 15 years without a formal market test and contractual review to ensure that the service represents best value for the Fund and meets the current needs of the Fund.

3.4 At the Pensions Committee meeting on 22nd September 2016 the procurement plans for this service which indicated intention to call off the Local Government Pension Fund National Framework (established by Norfolk County Council) for the procurement of the Global Custody Service.

3.5 When the LGPS Framework was reviewed, it was established that it was due to expire on 30th October 2017 and therefore Legal Services advised ( based

on Counsel's opinion) that a contract that went beyond the end of the framework should not be let as there would be a risk of challenge.

3.6 The appropriate procurement route was therefore to use the Open Procedure (as defined in the public procurement regulations), which is a single stage procurement.

3.7 This route was deemed appropriate because of the maturity of the market and the limited number of likely bidders (six known in the market). The tender was advertised on 27th October 2017 in the Official Journal of the European Union, as required in the procurement regulations.

3.8 Officers prepared and produced the necessary documentation in line with the requirements of the Tower Hamlets Pension Fund. It was determined that the evaluation of tenders would be carried out as follows:

- Quality of Service (50%) – covering reporting, resources, timescales, transition, data and administration and sustainability of the LGPS
- Service Fit (20%) – Compatibility with the Pension Fund and its employers, key risks, tools available for officers to manage the fund, challenges and transparency and data
- Pricing (30%) – Activity pricing, valuation and asset liability modelling, financial reporting exercises

3.9 The quality and service fit elements to be evaluated are as set out below:

| **Criteria: Quality & Service Fit** | **Weighting: 70%** |
|---|---|
| **A** Team & Organisational Experience | 10% |
| **B** Client Services | 14% |
| **C** Working with the Fund | 26% |
| **D** Service Fit (Presentation) | 20% |

3.10 Officers advised the six well known global custody service providers of the Council's intention to tender, in order to ensure that there were aware of the tender. These providers are:

- The Bank of New York Mellon SA/NV
- BNP Paribas Securities Services
- HSBC Securities Services
- J.P. Morgan
- The Northern Trust Company
- State Street Bank and Trust Company

3.11 The closing date for the receipt of tenders was 28th November 2017. Two firms submitted tenders for the work. The other providers advised that they did not intend to submit bids. Feedback indicated that this was due to the structure of the Fund. A panel of two officers, advised by the Independent Advisor to the Pension Fund, reviewed and scored the submissions in accordance with the criteria set out above. Visits to both bidders were

undertaken where the panel was supported by a graduate trainee. Presentations were given to establish the service fit with the Fund.

3.12 The outcome of the scoring as set out above was that Northern Trust was the successful bidder. Northern Trust has been informed and the contract is due to start from 2nd April 2018. Arrangements are in place to transition from State Street as the incumbent provider.

## 4 Appointment of the Independent Adviser

4.1 In the case of the independent adviser, a locally managed process is being followed which is similar to the usual recruitment and selection process. This means advertising the role in specific dedicated local government related websites and national newspapers in addition to the Council's website.

4.2 This will allow a shortlist of preferred candidates to be selected. Those candidates will need to register with our Request for Quotation system (supported by officers if necessary) and then provide some further information. This is because procurement regulations have to be conformed with and this approach will allow for that.

4.3 The indicative timetable for the appointment Independent Adviser is set out below. This will allow for a new adviser to be in place for the new Council Municipal Year which fits with the next cycle of meetings of the Committee. The appointment will be for a period of 3 years.

| Event | Date |
|---|---|
| Advertising the role on websites | 21st February 2018 |
| Deadline for CV and Covering Letter | 6th March 2018 |
| Shortlisted Candidates Notification | 8th March 2018 |
| Shortlisted Registration Period on Supplier System | 8th – 15th March |
| Request For Quotes (RFQ) issued | 16th March 2018 |
| Deadline for receipt of Clarification questions | 23rd March 2018 |
| RFQ Return deadline | 3rd April 2018 |
| RFQ evaluations | 4th – 6th April 2018 |
| Presentations - provisional | 9th - 11th April 2018 |
| Preferred Candidate notified | w/c 16th April 2018 |
| Expected start date for contract with new adviser | 2nd May 2018 |

4.4 A panel of officers will evaluate the responses to the questions asked at the RFQ stage to shortlist a maximum of three for presentations and clarification of their offer to the Fund. It would be helpful to have a member of the Pensions Committee involved in the presentations, at least, so it would be helpful if those interested could make themselves known at the Committee Meeting.

## 4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 This report provides an update on the procurement process and timeline for the Independent Adviser service contract. The process is being managed through internal resources and the cost of the advertising will be met from the existing budget which is met by the Pension Fund.

## 5. LEGAL COMMENTS

5.1 The Council is legally obliged to perform a tender in order to satisfy both its legal duty to obtain Best Value under the Local Government Act 1999 and the legal obligation to procure under the Public Contracts Regulations 2015 as amplified by European Law stated in the Parking Brixen case

5.2 The report describes the processes that have been followed when running the relevant tender exercises and these comply with the legal duties outlined above.

5.3 The quotation exercise for the Independent Advisor has not yet been completed. An elected member may take part in the evaluation of the tender provided that they complete the usual conflict of interest checks and complete a confidentiality undertaking.

5.4 In the event that the elected member performs a scoring role in the evaluation then that member must score the same part of each quote and or interview relating to all the quotes received

5.5 It is unlikely that the Council's duties under the Equality Act 2010 will be impacted by these procurements. However, the Council should always undertake at least the desktop assessment phase in order to demonstrate that the Council has given the matter due consideration.

## 6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## 7. BEST VALUE (BV) IMPLICATIONS

7.1 The use of the National Frameworks for the procurement of services for the Fund would result in a significant savings in comparison to a full OJEU process.

7.2 In the absence of a framework, to secure continuous improvement, the tender document were prepared to have regard to a combination of economy, efficiency and effectiveness (the best value duty). One principal way that the Council seeks to fulfil this duty generally is by subjecting spend to competition and choosing the winning bidder by applying pre-advertised evaluation criteria

to ensure that the winning bid shows the best and appropriate mix of price and quality..

## 8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## 9. RISK MANAGEMENT IMPLICATIONS

9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pensions Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

## 10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- Appendix 1 - Roles and Duties of LBTH Pension Fund Service Providers

**Local Government Act, 1972 Section 100D (As amended)**
**List of "Background Papers" used in the preparation of this report**

- NONE

**Officer contact details for documents:**

Bola Tobun(Investment & Treasury Manager) x4733

| Non-Executive Report of the:<br>**PENSIONS COMMITTEE**<br>**14 March 2018** | TOWER HAMLETS |
|---|---|
| **Report of:** Zena Cooke, Corporate Director of Resources | **Classification:**<br>Unrestricted |
| **Pension Fund Business Plan, Pensions Committee Work Plan and Budget for 2018/19** | |

| | |
|---|---|
| **Originating Officer(s)** | Bola Tobun, Investment and Treasury Manager |
| **Wards affected** | All |


**Summary**

The purpose of this report is to set out a business plan for the Pension Fund and to outline the Fund's goals and objectives for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

This report also presents the budget for the Pension Fund for 2018-19 along with an update of the outturn for 2017/18. It considers income and expenditure from various sources and the impact on these for the Pension Fund in the next financial year.


**Recommendations:**

Members are asked to:

- review and note the Business Plan attached as Appendix 1 to this report;
- review and note work plan for 2018/19 attached as Appendix 2; and
- approve the Revenue Budget for 2018/19 attached as Appendix 3.

## 1. REASONS FOR THE DECISIONS

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other scheduled bodies as defined in the Regulations. The Regulations also empower the Fund to admit employees of other defined (e.g. other public bodies, housing corporations) bodies into the Fund.

1.2 The proposed business plan for the Fund has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Business Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.

1.3 The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

## 2. ALTERNATIVE OPTIONS

2.1 The development and implementation of a work plan should ensure that a structured approach is in place for the monitoring and management of the Pension Fund. This should in turn ensure that the Council meets its statutory obligations as administering authority to the Fund. However, the Committee is under no obligation to adopt a work plan in carrying out its duties.

## 3. OVERVIEW OF THE WORK OF THE COMMITTEE

3.1 The Council has specific delegated functions that it has to fulfil as the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.

3.2 The key decision making for, and management of, the Fund has been delegated by the London Borough of Tower Hamlets (the Council) to a formal Pensions Committee, supported by officers of the Council and advisers to the Pension Fund. The Section 151 Officer has a statutory responsibility for the proper financial affairs of the Council including Fund matters. A local pension board is in place to assist with:

- securing compliance of Fund matters and
- ensuring the efficient and effective governance and administration of the Fund.

3.3 It is appropriate that the Committee should set out how it intends to fulfil its obligations as the delegated authority appointed by the Council to be responsible for the Fund. Adopting a planned approach should make monitoring easier for the Committee and ensure that activities critical to the effective management of the Fund are being undertaken.

**3.4** The primary objectives of the Fund are sub-divided into specific areas of governance, funding, investments, administration and communications which are covered in turn below.

**3.5 Governance Objectives**

1) All staff, Pension Board and Pension Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
2) The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties.
3) To understand and ensure compliance with all relevant legislation.
4) To ensure the Fund aims to be at the forefront of best practice for LGPS funds
5) Ensures the Fund manages Conflicts of Interest

**3.6 Funding Objectives**

6) To ensure the long-term solvency of the Fund.
7) To help employers recognise and manage pension liabilities as they accrue.
8) To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
9) To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations. (Including: addressing the different characteristics of disparate employers or groups of employers to the extent that this is practical and cost effective).

**3.7 Investment Objectives**

10) Optimising the return on investment consistent with a prudent level of risk
11) Ensure that there are sufficient assets to meet the liabilities as they fall due (i.e. focus on cash flow requirements)
12) Ensure the suitability of assets in relation to the needs of the Fund (i.e. delivering the required return).
13) Ensuring that the Fund is properly managed (and where appropriate being prepared to change).
14) Set an appropriate investment strategy for the Fund to allow the Administering Authority to seek to maximise returns (and minimise the cost of benefits) for an acceptable level of risk'). Ensure return seeking assets are in line with Funding objectives.

**3.8 Administration Objective**

15) To deliver an efficient, quality and value for money service to its scheme employers and scheme members.

**3.9 Communications Objective**

16) Ensure that all stakeholders are kept informed of developments within the Pension Fund. Ensuring that all parties are aware of both their rights and obligations within the Fund.

## 4. WORK PLAN

4.1 In designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated into the Fund Business Plan. The Pensions Committee Work Plan has therefore been developed using the business plan attached as appendix 1 to this report.

## 5. PENSION FUND REVENUE ACCOUNT

5.1 The budget estimate outlined in this report will assist the Council in monitoring expenditure of the Fund's revenue account in accordance with its requirement to manage resources effectively. The report provides details of the actual figures as at 31st March 2017 and revenue budget estimates for 2017/18 in respect of income and expenditure elements of the Pension Fund.

5.2 Members are requested to note the pension fund's Revenue Account position for 2017/18 and approve the proposed budget set out in Appendix 3.

5.3 **2017/18 Actual expenditure -** The estimates for the Pension Fund can be difficult to predict because of the uncertainty surrounding a number of aspects such as transfer values, death grants, and volatility in investment markets. Total expenditure of £70.6m was budgeted for in 2017/18; the actual amount as at December 2017 is £54.5m. This is indicates a reduction in payments.

5.4 **2017/18 Actual income** - A lump sum payment of some £36m in respect of prepaid deficit contribution was paid into the Fund by the Council for this financial year; hence the total income as at 31st December was some £81.5m compared to £65.3m budget set for 2017/18.

**5.4 2018/19 Proposed Budget –** As indicated above, the budget can be difficult to predict however the following paragraphs set out some of the assumptions behind the proposed 2018/19 budget estimates set out in Appendix 3.

*a) Contribution Receivable*

The budget figure is based on 2017/18 activity levels using the contribution rate as stipulated by the actuary plus a 2.5% to reflect the pay award for 2018/19. A lump sum payment of some £36m in respect of the deficit has been paid into the Fund by the Council in financial year ending 2017/18; hence expected contribution rate for 2018/19 is less due to this deficit contribution prepayment.

*b) Transfer Values In*

The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service, salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

*c) Benefits Payable*

For 2018/19, the budget figure is based on 2017/18 activity levels with a 1% Pensions Increase plus a year on year increase in the number of pensioners by 2% has been applied.

*d)* *Payments to and on account of leavers*

*e)* The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service and salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

*f)* *Administrative and other expenses borne by the scheme*

These costs are estimated on the basis of planned workloads with a 3.5% allowance for inflation. Costs include officers' time, the cost of provision of accommodation and IT facilities, bank charges, global custodian fees, training for officers and members of the pension committee and pension board and professional advisers' fees.

*g)* *Investment Income*

Investment Income is assumed at 4% on average assets valuation of £1.4 billion and over *3/4th* will be subsequently re-invested by the Fund Managers.

*h)* *Change in Market Value of Investments*

An investment of £1.523m is assumed to decrease by 10% due to assumed correction of asset price forecast for 2018/19. (As the economists has been saying that we are in uncharted waters. Prices for sovereign, corporate and high-yield bonds and equities are at, or near, record levels thanks to the ultra-low policy interest rates and the massive quantitative-easing programs of the G3 central banks (the US Federal Reserve, the European Central Bank and the Bank of Japan) over the past decade. Currently two of those central banks are winding back, in response to the strengthening economic environment; the Federal Reserve is raising the cash rate and has commenced an automatic program to shrink its balance sheet while the European Central Bank has halved its asset-buying program). The combined return of investment income and capital growth for 17/18 net assets were assumed to be 6.75% per annum, but this to 31st December 2017 has been 8.1%.

*i)* *Fund Managers Fees*

Fund managers' fees are calculated at an average rate of 0.25% on average assets valuation of £1.4 billion.

*j)* *Global Custodian Fees*

The fee is set at £35,000 as per fees schedule.

*k)* *Tax on Dividends*

Net tax on dividends is based on 8% of budgeted investment Income.

## 6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The performance of the Pension Fund's investments affects the required level of contributions due from employers.

6.2 LGPS regulations specify that any net sums not immediately required should be invested in accordance with regulations. The investment of Pension Fund cash has been kept separate from Tower Hamlets Council's investments but invested in accordance with the Council's Treasury Management Strategy.

6.3 Sound financial management of the Pension Fund, including budget-setting, helps ensure that the Pension Fund is run in an efficient and cost-effective manner. Poor management of the Pension Fund finances would result in increased costs, which would need to be met through higher employer contributions to the Pension Fund.

6.4 Any financial commitments arising from this report, including the £35k global custodian fee will be met from the pension fund. Thus there are no financial implications on the Council general fund.

## 7. LEGAL COMMENTS

7.1 Administering authorities are now bound by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which have replaced the 2009 Regulations. These regulations set out an administering authority's statutory duties in ensuring the proper administration and management of its pension fund.

The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

7.2 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about budgetary matters. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

7.3 Members of the Pensions Committee are required by the Council's Constitution to consider pension matters and meet the various statutory obligations and the duties of the Council. This Work Plan provides for certain statutory requirements to be met and for members to be well trained and kept up to date and thus fit for purpose.

7.4 When making decisions regarding investment of pension funds, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

## 8. ONE TOWER HAMLETS CONSIDERATIONS

8.1 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.

8.2 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

## 9. BEST VALUE (BV) IMPLICATIONS

9.1 A Business plan, work plan and budget should result in a more efficient process of managing the Pension Fund.

## 10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

10.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## 11. RISK MANAGEMENT IMPLICATIONS

11.1 The adoption of a work plan will minimise risks relating to the management of the Fund and should assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Tower Hamlets Pension Fund.

## 12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no any crime and disorder reduction implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- Appendix 1 - Business Plan 2018-2021
- Appendix 2 - Pensions Committee Work Plan
- Appendix 3 - Pension Fund Budget 2018/19

**Local Government Act, 1972 Section 100D (As amended)**
**List of "Background Papers" used in the preparation of this report**

- NONE

**Officer contact details for documents:**

- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

**Appendix 1**

# BUSINESS PLAN 2018-2021

In order to meet the objectives of the Pension Fund, the Pensions Board has to review the business plan and the Pensions Committee has to review and agree the business plan for the period 2018-2021. This has to be put into the context of a period of significant uncertainty for the Fund, which reflects not just ongoing volatility in investment markets, but also measures for structural reform which could have a fundamental impact on the overall management of the Fund.

The purpose of the business plan is to:

a) explain the background and objectives of London Borough of Tower Hamlets for the management of the Tower Hamlets Pension Fund
b) document the priorities and improvements to be implemented by the pension administration service during the next three years to help achieve those objectives
c) enable progress and performance to be monitored in relation to those priorities
d) provide staff, partners and customers with a clear vision for the next three years.

Set out in the table below is the 3 year business plan for the Pension Fund:

| | 2018/19 | 2019/20 | 2020/21 | Objective Reference (s) |
|---|---|---|---|---|
| **Governance Objectives** | | | | |
| Pension Fund Accounts | April - July | April - July | April - July | 1,2,3,7,13,15,16 |
| Approve Final PF R&A | July | July | July | 1,2,3,7,13,15,16 |
| Employer Forum | November - January | November - January | November - January | 3,4,7,8,9,15,16 |
| Review Risk Register | March-July | March-July | March-July | 1,2,5,6,7,8,9,10,11,12,13 |
| TPR Code of Practice | April - October | March - June | March – June | 1,2,3,4,5 |
| Governance Policy Review | December - March | December - March | December-March | 1,2,3,4,5 |
| Self-Assessment & Review of Advisers | March-July | March-July | March-July | 1,2,3,4,5 |
| Induction Training for New Members | May – July (As Required) | May – July (As Required) | May – July (As Required) | 1, 2, 4, 15 |
| Member's Training Programme | Quarterly | Quarterly | Quarterly | 1,2,4,15 |
| Training Policy Review | November – January | November – January | November – January | 1,3,4 |
| Pensions Board – Annual Reporting | Mar - June | Mar - June | Mar - June | 1,2,3,4,6,7,8,9,10,11,12,13,14,15,16 |
| Review Performance, funding and budget | Quarterly | Quarterly | Quarterly | 1,2,3,4,6,7,8,9,10,11, 12,13,14,15,16 |

| | 2018/19 | 2019/20 | 2020/21 | Objective Reference (s) |
|---|---|---|---|---|
| AVC Review | September – January | | September – January | 1,2,3,4,5 |
| Review Reporting Breaches Policy | July | July | July | 10,15,16 |
| Review Conflicts of Interest Policy Review | July | July | July | 5 |
| Creation & Review Cessation Policy | April - July | | April - July | 5,6,7,8,9,15,16 |
| **Funding Objectives** | | | | |
| Actuarial Valuation 2019 | | April - March | As Required | 5,6,7,8,9,15,16 |
| Review of Funding Strategy Statement | | November - March | April - March | 5,6,7,8,9,15,16 |
| **Investments Objectives** | | | | |
| Review Investment Strategy Statement | March - July | As required | As required | 1,3,10,11,12,13,14,15,16 |
| Investment in Multi-Asset Manager | April - July | | | 1,2,4,10,11,12, 13,14,15 |
| Investment in Infrastructure, Long Lease or Private Debt | July - December | | | 1,2,4,10,11,12, 13,14,15 |
| Review Investment Consultancy Contract | | | September – March | 5,10,11,12,13, 14,15 |
| Review Actuarial Services Contract | | | September – March | 5,10,11,12,13, 14,15 |
| Strategic Asset Allocation – Regular Review | Ongoing | Ongoing | Ongoing | 1,4,6,8,9,10,11,12,13,14 |
| Carbon Footprint Audit | March - June | March - June | March - June | 5,6,7,8,9,15,16 |
| Pension Fund Treasury Management Strategy | January | January | January | 1,9,10,11,12,13,14,15 |
| Individual Manager Review | Quarterly | Quarterly | Quarterly | 1,2,4,10,11,12, 13,14,15 |
| Asset/Liability Monitoring | Ongoing | Ongoing | Ongoing | 5,10,11,12,13, 14,15,16 |
| Collaborative working-London CIV | Ongoing | Ongoing | Ongoing | 1,2,4,10,11,12, 13,14,15 |
| **Pension Administration** | | | | |
| Pension Administration Strategy | January – March | January – March | January – March | 1,2,3,7,9,15,16 |
| GMP Reconciliation | April-June | | | 1,2,3,15,16 |
| Employer data Improvements | Ongoing | Ongoing | Ongoing | 1,2,3,7,9,15,16 |

| | 2018/19 | 2019/20 | 2020/21 | Objective Reference (s) |
|---|---|---|---|---|
| Administering Authority Discretions Review | April-July | | | 1,2,3,4,5,9,10, 15,16 |
| Admitted Bodies Policy | September | | September | 1,2,3,4,5,9,10,15,16 |
| Employing Authority Discretions | July | | July | 1,2,3,4,5,9 |
| **Communications** | | | | |
| Annual Benefit Statements | August – September | August – September | August – September | 15,16 |
| Auto-Enrolment /Workplace Pensions | Ongoing | Ongoing | Ongoing | 1,2,3,15,16 |
| Communications Policy Review | January-March | January-March | January-March | 1,2,3,15,16 |

## Appendix 3

### Pension Fund Budget 2018/19

| | Account as at 31st Mar 2017 £,000 | Original Budget 20017/18 £,000 | 2017/18 Forecast for 31st Dec 2017 £,000 | 2017/18 Actual as at 31st Dec 2017 £,000 | 2017/18 Variance as at 31st Dec 2017 £,000 | Budget For 2018/19 £,000 |
|---|---|---|---|---|---|---|
| **Contributions Receivable** | | | | | | |
| - from Employer | 51,812 | **51,360** | 38,520 | 65,872 | *27,352* | **14,932** |
| - from Employees | 11,151 | **11,470** | 8,602 | 10,441 | *1,839* | **14,340** |
| | | | | | *0* | |
| Transfer Values In | 2,195 | **2,500** | 1,875 | 5,166 | *3,291* | **2,500** |
| Other Income | | | | | | |
| **Sub - Total Income** | 65,158 | **65,330** | 48,997 | 81,479 | *32,482* | **31,773** |
| **Benefits Payable** | | | | | | |
| - Pensions | 39,485 | **50,515** | 37,886 | 37,907 | *21* | **52,059** |
| - Purchase of Pensions | | | | | | |
| - Lump Sums: Retirement Allowances & Death Grants | 12,341 | **14,935** | 11,201 | 11,933 | *732* | **16,392** |
| **Payments to and on account of leavers** | | | | | | |
| - Refunds of Contributions | 259 | | | 155 | *155* | |
| - Transfer Values Out | 3,517 | **3,980** | 2,985 | 4,208 | *1,223* | **5,279** |
| - Other payments | 29 | | | | | |
| **Administrative and other expenses borne by the scheme** | | | | | | |
| - Administration and processing | 669 | **885** | 664 | 245 | *(419)* | **950** |
| - Actuarial fees | 97 | **40** | 30 | 45 | *15* | **40** |
| - Audit fees | 21 | **21** | 16 | | *(16)* | **21** |
| - Legal and other professional fees | 120 | **213** | 160 | 35 | *(125)* | **110** |
| **Sub - Total Expenses** | **56,538** | **70,590** | **52,942** | **54,528** | ***1,586*** | **74,851** |
| **Total Net Additions (Withdrawals) from Dealings with Members** | *8,620* | *(5,260)* | (3,945) | *26,951* | *30,896* | ***(43,080)*** |
| **RETURNS ON INVESTMENTS** | | | | | | |
| Investment Income | 17,413 | **17,500** | 13,125 | 10,762 | *(2,363)* | **15,240** |
| Change in Market Value of Investments | 218,459 | **11,650** | 8,737 | 119,071 | *110,334* | **(171,689)** |
| **Investment management Expenses** | | | | | | |
| -Fund Managers Fees | (2,879) | **(3,190)** | (2,392) | (641) | *1,751* | **(3,495)** |
| -Performance Measurement Fees | (17) | **(20)** | (15) | (10) | *5* | **(25)** |
| -Investment Consultancy Fees | (49) | **(80)** | (60) | (55) | *5* | **(35)** |
| **Total Return On Investments** | **232,927** | **25,960** | **19,395** | **129,127** | ***109,732*** | **(160,004)** |
| NET INCREASE (DECREASE) IN THE FUND DURING THE YEAR | **241,547** | **20,702** | **15,450** | **156,078** | ***140,628*** | **(203,083)** |
| OPENING NET ASSETS OF THE SCHEME | **1,126,129** | **1,312,568** | **1,312,568** | **1,367,675** | | **1,523,753** |
| **CLOSING NET ASSETS OF THE SCHEME** | **1,367,675** | **1,333,270** | **1,328,017** | **1,523,753** | ***195,736*** | **1,320,670** |

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**Appendix 2**

# PENSIONS COMMITTEE

## Work Plan

**2018/19**

| Date of Meeting | Items | Title of Report / Presentation | Contact Officer |
|---|---|---|---|
| July 2018 | 1 | Members Training – Roles and Responsibilities in LGPS | |
| | 2 | Quarterly Performance Reporting of Fund Managers and update on emerging /current issues | Investment & Treasury Manager |
| | 3 | Quarterly Administrative Key Performance Indicators Report | Pensions Manager |
| | 4 | Annual Review of Investment Strategy Statement and Funding Strategy Statement | Investment & Treasury Manager |
| | 5 | Review of Compliance Checklist for the Pensions Regulator Code of Practice | Investment & Treasury Manager/Pensions Manager |
| | 6 | Review of Annual Report | Investment & Treasury Manager |
| | 7 | Carbon Footprint Audit | Investment & Treasury Manager |
| | 8 | Review of Pensions Administration Policy | Pensions Manager |
| | 9 | Review of Fund Managers' internal control (SAS70) | Investment & Treasury Manager |
| September 2018 | 1 | Members Training – Presentation on Infrastructure and Private Debt | |
| | 2 | Quarterly Performance Reporting of Fund Managers and update on emerging /current issues | Investment & Treasury Manager |
| | 3 | Quarterly Administrative Key Performance Indicators Report | Pensions Manager |
| | 4 | Production and Approval of Risk Management Policy and Risk Register | Investment & Treasury Manager |
| | 5 | Review of actuarial, investment advice and custodial services | Investment & Treasury Manager |
| | 6 | Review of Governance Compliance Statement | Investment & Treasury Manager |
| | 7 | Approval of Annual Report | Investment & Treasury Manager |

| | | | |
|---|---|---|---|
| November 2018 | 1 | Members Training – Actuarial Valuation | Various |
| | 2 | Quarterly Performance Reporting of Fund Managers and update on emerging /current issues | Investment & Treasury Manager |
| | 3 | Quarterly Administrative Key Performance Indicators Report | Pensions Manager |
| | 4 | Review of actuarial, investment advice and custodial services | Investment & Treasury Manager |
| | 5 | Review of Risk Register | Investment & Treasury Manager |
| | 6 | Review of TPR Compliance Checklist | Investment & Treasury Manager/Pensions Manager |
| | 7 | Report on LCIV update and development | Investment & Treasury Manager |
| | 8 | Review of Reporting Breaches Policy and Conflicts of Interest Policy | Investment & Treasury Manager |
| March 2019 | 1 | Quarterly Performance Reporting of Fund Managers and update on emerging /current issues | Investment & Treasury Manager |
| | 2 | Quarterly Administrative Key Performance Indicators Report | Pensions Manager |
| | 3 | Report on Fund Managers performance and costs | Investment & Treasury Manager |
| | 4 | Review of Communications Policy Statement | Pensions Manager |
| | 5 | Report on Corporate Governance, Stewardship, Engagement & Share Voting | Investment & Treasury Manager |
| | 6 | Review of Training Policy | Investment & Treasury Manager |
| | 7 | Review of Pensions Administration Policy | Pensions Manager |
| | 8 | Pension Fund Work Plan and Budget 2019/20 | Investment & Treasury Manager |

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| Non-Executive Report of the:<br><br>**Pensions Committee**<br><br>14 March 2018 | TOWER HAMLETS |
|---|---|
| **Report of:** Zena Cooke, Corporate Director, Resources | **Classification:**<br>Unrestricted |
| **Investment and Fund Managers Performance Review for Quarter Ending 31st December 2017** | |

| | |
|---|---|
| **Originating Officer(s)** | Bola Tobun, Investment & Treasury Manager |
| **Wards affected** | All wards |


**Summary**

This report informs Members of the performance of the Pension Fund and its investment managers for the third quarter of 2017/18.

| | |
|---|---|
| **Fund Outperformed over the quarter.**<br><br>**Five mandates matched or achieved benchmark set.** | The Fund delivered a positive return of 3.4% for the quarter, outperforming its benchmark return of 2.7% by 0.7%.<br><br>For this quarter end, five mandates matched or achieved returns above the benchmark. The three that did not reach the benchmarks were the mandates with LCIV BG (DGF), Insight and GSAM. Overall for this reporting quarter the Fund performance was ahead of its benchmark.<br><br>Fund Valuation £1.524bn, increased over the quarter by £91m; made up of capital gain of £55m and capital contribution of £36m. |
| **Fund Outperformed over the twelve months period.**<br><br>**Three mandates matched or achieved benchmark set.** | For the twelve months to December 2017, the Fund returned 12% outperforming the benchmark of 9.2%, the Fund is ahead of its benchmark by 2.8%. The Fund valuation increased by £211m for these twelve months.<br><br>Three mandates underperformed their respective benchmark. The mandates that lagged behind their respective benchmarks were LCIV Ruffer lagged behind by -1.7%, GSAM lagged behind by -4.2% and Insight by -3.4%. |
| **Fund is broadly in line with the strategic benchmark weight.** | Looking at the longer term performance, the three year return for the Fund was 10.5%, ahead of its benchmark return by 0.5% for that period. Over the five years, the Fund posted a return of 11% outperforming the benchmark return of 10.4% by 0.4%.<br><br>The Fund is still in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight. |


**Recommendations:**
Members are recommended to note the contents of this report.

## 1. REASONS FOR THE DECISIONS

1.1. The report informs the Pension Committee of the performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

## 2. ALTERNATIVE OPTIONS

2.1. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Pension Fund so there is no alternative but to report the performance of the Fund to the Pension Committee on a regular basis,

## 3. DETAILS OF REPORT

3.1. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Fund. It considers the activities of the investment managers and ensures that proper advice is obtained on investment issues.

3.2. Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and may recommend that investment managers are invited to explain further to the Pensions Committee.

3.3. This report informs Members of the performance of the Fund and its investment managers for the quarter ended 31st December 2017.

### 3.4. SUMMARY OF THE PENSIONS FUND INVESTMENTS

**London Common Investment Vehicle (LCIV)**

The London CIV was formed as a voluntary collaborative venture by the London Local Authorities in 2014 and has led the way in pooling of investments in the Local Government Pension Scheme (LGPS). The London CIV aims to be the investment vehicle of choice for Local Authority Pension Funds through successful collaboration and delivery of compelling performance. The LCIV was launched in December 2015, as a fully authorised and regulated investment management company. The founding members are the London boroughs and the City of London Corporation. The LCIV has been established as a collective investment vehicle for their Local Government Pension Scheme funds. The current regulatory permission allows the London CIV to operate an Authorised Contractual Scheme Fund (the UK's version of a Tax Transparent Fund).

The London CIV currently manages three investment portfolios of LBTH fund which are listed below:

a) **The Baillie Gifford diversified growth fund (DGF)** mandate was opened in February 2011 with contract value of £40m. £6.409m was added to this portfolio in the month of June 2015. The performance target for this mandate is to outperform the benchmark (3% p.a. above the 3 month LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%. This mandate was transferred to LCIV on 15 February 2016 at market value of £54.177m and the portfolio is named ***LCIV (BG) DGF.*** A capital contribution of £70m was paid into this portfolio on 23rd August 2017. The

market value of assets as at 31 December 2017 was £135.730m. For this reporting quarter, the return of this portfolio was 1.7% with relative outperformance of 0.9% above the benchmark return of 0.8%. The portfolio outperformed the benchmark for one year to reporting period by 3%, also outperformed the benchmark return over 3 years by 1.7% per annum and by 1.7% per annum for 5 years. The portfolio invests in a diversified range of asset classes and the breakdown is shown in the manager's quarterly summary report, attached to this report as Appendix 2a.

b) **The Baillie Gifford global equity fund** had a value of £118.9m at the start of the mandate in July 2007. The performance target for this mandate is 2% to 3% above the benchmark MSCI AC World Index gross of fees over a rolling 3-5 year period. This mandate was transferred to LCIV on 22 April 2016 at market value of £214.1m and the portfolio is named ***LCIV (BG) GA.*** The market value of the assets as of 31 December 2017 was £321.042m. The portfolio marginally underperformed the benchmark by delivering a return of 4.8% compared to benchmark return of 4.9% over the quarter. But the portfolio outperformed the benchmark for one year to reporting period by 8.7%, also outperformed the benchmark return over 3 years by 3.3% per annum and by 3.2% per annum for 5 years. Further information on this portfolio is attached to this report as Appendix 2b.

c) **Ruffer LLP** manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. £6.474m was added to this portfolio on 2nd June 2015. The management of this portfolio was transferred to the LCIV on 20th June 2016 at market value of £54m and the portfolio is named ***LCIV Ruffer.*** Capital contribution of £70m was added to this portfolio on 23rd August 2017. The performance target for this mandate is to outperform the benchmark (3.5% p.a. above 3 month LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%. The value of assets under management as of 31st December 2017 was £134.730m. The portfolio outperformed the benchmark by delivering a return of 2.7% compared to benchmark return of 0.8% over the quarter. But the portfolio underperformed the benchmark for one year to reporting period by -1.7%, but outperformed the benchmark return over 3 years by 1.4% per annum and by 2.6% per annum for 5 years. Further information on this portfolio is attached to this report as Appendix 2c.

**GMO**

GMO manages a Global Equity Mandate, the initial value of assets taken on at the commencement (29 April 2005) of the contract was £201.8m. On 25 November 2014, £20.8m was redeemed from the portfolio; a further £10.674m was redeemed from the portfolio on 29 May 2015 in order to keep the strategic asset allocation weight in line with the investment policy, another £50m was redeemed on 25th May 2017. This mandate was terminated with GMO on 31st July 2017 and the manager was asked to oversee the assets in the portfolio on a care and maintenance basis, pending the engagement of a transition manager to oversee the repositioning of these assets. The pooled emerging market fund of this mandate was redeemed on 17th August 2017, received redemption proceeds of some £75m from the manager. This manager mandate was terminated on 1st July 2017 and assets in this portfolio were transitioned to Legal & General Global Equity Fund on 1st December 2017.

**Goldman Sachs Asset Management**

On 4th April 2016, the fund invested £75m in Goldman Sachs Strategic Absolute Return Bond II (STRAT II). The performance target is to outperform the benchmark (3 Month LIBOR) by 4.0% per annum net of fees over a rolling three year period. The portfolio had a market value of £77.151m at 31st December 2017. The portfolio underperformed the benchmark (3 month LIBOR plus 4%) in the reporting period by posting returns of 0.2% against a benchmark return of 1.1% also underperformed the benchmark for one year to reporting period by -4.4%. Further information on this portfolio is attached to this report as Appendix 3.

**Insight Investment Management**

On 1st July 2016, the fund invested £70m with Insight Investment Management in BNY Mellon Global Funds. The portfolio had a market value of £71.797m at 31st December 2017. The performance target is to outperform the benchmark (3 Month LIBOR) by 3-4% per annum net of fees over a rolling three year period. The portfolio underperformed the benchmark (3 month LIBOR plus 4%) in the reporting period by posting returns of 0.6% against a benchmark return of 1.1%, the portfolio also underperformed its benchmark for one year to reporting period by -3.4%. Further information on this portfolio is attached to this report as Appendix 4.

**Legal & General Investment Management**

Legal & General was appointed on 2nd August 2010 to manage passively UK Equity and UK Index-Linked Mandates. A decision was made at the September 2017 Committee meeting following the outcome of the Fund investment strategy review to disinvest from passive UK Equity mandate as it is difficult to justify the overweight to the UK market from an investment perspective. The preposition to invest the redemption proceeds of this portfolio along with GMO legacy portfolio in Passive Global Equity and Low Carbon Passive Global Equity Fund was agreed by the Committee and the transition of the assets occurred in December 2017. Hence the revised benchmark for LGIM Equity portfolio is as shown below:

| **Fund** | **Allocation (30% of total LBTH Fund)** |
|---|---|
| FTSE All World Equity Index | 16.7% |
| FTSE All World Equity Index GBP Hedged | 33.3% |
| MSCI World Low Carbon Target Index GBP Hedged | 50.0% |

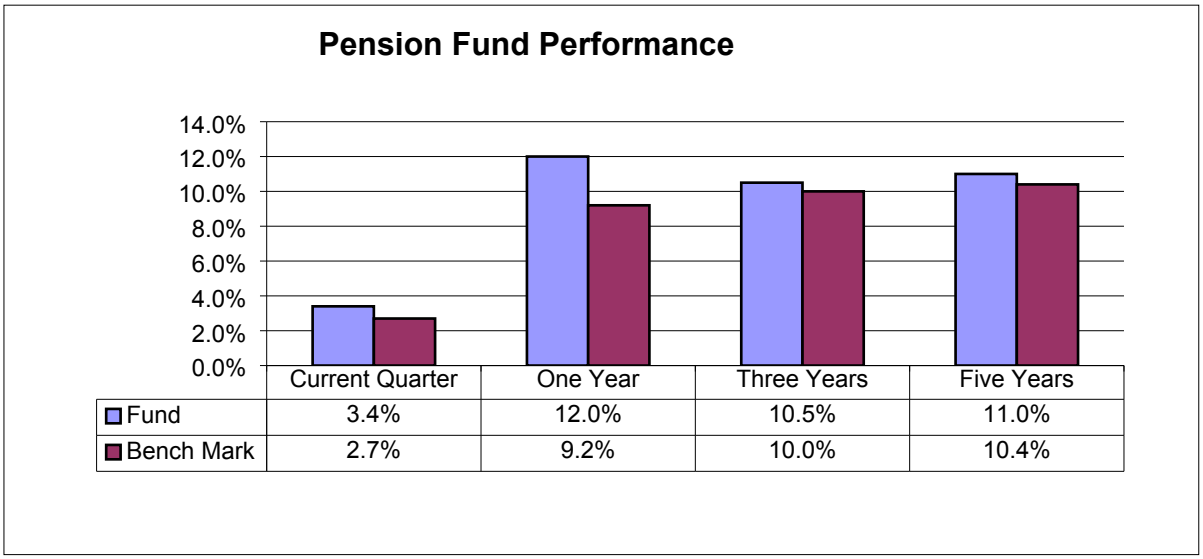
The performance target is to track the FTSE All World Equity Index GBP Hedged for the Hedged Passive Global Equity, FTSE All World Equity Index for the (Unhedged) Passive Global Equity mandate, MSCI World Low Carbon Target Index GBP Hedged for the Low Carbon Passive Global Equity mandate and FTSE A Gov Index-Linked > 5 years benchmark for the UK Index-Linked Mandate. At 31st December 2017, the (Unhedged) Passive Global Equity portfolio had a market value of £84.397m, the Low Carbon Passive Global Equity portfolio had a market value of £253.904m and the Hedged Passive Global Equity portfolio had a value of £169.280m and the UK Index linked portfolio was £74.430m. All the portfolios matched the benchmark returns. Further information on the portfolios being managed by this manager is attached to this report as Appendix 5.

**Schroder's Investment Management**

Schroder manages a property mandate. The value of this mandate on 20th September 2004 was £90m. The performance target for this mandate is to outperform the IPD UK Pooled Property Fund Indices All Balanced Funds Median by 0.75% net of fees over a rolling three year period. The market value of assets at 31st December 2017 was £152.619m. The portfolio performance is marginally above the benchmark return for this reporting quarter by 0.1% however the performance was above the benchmark by 1.2% for twelve months to 31 December 2017. Over the longer term performance slightly above benchmark by 0.2% per annum over three years but for over five years, performance was -0.3% per annum below the portfolio target. Further information on the portfolios being managed by this manager is attached to this report as Appendix 6.

**INVESTMENT PERFORMANCE**

3.5. The overall value of the Fund at 31st December 2017 stood at £1,523.477m which is an increase of £91.079m from its value of £1,432.398m as at 30th September 2017.



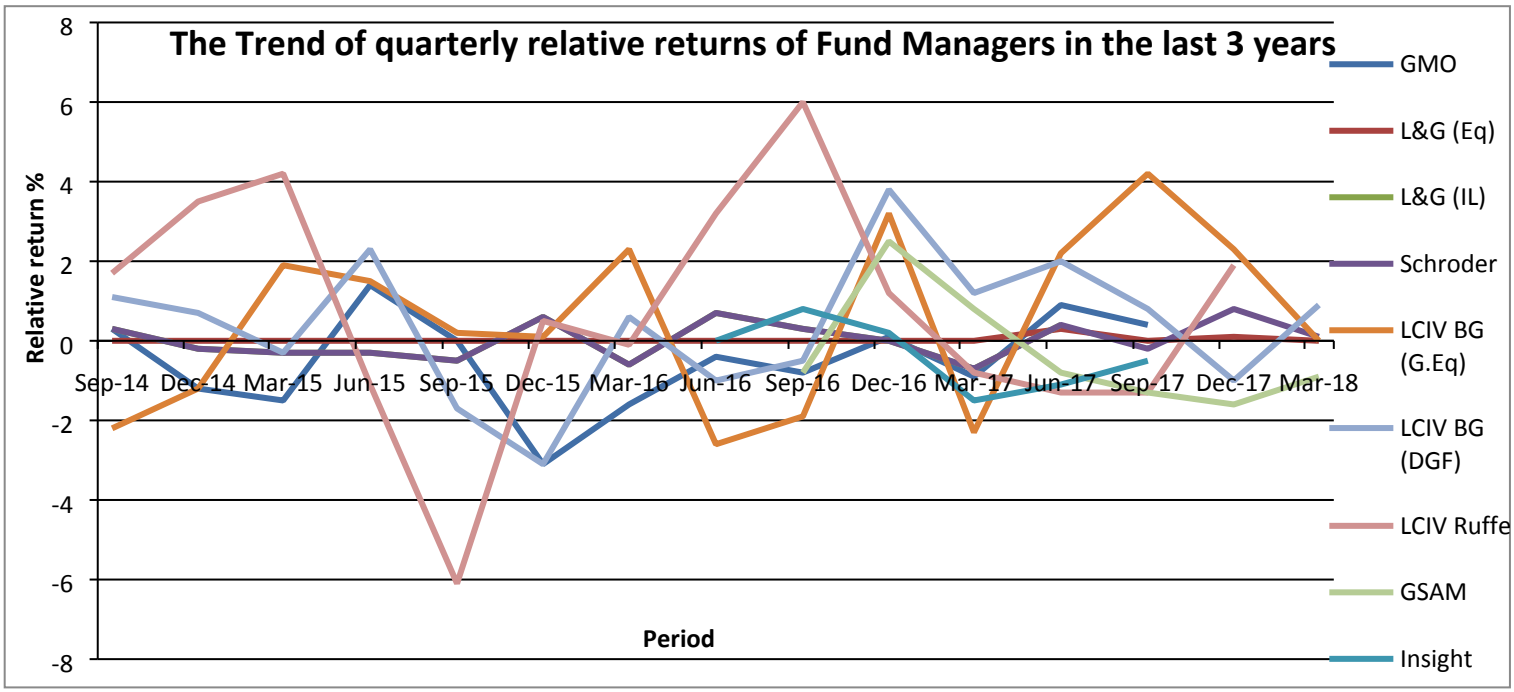

| | Current Quarter | One Year | Three Years | Five Years |
|---|---|---|---|---|
| Fund | 3.4% | 12.0% | 10.5% | 11.0% |
| Bench Mark | 2.7% | 9.2% | 10.0% | 10.4% |

3.6. The fund outperformed the benchmark this quarter by 0.7% with a return of 3.4% compared to its benchmark return of 2.7%. The twelve month period sees the fund ahead of its benchmark by 2.8%, as shown on the graph above.

**MANAGER PERFORMANCES**

3.7. The Fund is being managed by five managers with nine different mandates. LCIV with three mandates managing the Global Equities, diversified growth fund and total return fund on an active basis; UK Index-Linked, Low Carbon Global Equities, Hedged and Unhedged Global Equities are passively managed by LGIM; GSAM and Insight managing absolute return pooled bond funds and Schroders are the property manager.

3.8. The graph below demonstrates the volatility and cyclical nature of financial markets relating to the fund's investment holdings. Over the three year period shown in the graph, the outcomes are within the range of expectations used by the Fund actuary in assessing the funding position. The Fund can take a long term perspective on investment issues principally because a high proportion of its pension liabilities are up to sixty years in the future.

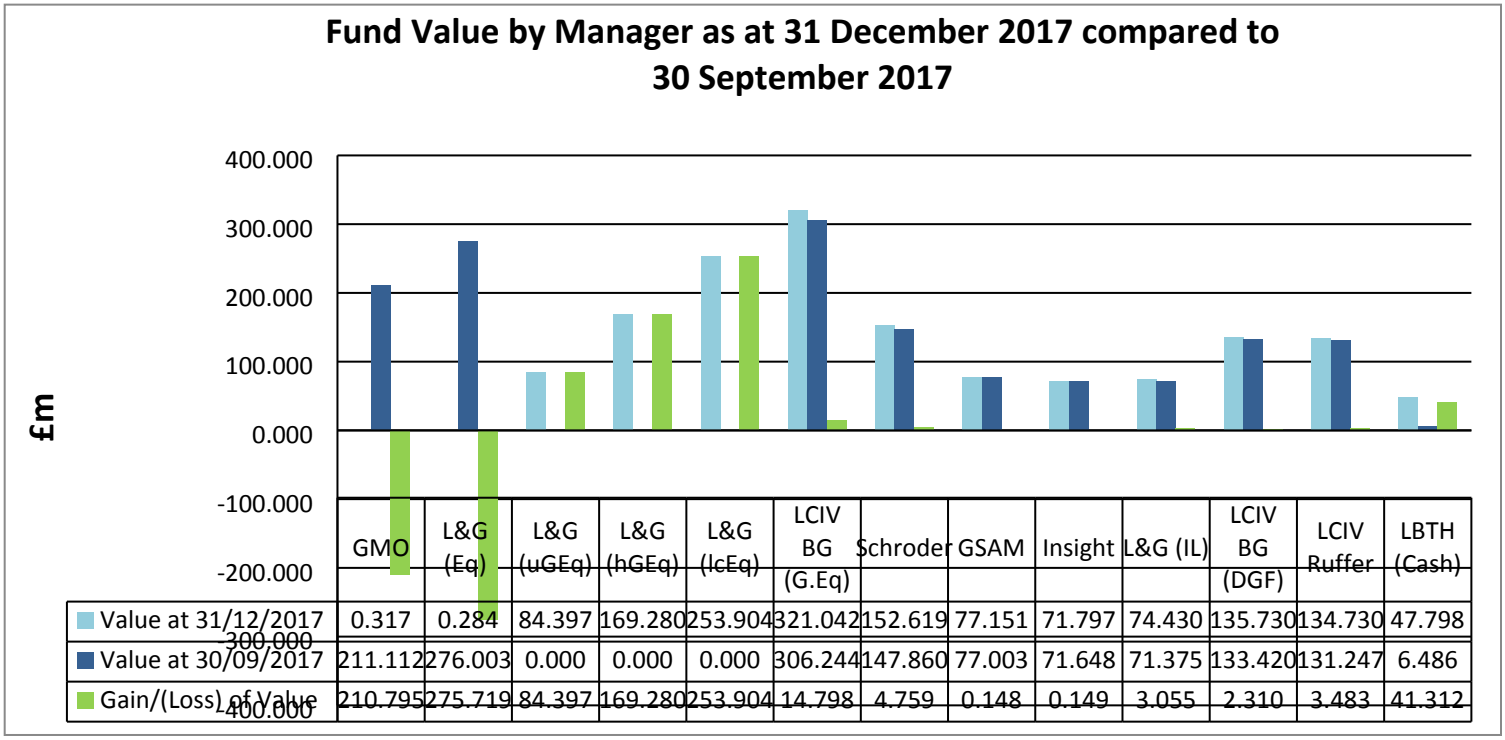



3.9. The managers, mandate and funds held under management are set out below. The Fund was valued at £1,523.477 million as at 31st December 2017. This includes cash held and being managed internally (LBTH Treasury Management), this stands at 3.1% of the total assets value, this constitutes investment in money market fund (MMF) of £40m and £7.8m working capital of the Fund.

| Manager | Mandate | Value at 30th Sept. 2017 £m | Strategic Weight of FM AUM* | Actual Weight of FM AUM | (Under)/ Over Weight Target | Date Appointed |
|---|---|---|---|---|---|---|
| GMO | Global Equity | 0.317 | 0.00% | 0.0% | Terminated | 29-Apr-05 |
| L & G UK Equity | UK Equity | 0.284 | 0.00% | 0.0% | Terminated | 02-Aug-10 |
| L&G (Unhedged GEq) | Global Equity | 84.397 | 5.00% | 5.50% | 0.5% | 01- Dec-2017 |
| L&G (Hedged GEq) | Global Equity | 169.280 | 10.00% | 11.10% | 1.1% | 01- Dec-2017 |
| L&G (Low Carbon Eq) | Global Equity | 253.904 | 15.00% | 16.70% | 1.7% | 01- Dec-2017 |
| LCIV BG (Global Equity) | Global Equity | 321.042 | 20.00% | 21.10% | 1.10% | 05-Jul-07<br>22 Apr 2016** |
| LCIV BG (Diversified Growth) | Absolute Return | 135.730 | 10.00% | 8.90% | (1.10)% | 22-Feb-11<br>15 Feb 2016** |
| LCIV Ruffer (Total Return Fund) | Absolute Return | 134.730 | 10.00% | 8.80% | (1.20)% | 08-Mar-11<br>15 Jun 2016** |
| L & G Index Linked-Gilts | UK Index Linked | 74.430 | 6.00% | 4.90% | (1.10)% | 02-Aug-10 |
| GSAM | Bonds | 77.151 | 6.00% | 5.10% | (0.90)% | 04-Apr-16 |
| Insights | Bonds | 71.797 | 6.00% | 4.70% | (1.30)% | 01-Jul-16 |
| Schroder | Property | 152.619 | 12.00% | 10.00% | (2.00)% | 30-Sep-04 |
| Internal cash Management | Cash | 47.798 | 0.00% | 3.10% | 3.10% | N/A |
| **Total** | | **1,523.477** | **100.00%** | **100.00%** | **0.00%** | |

* FM AUM is Fund Asset under Management with a Fund Manager
**The date asset ownership was transferred from LBTH Pension Fund to LCIV for management under the pooling arrangements.

3.10. The next graph illustrates the portfolio value movement of each mandate for this reporting quarter compared to the last quarter. It shows that all portfolios of the Fund have made gains, albeit in some cases only marginal ones.




3.11. The performance, net of fees of the individual managers relative to the appropriate benchmarks over the past five years is as set out in the table below. Each manager provides a report of the performance of their respective mandate and these are summarised as set out in Appendix 1 of this report.

**Managers Investment Performance relative to benchmark as at 31st December 2017**

| | | L&G Equity | LCIV BG Global Equity | Schroder Property | GSAM Fixed Income | Insight Fixed Income | LGIM Index Linked | LCIV BG DGF | LCIV Ruffer DGF | LBTH Treasury Cash | Total Fund |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Quarter %** | ***Fund*** | 1.0 | 4.8 | 3.2 | 0.2 | 0.6 | 3.9 | 1.7 | 2.7 | 0.0 | 3.4 |
| | ***Benchmark*** | 1.0 | 4.9 | 3.1 | 1.1 | 1.1 | 3.9 | 0.8 | 0.8 | 0.1 | 2.7 |
| | ***Relative*** | 0.0 | (0.1) | 0.1 | (0.9) | (0.5) | 0.0 | 0.9 | 1.9 | (0.1) | 0.7 |
| **12 month %** | ***Fund*** | 9.2 | 23.1 | 11.4 | (0.1) | 0.9 | 2.5 | 6.3 | 1.6 | 0.3 | 12.0 |
| | ***Benchmark*** | 8.8 | 13.2 | 10.2 | 4.3 | 4.3 | 2.5 | 3.3 | 3.3 | 0.3 | 9.2 |
| | ***Relative*** | 0.4 | 9.9 | 1.2 | (4.4) | (3.4) | 0.0 | 3.0 | (1.7) | 0.0 | 2.8 |
| **3 years (% p.a)** | ***Fund*** | 8.8 | 18.4 | 8.6 | N/A | N/A | 8.9 | 5.2 | 4.9 | 0.9 | 10.5 |
| | ***Benchmark*** | 8.7 | 14.6 | 8.4 | N/A | N/A | 8.9 | 3.5 | 3.5 | 0.3 | 10.0 |
| | ***Relative*** | 0.1 | 3.8 | 0.2 | N/A | N/A | 0.0 | 1.7 | 1.4 | 0.6 | 0.5 |
| **5 years (% p.a)** | ***Fund*** | 9.6 | 18.6 | 10.0 | N/A | N/A | 9.5 | 5.3 | 6.2 | 0.9 | 11.0 |
| | ***Benchmark*** | 9.4 | 15.0 | 10.3 | N/A | N/A | 9.5 | 3.5 | 3.5 | 0.3 | 10.4 |
| | ***Relative*** | 0.2 | 3.6 | (0.3) | N/A | N/A | 0.0 | 1.8 | 2.7 | 0.6 | 0.6 |

## INTERNAL CASH MANAGEMENT

3.12. Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working cashflow requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

3.13. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2017, which is delegated to the Corporate Director, Resources to manage on a day to day basis within the agreed parameters.

3.14. On the 1st December 2017 the Council paid £35.888m, this is a prepayment of deficit contribution for three years 2017/18 to 2019/20 less a quarter payments of £3.75m paid into the Fund early October 2017.

3.15. The cash balance as at 31st December 2017, was £47.798m this constitutes investment in money market fund (MMF) of £40m and £7.8m working capital of the Fund.

3.16. Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Needless to say that the security and liquidity of the Fund's cash remains the overriding priority, ahead of yield.

## ASSET ALLOCATION

3.17. The revised benchmark of asset distribution and the fund position at 31st December 2017 are set out below:

| Asset Class | Benchmark as at 21st September 2017 | Fund Position as at 31st December 2017 | Variance as at 30th September 2017 |
|---|---|---|---|
| Global Equities | 50.0% | 54.4% | 4.4% |
| **Total Equities** | **50.0%** | **54.4%** | **4.4%** |
| Property | 12.0% | 10.0% | (2.0)% |
| Bonds | 12.0% | 9.8% | (2.2)% |
| UK Index Linked | 6.0% | 4.9% | (1.1)% |
| Alternatives | 20.0% | 17.8% | (2.2)% |
| Cash | 0.0% | 3.1% | 3.1% |
| **Total Equities** | **100.0%** | **100.0%** | |

3.18. Asset allocation is determined by a number of factors including:-

i) The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.

ii) The age profile of the Fund. The younger the members of the Fund, the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.

iii) The deficit recovery term. Most LGPS funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a twenty year deficit recovery term for this Council which enables a longer term investment perspective to be taken.

3.19. Individual managers have discretion within defined limits to vary the asset distribution. The overweight position in equities has helped the fund's performance in recent months.

## 4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1. This is a noting report which fulfils the requirement to report performance of the Pension Fund investments portfolio to the Pensions Committee. There are no direct financial implications arising from this report.

## 5. LEGAL COMMENTS

5.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 govern the way in which administering authorities should manage and make investments for the fund. There are no longer explicit limits on specified types of investment and instead administering authorities should determine the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.

5.2. The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

5.3. The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.

5.4. One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

5.5. When reviewing the Pension Fund Investment Performance, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the

Council's statutory duties in respect of proper management of the Pension Fund.

## 6. ONE TOWER HAMLETS CONSIDERATIONS

6.1. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

6.2. A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## 7. BEST VALUE (BV) IMPLICATIONS

7.1. This report helps in addressing value for money through benchmarking the Council's performance against the WM Local Authority Universe of Funds.

## 8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1. There is no Sustainable Action for A Greener Environment implication arising from this report.

## 9. RISK MANAGEMENT IMPLICATIONS

9.1. Any form of investment inevitably involves a degree of risk.

9.2. To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

## 10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1. There are no crime and disorder reduction implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- [None]

**Appendices**

- Appendix 1 – SSGS Quarterly Performance Review
- Appendix 2a-2c (LCIV Sub-Fund Quarterly Summary)
- Appendix 3 – GSAM Investment Review for the Quarter
- Appendix 4 – Insight Investment Review for the Quarter
- Appendix 5 – LGIM Investment Review for the Quarter
- Appendix 6 – Schroders Property Investment Review for the Quarter

**Local Government Act, 1972 Section 100D (As amended)**
**List of "Background Papers" used in the preparation of this report**

**Officer contact details for documents:**

- Bola Tobun Investment &Treasury Manager x4733

# Quarterly Performance
Service

**LB OF TOWER HAMLETS - TOTAL COMBINED**

## QUARTERLY PERFORMANCE REVIEW

PERIODS TO END DECEMBER 2017

Produced 27 February 2018

# Contents

# Market Background

**Periods to end December 2017**
**Pound Sterling**

This page details the performance of the major markets.

| | UK Equities | N. America | Europe ex UK | Japan | Pacific | Other Intl. | UK Bonds | O/S Bonds | UK IL | Cash/ Alts | Property |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Latest Quarter** | | | | | | | | | | | |
| Return % | 5.0 | 5.6 | 0.4 | 7.9 | 7.0 | 5.0 | 2.0 | 0.0 | 3.5 | 0.1 | 3.4 |
| **Last 12 Months** | | | | | | | | | | | |
| Return % | 13.1 | 11.3 | 17.5 | 14.4 | 20.3 | 13.5 | 1.8 | -2.7 | 2.3 | 0.3 | 11.2 |
| **Last Three Years** | | | | | | | | | | | |
| Return % pa | 10.1 | 16.3 | 14.0 | 18.2 | 14.9 | 15.7 | 4.1 | 7.0 | 8.0 | 0.3 | 9.1 |
| **Last Five Years** | | | | | | | | | | | |
| Return % pa | 10.3 | 19.3 | 13.2 | 16.2 | 10.3 | 16.4 | 4.3 | 4.0 | 8.5 | 0.3 | 11.5 |
| Index Used | FT All Share | FTSE WORLD N | FTSE WORLD E | FT Japan | FT Pac x Jap | FT Wld x UK | UK Gilts AS | JPM Glb x UK | I/L Gilts AS | 7 Day LIBID | IPD Monthly |

# Fund Structure and Benchmarks

**LB OF TOWER HAMLETS - TOTAL COMBINED** **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** **Pound Sterling**

## Structure

The Fund is managed on a specialist basis with Baillie Gifford managing the Global Equities on an active basis. Global equities and UK Index-Linked are passively managed by L&G. GSAM and Insight manage absolute return fundS and Schroders are the property manager..Baillie Gifford also manage a Diversified Growth Funds along with Ruffer. From1/4/14 all manager returns are net of management fees.

## Benchmark

The Fund's performance is analysed relative to customised benchmarks, the weighting and relevant indices are shown below.

| | L&G | GSAM/ Insight | Schroders | Baillie Gifford | BGiff/ Ruffer | Total Combined | Benchmark Indices |
|---|---|---|---|---|---|---|---|
| Global Equities | | | | 20.0 | | 20.0 | MSCI AC World NDR |
| Global Equities | 5.0 | | | | | 5.0 | FTSE All World |
| Global Equities | 10.0 | | | | | 10.0 | FTSE All World Hgd |
| Global Equities | 15.0 | | | | | 15.0 | MSCI World Low Carbon |
| Pooled Bonds | | 100.0 | | | | 12.0 | LIBOR 3 Month +4% |
| UK Index Linked | 6.0 | | | | | 6.0 | FTSE A Gov Index-Linked > 5 yrs |
| Property | | | 100.0 | | | 12.00 | HSBC/IPD Pooled All Balanced Funds Average |
| Diversified Growth | | | | 100.0 | 100.0 | 20.0 | 3 Month LIBOR +3% |
| % Allocation | 36.0 | 12.0 | 12.0 | 10.0 | 20.0 | 100.0 | |

## Targets

Baillie Gifford Global Equity: + 2 - 3 % p.a. gross of fees over a rolling 3 year period.

Schroders: +0.75% p.a. net of fees over a rolling 3 year period.

Baillie Gifford Diversified Growth: 3.5% p.a. above the UK Base Rate (after fees).

GSAM/Insight: 3 Month LIBOR +4% p.a.

Ruffer: Overall objective is firstly to preserve the capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable UK bank.

**SSGS - Performance Services Contact: Ann Gillies**
Direct Telephone: (0131) 315 5465 E-mail: ann.gillies@statestreet.com

This page summarises the overall value and performance of the Fund.

## Fund Value

| Values (GBP)'000 | Mandate | Value at 29/09/2017 | Transactions | Capital Gain / loss | Income | Value at 29/12/2017 | % *Fund* |
|---|---|---|---|---|---|---|---|
| L & G | Eq Glbl | 276,003 | 227,080 | 4,497 | 0 | 507,580 | 33 |
| BAILLIE GIFF | Eq Glbl | 306,244 | 489 | 14,309 | 489 | 321,042 | 21 |
| SCHRODERS | Prop UK | 147,860 | 1,140 | 3,619 | 1,141 | 152,619 | 10 |
| BAILLIE GIFF | Structured | 133,420 | 0 | 2,310 | 0 | 135,730 | 9 |
| RUFFER | Absolute | 131,247 | 0 | 3,482 | 0 | 134,730 | 9 |
| GOLDMAN | Bd Glbl | 77,003 | 4 | 144 | 0 | 77,151 | 5 |
| L & G | Bd UK I/L | 71,648 | 0 | 2,782 | 0 | 74,430 | 5 |
| INSIGHT INV | Absolute | 71,375 | 0 | 422 | 0 | 71,797 | 5 |
| INT MGD | Cash | 6,486 | 41,312 | 0 | 0 | 47,798 | 3 |
| GMO | Eq Glbl | 211,112 | -219,140 | 8,346 | 561 | 317 | 0 |
| INT FUND | Transition | 0 | -6,712 | 6,995 | 0 | 284 | 0 |
| Total Fund | | 1,432,398 | 44,173 | 46,906 | 2,191 | 1,523,477 | 100 |

The table shows the value of each Portfolio at the start and end of the period.
The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of the investments.

# Performance Summary

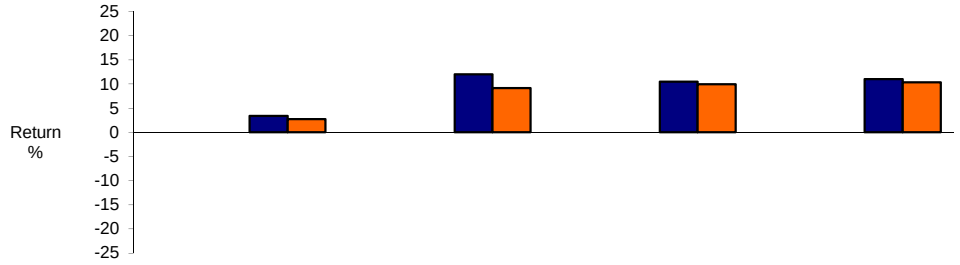
**LB OF TOWER HAMLETS - TOTAL COMBINED** | **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** | **Pound Sterling**

**Category - TOTAL ASSETS**

This page summarises the overall value and performance of the Fund.

## Fund Returns




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Fund | 3.4 | 12.0 | 10.5 | 11.0 |
| Benchmark | 2.7 | 9.2 | 10.0 | 10.4 |
| Relative Return | 0.7 | 2.6 | 0.5 | 0.6 |

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

# = Data not available for the full period

# Detailed Analysis of the Latest Quarter Performance

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

**Category - TOTAL ASSETS**

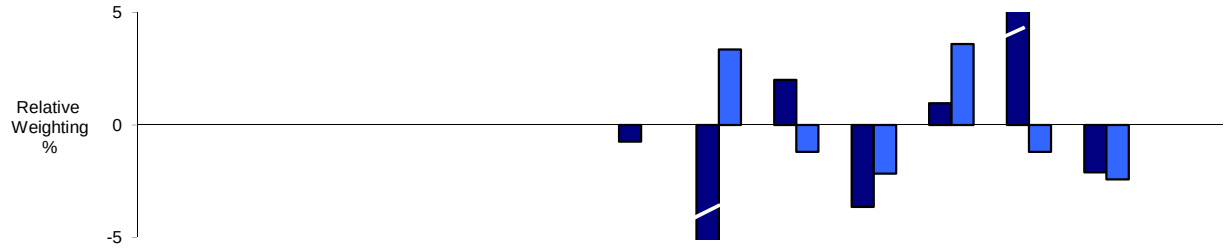
This page analyses in detail the Fund performance over the latest period.

## Summary

| | |
|---|---|
| Fund Return | 3.4 |
| Benchmark Return | 2.7 |
| Relative Performance | 0.7 |
| **attributable to:** | |
| Asset Allocation | 0.3 |
| Stock Selection | 0.4 |

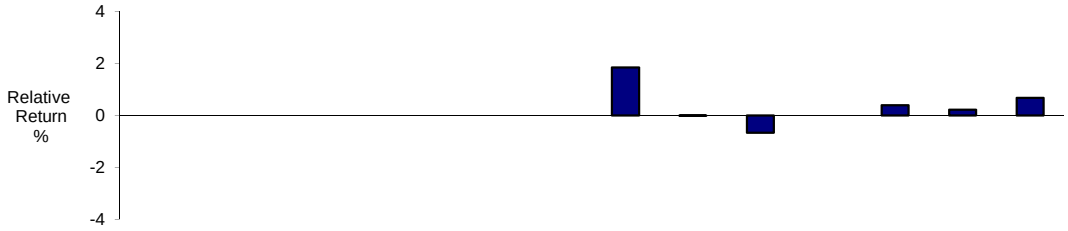
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

## Asset Allocation




| | UK Equities | O/S Equities | UK IL | Pooled Bonds | Cash | Alternatives | Property | Total Fund |
|---|---|---|---|---|---|---|---|---|
| Fund Start | 19.3 | 14.6 | 5.0 | 10.4 | 1.0 | 39.9 | 9.9 | 100.0 |
| Fund End | 0.0 | 33.3 | 4.9 | 9.8 | 3.6 | 38.8 | 9.6 | 100.0 |
| BM Start | 20.0 | 23.0 | 3.0 | 14.0 | | 28.0 | 12.0 | 100.0 |
| BM End | | 30.0 | 6.1 | 11.9 | | 40.0 | 12.0 | 100.0 |
| Impact | - | -0.1 | - | - | 0.3 | 0.1 | - | 0.3 |

## Stock Selection




| | UK Equities | O/S Equities | UK IL | Pooled Bonds | Cash | Alternatives | Property | Total Fund |
|---|---|---|---|---|---|---|---|---|
| Fund | 0.2 # | 5.9 | 3.9 | 0.4 | 2.5 | 3.6 | 3.3 | 3.4 |
| Benchmark | 0.2 # | 4.0 | 3.9 | 1.1 | | 3.2 | 3.1 | 2.7 |
| Impact | - | 0.3 | - | -0.1 | | 0.2 | - | 0.4 |

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

# Long Term Performance Analysis

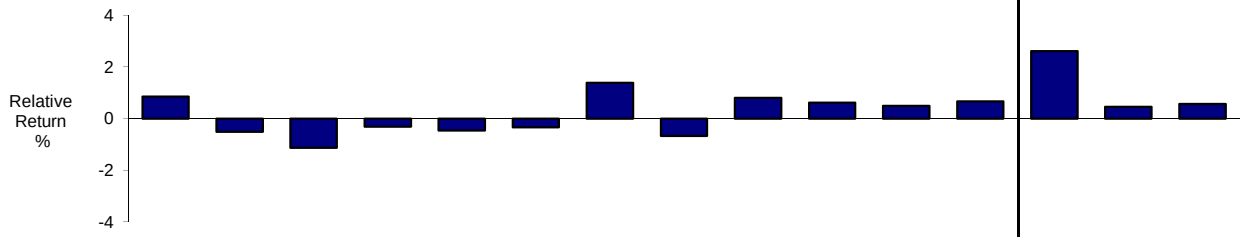
**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page looks in more detail at the long term performance, plotting it relative to the Benchmark.

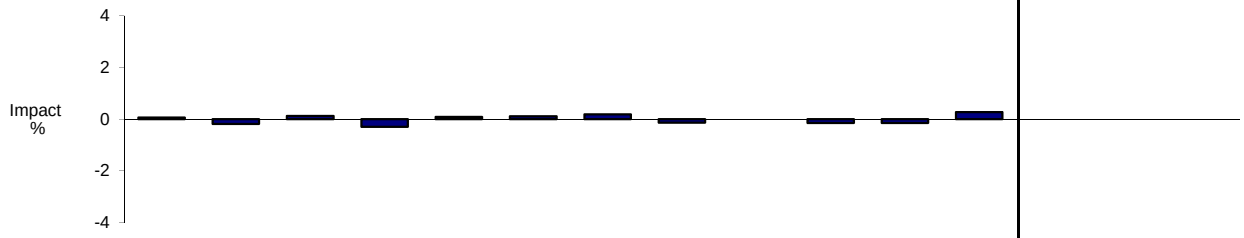
## Fund Returns




| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 5.5 | -2.4 | -4.0 | 4.2 | 1.2 | 4.8 | 6.9 | 3.1 | 4.5 | 1.5 | 2.2 | 3.4 | 12.0 | 10.5 | 11.0 |
| Benchmark | 4.7 | -1.9 | -2.9 | 4.5 | 1.6 | 5.1 | 5.5 | 3.8 | 3.7 | 0.9 | 1.7 | 2.7 | 9.2 | 10.0 | 10.4 |
| Relative | 0.9 | -0.5 | -1.1 | -0.3 | -0.5 | -0.3 | 1.4 | -0.7 | 0.8 | 0.6 | 0.5 | 0.7 | 2.6 | 0.5 | 0.6 |

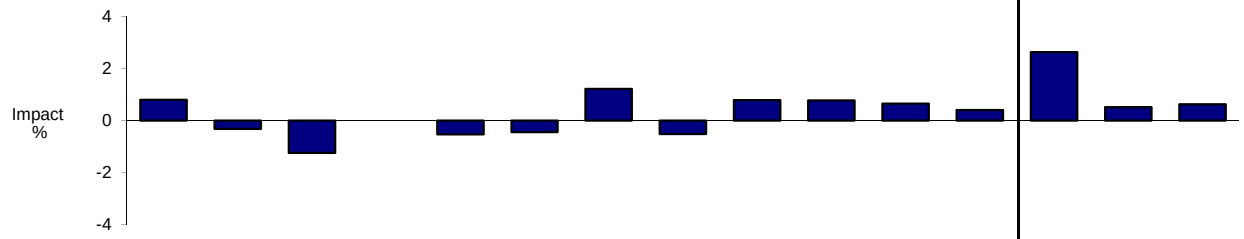
The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:

## Asset Allocation




| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Impact | 0.1 | -0.2 | 0.1 | -0.3 | 0.1 | 0.1 | 0.2 | -0.1 | - | -0.2 | -0.2 | 0.3 | - | - | - |

## Stock Selection




| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Impact | 0.8 | -0.3 | -1.2 | - | -0.5 | -0.5 | 1.2 | -0.5 | 0.8 | 0.8 | 0.6 | 0.4 | 2.6 | 0.5 | 0.6 |

An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.

Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

# Long Term Asset Allocation

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **U.K. EQUITIES** | | | | | | | | | | | | | | | |
| Fund | 19.8 | 20.0 | 19.6 | 19.5 | 19.2 | 19.2 | 19.3 | 19.4 | 19.3 | 19.3 | 19.3 | 0.0 | | | |
| Benchmark | 20.0 | 20.1 | 19.4 | 19.9 | 19.6 | 19.7 | 20.4 | 20.0 | 20.1 | 20.1 | 20.1 | | | | |
| Impact | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **OVERSEAS EQUITIES** | | | | | | | | | | | | | | | |
| Fund | 23.7 | 22.0 | 20.9 | 21.2 | 21.5 | 22.3 | 22.5 | 23.1 | 23.5 | 19.8 | 14.6 | 33.3 | | | |
| Benchmark | 23.6 | 22.3 | 22.3 | 23.8 | 23.3 | 23.9 | 23.6 | 23.6 | 23.4 | 22.9 | 23.0 | 30.0 | | | |
| Impact | - | - | 0.1 | -0.1 | - | -0.1 | - | - | - | - | - | -0.1 | -0.1 | -0.1 | - |
| **GLOBAL POOLED INC UK** | | | | | | | | | | | | | | | |
| Fund | 19.1 | 18.0 | 17.7 | 18.7 | 18.6 | 0.0 | | | | | | | | | |
| Benchmark | 18.5 | 17.4 | 17.5 | 18.6 | 18.2 | | | | | | | | | | |
| Impact | - | - | - | - | - | - | | | | | | | | - | - |
| **TOTAL BONDS PLUS INDEX-LINKED** | | | | | | | | | | | | | | | |
| Fund | 13.9 | 14.0 | 14.7 | 13.9 | 5.4 | 11.9 | 17.4 | 16.9 | 16.2 | 15.8 | 15.4 | 14.7 | | | |
| Benchmark | 16.4 | 17.3 | 17.7 | 16.3 | 17.0 | 16.7 | 16.6 | 16.4 | 16.6 | 16.9 | 16.8 | 18.0 | | | |
| Impact | 0.2 | -0.2 | -0.1 | - | 0.2 | 0.4 | 0.2 | -0.1 | - | -0.1 | - | - | -0.1 | 0.2 | 0.2 |
| **U.K. INDEX - LINKED** | | | | | | | | | | | | | | | |
| Fund | 5.2 | 5.2 | 5.5 | 5.1 | 5.4 | 5.7 | 5.9 | 5.5 | 5.4 | 5.2 | 5.0 | 4.9 | | | |
| Benchmark | 3.0 | 3.0 | 3.2 | 2.8 | 3.1 | 3.3 | 3.2 | 2.8 | 3.0 | 2.9 | 2.9 | 6.1 | | | |
| Impact | - | - | 0.1 | -0.2 | 0.1 | 0.1 | 0.1 | -0.2 | - | -0.1 | - | - | -0.2 | - | - |
| **POOLED BONDS** | | | | | | | | | | | | | | | |
| Fund | 8.7 | 8.8 | 9.2 | 8.8 | 0.0 | 6.3 | 11.5 | 11.3 | 10.9 | 10.7 | 10.4 | 9.8 | | | |
| Benchmark | 13.5 | 14.4 | 14.5 | 13.5 | 13.9 | 13.4 | 13.4 | 13.6 | 13.7 | 14.0 | 13.9 | 11.9 | | | |
| Impact | 0.2 | -0.1 | -0.2 | 0.2 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 | - | - | - | 0.1 | 0.3 | 0.3 |

For each area of investment the final weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

# Long Term Asset Allocation

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CASH/ALTERNATIVES** | | | | | | | | | | | | | | | |
| Fund | 13.0 | 15.1 | 15.5 | 15.0 | 23.5 | 35.2 | 30.9 | 30.6 | 31.0 | 35.0 | 40.8 | 42.4 | | | |
| Benchmark | 9.6 | 10.3 | 10.4 | 9.6 | 9.9 | 28.3 | 28.1 | 28.2 | 28.1 | 27.9 | 27.9 | 40.0 | | | |
| Impact | -0.1 | 0.1 | 0.2 | -0.2 | -0.1 | -0.3 | -0.1 | - | - | - | -0.1 | 0.3 | 0.1 | -0.1 | -0.2 |
| **TOTAL CASH** | | | | | | | | | | | | | | | |
| Fund | 4.1 | 4.9 | 5.3 | 5.1 | 13.7 | 6.7 | 1.7 | 1.3 | 1.6 | 5.1 | 1.0 | 3.6 | | | |
| Benchmark | | | | | | | | | | | | | | | |
| Impact | -0.2 | 0.1 | 0.2 | -0.2 | -0.1 | -0.3 | -0.1 | - | - | - | -0.1 | 0.3 | 0.1 | -0.2 | -0.2 |
| **ALTERNATIVES** | | | | | | | | | | | | | | | |
| Fund | 8.9 | 10.2 | 10.2 | 9.9 | 9.8 | 28.5 | 29.2 | 29.2 | 29.4 | 29.9 | 39.9 | 38.8 | | | |
| Benchmark | 9.6 | 10.3 | 10.4 | 9.6 | 9.9 | 28.3 | 28.1 | 28.2 | 28.1 | 27.9 | 27.9 | 40.0 | | | |
| Impact | - | - | - | - | - | - | - | - | - | - | - | 0.1 | - | - | - |
| **CURRENCY INSTRUMENTS** | | | | | | | | | | | | | | | |
| Fund | 0.0 | | | | | | | | | | | | | | |
| Benchmark | | | | | | | | | | | | | | | |
| Impact | - | | | | | | | | | | | | | - | - |
| **TOTAL PROPERTY** | | | | | | | | | | | | | | | |
| Fund | 10.5 | 10.9 | 11.6 | 11.6 | 11.8 | 11.4 | 9.8 | 10.0 | 10.0 | 10.1 | 9.9 | 9.6 | | | |
| Benchmark | 11.8 | 12.6 | 12.7 | 11.8 | 11.9 | 11.4 | 11.3 | 11.8 | 11.8 | 12.2 | 12.1 | 12.0 | | | |
| Impact | - | -0.1 | -0.1 | - | - | - | 0.1 | - | - | - | - | - | - | - | - |

For each area of investment the final weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

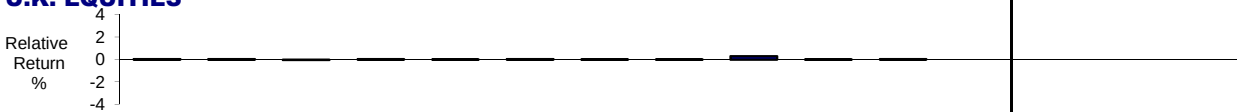
# Long Term Stock Selection

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

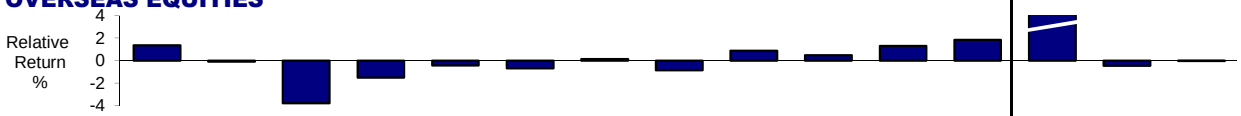
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

## U.K. EQUITIES




| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 4.7 | -1.5 | -5.7 | 4.0 | -0.4 | 4.7 | 7.8 | 3.9 | 4.3 | 1.4 | 2.2 | 0.2 # | | | |
| Benchmark | 4.7 | -1.6 | -5.7 | 4.0 | -0.4 | 4.7 | 7.8 | 3.9 | 4.0 | 1.4 | 2.1 | 0.2 # | | | |
| Impact | - | - | - | - | - | - | - | - | 0.1 | - | - | - | 0.1 | - | 0.1 |

## OVERSEAS EQUITIES

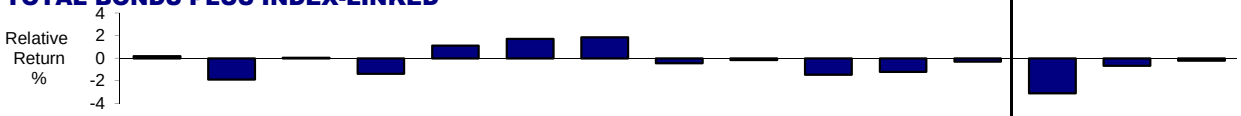



| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 9.1 | -5.2 | -9.4 | 6.4 | 2.5 | 8.1 | 8.5 | 5.5 | 6.6 | 0.9 | 3.2 | 5.9 | 17.5 | 14.1 | 14.9 |
| Benchmark | 7.6 | -5.1 | -5.9 | 8.1 | 2.9 | 8.8 | 8.4 | 6.4 | 5.6 | 0.4 | 1.8 | 4.0 | 12.3 | 14.6 | 14.9 |
| Impact | 0.3 | - | -0.8 | -0.3 | -0.1 | -0.1 | - | -0.2 | 0.2 | 0.1 | 0.2 | 0.3 | 0.8 | -0.1 | - |

## GLOBAL POOLED INC UK

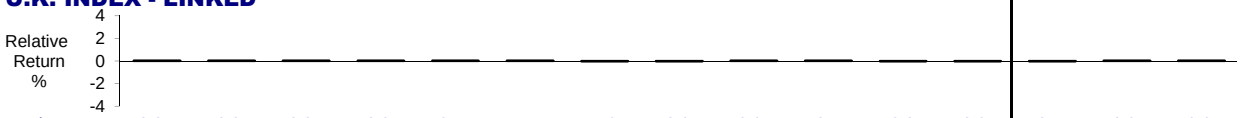

| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 9.1 | -4.9 | -5.8 | 10.4 | 0.3 | 2.0 # | | | | | | | | | |
| Benchmark | 7.6 | -5.1 | -5.9 | 8.1 | 2.9 | -0.4 # | | | | | | | | | |
| Impact | 0.3 | - | - | 0.4 | -0.5 | 0.4 | | | | | | | | 0.2 | 0.3 |

## TOTAL BONDS PLUS INDEX-LINKED



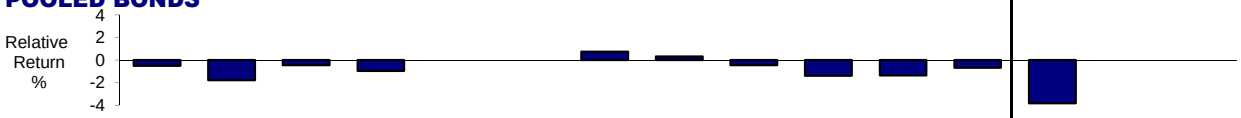

| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 1.3 | -1.9 | 1.0 | -1.4 | 2.8 | 4.5 | 4.8 | -0.1 | 1.1 | -1.0 | -0.5 | 1.5 | 1.1 | 4.0 | 4.2 |
| Benchmark | 1.1 | -0.1 | 0.9 | -0.1 | 1.7 | 2.7 | 2.9 | 0.4 | 1.2 | 0.5 | 0.7 | 1.8 | 4.3 | 4.7 | 4.4 |
| Impact | - | -0.2 | - | -0.1 | - | -0.1 | 0.1 | - | - | -0.2 | -0.1 | -0.1 | -0.4 | -0.2 | -0.2 |

## U.K. INDEX - LINKED




| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 3.3 | -3.3 | 2.3 | -3.3 | 6.5 | 11.1 | 11.0 | -3.0 | 2.0 | -2.4 | -0.8 | 3.9 | 2.5 | 8.9 | 9.6 |
| Benchmark | 3.3 | -3.3 | 2.3 | -3.3 | 6.5 | 11.1 | 11.0 | -3.0 | 2.0 | -2.4 | -0.8 | 3.9 | 2.5 | 8.9 | 9.5 |
| Impact | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

## POOLED BONDS




| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 0.1 | -1.1 | 0.2 | -0.3 | 0.4 # | -0.8 # | 1.9 | 1.4 | 0.6 | -0.3 | -0.3 | 0.4 | 0.3 | | |
| Benchmark | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.8 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 | 1.1 | 4.3 | 3.5 | 3.1 |
| Impact | - | -0.2 | - | -0.1 | - | -0.1 | 0.1 | - | - | -0.2 | -0.1 | -0.1 | -0.4 | -0.2 | -0.2 |

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

# Long Term Stock Selection

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

| | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 1yr | 3yrs % pa | 5yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CASH/ALTERNATIVES** | | | | | | | | | | | | | | | |
| Fund | 2.9 | -0.4 | -2.3 | 1.1 | 0.2 | 2.6 | 9.2 | 3.2 | 5.5 | 3.2 | 2.5 | 4.1 | 16.1 | 10.8 | 8.7 |
| Benchmark | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 6.4 | 5.7 | 4.4 | 3.9 | 0.5 | 1.5 | 3.2 | 9.4 | 10.2 | 7.4 |
| Impact | 0.3 | -0.1 | -0.5 | 0.1 | -0.1 | -0.7 | 1.1 | -0.3 | 0.5 | 0.8 | 0.5 | 0.2 | 2.0 | 0.6 | 0.5 |
| **TOTAL CASH** | | | | | | | | | | | | | | | |
| Fund | 0.6 | 0.0 | 0.4 | 0.4 | 0.8 | 0.4 | 1.0 | 1.1 | 0.0 | -0.1 | -0.2 | 2.5 | 2.3 | 2.3 | 1.8 |
| Benchmark | | | | | | | | | | | | | | | |
| Impact | | | | | | | | | | | | | | | |
| **ALTERNATIVES** | | | | | | | | | | | | | | | |
| Fund | 4.0 | -0.5 | -3.8 | 1.4 | 0.3 | 2.7 | 9.8 | 3.3 | 5.8 | 3.4 | 2.9 | 3.6 | 16.6 | 11.2 | 9.4 |
| Benchmark | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 6.4 | 5.7 | 4.4 | 3.9 | 0.5 | 1.5 | 3.2 | 9.4 | 10.2 | 7.4 |
| Impact | 0.3 | -0.1 | -0.5 | 0.1 | -0.1 | -0.7 | 1.1 | -0.3 | 0.5 | 0.8 | 0.5 | 0.2 | 2.0 | 0.6 | 0.5 |
| **CURRENCY INSTRUMENTS** | | | | | | | | | | | | | | | |
| Fund | 0.0 # | | | | | | | | | | | | | | |
| Benchmark | | | | | | | | | | | | | | | |
| Impact | | | | | | | | | | | | | | | |
| **TOTAL PROPERTY** | | | | | | | | | | | | | | | |
| Fund | 2.6 | 2.8 | 3.8 | 2.3 | 1.9 | 0.4 | -0.8 | 1.7 | 2.5 | 2.1 | 3.3 | 3.3 | 11.8 | 8.9 | 10.3 |
| Benchmark | 2.8 | 3.3 | 3.0 | 2.8 | 1.1 | 0.1 | -0.7 | 2.3 | 2.0 | 2.3 | 2.4 | 3.1 | 10.2 | 8.4 | 10.3 |
| Impact | - | -0.1 | 0.1 | -0.1 | 0.1 | - | - | -0.1 | - | - | 0.1 | - | 0.1 | 0.1 | - |

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

# Rolling Years with Relative Risk

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

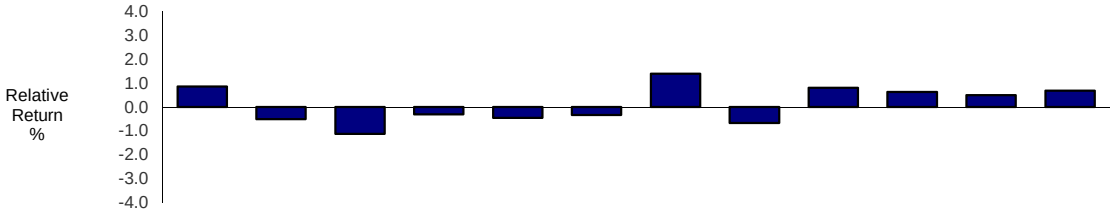
**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

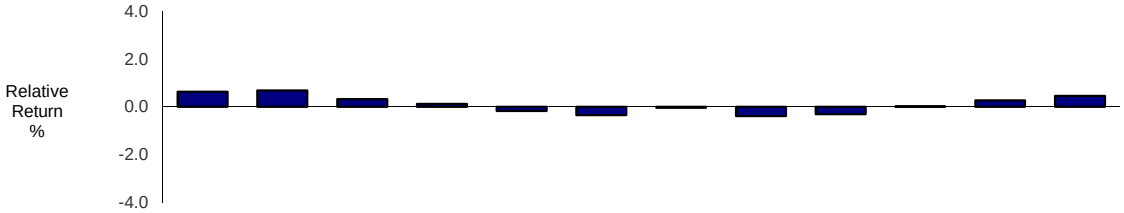
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | 1081.5 | 1141.9 | 1115.6 | 1071.6 | 1117.7 | 1130.1 | 1185.6 | 1270.6 | 1312.6 | 1379.2 | 1399.1 | 1432.4 |
| Net Investment | 2.5 | 4.8 | 3.7 | 3.6 | 1.9 | 5.3 | 5.7 | 6.2 | 12.1 | 3.8 | 7.9 | 44.2 |
| Capital Gain/Loss | 57.9 | -31.0 | -47.7 | 42.4 | 10.5 | 50.2 | 79.3 | 35.8 | 54.6 | 16.2 | 25.3 | 46.9 |
| Final | 1141.9 | 1115.6 | 1071.6 | 1117.7 | 1130.1 | 1185.6 | 1270.6 | 1312.6 | 1379.2 | 1399.1 | 1432.4 | 1523.5 |
| Income | 2.0 | 3.2 | 2.5 | 2.5 | 2.4 | 3.6 | 3.1 | 3.9 | 4.4 | 4.5 | 4.6 | 2.2 |
| Proportion Of Total Fund (%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Proportions (%) In | | | | | | | | | | | | |
| Total Equity | 63 | 60 | 58 | 59 | 59 | 42 | 42 | 43 | 43 | 39 | 34 | 33 |
| Bonds + IL | 14 | 14 | 15 | 14 | 5 | 12 | 17 | 17 | 16 | 16 | 15 | 15 |
| Cash/ Alts | 13 | 15 | 16 | 15 | 24 | 35 | 31 | 31 | 31 | 35 | 41 | 42 |
| Property | 10 | 11 | 12 | 12 | 12 | 11 | 10 | 10 | 10 | 10 | 10 | 10 |

## Quarterly Returns



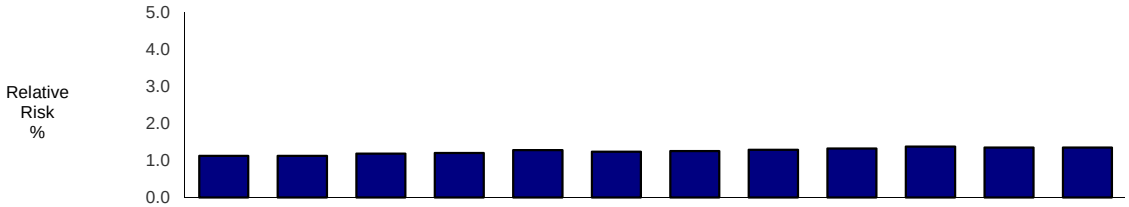

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 5.5 | -2.4 | -4.0 | 4.2 | 1.2 | 4.8 | 6.9 | 3.1 | 4.5 | 1.5 | 2.2 | 3.4 |
| Benchmark | 4.7 | -1.9 | -2.9 | 4.5 | 1.6 | 5.1 | 5.5 | 3.8 | 3.7 | 0.9 | 1.7 | 2.7 |
| Relative Return | 0.9 | -0.5 | -1.1 | -0.3 | -0.5 | -0.3 | 1.4 | -0.7 | 0.8 | 0.6 | 0.5 | 0.7 |

## Annualised Rolling 3 Year Returns




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 10.7 | 10.7 | 8.3 | 8.8 | 6.2 | 7.8 | 9.2 | 8.9 | 10.0 | 9.9 | 10.3 | 10.5 |
| Benchmark | 10.0 | 10.0 | 7.9 | 8.7 | 6.3 | 8.2 | 9.2 | 9.3 | 10.3 | 9.9 | 10.0 | 10.0 |
| Relative Return | 0.6 | 0.7 | 0.3 | 0.1 | -0.2 | -0.3 | -0.0 | -0.4 | -0.3 | 0.0 | 0.3 | 0.5 |

## Rolling 3 Year Risk




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relative Risk | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.2 | 1.3 | 1.3 | 1.3 | 1.4 | 1.3 | 1.3 |
| Information Ratio | 0.6 | 0.6 | 0.3 | 0.1 | -0.1 | -0.3 | -0.0 | -0.3 | -0.2 | 0.0 | 0.2 | 0.3 |

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Summary of Manager Performance

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

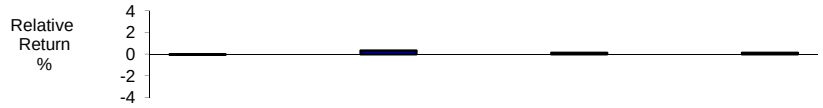
**Category - TOTAL ASSETS**

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|

## L&G - TOTAL ASSETS

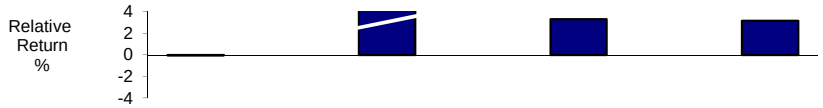
**Tower Hamlets L&G Equity Bmk**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 1.0 | 9.2 | 8.8 | 9.6 |
| Benchmark | 1.0 | 8.8 | 8.7 | 9.4 |
| Relative Return | -0.0 | 0.4 | 0.2 | 0.1 |

## BAILLIE GIFFORD & CO - TOTAL ASSETS

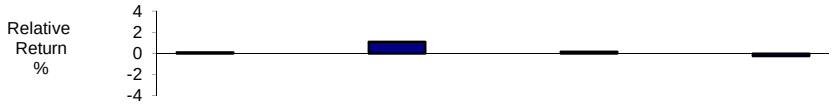
**MSCI AC WORLD NDR**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 4.8 | 23.1 | 18.4 | 18.6 |
| Benchmark | 4.9 | 13.2 | 14.6 | 15.0 |
| Relative Return | -0.0 | 8.7 | 3.3 | 3.2 |

## SCHRODER INVEST. MGMT. - TOTAL ASSETS

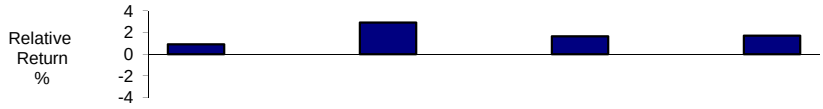
**London Borough of Tower Hamlets - Schroders**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 3.2 | 11.4 | 8.6 | 10.0 |
| Benchmark | 3.1 | 10.2 | 8.4 | 10.3 |
| Relative Return | 0.1 | 1.1 | 0.2 | -0.3 |

## BAILLIE GIFFORD & CO - TOTAL ASSETS

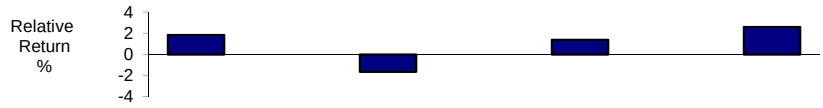
**GBP 3 MONTH LIBOR + 3%**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 1.7 | 6.3 | 5.2 | 5.3 |
| Benchmark | 0.8 | 3.3 | 3.5 | 3.5 |
| Relative Return | 0.9 | 2.9 | 1.7 | 1.7 |

## RUFFER INVESTMENT MGMT LTD - TOTAL ASSETS

**GBP 3 MONTH LIBOR + 3%**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 2.7 | 1.6 | 4.9 | 6.2 |
| Benchmark | 0.8 | 3.3 | 3.5 | 3.5 |
| Relative Return | 1.8 | -1.6 | 1.4 | 2.6 |

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

# not invested in this area for the entire period

# Summary of Manager Performance

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

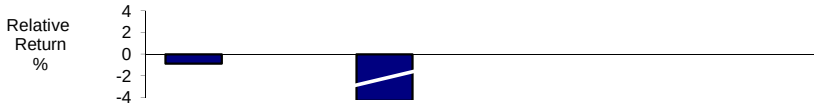
**Category - TOTAL ASSETS**

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|

## GOLDMAN SACHS ASSET MGMT - TOTAL ASSETS

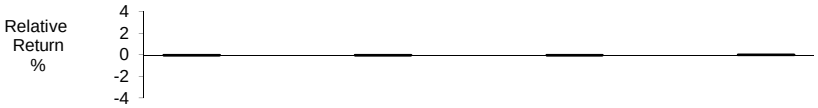
**GBP 3 MONTH LIBOR +4%**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 0.2 | -0.1 | | |
| Benchmark | 1.1 | 4.3 | | |
| Relative Return | -0.9 | -4.3 | | |

## L&G - TOTAL ASSETS

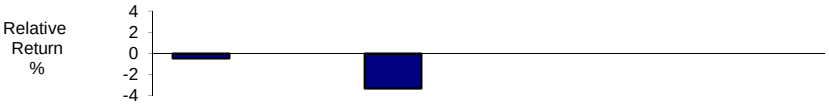
**FTSE UK GILTS INDEXED > 5 YRS**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 3.9 | 2.5 | 8.9 | 9.5 |
| Benchmark | 3.9 | 2.5 | 8.9 | 9.5 |
| Relative Return | -0.0 | -0.0 | -0.0 | 0.0 |

## INSIGHT INVESTMENTS - TOTAL ASSETS

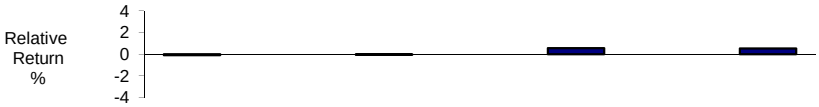
**GBP 3 MONTH LIBOR +4%**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 0.6 | 0.9 | | |
| Benchmark | 1.1 | 4.3 | | |
| Relative Return | -0.5 | -3.3 | | |

## INTERNALLY MANAGED - TOTAL ASSETS

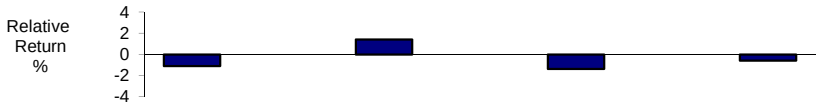
**LB TOWER HAMLETS INTERNAL BM**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 0.0 | 0.3 | 0.9 | 0.9 |
| Benchmark | 0.1 | 0.3 | 0.3 | 0.3 |
| Relative Return | -0.1 | -0.0 | 0.6 | 0.5 |

## GMO - TOTAL ASSETS

**LB OF TOWER HAMLETS - GMO BM.**




| | Latest Quarter | 1 Year | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Portfolio | 3.7 | 14.8 | 13.4 | 14.2 |
| Benchmark | 4.9 | 13.2 | 14.9 | 14.9 |
| Relative Return | -1.1 | 1.4 | -1.4 | -0.6 |

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

# not invested in this area for the entire period

# Performance Summary - Manager Attribution

**LB OF TOWER HAMLETS** | **Quarter to end December 2017**
**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** | **Pound Sterling**

This page analyses in detail the contributions to the Fund performance over the latest period.

## Summary

| | | |
|---|---|---|
| Fund Return | | 3.4 |
| Benchmark Return | | 2.7 |
| Relative Performance | | 0.7 |
| | **attributable to:** | |
| | Strategic Allocation | -0.1 |
| | Manager Contribution | 0.3 |
| | Residual | 0.5 |

The relative performance can be attributed to the effects of manager contribution and strategic allocation.

## Detail

| Strategic Allocation | | | | Manager Contribution | | |
|---|---|---|---|---|---|---|
| Distribution | | Policy | Investment | Weighted | % Return | |
| Portfolio | Benchmark | Contribution | Manager | Contribution | Portfolio | Benchmark |
| 21.3 | 18.0 | 0.1 | BAILLIE GIFFORD & CO | - | 4.8 | 4.9 |
| 19.2 | 20.0 | - | L&G | - | 1.0 | 1.0 |
| 14.7 | 23.0 | -0.1 | GMO | 0.2 | 3.7 | 4.9 |
| 10.3 | 12.0 | - | SCHRODER INVEST. MGMT. | - | 3.2 | 3.1 |
| 9.3 | 5.0 | - | BAILLIE GIFFORD & CO | 0.1 | 1.7 | 0.8 |
| 9.1 | 5.0 | - | RUFFER INVESTMENT MGMT LTD | 0.2 | 2.7 | 0.8 |
| 5.4 | 7.0 | - | GOLDMAN SACHS ASSET MGMT | - | 0.2 | 1.1 |
| 5.0 | 3.0 | - | L&G | - | 3.9 | 3.9 |
| 5.0 | 7.0 | - | INSIGHT INVESTMENTS | - | 0.6 | 1.1 |
| 0.7 | 0.0 | - | INTERNALLY MANAGED | - | 0.0 | 0.1 |
| | | -0.1 | | 0.3 | | |

The Strategic Allocation quantifies the impact of the fund being invested differently from the Strategic Benchmark set.
The Manager Contribution comes about from the out / underperformance of each manager relative to their benchmarks weighted by the value of assets held.
# = not invested in this area for the entire period

Appendices

# Asset Mix and Returns

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

This page provides the underlying detail for the fund over the latest period.

| All values are shown in GBP'000s | Asset Allocation | | | | | | | | Stock Selection | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 29/09/2017 | | | | Gain/ | | 29/12/2017 | | | |
| | Value | % | Purchases | Sales | Loss | Income | Value | % | Return | B'M |
| *TOTAL EQUITIES* | 485,673 | 34 | 503,778 | 494,727 | 12,856 | 561 | 507,580 | 33 | 3.5 | 2.6 |
| *U.K. EQUITIES* | 276,003 | 19 | | 276,481 | 478 | | | | 0.2 # | 0.2 # |
| *OVERSEAS EQUITIES* | 209,671 | 15 | 503,778 | 218,245 | 12,377 | 561 | 507,580 | 33 | 5.9 | 4.0 |
| *NORTH AMERICA* | 96,104 | 7 | 26 | 101,916 | 5,786 | 383 | | | n/a | |
| *TOTAL USA* | 89,303 | 6 | 26 | 95,177 | 5,848 | 365 | | | n/a | |
| *CONTINENTAL EUROPE* | 59,585 | 4 | 190 | 60,762 | 987 | 46 | | | n/a | |
| *EUROLAND TOTAL* | 47,242 | 3 | 190 | 48,543 | 1,111 | 15 | | | n/a | |
| *NON EUROLAND TOTAL* | 12,343 | 1 | | 12,219 | -124 | 31 | | | -0.8 # | |
| *JAPAN* | 26,869 | 2 | | 28,748 | 1,880 | 11 | | | 8.1 # | |
| *TOTAL PACIFIC (EX.JAPAN)* | 10,271 | 1 | | 10,482 | 212 | 31 | | | 2.4 # | |
| *OTHER INTL EQUITIES* | 215 | 0 | 503,562 | 218 | 4,021 | 0 | 507,580 | 33 | n/a | 4.0 |
| *EMERGING MARKETS* | 215 | 0 | | 218 | 2 | 0 | | | n/a | |
| *All World Equity Index Fd GBP HDG* | | | 167,657 | | 1,623 | | 169,280 | 11 | 1.0 # | 1.0 # |
| *All World Equity Index* | | | 83,716 | | 681 | | 84,397 | 6 | 0.8 # | 0.8 # |
| *MSCI Wld Low Carbon Target Index* | | | 252,189 | | 1,715 | | 253,904 | 17 | 0.7 # | 0.7 # |
| *OTHER OVERSEAS* | 16,627 | 1 | 0 | 16,119 | -509 | 89 | 0 | 0 | -15.5 # | |
| *UK GLOBAL* | 16,627 | 1 | 0 | 16,119 | -509 | 89 | 0 | 0 | -15.5 # | |
| *Global Transition* | | | | | | | | | | |
| *GMO EMERGING MARKETS EQUITY* | 0 | 0 | | 0 | | | | | 0.0 # | |
| *TOTAL BONDS PLUS INDEX-LINKED* | 220,026 | 15 | 145,882 | 145,878 | 3,348 | | 223,377 | 15 | 1.5 | 1.8 |
| *U.K. INDEX - LINKED* | 71,648 | 5 | 74,504 | 74,504 | 2,782 | | 74,430 | 5 | 3.9 | 3.9 |
| *POOLED BONDS* | 148,378 | 10 | 71,378 | 71,374 | 566 | | 148,948 | 10 | 0.4 | 1.1 |
| *CASH/ALTERNATIVES* | 584,836 | 41 | 1,575,188 | 1,540,811 | 27,084 | 489 | 646,297 | 42 | 4.1 | 3.2 |
| *TOTAL CASH* | 13,925 | 1 | 1,574,700 | 1,540,811 | 6,983 | 0 | 54,796 | 4 | 2.5 | |
| *ALTERNATIVES* | 570,911 | 40 | 489 | | 20,101 | 489 | 591,501 | 39 | 3.6 | 3.2 |
| *LGPS CIV Diversified Growth Fund (Class A* | 133,420 | 9 | | | 2,310 | | 135,730 | 9 | 1.7 | |
| *LGPS CIV Global Equity Alpha Fund (Class* | 306,244 | 21 | 489 | | 14,309 | 489 | 321,042 | 21 | 4.8 | |
| *LCIV RF ABSOLUTE RETURN FUND* | 131,247 | 9 | | | 3,482 | | 134,730 | 9 | 2.7 | |
| *TOTAL PROPERTY* | 141,862 | 10 | 7,352 | 6,612 | 3,619 | 1,141 | 146,222 | 10 | 3.3 | 3.1 |
| ***TOTAL ASSETS*** | **1,432,398** | **100** | **2,232,201** | **2,188,028** | **46,906** | **2,191** | **1,523,477** | **100** | **3.4** | **2.7** |

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

# not invested in this area for the entire period

# Summary of Long Term Returns

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Benchmark - LB TOWER HAMLETS TOTAL B/MARK** — **Pound Sterling**

This page summarises the long term returns at asset class level

| | 2015 | | | | 2016 | | | | 2017 | | | | 1yr | 3yrs | 5yrs |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Return % | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | % pa | % pa |
| *UK Equities* | *4.7* | *-1.5* | *-5.7* | *4.0* | *-0.4* | *4.7* | *7.8* | *3.9* | *4.3* | *1.4* | *2.2* | *0.2 #* | | | |
| *N. America* | *7.4* | *-5.4* | *-7.0* | *4.3* | *2.4* | *8.9* | *6.8* | *8.8* | *4.9* | *-0.5* | *1.8* | *n/a* | *n/a* | *n/a* | *n/a* |
| *Europe ex UK* | *10.4* | *-5.8* | *-9.2* | *10.8* | *0.5* | *3.1* | *9.4* | *8.5* | *5.0* | *3.3* | *6.5* | *n/a* | *n/a* | *n/a* | *n/a* |
| *Pacific* | *11.1* | *-4.9* | *-16.1* | *6.4* | *0.6* | *9.7* | *12.2* | *-0.4* | *8.7* | *-0.6* | *3.5* | *2.4 #* | | | |
| *Japan* | *18.5* | *-0.1* | *-8.5* | *14.6* | *-3.9* | *9.7* | *9.6* | *7.7* | *2.7* | *0.6* | *1.8* | *8.1 #* | | | |
| *Global Eq* | *9.1* | *-4.9* | *-5.8* | *10.4* | *0.3* | *2.0 #* | | | | | | | | | |
| *UK IL* | *3.3* | *-3.3* | *2.3* | *-3.3* | *6.5* | *11.1* | *11.0* | *-3.0* | *2.0* | *-2.4* | *-0.8* | *3.9* | *2.5* | *8.9* | *9.6* |
| *Pooled Bonds* | *0.1* | *-1.1* | *0.2* | *-0.3* | *0.4 #* | *-0.8 #* | *1.9* | *1.4* | *0.6* | *-0.3* | *-0.3* | *0.4* | *0.3* | | |
| *Cash* | *0.6* | *0.0* | *0.4* | *0.4* | *0.8* | *0.4* | *1.0* | *1.1* | *0.0* | *-0.1* | *-0.2* | *2.5* | *2.3* | *2.3* | *1.8* |
| *Alternatives* | *4.0* | *-0.5* | *-3.8* | *1.4* | *0.3* | *2.7* | *9.8* | *3.3* | *5.8* | *3.4* | *2.9* | *3.6* | *16.6* | *11.2* | *9.4* |
| *Curr Instr* | *0.0 #* | | | | | | | | | | | | | | |
| *Property* | *2.6* | *2.8* | *3.8* | *2.3* | *1.9* | *0.4* | *-0.8* | *1.7* | *2.5* | *2.1* | *3.3* | *3.3* | *11.8* | *8.9* | *10.3* |
| *Total Assets* | 5.5 | -2.4 | -4.0 | 4.2 | 1.2 | 4.8 | 6.9 | 3.1 | 4.5 | 1.5 | 2.2 | 3.4 | 12.0 | 10.5 | 11.0 |

# not invested in this area for the entire period

# Rolling Years with Relative Risk - GMO World Equity

**LONDON BOROUGH OF TOWER HAMLETS - GMO** — **Periods to end December 2017**

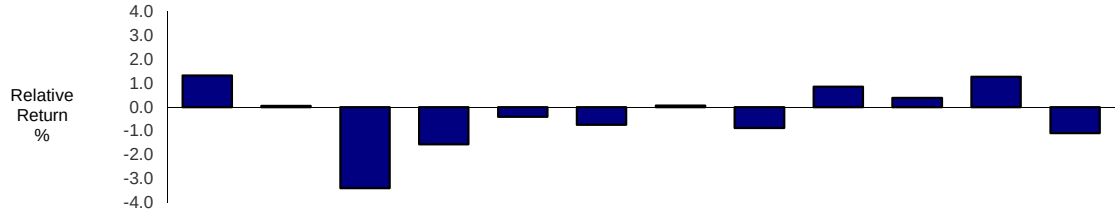
**Benchmark - LB OF TOWER HAMLETS - GMO BM.** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

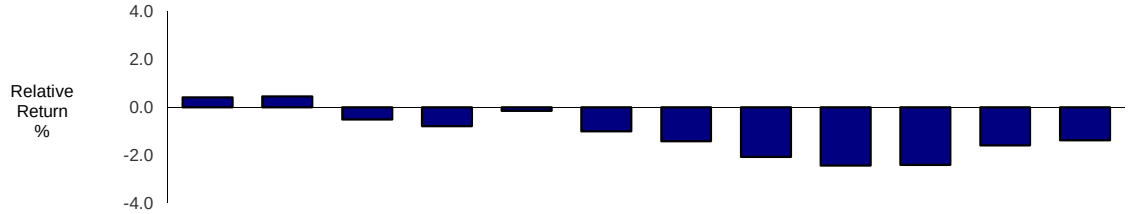
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | 250.7 | 273.4 | 249.2 | 226.6 | 241.4 | 247.3 | 267.2 | 289.7 | 305.9 | 325.3 | 278.0 | 211.1 |
| Net Investment | 1.0 | -8.6 | 1.5 | 1.8 | 0.9 | 2.5 | 1.7 | 2.9 | 1.3 | -47.3 | -73.8 | -219.1 |
| Capital Gain/Loss | 21.6 | -15.6 | -24.1 | 13.0 | 5.0 | 17.4 | 20.8 | 13.4 | 18.1 | 0.0 | 6.9 | 8.3 |
| Final | 273.4 | 249.2 | 226.6 | 241.4 | 247.3 | 267.2 | 289.7 | 305.9 | 325.3 | 278.0 | 211.1 | 0.3 |
| Income | 1.0 | 2.1 | 1.5 | 1.5 | 1.2 | 2.4 | 1.8 | 2.4 | 2.0 | 2.4 | 1.6 | 0.6 |
| Proportion Of Total Fund (%) | 24 | 22 | 21 | 22 | 22 | 23 | 23 | 23 | 24 | 20 | 15 | 0 |

## Quarterly Returns



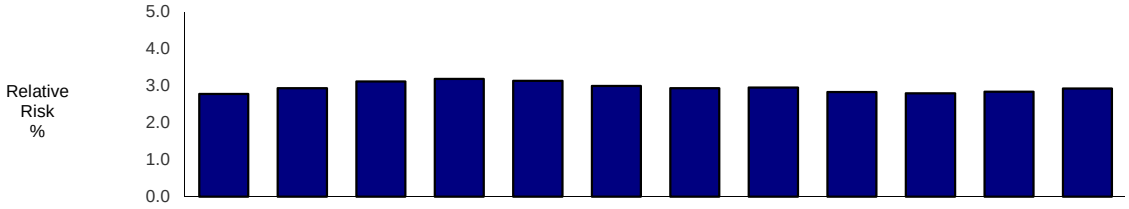

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 9.0 | -5.1 | -9.0 | 6.4 | 2.5 | 8.0 | 8.4 | 5.5 | 6.5 | 0.8 | 3.1 | 3.7 |
| Benchmark | 7.6 | -5.1 | -5.9 | 8.1 | 2.9 | 8.8 | 8.4 | 6.4 | 5.6 | 0.4 | 1.8 | 4.9 |
| Relative Return | 1.3 | 0.1 | -3.4 | -1.6 | -0.4 | -0.7 | 0.1 | -0.9 | 0.9 | 0.4 | 1.3 | -1.1 |

## Annualised Rolling 3 Year Returns




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 14.1 | 13.8 | 9.1 | 10.2 | 7.1 | 9.1 | 10.6 | 10.6 | 12.0 | 11.4 | 12.5 | 13.4 |
| Benchmark | 13.6 | 13.3 | 9.7 | 11.0 | 7.3 | 10.2 | 12.2 | 12.9 | 14.8 | 14.2 | 14.3 | 14.9 |
| Relative Return | 0.4 | 0.4 | -0.5 | -0.8 | -0.1 | -1.0 | -1.4 | -2.1 | -2.4 | -2.4 | -1.6 | -1.4 |

## Rolling 3 Year Risk




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relative Risk | 2.8 | 2.9 | 3.1 | 3.2 | 3.1 | 3.0 | 2.9 | 2.9 | 2.8 | 2.8 | 2.8 | 2.9 |
| Information Ratio | 0.1 | 0.2 | -0.2 | -0.3 | -0.0 | -0.3 | -0.5 | -0.7 | -0.9 | -0.9 | -0.6 | -0.5 |

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk - L&G Global Equity

**LB OF TOWER HAMLETS - L&G** — **Periods to end December 2017**

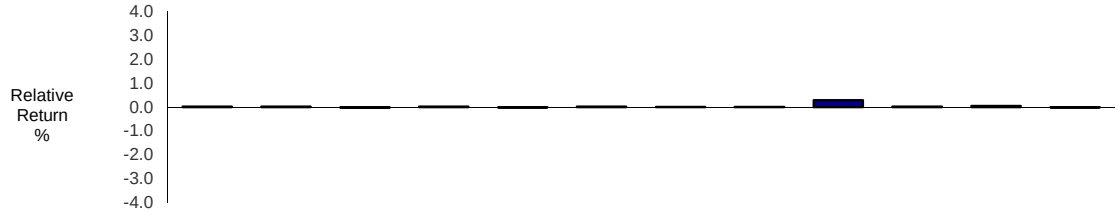
**Benchmark - Tower Hamlets L&G Equity Bmk** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

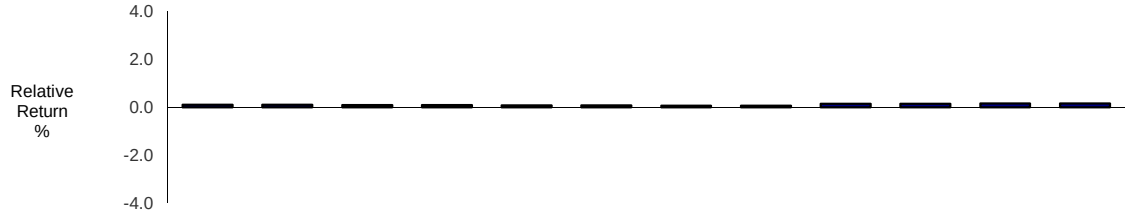
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | 216.1 | 226.3 | 222.8 | 210.1 | 218.4 | 217.5 | 227.8 | 245.6 | 255.2 | 266.3 | 270.1 | 276.0 |
| Net Investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 227.1 |
| Capital Gain/Loss | 10.2 | -3.5 | -12.7 | 8.4 | -0.9 | 10.3 | 17.8 | 9.6 | 11.0 | 3.8 | 5.9 | 4.5 |
| Final | 226.3 | 222.8 | 210.1 | 218.4 | 217.5 | 227.8 | 245.6 | 255.2 | 266.3 | 270.1 | 276.0 | 507.6 |
| Income | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proportion Of Total Fund (%) | 20 | 20 | 20 | 20 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 33 |

## Quarterly Returns



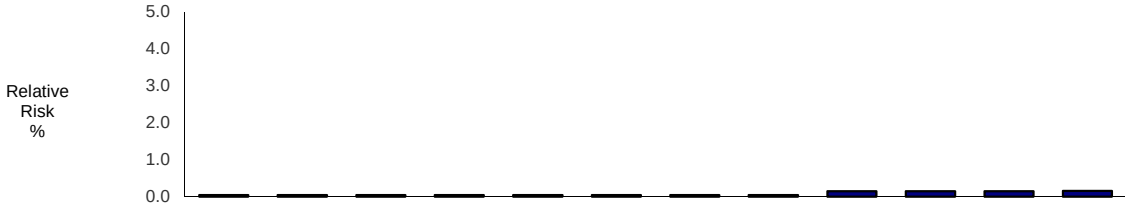

| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 4.7 | -1.5 | -5.7 | 4.0 | -0.4 | 4.7 | 7.8 | 3.9 | 4.3 | 1.4 | 2.2 | 1.0 |
| Benchmark | 4.7 | -1.6 | -5.7 | 4.0 | -0.4 | 4.7 | 7.8 | 3.9 | 4.0 | 1.4 | 2.1 | 1.0 |
| Relative Return | 0.0 | 0.0 | -0.0 | 0.0 | -0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.1 | -0.0 |

## Annualised Rolling 3 Year Returns




| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 10.7 | 11.1 | 7.3 | 7.4 | 3.7 | 5.9 | 6.6 | 6.1 | 7.8 | 7.5 | 8.7 | 8.8 |
| Benchmark | 10.6 | 11.0 | 7.2 | 7.3 | 3.7 | 5.8 | 6.6 | 6.1 | 7.7 | 7.4 | 8.5 | 8.7 |
| Relative Return | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |

## Rolling 3 Year Risk




| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relative Risk | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Information Ratio | 2.3 | 2.2 | 2.1 | 2.4 | 1.8 | 1.6 | 1.4 | 1.3 | 0.9 | 1.0 | 1.1 | 1.0 |

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk - B Gifford World Equity

**LONDON BOROUGH OF TOWER HAMLETS - BAILLIE GIFFORD & CO** — **Periods to end December 2017**

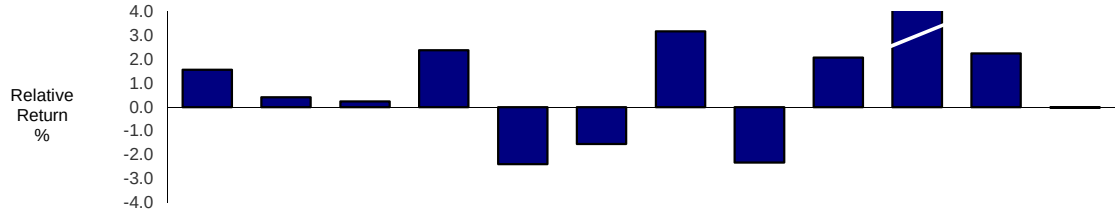
**Benchmark - MSCI AC WORLD NDR** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

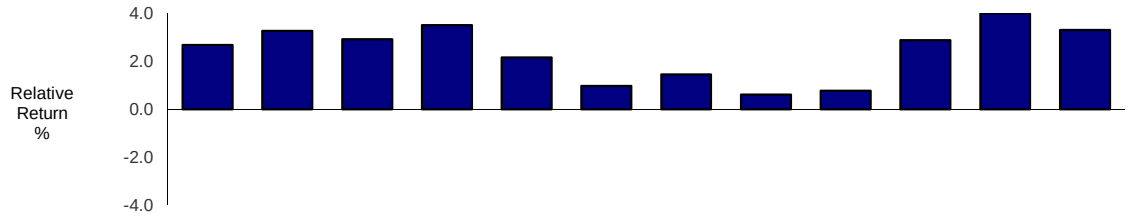
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | 199.4 | 217.7 | 200.8 | 189.3 | 209.2 | 209.9 | 224.4 | 251.5 | 261.4 | 281.2 | 294.1 | 306.2 |
| Net Investment | 0.1 | -6.3 | 0.1 | 0.1 | 0.1 | 0.0 | 0.6 | 0.5 | 0.2 | 0.8 | 0.8 | 0.5 |
| Capital Gain/Loss | 18.1 | -10.5 | -11.7 | 19.8 | 0.6 | 14.5 | 26.5 | 9.4 | 19.7 | 12.1 | 11.3 | 14.3 |
| Final | 217.7 | 200.8 | 189.3 | 209.2 | 209.9 | 224.4 | 251.5 | 261.4 | 281.2 | 294.1 | 306.2 | 321.0 |
| Income | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.5 | 0.8 | 0.8 | 0.8 | 0.5 |
| Proportion Of Total Fund (%) | 19 | 18 | 18 | 19 | 19 | 19 | 20 | 20 | 20 | 21 | 21 | 21 |

## Quarterly Returns



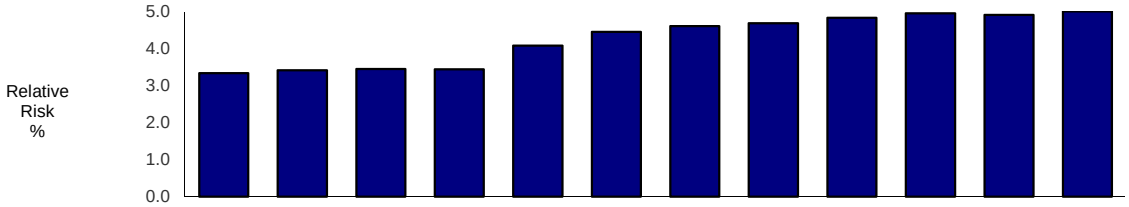

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 9.1 | -4.9 | -5.8 | 10.5 | 0.3 | 6.9 | 11.8 | 3.9 | 7.8 | 4.6 | 4.1 | 4.8 |
| Benchmark | 7.5 | -5.3 | -6.0 | 7.9 | 2.8 | 8.6 | 8.4 | 6.4 | 5.6 | 0.4 | 1.8 | 4.9 |
| Relative Return | 1.6 | 0.4 | 0.2 | 2.4 | -2.4 | -1.5 | 3.2 | -2.3 | 2.1 | 4.2 | 2.2 | -0.0 |

## Annualised Rolling 3 Year Returns




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 16.5 | 16.6 | 12.4 | 15.2 | 9.8 | 11.6 | 14.8 | 14.4 | 16.5 | 18.2 | 19.0 | 18.4 |
| Benchmark | 13.5 | 12.9 | 9.2 | 11.3 | 7.5 | 10.6 | 13.2 | 13.7 | 15.6 | 14.9 | 14.4 | 14.6 |
| Relative Return | 2.7 | 3.3 | 2.9 | 3.5 | 2.2 | 1.0 | 1.4 | 0.6 | 0.8 | 2.9 | 4.0 | 3.3 |

## Rolling 3 Year Risk




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relative Risk | 3.3 | 3.4 | 3.4 | 3.4 | 4.1 | 4.5 | 4.6 | 4.7 | 4.8 | 5.0 | 4.9 | 5.0 |
| Information Ratio | 0.8 | 1.0 | 0.8 | 1.0 | 0.5 | 0.2 | 0.3 | 0.1 | 0.2 | 0.6 | 0.8 | 0.7 |

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk - Schroders UK Property

**LB OF TOWER HAMLET PROPERTY PORTFOLIO - SCHRODER INVEST. MGMT.** — **Periods to end December 2017**

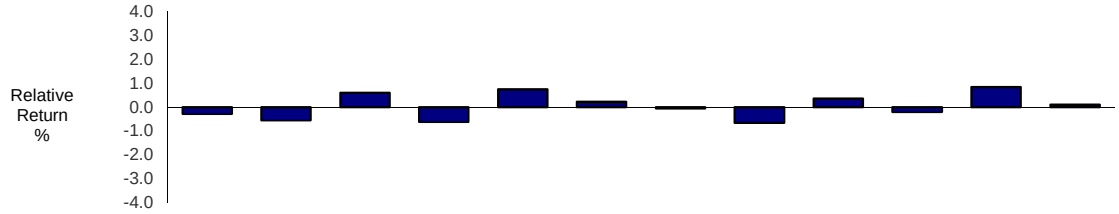
**Benchmark - London Borough of Tower Hamlets - Schroders** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

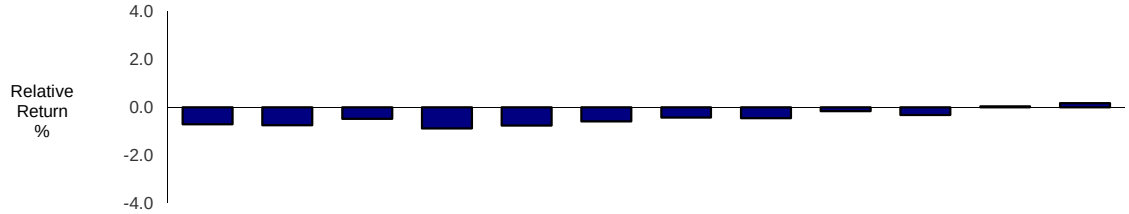
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | 119.2 | 122.2 | 125.6 | 130.1 | 133.0 | 135.4 | 135.9 | 134.9 | 137.0 | 140.3 | 143.2 | 147.9 |
| Net Investment | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 1.2 | 1.0 | 1.1 | 1.3 | 1.1 | 1.1 |
| Capital Gain/Loss | 2.1 | 2.4 | 3.6 | 2.0 | 1.5 | -0.5 | -2.2 | 1.1 | 2.2 | 1.7 | 3.5 | 3.6 |
| Final | 122.2 | 125.6 | 130.1 | 133.0 | 135.4 | 135.9 | 134.9 | 137.0 | 140.3 | 143.2 | 147.9 | 152.6 |
| Income | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 1.2 | 1.0 | 1.1 | 1.3 | 1.1 | 1.1 |
| Proportion Of Total Fund (%) | 11 | 11 | 12 | 12 | 12 | 11 | 11 | 10 | 10 | 10 | 10 | 10 |

## Quarterly Returns



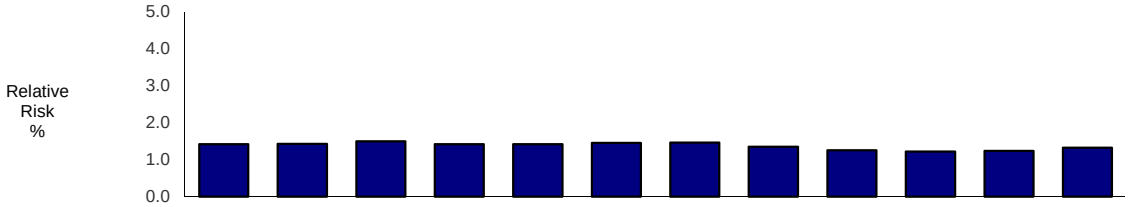

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 2.5 | 2.8 | 3.6 | 2.2 | 1.8 | 0.4 | -0.7 | 1.6 | 2.4 | 2.1 | 3.2 | 3.2 |
| Benchmark | 2.8 | 3.3 | 3.0 | 2.8 | 1.1 | 0.1 | -0.7 | 2.3 | 2.0 | 2.3 | 2.4 | 3.1 |
| Relative Return | -0.3 | -0.5 | 0.6 | -0.6 | 0.7 | 0.2 | -0.1 | -0.7 | 0.4 | -0.2 | 0.8 | 0.1 |

## Annualised Rolling 3 Year Returns




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 8.6 | 9.7 | 11.1 | 11.9 | 12.1 | 11.8 | 10.9 | 10.1 | 10.0 | 9.1 | 8.9 | 8.6 |
| Benchmark | 9.4 | 10.6 | 11.7 | 12.9 | 13.0 | 12.5 | 11.4 | 10.7 | 10.2 | 9.5 | 8.9 | 8.4 |
| Relative Return | -0.7 | -0.7 | -0.5 | -0.9 | -0.8 | -0.6 | -0.4 | -0.5 | -0.2 | -0.3 | 0.0 | 0.2 |

## Rolling 3 Year Risk




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relative Risk | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 | 1.5 | 1.3 | 1.3 | 1.2 | 1.2 | 1.3 |
| Information Ratio | -0.5 | -0.5 | -0.3 | -0.6 | -0.5 | -0.4 | -0.3 | -0.3 | -0.1 | -0.3 | 0.0 | 0.1 |

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk - L&G Index Linked

**LB OF TOWER HAMLETS - L&G** — **Periods to end December 2017**

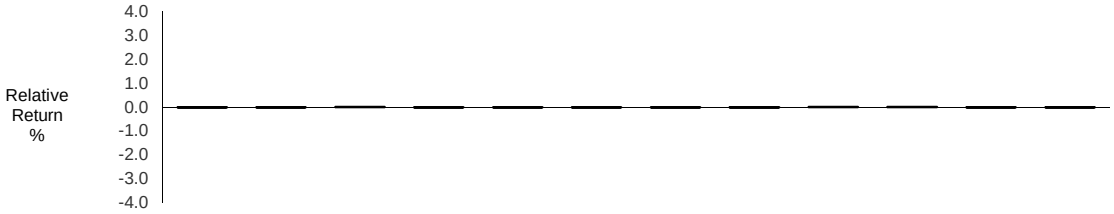
**Benchmark - FTSE UK GILTS INDEXED > 5 YRS** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

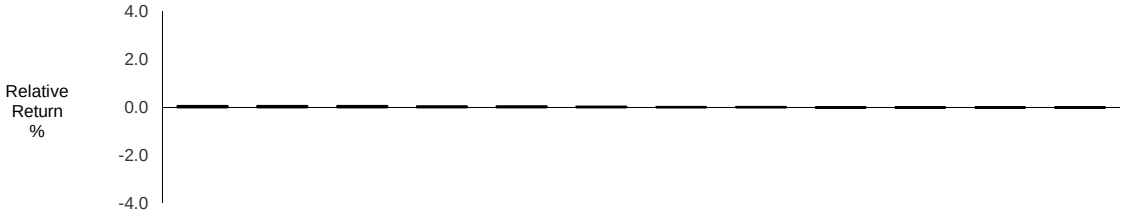
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | 57.7 | 59.5 | 57.6 | 58.9 | 57.0 | 60.7 | 67.4 | 74.8 | 72.6 | 74.0 | 72.2 | 71.6 |
| Net Investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.0 |
| Capital Gain/Loss | 1.9 | -2.0 | 1.3 | -1.9 | 3.7 | 6.7 | 7.4 | -2.2 | 1.4 | -1.8 | -0.6 | 2.8 |
| Final | 59.5 | 57.6 | 58.9 | 57.0 | 60.7 | 67.4 | 74.8 | 72.6 | 74.0 | 72.2 | 71.6 | 74.4 |
| Income | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proportion Of Total Fund (%) | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 | 5 | 5 | 5 | 5 |

## Quarterly Returns



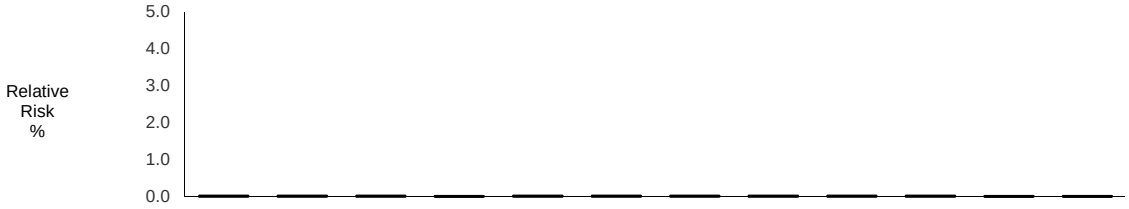

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 3.3 | -3.3 | 2.3 | -3.3 | 6.5 | 11.1 | 10.9 | -3.0 | 2.0 | -2.4 | -0.8 | 3.9 |
| Benchmark | 3.3 | -3.3 | 2.3 | -3.3 | 6.5 | 11.1 | 11.0 | -3.0 | 2.0 | -2.4 | -0.8 | 3.9 |
| Relative Return | -0.0 | -0.0 | 0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | 0.0 | 0.0 | -0.0 | -0.0 |

## Annualised Rolling 3 Year Returns




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 9.0 | 7.5 | 9.4 | 6.5 | 5.6 | 12.2 | 16.0 | 15.2 | 14.6 | 13.2 | 10.8 | 8.9 |
| Benchmark | 8.9 | 7.4 | 9.4 | 6.4 | 5.6 | 12.2 | 15.9 | 15.2 | 14.6 | 13.2 | 10.8 | 8.9 |
| Relative Return | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.0 | -0.0 | -0.0 | -0.0 |

## Rolling 3 Year Risk




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relative Risk | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Information Ratio | 2.7 | 2.2 | 2.3 | 1.9 | 1.3 | 1.1 | 0.5 | 0.2 | -0.1 | -0.1 | -0.3 | -0.6 |

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk - B Gifford Divers Growth

**LB OF TOWER HAMLETS - BAILLIE GIFFORD & CO** — **Periods to end December 2017**

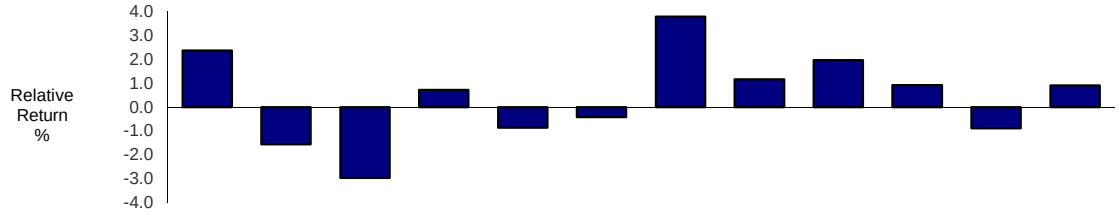
**Benchmark - GBP 3 MONTH LIBOR + 3%** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

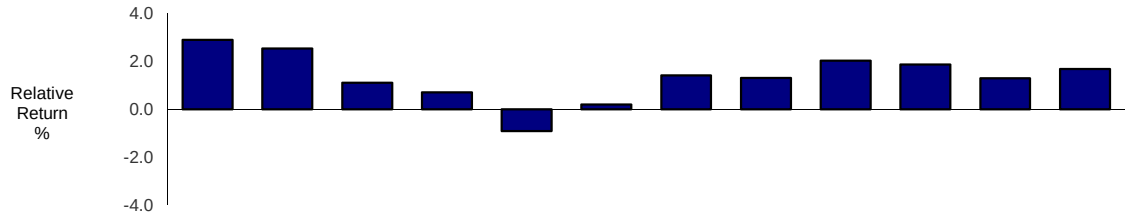
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | 49.1 | 50.7 | 56.7 | 55.5 | 56.4 | 56.3 | 56.6 | 59.3 | 60.5 | 62.2 | 63.3 | 133.4 |
| Net Investment | 0.0 | 6.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 70.8 | 0.0 |
| Capital Gain/Loss | 1.6 | -0.5 | -1.2 | 0.9 | -0.1 | 0.3 | 2.7 | 1.2 | 1.4 | 1.1 | -0.6 | 2.3 |
| Final | 50.7 | 56.7 | 55.5 | 56.4 | 56.3 | 56.6 | 59.3 | 60.5 | 62.2 | 63.3 | 133.4 | 135.7 |
| Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.8 | 0.0 |
| Proportion Of Total Fund (%) | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 9 | 9 |

## Quarterly Returns



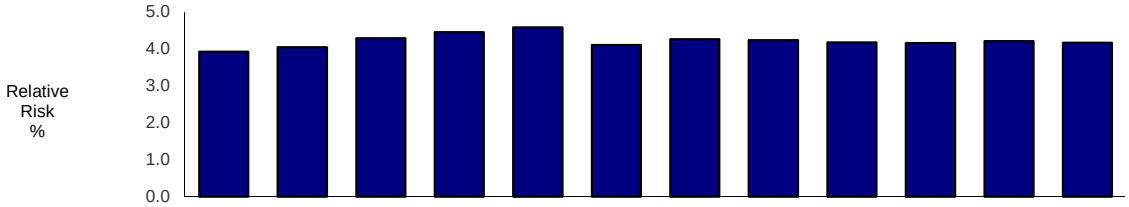

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 3.3 | -0.7 | -2.1 | 1.6 | 0.0 | 0.5 | 4.7 | 2.0 | 2.8 | 1.8 | -0.1 | 1.7 |
| Benchmark | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Relative Return | 2.4 | -1.5 | -2.9 | 0.7 | -0.9 | -0.4 | 3.8 | 1.2 | 2.0 | 0.9 | -0.9 | 0.9 |

## Annualised Rolling 3 Year Returns




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 6.6 | 6.2 | 4.7 | 4.3 | 2.6 | 3.8 | 5.0 | 4.9 | 5.6 | 5.5 | 4.8 | 5.2 |
| Benchmark | 3.6 | 3.5 | 3.5 | 3.5 | 3.5 | 3.6 | 3.6 | 3.6 | 3.5 | 3.5 | 3.5 | 3.5 |
| Relative Return | 2.9 | 2.5 | 1.1 | 0.7 | -0.9 | 0.2 | 1.4 | 1.3 | 2.0 | 1.9 | 1.3 | 1.7 |

## Rolling 3 Year Risk




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relative Risk | 3.9 | 4.0 | 4.3 | 4.4 | 4.6 | 4.1 | 4.3 | 4.2 | 4.2 | 4.1 | 4.2 | 4.2 |
| Information Ratio | 0.7 | 0.6 | 0.3 | 0.2 | -0.2 | 0.0 | 0.3 | 0.3 | 0.5 | 0.4 | 0.3 | 0.4 |

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk - Ruffer Div Growth

**LB OF TOWER HAMLETS - RUFFER INVESTMENT MGMT LTD** — **Periods to end December 2017**

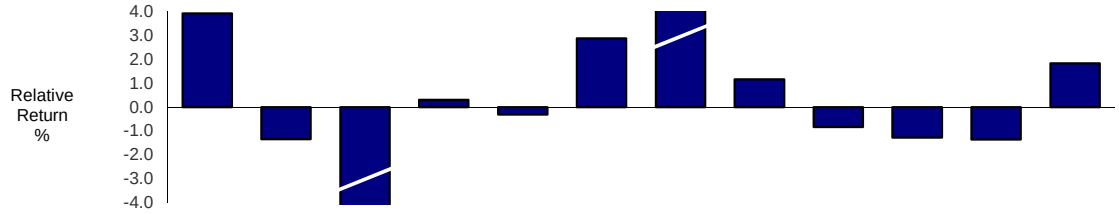
**Benchmark - GBP 3 MONTH LIBOR + 3%** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

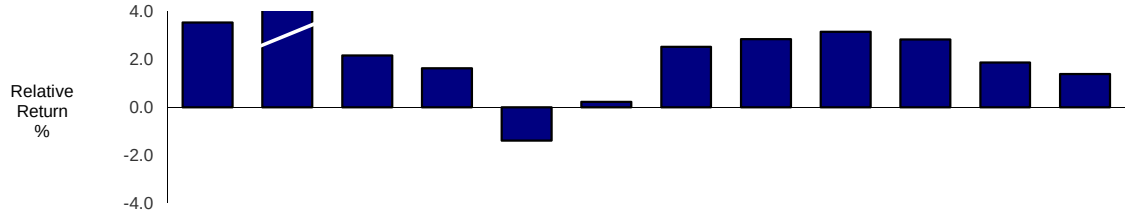
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | 48.3 | 50.6 | 56.8 | 53.7 | 54.3 | 54.6 | 56.7 | 60.6 | 61.8 | 61.8 | 61.6 | 131.2 |
| Net Investment | 0.0 | 6.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 70.3 | 0.0 |
| Capital Gain/Loss | 2.3 | -0.3 | -3.1 | 0.6 | 0.3 | 2.1 | 3.9 | 1.2 | -0.2 | -0.3 | -0.6 | 3.5 |
| Final | 50.6 | 56.8 | 53.7 | 54.3 | 54.6 | 56.7 | 60.6 | 61.8 | 61.8 | 61.6 | 131.2 | 134.7 |
| Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.3 | 0.0 |
| Proportion Of Total Fund (%) | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 4 | 4 | 9 | 9 |

## Quarterly Returns



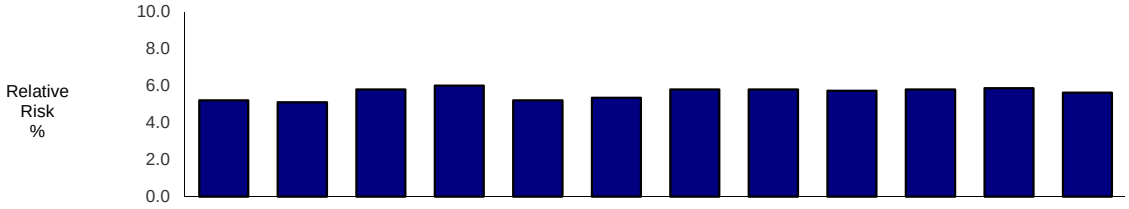

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 4.8 | -0.5 | -5.5 | 1.2 | 0.6 | 3.8 | 6.9 | 2.0 | 0.0 | -0.4 | -0.5 | 2.7 |
| Benchmark | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Relative Return | 3.9 | -1.3 | -6.3 | 0.3 | -0.3 | 2.9 | 6.0 | 1.2 | -0.8 | -1.3 | -1.3 | 1.8 |

## Annualised Rolling 3 Year Returns




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 7.2 | 8.2 | 5.8 | 5.2 | 2.1 | 3.8 | 6.2 | 6.5 | 6.8 | 6.5 | 5.4 | 4.9 |
| Benchmark | 3.6 | 3.5 | 3.5 | 3.5 | 3.5 | 3.6 | 3.6 | 3.6 | 3.5 | 3.5 | 3.5 | 3.5 |
| Relative Return | 3.5 | 4.5 | 2.2 | 1.6 | -1.4 | 0.2 | 2.5 | 2.8 | 3.1 | 2.8 | 1.9 | 1.4 |

## Rolling 3 Year Risk




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relative Risk | 5.2 | 5.1 | 5.8 | 6.0 | 5.2 | 5.3 | 5.8 | 5.8 | 5.7 | 5.8 | 5.9 | 5.6 |
| Information Ratio | 0.7 | 0.9 | 0.4 | 0.3 | -0.3 | 0.0 | 0.4 | 0.5 | 0.5 | 0.5 | 0.3 | 0.2 |

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk - Goldman Absolute Ret

**LONDON BOROUGH OF TOWER HAMLETS - GOLDMAN SACHS ASSET MGMT** — **Periods to end December 2017**

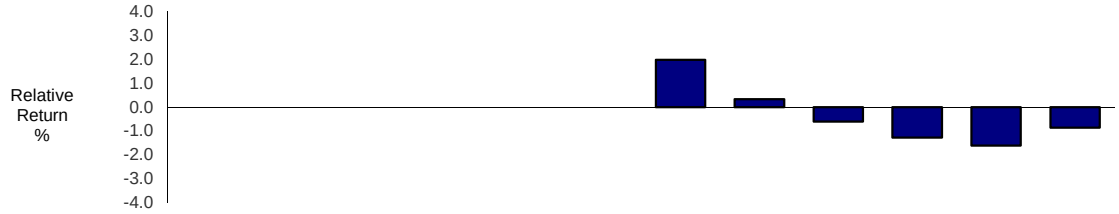
**Benchmark - GBP 3 MONTH LIBOR +4%** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

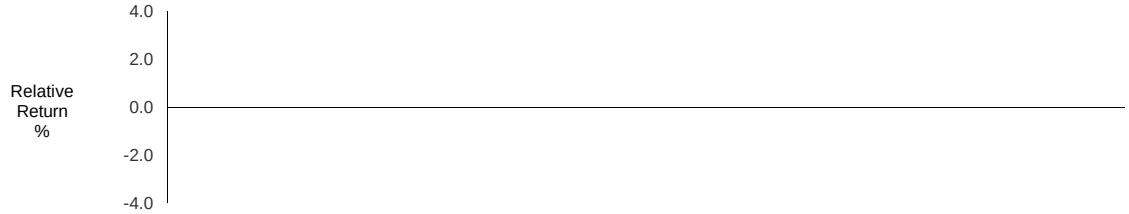
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | | | | | | 0.0 | 74.2 | 76.5 | 77.6 | 77.9 | 77.8 | 77.0 |
| Net Investment | | | | | | 74.8 | 0.0 | 0.0 | 0.0 | 0.0 | -0.3 | 0.0 |
| Capital Gain/Loss | | | | | | -0.6 | 2.3 | 1.1 | 0.4 | -0.2 | -0.4 | 0.1 |
| Final | | | | | | 74.2 | 76.5 | 77.6 | 77.9 | 77.8 | 77.0 | 77.2 |
| Income | | | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proportion Of Total Fund (%) | | | | | | 6 | 6 | 6 | 6 | 6 | 5 | 5 |

## Quarterly Returns



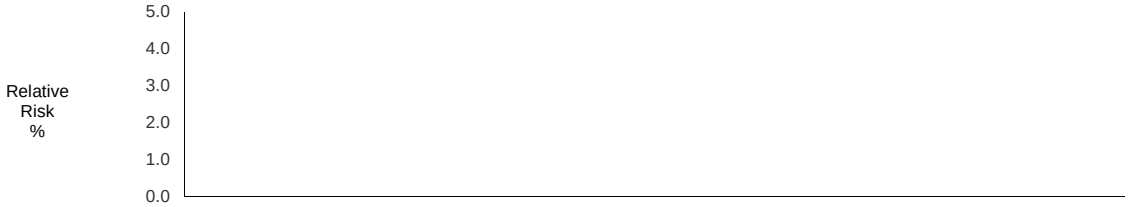

| | | | | | | |
|---|---|---|---|---|---|---|
| Fund | 3.1 | 1.4 | 0.5 | -0.2 | -0.6 | 0.2 |
| Benchmark | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 | 1.1 |
| Relative Return | 2.0 | 0.3 | -0.6 | -1.3 | -1.6 | -0.9 |

## Annualised Rolling 3 Year Returns




Fund
Benchmark
Relative Return

## Rolling 3 Year Risk




Relative Risk
Information Ratio

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk - Insight Absolute Ret

**LB OF TOWER HAMLETS - INSIGHT INVESTMENTS** — **Periods to end December 2017**

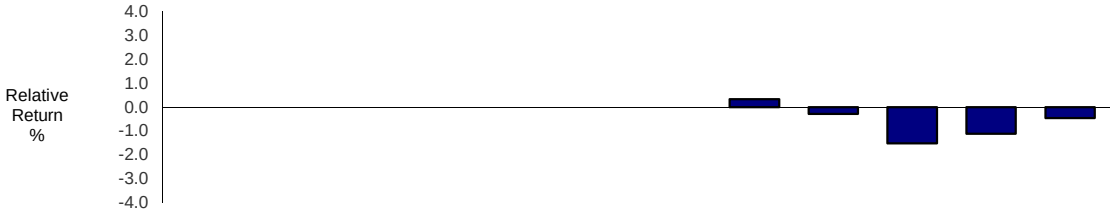
**Benchmark - GBP 3 MONTH LIBOR +4%** — **Pound Sterling**

**Category - TOTAL ASSETS**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

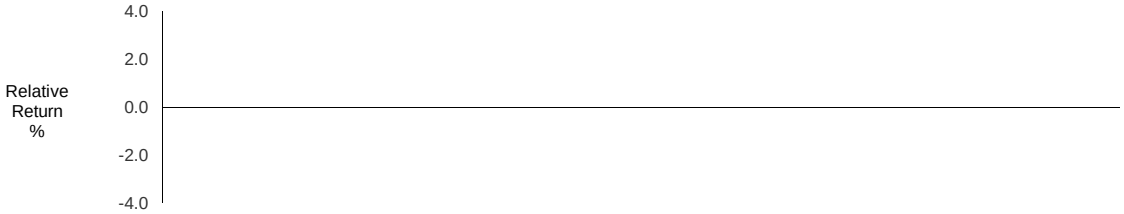
| | 2015 | | | | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Values (GBPm's) | | | | | | | | | | | | |
| Initial | | | | | | | 0.0 | 70.2 | 71.2 | 71.7 | 71.4 | 71.4 |
| Net Investment | | | | | | | 70.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital Gain/Loss | | | | | | | 0.2 | 1.0 | 0.6 | -0.3 | -0.0 | 0.4 |
| Final | | | | | | | 70.2 | 71.2 | 71.7 | 71.4 | 71.4 | 71.8 |
| Income | | | | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proportion Of Total Fund (%) | | | | | | | 6 | 5 | 5 | 5 | 5 | 5 |

## Quarterly Returns



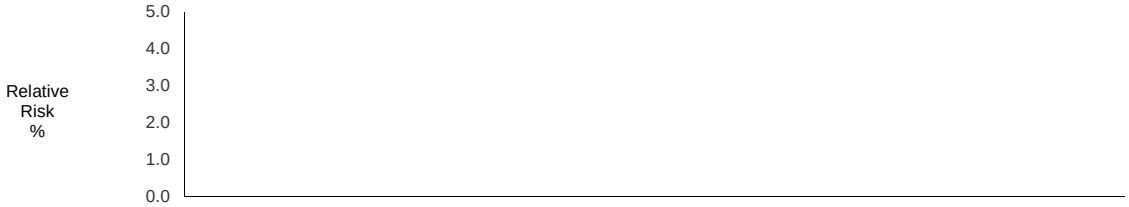

| | | | | | |
|---|---|---|---|---|---|
| Fund | 1.4 | 0.8 | -0.4 | -0.1 | 0.6 |
| Benchmark | 1.1 | 1.1 | 1.1 | 1.0 | 1.1 |
| Relative Return | 0.3 | -0.3 | -1.5 | -1.1 | -0.5 |

## Annualised Rolling 3 Year Returns




Fund
Benchmark
Relative Return

## Rolling 3 Year Risk




Relative Risk
Information Ratio

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Summary of Manager Performance - Rates of Return

**LB OF TOWER HAMLETS - TOTAL COMBINED** — **Periods to end December 2017**

**Pound Sterling**

| | Mkt Val (GBP 1000) | % of Fund | Latest Quarter | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception | Incept. Date |
|---|---|---|---|---|---|---|---|---|---|
| **Structured Products** | | | | | | | | | |
| BAILLIE GIFFORD & CO | 135,730 | 8.9 | 1.7 | 6.3 | 5.2 | 5.3 | | | 31/12/2010 |
| GBP 3 MONTH LIBOR + 3% | | | 0.8 | 3.3 | 3.5 | 3.5 | | | |
| | | | 0.9 | 2.9 | 1.7 | 1.7 | | | |
| **Equity - World** | | | | | | | | | |
| BAILLIE GIFFORD & CO | 321,042 | 21.1 | 4.8 | 23.1 | 18.4 | 18.6 | 11.6 | 11.6 | 31/7/2007 |
| MSCI AC WORLD NDR | | | 4.9 | 13.2 | 14.6 | 15.0 | 8.8 | 8.9 | |
| | | | 0.0 | 8.7 | 3.3 | 3.2 | 2.6 | 2.4 | |
| L&G | 507,580 | 33.3 | 1.0 | 9.2 | 8.8 | 9.6 | | | 30/6/2010 |
| Tower Hamlets L&G Equity Bmk | | | 1.0 | 8.8 | 8.7 | 9.4 | | | |
| | | | 0.0 | 0.4 | 0.2 | 0.1 | | | |
| GMO | 317 | 0.0 | 3.7 | 14.8 | 13.4 | 14.2 | 8.2 | 10.1 | 29/4/2005 |
| LB OF TOWER HAMLETS - GMO BM. | | | 4.9 | 13.2 | 14.9 | 14.9 | 8.7 | 10.6 | |
| | | | -1.1 | 1.4 | -1.4 | -0.6 | -0.4 | -0.4 | |
| **Property - UK** | | | | | | | | | |
| SCHRODER INVEST. MGMT. | 152,619 | 10.0 | 3.2 | 11.4 | 8.6 | 10.0 | 3.2 | 5.5 | 29/10/2004 |
| London Borough of Tower Hamlets - Schroders | | | 3.1 | 10.2 | 8.4 | 10.3 | 3.8 | 5.3 | |
| | | | 0.1 | 1.1 | 0.2 | -0.3 | -0.5 | 0.3 | |
| **Bonds - Sterling UK Index-Linked** | | | | | | | | | |
| L&G | 74,430 | 4.9 | 3.9 | 2.5 | 8.9 | 9.5 | | | 30/6/2010 |
| FTSE UK GILTS INDEXED > 5 YRS | | | 3.9 | 2.5 | 8.9 | 9.5 | | | |
| | | | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| **Absolute/Targeted Return** | | | | | | | | | |
| RUFFER INVESTMENT MGMT LTD | 134,730 | 8.8 | 2.7 | 1.6 | 4.9 | 6.2 | | | 31/12/2010 |
| GBP 3 MONTH LIBOR + 3% | | | 0.8 | 3.3 | 3.5 | 3.5 | | | |
| | | | 1.8 | -1.6 | 1.4 | 2.6 | | | |
| INSIGHT INVESTMENTS | 71,797 | 4.7 | 0.6 | 0.9 | | | | | 31/3/2016 |
| GBP 3 MONTH LIBOR +4% | | | 1.1 | 4.3 | | | | | |

# Summary of Manager Performance - Rates of Return

**LB OF TOWER HAMLETS - TOTAL COMBINED**

**Periods to end December 2017**
**Pound Sterling**

| | Mkt Val (GBP 1000) | % of Fund | Latest Quarter | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception | Incept. Date |
|---|---|---|---|---|---|---|---|---|---|
| | | | -0.5 | -3.3 | | | | | |
| **Cash** | | | | | | | | | |
| INTERNALLY MANAGED | 47,798 | 3.1 | 0.0 | 0.3 | 0.9 | 0.9 | n/a | n/a | 30/9/1992 |
| LB TOWER HAMLETS INTERNAL BM | | | 0.1 | 0.3 | 0.3 | 0.3 | 0.8 | 5.4 # | |
| | | | -0.1 | 0.0 | 0.6 | 0.5 | | | |
| INTERNAL FUND | 284 | 0.0 | 3.0 # | | | | | | 30/11/2017 |
| Zero Benchmark | | | | | | | | | |
| **Bonds - World** | | | | | | | | | |
| GOLDMAN SACHS ASSET MGMT | 77,151 | 5.1 | 0.2 | -0.1 | | | | | 31/3/2016 |
| GBP 3 MONTH LIBOR +4% | | | 1.1 | 4.3 | | | | | |
| | | | -0.9 | -4.3 | | | | | |
| **TOTAL FUND** | | | | | | | | | |
| TOTAL COMBINED | 1,523,477 | 100.0 | 3.4 | 12.0 | 10.5 | 11.0 | 6.5 | 7.9 | 31/3/1987 |
| LB TOWER HAMLETS TOTAL B/MARK | | | 2.7 | 9.2 | 10.0 | 10.4 | 6.6 | | |
| | | | 0.7 | 2.6 | 0.5 | 0.6 | 0.0 | | |

# LONDON LGPS CIV DIVERSIFIED GROWTH FUND

## QUARTERLY SUMMARY October – December 2017

The Sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.

| FUND (Underlying Manager) | Q4 | YTD | SINCE INCEPTION | PRICE (Pence) | FUND SIZE £M | INCEPTION DATE | No. of Investors |
|---|---|---|---|---|---|---|---|
| **London LGPS CIV Diversified Growth (Baillie Gifford)** | **1.73%** | **7.14%** | **19.56%** | **117.5p** | **£477M** | **15/02/2016** | **6** |

*Data Source: Bloomberg as at 29/12/2017 – All performance reported Net of fees and charges with dividends reinvested*

### Quarterly Performance Summary:

Listed equities were the single largest contributor to performance over the quarter. Positive market returns and some outperformance of these by the actively managed Baillie Gifford funds contributed c.1.3% of the total. German residential property, structured finance and infrastructure were also strong. Some of your more defensive holdings such as absolute return funds and VIX positions, which are designed to act as a hedge in volatile or falling markets, were a drag on returns, as were insurance linked securities. These were marginally unhelpful as a busier hurricane season caused prices to fall, even though none of the bonds we held for you suffered any capital losses. In active currency our short position in the Korean won and long positions in peripheral European countries such as Norway and Sweden were also unhelpful.

### Performance Since LCIV Inception (15/02/2016):


*Source: Bloomberg as at 29/12/2017* - performance reported Net of fees and charges with dividends reinvested

### Portfolio Manager news:

James Squires, Investment Manager in the Multi Asset team, will become a Partner of Baillie Gifford as of 1st May 2018.

### Management Changes:

In addition, from across the Firm there will be four other new Partners; Matthew Brett, Investment Manager in the Japanese Equity team; Amy Atack, Director with responsibility for clients in Emerging Markets strategies; Nick Wood, Director with responsibility for US Financial Intermediary clients; and Evan Delaney, Director of Business Risk and Internal Audit.

Four Partners will be retiring from the firm on 30th April 2018: Sarah Whitley, Head of the Japanese Equity team; Stephen Rodger and Ken Barker, both Partners within the firm's fixed income area; and Pete Cooke, Partner with responsibility for clients in the Long Term Global Growth strategy. The total number of partners will rise to 44.

### Quarterly Manager Review Meeting Date:

15th January 2018

### Portfolio Characteristics

| Key Statistics | |
|---|---|
| Number of Holdings* | 159 |
| Number of Asset Classes | 11 |
| Number of Countries | 23 |
| Name Turnover** (for year to end December) | 23.9% |

*Source: Baillie Gifford as at 31/12/2017*

### New Purchases During Quarter

| Asset Name |
|---|
| Argentina T-bills (EM Bonds) |
| Indonesian Bonds (EM Bonds) |

*Source: Baillie Gifford as at 31/12/2017*

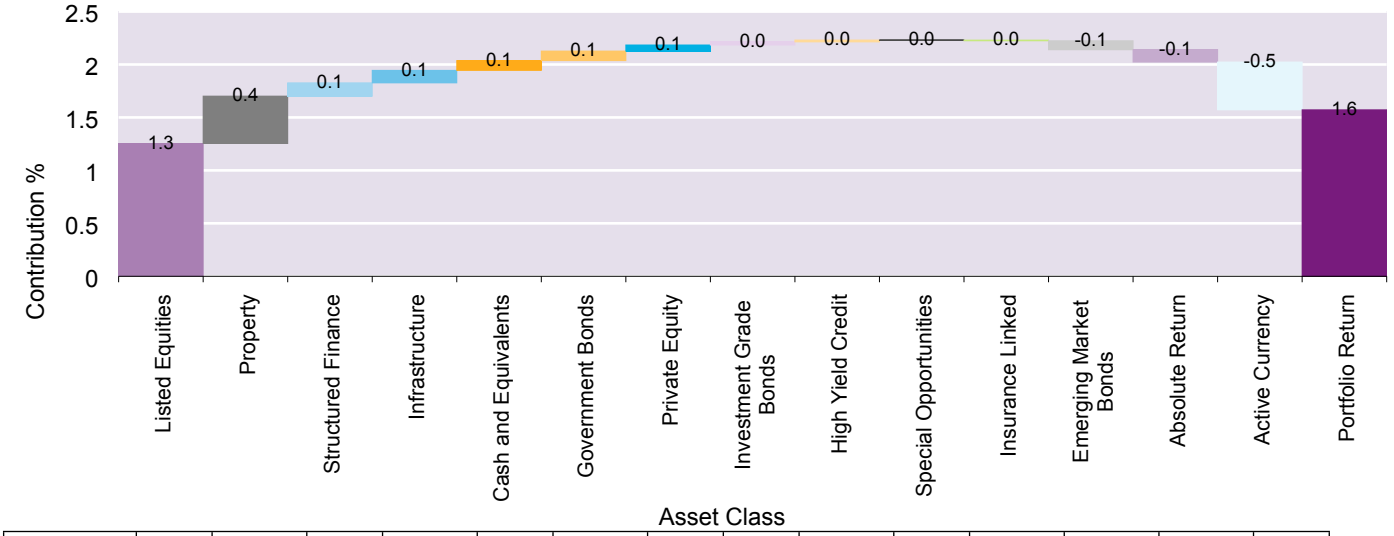
### Complete Sales During Quarter

| Asset Name |
|---|
| GAM Multibond ABS Fund |

*Source: Baillie Gifford as at 31/12/2017*

**Please note the number of holdings and number of countries does not look through to a pooled fund level.*
***Security name turnover provides a measure of turnover based on the number of new names entering and old names exiting a portfolio, compared to the total number of names in the portfolio. This is different from dollar turnover measures, which are based on the dollar value of any trading activity in the portfolio.*

## Contributions to performance

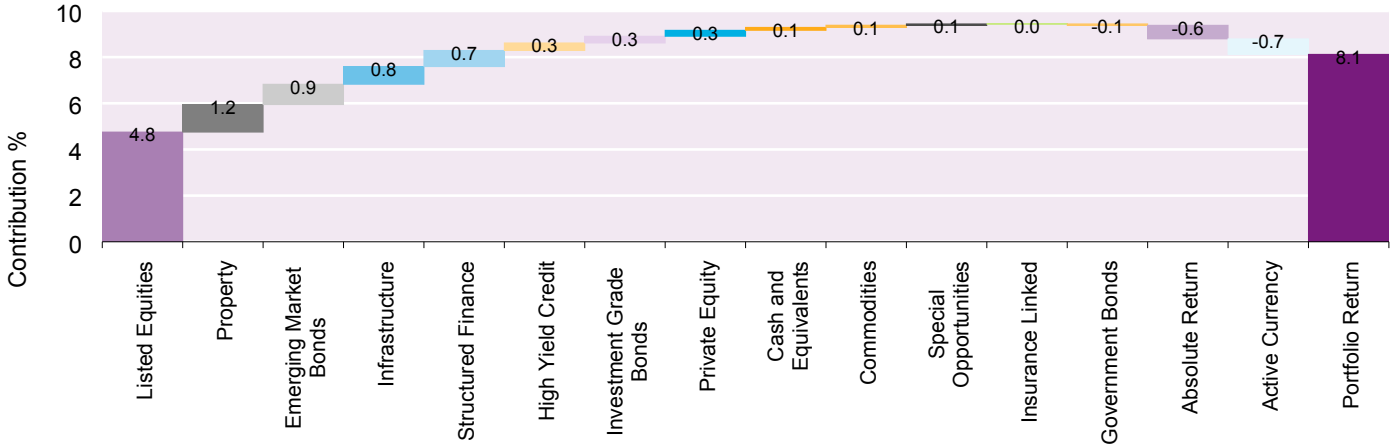



| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average Exposure % | 21.4 | 7.6 | 7.9 | 8.0 | 9.8 | -5.7 | 0.7 | 3.1 | 8.1 | 0.6 | 3.5 | 17.4 | 8.6 | -0.2 |
| Return % | 6.0 | 6.0 | 1.6 | 1.5 | 0.1 | 0.2 | 8.8 | 1.0 | 0.2 | -0.1 | -0.2 | -0.5 | -1.4 | -0.5 |

Average exposure includes all futures positions shown at their average net exposure.
Active currency exposure reflects the average net unrealised profit or loss of open positions in the Fund over the period.
The performance attribution analysis gives an illustration of the contribution to Portfolio Return from each asset class. This differs to the calculation of the Fund return.

*Source: Baillie Gifford as at 31/12/2017*

## One year to 31st December 2017




| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average Exposure % | 21.4 | 7.6 | 7.9 | 8.0 | 9.8 | -5.7 | 0.7 | 3.1 | 8.1 | 0.6 | 3.5 | 17.4 | 8.6 | -0.2 |
| Return % | 6.0 | 6.0 | 1.6 | 1.5 | 0.1 | 0.2 | 8.8 | 1.0 | 0.2 | -0.1 | -0.2 | -0.5 | -1.4 | -0.5 |

Average exposure includes all futures positions shown at their average net exposure.
Active currency exposure reflects the average net unrealised profit or loss of open positions in the Fund over the period.
The performance attribution analysis gives an illustration of the contribution to Portfolio Return from each asset class. This differs to the calculation of the Fund return.

*Source: Baillie Gifford as at 31/12/2017*

# LONDON LGPS CIV GLOBAL ALPHA GROWTH FUND

## QUARTERLY SUMMARY October – December 2017

LONDON CIV

The objective of the Sub-fund is to exceed the rate of return of the MSCI All Country World Index (the "Index") by 2-3% per annum on a gross fee basis over rolling five year periods.

| FUND (Underlying Manager) | Q4 | YTD | SINCE INCEPTION | PRICE (Pence) | FUND SIZE £M | INCEPTION DATE | No. of Investors |
|---|---|---|---|---|---|---|---|
| **London LGPS CIV Global Alpha Growth (Baillie Gifford)** | **4.84** | **22.87** | **54.16** | **152.3p** | **£1,826m** | **11/04/16** | **9** |
| *Benchmark: MSCI All Countries World Gross Index* | **4.83** | **13.76** | **43.15** | | | | |
| **Performance Against Benchmark** | **0.01** | **9.11** | **11.01** | | | | |

*Data Source: Bloomberg as at 29/12/2017 – All performance reported Net of fees and charges with dividends reinvested*

### Quarterly Performance Summary:

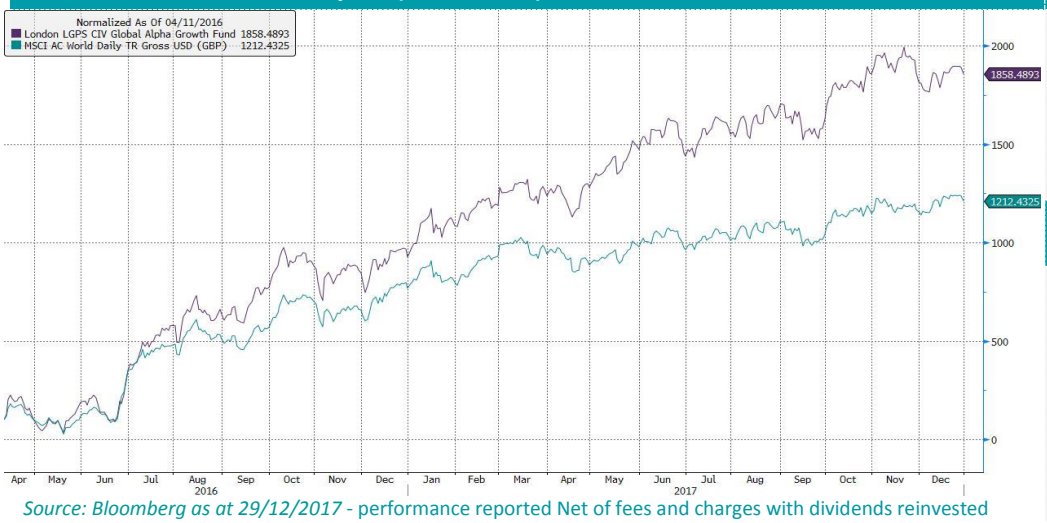
The portfolio marginally underperformed a rising benchmark during the quarter. The Fund's objective is to outperform over the long term, being rolling 5 year periods.

Naspers was the largest contributor to relative performance during the quarter as the company continued to make steady operational progress across its portfolio of online businesses. Naspers has been selling non-core assets to focus on its most attractive growth opportunities, including Chinese gaming and social media platform, Tencent.

CRH led the negative contributors during the period as it saw volumes supressed at its Americas division due to adverse weather and hurricane activity across the US.

Ctrip also detracted from performance following the announcement that its mobile application will provide value-added services on an opt-in basis rather than opt-out. We view this positively on a long term horizon, but a reduction in short term revenue was not well received by the market.

### Performance Since LCIV Inception(11/04/2016):




*Source: Bloomberg as at 29/12/2017* - performance reported Net of fees and charges with dividends reinvested

### Management Changes:

There were no changes to management in Quarter 4 2017.

### Quarterly Manager Review Meeting Date:

30 January 2018

### Portfolio Characteristics

| Key Statistics | |
|---|---|
| Number of Holdings | 102 |
| Number of Countries | 23 |
| Number of Sectors | 10 |
| Number of Industries | 38 |
| Active Share | 91% |
| Rolling One Year Turnover | 14% |

*Source: Baillie Gifford as at 31/12/2017*

### New Purchases During Quarter

| Asset Name |
|---|
| AJ Gallagher & Co |
| Pernod Ricard |
| Persol Holdings |
| Thermo Fisher Scientific |

*Source: Baillie Gifford as at 31/12/2017*

### Complete Sales During Quarter

| Asset Name |
|---|
| Brambles |
| Carlsberg |
| Colgate-Palmolive |
| Rolls-Royce |
| Tripadvisor |

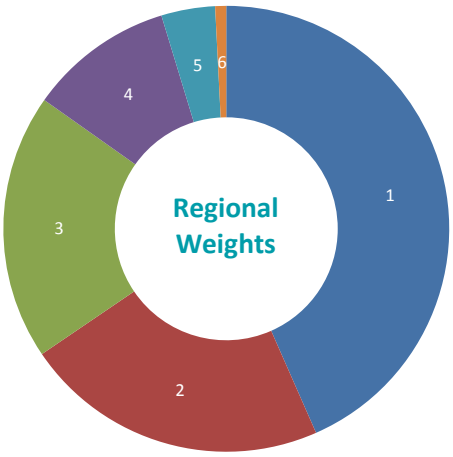
*Source: Baillie Gifford as at 31/12/2017*

| Top Ten Holdings | |
|---|---|
| **Asset Name** | **% of Portfolio** |
| Naspers | 4.6 |
| Amazon.com | 3.8 |
| Prudential | 3.4 |
| TSMC | 2.8 |
| Royal Caribbean Cruises | 2.5 |
| SAP | 2.5 |
| Alphabet | 2.4 |
| Anthem | 2.4 |
| Alibaba | 2.3 |
| Moody's | 2.2 |

*Source: Baillie Gifford as at 31/12/2017*

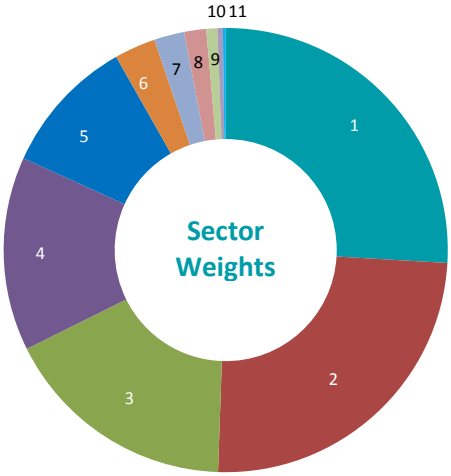
| Regional Weights | | (%) |
|---|---|---|
| 1 | North America | 43.4 |
| 2 | Emerging Markets | 22.1 |
| 3 | Europe (ex UK) | 19.3 |
| 4 | Developed Asia Pacific | 10.5 |
| 5 | UK | 3.9 |
| 6 | Cash and Deposits | 0.8 |

*Source: Baillie Gifford as at 31/12/2017*




| Sector Weights | | (%) |
|---|---|---|
| 1 | Information Technology | 25.9 |
| 2 | Financials | 24.6 |
| 3 | Consumer Discretionary | 17.1 |
| 4 | Industrials | 14.1 |
| 5 | Health Care | 10.0 |
| 6 | Materials | 3.0 |
| 7 | Energy | 2.2 |
| 8 | Consumer Staples | 1.6 |
| 9 | Cash | 0.8 |
| 10 | Real Estate | 0.4 |
| 11 | Telecommunication Services | 0.2 |

*Source: Baillie Gifford as at 31/12/2017*




| Company Engagement | |
|---|---|
| **Engagement Type** | **Company** |
| **Environmental/Social** | Tesla |
| **Corporate Governance** | DIA, NVIDIA, Ryanair |
| **AGM or EGM Proposals** | Anthem, Autohome, CyberAgent |

*Source: Baillie Gifford as at 31/12/2017*

# LCIV RF ABSOLUTE RETURN FUND

## QUARTERLY SUMMARY October – December 2017

The Sub-fund's objective is to achieve low volatility and positive returns in all market conditions. Capital invested in the Sub-fund is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods.

| FUND (Underlying Manager) | Q4 | YTD | SINCE INCEPTION | PRICE (Pence) | FUND SIZE £M | INCEPTION DATE | No. of Investors |
|---|---|---|---|---|---|---|---|
| **LCIV RF Absolute Return (Ruffer)** | **2.65** | **1.46** | **13.13** | **112.2p** | **£834m** | **21/06/16** | **9** |

*Data Source: Bloomberg as at 29/12/2017* – All performance reported Net of fees and charges with dividends reinvested

### Quarterly Performance Summary:

The final quarter of 2017 saw the portfolio deliver an improved performance whilst still maintaining a cautious approach to markets in general. Japanese equities made strong gains, led by banks, life assurance stocks and Sony, whilst index-linked gilts recovered ground lost earlier in the year. More broadly, investors chose to focus more on improving global growth than on political, interest rate or valuation risk, so volatility remained at all-time lows and global equities duly gained about 5% in the quarter.

Overall, 2017 proved to be a year when making money seemed remarkably easy, but protecting our portfolios unusually difficult. This is reflected in the portfolio contributions shown below, where, in a pattern that held for both the fourth quarter and the year as a whole, equities delivered decent gains, but our 'fear' assets, mainly options, were a significant drag on performance. The result is that over the twelve months the portfolio has struggled, in marked contrast to our performance in 2016, whilst almost all others have made hay whilst the sun shone. We are clearly disappointed with the outcome this year, but unrepentant as to the need to hold protection assets. When your primary aim in building long-term returns is the preservation of capital, after an extended bull market we believe abandoning fear in favour of greed would be imprudent, however benign today's weather might seem.

**Factors that helped performance**

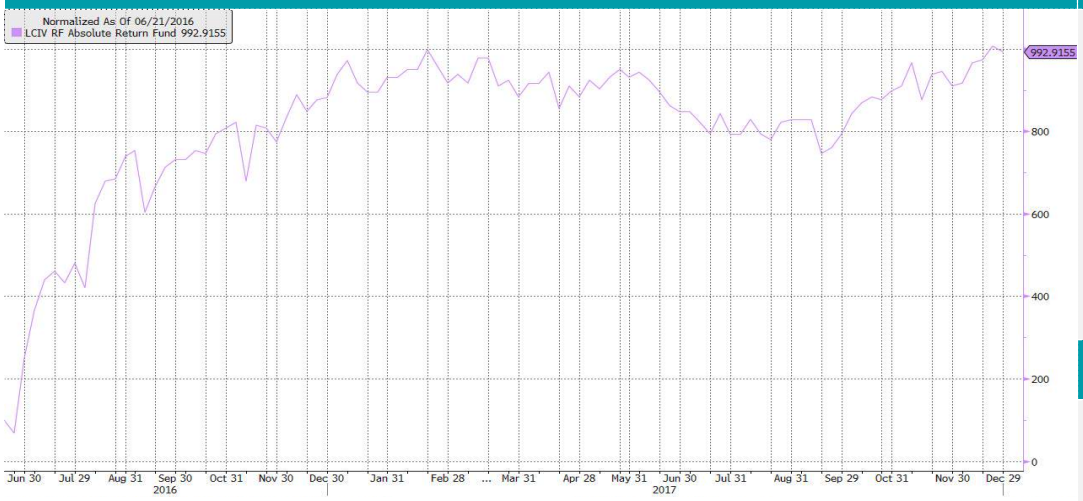
Japanese equities Encouraging signs of domestic growth and reflation have helped Japanese stocks to perform without the support of yen weakness. Banks and life assurers made double digit gains, whilst one of our largest holdings, Sony, rose 21% in the quarter, taking it to +55% for the year.

Stock selection Individual stock picks added to performance in the quarter, including recovery prospect Foot Locker (+42%) and Ocado (+35%). Tesco (+12%), dormant all year, came to life after approval of its merger with Booker.

**Factors that hurt performance**

Portfolio protection Options to protect against a rise in volatility or higher bond yields were a drag on performance in a period when both fear and volatility were almost completely absent from markets. Illiquid holdings protecting against a fall in corporate credit markets also had a small negative impact.

### Performance Since LCIV Inception(21/06/2016):




*Source: Bloomberg as at 29/12/2017*
- performance reported Net of fees and charges with dividends reinvested

### Management Changes:

There were no changes to management in Quarter 4 2017.

### Quarterly Manager Review Meeting Date:

23rd January 2018

### Portfolio Characteristics

| Key Statistics | |
|---|---|
| Number of Holdings | 104 |
| Number of Equities | 87 |
| Number of bonds | 17 |

*Source: Ruffer as at 31/12/2017*

### New Purchases During Quarter

| Asset Name |
|---|
| Foot Locker |
| Yara International |
| Ryanair |
| Japan Post Holdings |

*Source: Ruffer as at 31/12/2017*

### Complete Sales During Quarter

| Asset Name |
|---|
| Lamb Weston |
| Alliance Data Systems |
| Subaru |
| Toyota Motor Corp |
| ITV |
| Oracle |
| Lennar |

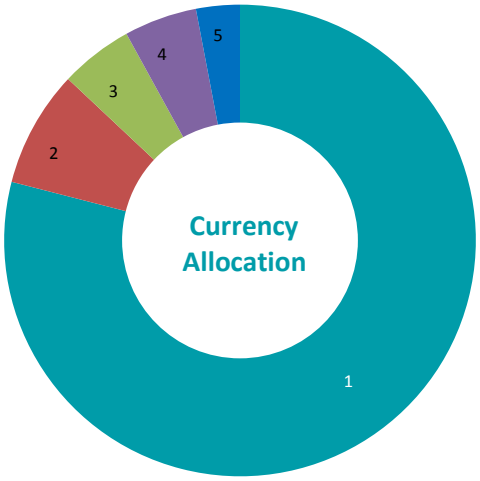
*Source: Ruffer as at 31/12/2017*

| Five largest positive contributions | |
|---|---|
| **Asset Name** | **% of Portfolio** |
| Japanese financials | +1.2 |
| Index-linked gilts | +0.8 |
| Sony | +0.3 |
| BP | +0.2 |
| Tesco/Booker | +0.2 |

*Source: Ruffer as at 31/12/2017*

| Five largest negative contributions | |
|---|---|
| **Asset Name** | **% of Portfolio** |
| Option protection | -0.8 |
| Ruffer Illiquid Multi Strategies 2015 | -0.2 |
| Subaru | -0.1 |
| Marks & Spencer | -0.1 |
| Ryanair | -0.0 |

*Source: Ruffer as at 31/12/2017*




| Currency Allocation | | (%) |
|---|---|---|
| 1 | Sterling | 79 |
| 2 | Yen | 8 |
| 3 | US dollar | 5 |
| 4 | Gold | 5 |
| 5 | Other | 3 |

*Source: Ruffer as at 31/12/2017*


| Asset Allocation | | (%) |
|---|---|---|
| I | UK equities | 13 |
| 2 | Japan equities | 7 |
| 3 | Japan financials | 11 |
| 4 | North America equities | 7 |
| 5 | Europe equities | 5 |
| 6 | Asia ex-Japan equities | 3 |
| 7 | Cash | 11 |
| 8 | Illiquid strategies | 2 |
| 9 | Gold and gold equities | 5 |
| 10 | Non-UK index-linked | 15 |
| 11 | Long-dated index-linked gilts | 14 |
| 12 | Index-linked gilts | 7 |

*Source: Ruffer as at 31/12/2017*

| Company Engagement | |
|---|---|
| **Engagement Type** | **Company** |
| **ESG stewardship activities** | Engagement with Japan ESG Strategists after Voting Season |
| **General updates** | Ruffer has recently joined the Institutional Investor Group on Climate Change Initiative (IIGCC), a collaborative forum that brings together 146 investors representing over €21 trillion in assets under management (including 9 of the top 10 European pension funds or asset managers). |
| **Company Engagement** | **Mitsubishi Heavy industry (MHI)**<br>General corporate governance changes and Sustainable Development Goals (SDGs)<br>We met MHI's CFO at the Ruffer offices. The company asked us for feedback on its latest corporate governance structure, board evaluation as well as remuneration for directors. The CFO also highlighted his role at the Japanese Business Federation 'Keidanren' where he is leading corporate Japan's efforts on implementing and committing to the Sustainable Development Goals. |

*Source: Ruffer as at 31/12/2017*

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# London Borough of Tower Hamlets

## GS Strategic Absolute Return Bond II Portfolio

## Portfolio Review



GSAM Global Fixed Income and Liquidity Solutions

February 2018

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Goldman Sachs Asset Management

Goldman Sachs Asset Management

# I. Executive Summary

# Executive Summary

As of 31-Jan-2018

Goldman Sachs Asset Management

## Account Summary

| | |
|---|---|
| Account Name | GS Strategic Absolute Return Bond II Portfolio – London Borough of Tower Hamlets |
| Assets | GBP 78mn |
| Benchmark | 3 Month GBP LIBOR |
| Target Tracking Error | 500 - 600 bps |
| Target Excess Return | 400 - 500 bps |
| Performance Inception Date | 04-Apr-2016 |

## Performance Summary

| | Portfolio Gross (%) | Benchmark (%) | Difference Gross (bps) |
|---|---|---|---|
| 1Q 2018 QTD | 1.21 | 0.04 | 117 |
| Last 1 Year | 1.31 | 0.37 | 93 |
| Since Inception (Ann) | 2.83 | 0.41 | 242 |

## Portfolio Summary

| | Portfolio | Benchmark | Difference |
|---|---|---|---|
| Number of Countries | 45 | 0 | 45 |
| Yield to Maturity (%) | 4.74 | 1.78 | 2.96 |
| Yield to Worst (%) | 4.69 | 1.78 | 2.91 |
| Option Adjusted Duration (yrs) | (0.05) | 0.25 | (0.30) |
| OA Spread Duration (yrs) | (1.52) | 0.25 | (1.77) |
| Maturity (Bonds, yrs) | 5.73 | 0.00 | 5.73 |
| Average Life (Bonds, yrs) | 2.55 | 0.00 | 2.55 |
| Libor OAS (bps) | 26 | 0 | 26 |

As of 31-Jan-2018. Performance inception date: 04-Apr-2016. **Past performance does not guarantee future results, which may vary.** Targets are subject to change and are current as of the date of this presentation. Targets are objectives and do not provide any assurance as to future results. Please see additional disclosures. The returns are gross and do not reflect the deduction of investment in advisory fees, which will reduce returns. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable.

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# II. Why Absolute Return Fixed Income

# Macro Backdrop: Policy uncertainty and Volatility

## High quality fixed income can serve as a portfolio hedge

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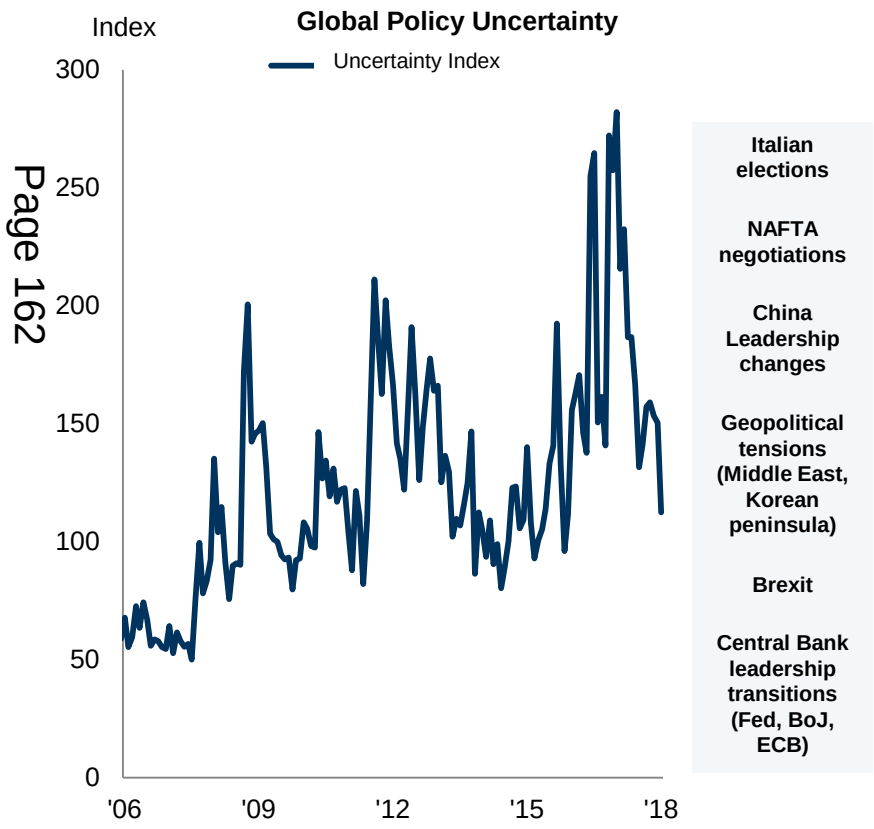
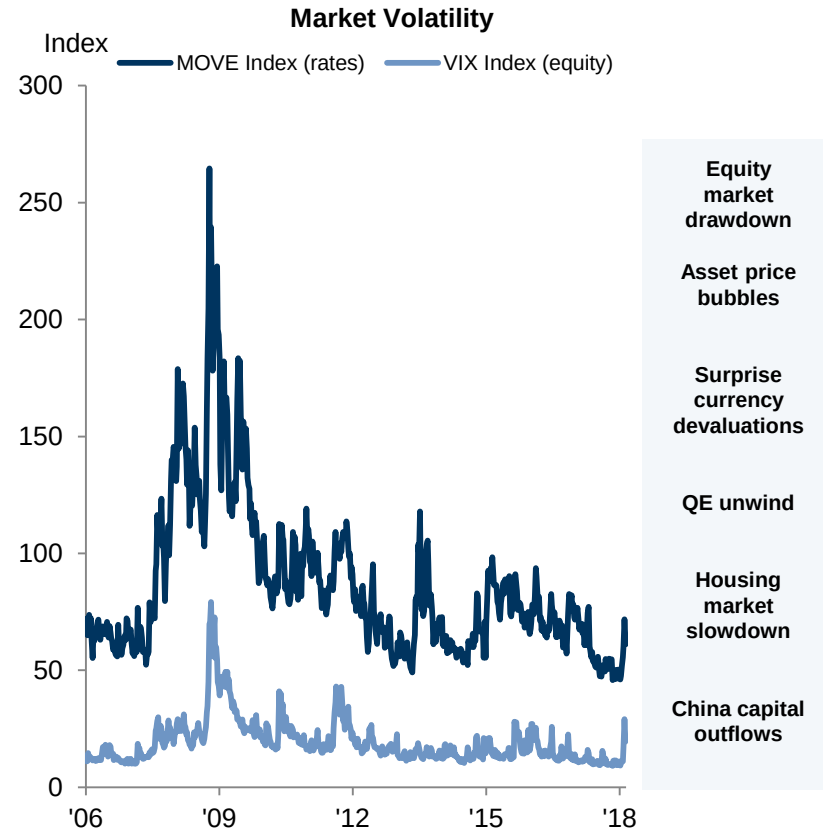
### Policy uncertainty may rise around political events




Source: Macrobond, GSAM. As of December 2017.

### The post-crisis low volatility regime may not persist




Source: Global Investment Research, Goldman Sachs. As of January 8, 2018.

# Macro Backdrop: Corporate Credit – Caution vs Optimism

Credit markets are faced with an array of countervailing factors, which taken together, lead us to conclude that the current investment backdrop warrants caution

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## Spectrum of Corporate Sentiment

| | | | | |
|---|---|---|---|---|
| Historically tight valuations | Monetary tightening, higher rates | Pick-up in share buybacks | Solid corporate earnings | Healthy growth backdrop |
| Late stage in the credit and economic cycle | Increased dispersion in performance | Renewed M&A activity | US tax reform | Benign US high yield default outlook |
| **Caution** | | | | **Optimism** |
| Decline in credit quality and rising share of distressed bonds | Transitory headwind from recent high supply | Spill-overs from secularly stressed sectors (e.g. Retail) | Support from infrastructure spending | Positive risk sentiment and firm investor demand |
| | Potential NAFTA headwinds for globally exposed sectors (e.g. Autos) | | Regulatory relief in certain sectors | Higher energy prices supporting Commodities |

Source: GSAM. As of January 2018.

# Business Cycle

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## Business Cycle and Macro Environment

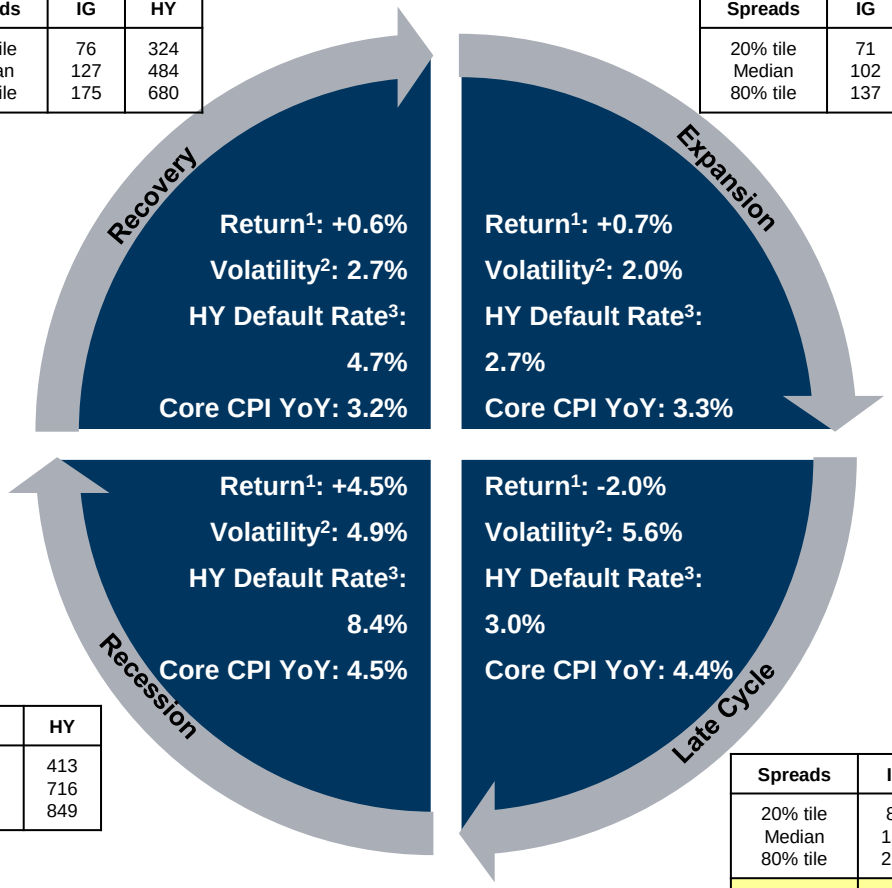
There is a strong relationship between the stage of the business cycle and the performance and volatility of spread sectors.

## Characteristics of Late Cycle

- Higher systematic volatility
- Increase in event risk
- Increased leverage
- Defaults start to increase
- Poor expected excess credit returns

| Spreads | IG | HY |
|---|---|---|
| 20% tile | 76 | 324 |
| Median | 127 | 484 |
| 80% tile | 175 | 680 |

| Spreads | IG | HY |
|---|---|---|
| 20% tile | 71 | 303 |
| Median | 102 | 382 |
| 80% tile | 137 | 495 |




| Spreads | IG | HY |
|---|---|---|
| 20% tile | 145 | 413 |
| Median | 173 | 716 |
| 80% tile | 247 | 849 |

| Spreads | IG | HY |
|---|---|---|
| 20% tile | 87 | 337 |
| Median | 137 | 523 |
| 80% tile | 227 | 701 |
| **Current** | **93** | **343** |

As of December 31, 2017. For Illustrative Purposes Only. Source: Barclays Capital, GSAM, Bloomberg, Moody's, and Bureau of Labor Statistics.
[1]Return indicates the average annualized excess return of the Bloomberg Barclays US Investment Grade Corporate Index from August 1, 1988 to January 31, 2015, in the month following the designated phase of the business cycle. [2]Volatility indicates the average annualized volatility of the Bloomberg Barclays US Investment Grade Corporate Index from August 1, 1988 to January 31, 2015, in the month following the designated phase of the business cycle. [3]HY Default Rate is the 12 month trailing default rate based on Moody's universe.
**Past performance does not guarantee future results, which may vary.** Spreads in the tables are from Feb 1994 to March 2015. Current spreads as of December 29, 2017.

# Corporates Spread History

## January 1994 – January 2018

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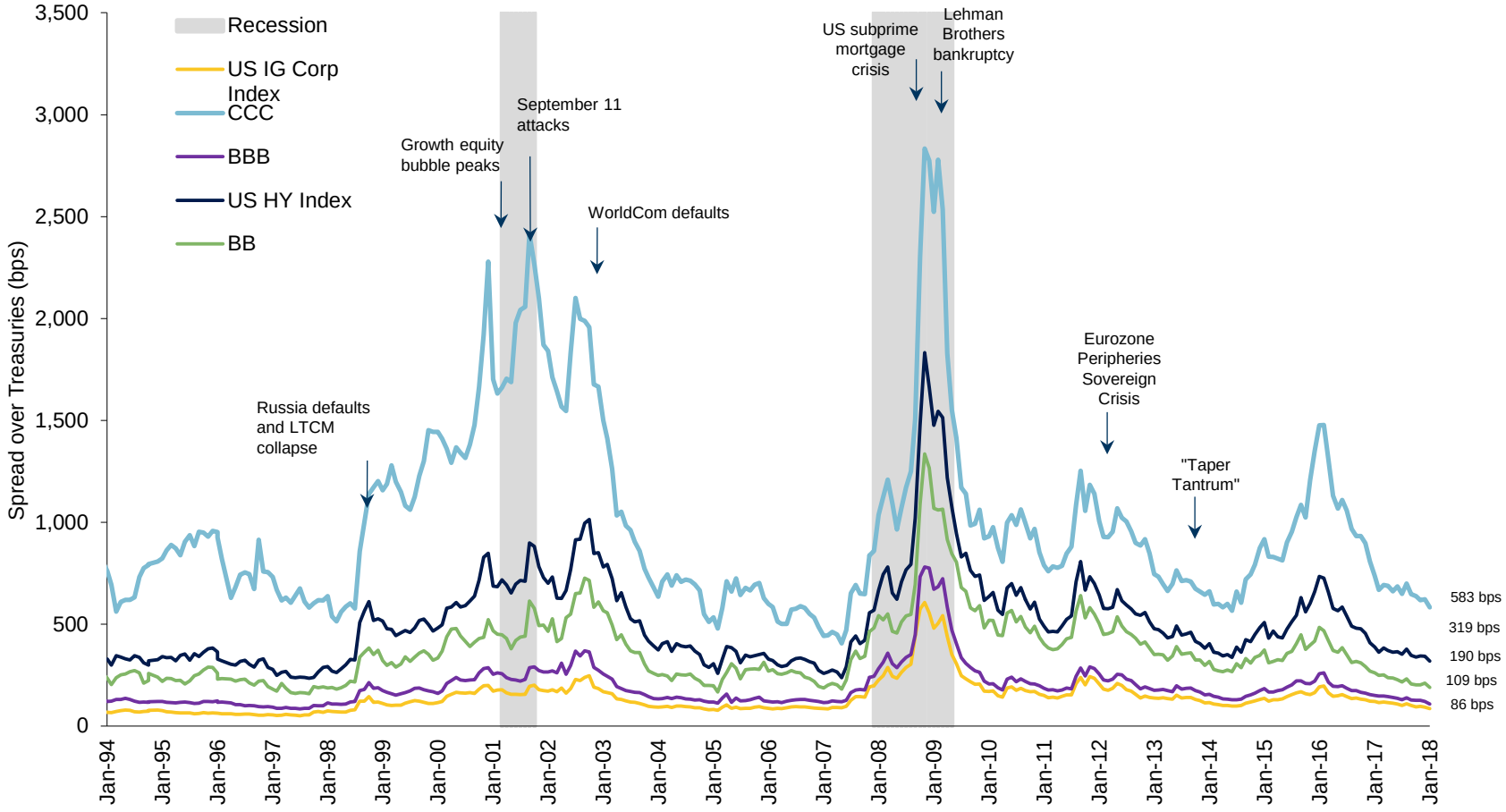


*Source: Barclays. As of 31-January-2018.*

# Value in Fixed Income? It's All Relative

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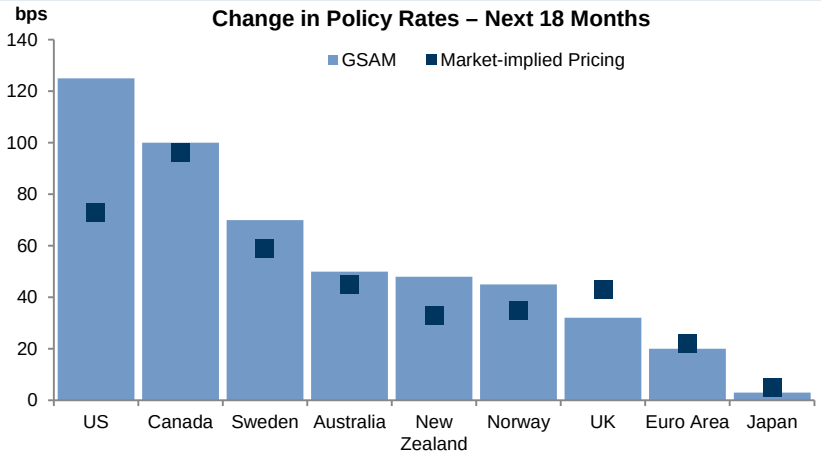
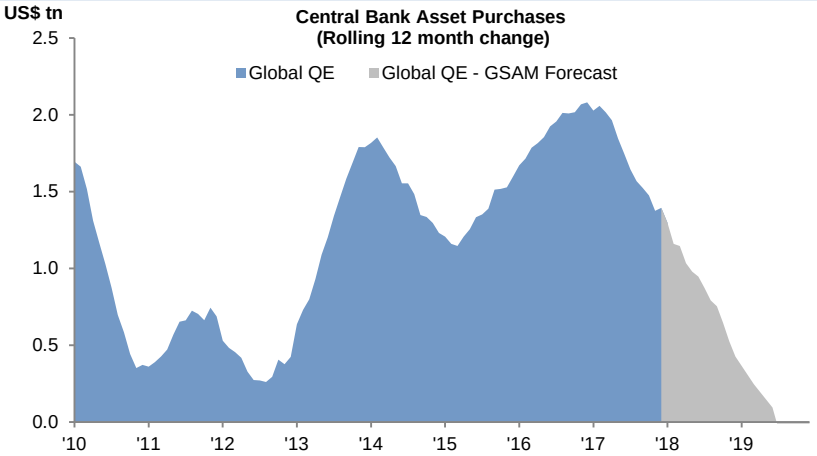
- Central bank policy is now evolving, with profound implications for risks and opportunities in global fixed income markets
- Equity valuations are at historically high levels. High valuation heightens vulnerability to any exogenous shock or shift in the operating environment.
- Late cycle conditions such as tight spreads and higher leverage, moderate our credit return expectations
- We believe macro synchronicity supports risk assets. Earnings should dominate equity returns, while in our view, fixed income returns are limited due to tight credit spreads, higher risk premia, and transitioning central bank policies.
- In this environment, we think relative value strategies offer compelling opportunities to find value in fixed income and may offer several potential benefits in a fixed income allocation.
- Implementing relative value strategies in a conventional, long-only fixed income portfolio is possible, but opportunities may be limited by the portfolio's benchmark.



**The Policy Environment that Drove Low Volatility is Evolving**




Source: GSAM. As of January 2018.




Source: Macrobond, GSAM calculations, as of Q3 2017.

Source: Bloomberg, Macrobond, GSAM. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this presentation.

# Implementing Relative Value in Fixed Income Portfolios

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In our view, effective implementation of relative value strategies requires a broad, global opportunity set.

**Portfolio strategies that are best positioned to achieve this goal are those that**

1. Pursue Absolute Return
2. Allow the use of derivatives
3. Focus on diversification

**How can Absolute Return Fixed Income improve diversification and enhance risk/return?**

1. Seeking performance in all market conditions
2. Providing differentiated approach to return generation
3. Alternatives may help diversify risks in a traditional Portfolio

### Absolute Return Focused

- Benchmark agnostic
- Market neutral
- Ability to 'short'
- Exploit market inefficiencies

### Flexibility across Trading Styles

- Directional
- Relative value
- Idiosyncratic

### Market Exposures Actively Reduced

- No active equity exposures
- Ability to hedge unintended risk-asset betas

There is no guarantee that these objectives will be met. Diversification does not protect an investor from market risk and does not ensure a profit.

# Low Correlation to Traditional Fixed Income and Equities

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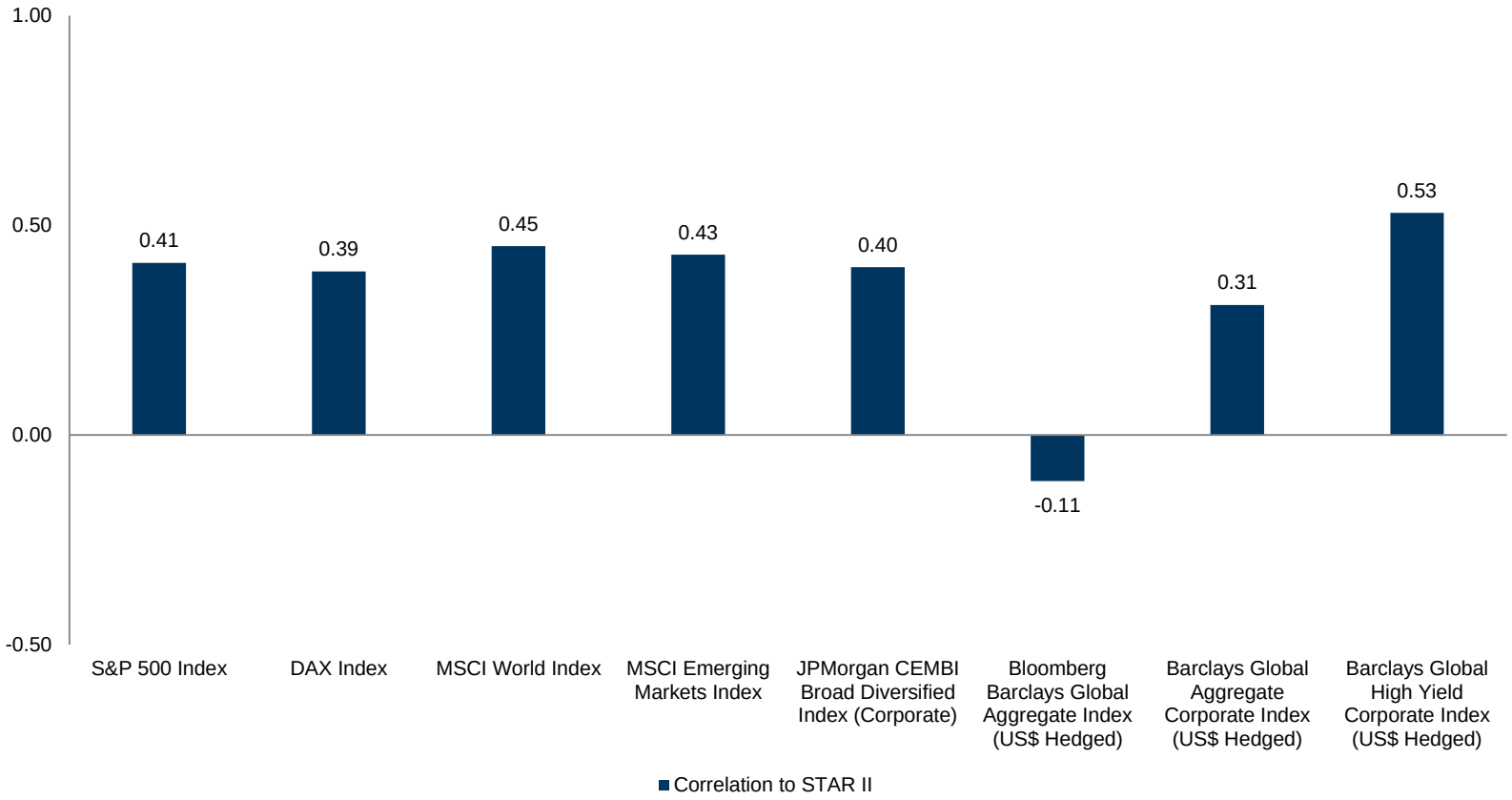


**Low correlations can help provide diversification benefits**

Source: GSAM, as of 31-Jan-18. Correlation for the period 28-Jun-06 to 31-Jan-18. For illustrative purposes only. **Past correlations are not indicative of future correlations, which may vary.** STAR II- GS Strategic Absolute Return Bond II Portfolio

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# III. Market Review

# Market Review

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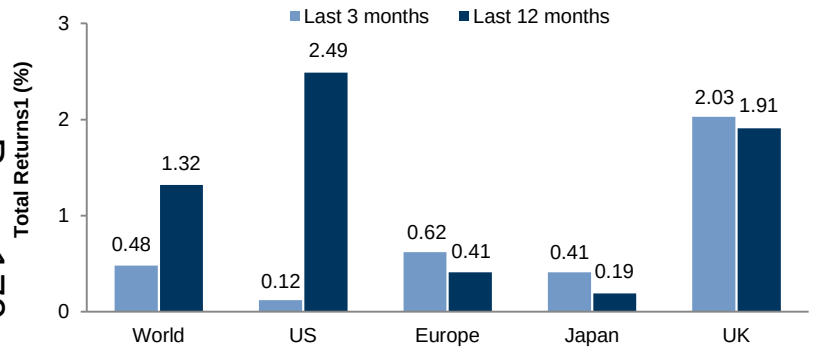
## Global Government Markets – Local Currency

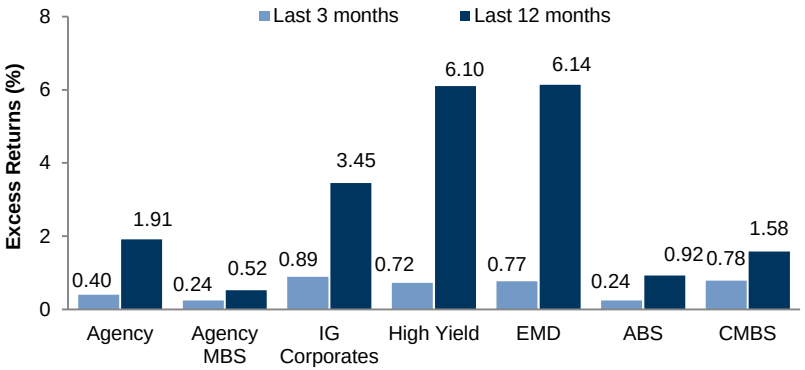



*Source: Bloomberg*

- Global government bonds posted positive returns during the fourth quarter of 2017. The US Federal Reserve (Fed) delivered its third rate hike of 2017 and maintained its projections for three rate hikes in 2018. The Summary of Economic Projections (SEP) showed upgraded forecasts for GDP growth and lower unemployment but no change in core inflation. We think the proposed tax changes will provide a modest boost to GDP growth in 2018, with a strong labor market and domestic consumption and investment remaining key drivers of the current expansion.

- In Europe, central banks in the Euro area, Norway and Switzerland kept policy unchanged whilst the BoE hiked by 25bps. Like its US counterpart, the European Central Bank (ECB) revised up its growth forecasts but maintained its stance on inflation. We expect the ECB to keep policy rates unchanged in 2018.

## Sector[3] Performance (in USD) – Excess Returns[2] Over Government Bonds




*Source: Barclays, Bloomberg*

- In-keeping with the rest of the year, returns amongst the listed spread sectors were positive in the fourth quarter, as risk-assets remained supported by a broad-based upswing in global growth and volatility remained relatively muted.

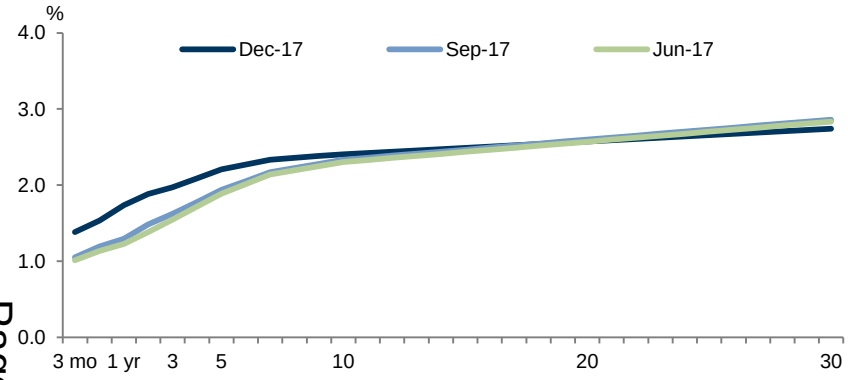
- Sector performance was strongest in investment grade corporate credit, as the asset class benefitted from a supportive macro environment of healthy growth and low inflation, an improving earnings cycle and M&A news flow. In particular Tax reform supported the US market, while European Central Bank (ECB) buying continued to keep European credit markets supported.

[1] Total returns are calculated from the respective regions based off the JP Morgan Global Government Bond Index.
[2] This is the excess return over swaps, and is based off GSAM's non-agency MBS factor return. All securities are denominated in US$.
[3] Agency: Bloomberg Barclays Global Aggregate: Government Related Agencies; MBS: Bloomberg Barclays US MBS; IG Corporates: Bloomberg Barclays Global Aggregate Corporates; High Yield: Bloomberg Barclays US Corporate High Yield, EMD: Bloomberg Barclays EM (US$) Aggregate. **Past performance does not guarantee future results, which may vary.** As of Dec 29, 2017

# Market Review

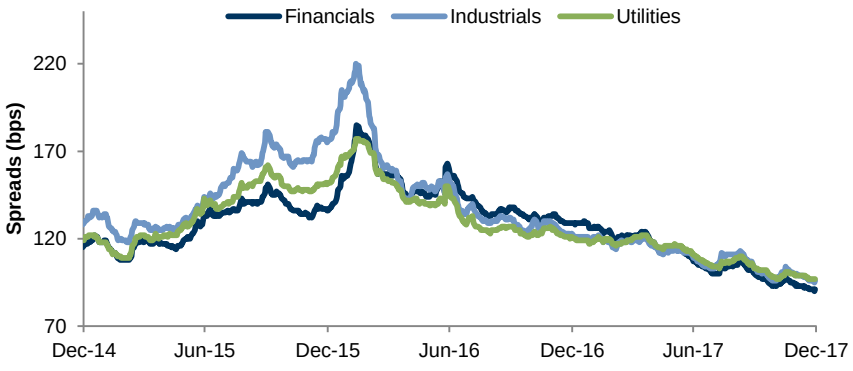
Goldman Sachs Asset Management

## US Treasury Yields (%)




*Source: Bloomberg*

## Global Investment Grade Corporate Spreads




*Source: Bloomberg*

- The US yield curve flattened further over the fourth quarter of 2017, as the spread between the 2-year and 30-year nodes of the curve decreased by 52bps to close at 86bps. 30-year yields decreased by 12bps, whilst 2-year yields increased by 40bps.
- The Federal Open Market Committee (FOMC) delivered the third rate hike of 2017 at its meeting in December, while maintaining the median projection for three hikes in 2018. US core inflation rose 0.12% in November, below consensus expectations for a 0.2% rise, and the year-over-year (YoY) pace returned to 1.7% from 1.8% in October.

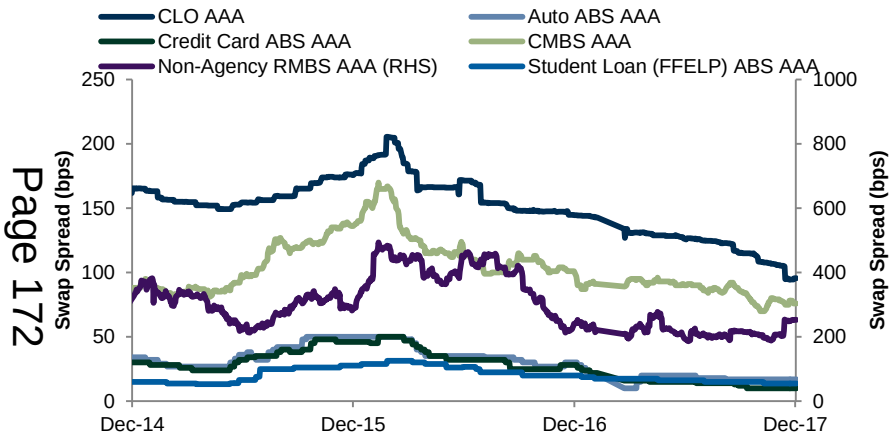
- Global investment grade corporates strengthened over the fourth quarter of 2017, with spreads tightening 8bps to 94bps over sovereigns. Regionally, the US outperformed, with spreads tightening by 11bps to 93bps over Treasuries. Sterling corporates underperformed, tightening by 5bps to 119bps over Gilts. Euro corporate spreads tightened by 10bps to 86bps over sovereigns over the same period. Earnings momentum, robust economic data and a low volatility environment supported corporate spreads, leading to still-tighter (and potentially stretched) valuations. The best performing sector globally was Financials, tightening by 9bps, whilst Industrials tightened by 7bps and Utilities tightened by 6bps.
- Q4 2017 issuance was lower in the US and flat in Europe compared to the previous quarter, with USD new issuance amounting to $298bn and EUR issuance amounting to €95bn. New issuance was dominated by Industrials in both the US and Europe.

As of Dec 29, 2017. **Past performance does not guarantee future results, which may vary.**

# Market Review

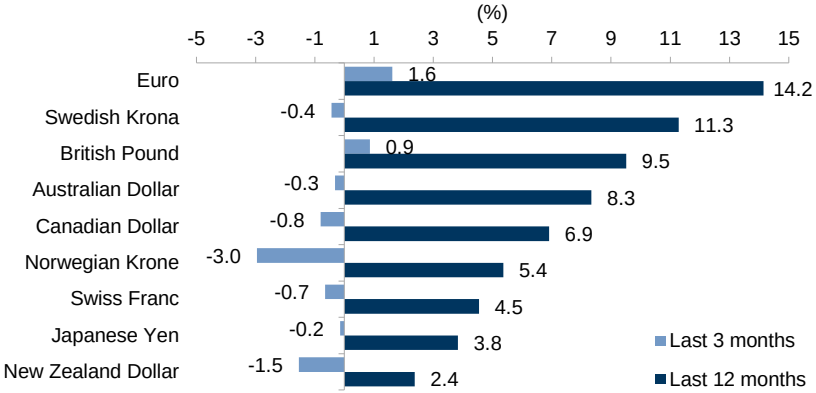
Goldman Sachs Asset Management

## Securitised Credit




*Source: JP Morgan, GSAM*

## Major Currency Movements vs. USD (%)




*Source: Bloomberg*

- Non-Agency RMBS has been one of the best performing spread sector in 2017 as Prepayment rates on seasoned non-agency MBS collateral have generally increased over the course of 2017, particularly for option-ARM collateral, as home prices continue to increase.
- FFELP ABS spreads have continued to tighten due to continued investor confidence and demand as rating agencies concluded their reviews of the asset class earlier in the year. Other ABS, spreads have remained near tights for both credit cards and auto ABS.
- CLO spreads have remained near tights as trailing 12 month default rates on high yield loans, which comprise CLO collateral, were roughly 1.6% in October, and have been under 3% for all of 2017.

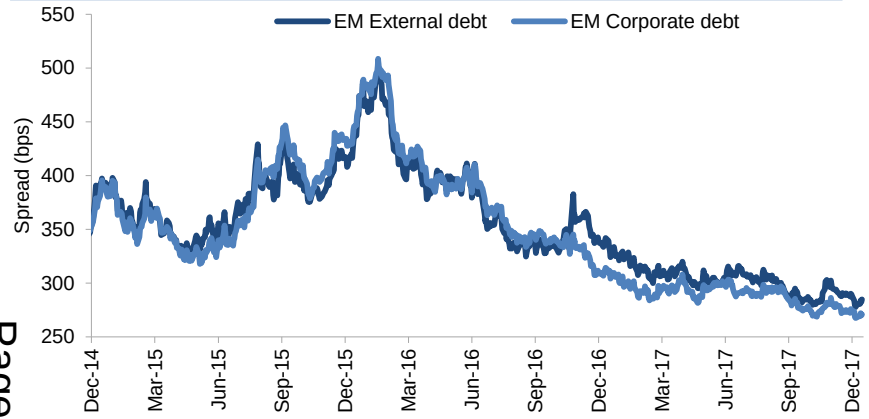
- The Euro was the best performing G10 currency over the quarter, appreciating 1.6%. Consistent with the overall theme for 2017, the Euro performed strongly against the US dollar as a result of strong economic growth, low inflation, and exceptionally loose ECB monetary policy.
- The Norwegian krone was the weakest performing G10 currency over the quarter, depreciating 3.0%. Weakness in the fourth quarter was likely driven by some softness in inflation and growth data combined with a dovish Norges Bank. In particular the November CPI-ATE inflation print disappointed markets, coming in at 1.0% yoy vs expectations of 1.2% yoy.

Source: JP Morgan, GSAM, Bloomberg. CLO AAA : CLO Post AAA Portfolio discount margin; Credit Card ABS AAA : Credit Cards Fixed AAA – 3 Year spread to swap; Non-Agency RMBS AAA : ABX. HE. 07-1. AAA Cashflow spread (base case); Auto ABS AAA : Auto (Prime) Fixed AAA – 3 Year Spread to Swap; CMBS AAA : New issue CMBS 10 year on the run AAA Spread to Swap; Student Loan (FFELP) ABS AAA : Student Loans (FFELP) AAA – 5 year spread to Libor. As of Dec 29, 2017. **Past performance does not guarantee future results, which may vary.**

# Market Review

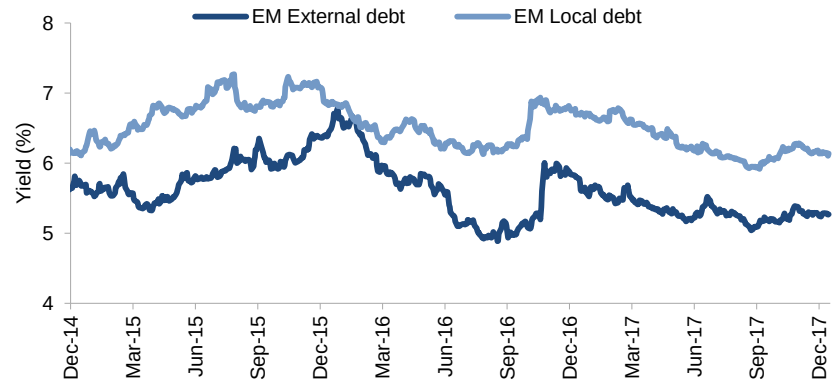
Goldman Sachs Asset Management

## External Emerging Market Debt Spreads




*Source: Bloomberg*

## Local and External Emerging Market Debt Yields




*Source: Bloomberg*

- Both EM external and EM Corporate spreads narrowed over the quarter, tightening 2bps and 6bps respectively. Spreads on EM external debt ended at 284bps, while EM corporate spreads were 270bps at the end of the quarter. EM external debt returned 1.2% during the quarter while EM corporate debt returned 0.7%.
- External emerging market sovereign and corporate debt posted strong performance in 2017, generating 10.3% and 8% returns respectively. Flows into the asset class have been consistent and performance was well supported by global growth backdrop, coupled with stable commodity prices.
- EM local debt yields ended the quarter 15bps higher at 6.14%, while EM external debt yields ended the quarter 7bps higher at 5.26%. In EM local markets, returns over the fourth quarter were positive at 0.82%, comprising 0.78% from currency appreciation versus the dollar and 0.04% from local rates.
- Majority of the performance in local debt was driven by a strong rally in EM currencies versus the US dollar, especially the CEE currencies and the South African rand. In 2017, the asset class returned 15.21%, with currency appreciation contributing nearly 10.58%.

EM External represented by the JPM EMBI Global Diversified. EM Local represented by the JPM GBI-EM Global Diversified. EM Corporate represented by JPM CEMBI Broad Diversified. Spreads quoted are over treasuries. **Past performance does not guarantee future results, which may vary.**
As of Dec 29, 2017.

Goldman Sachs Asset Management

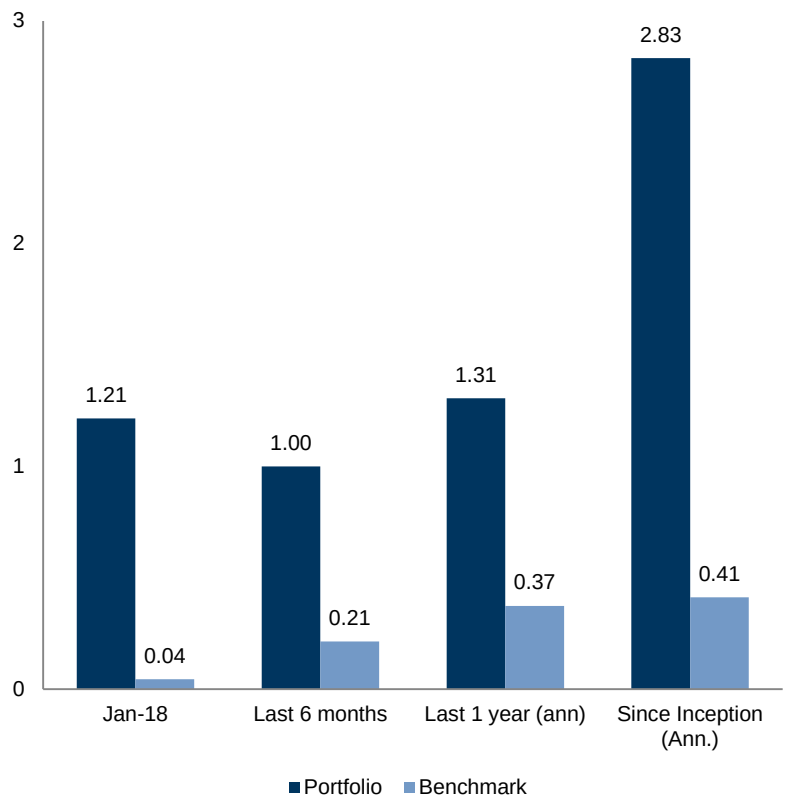
# IV. Portfolio Performance and Positioning

# London Borough of Tower Hamlets Performance

## GS Strategic Absolute Return Bond II Portfolio (I Flat Acc. GBP Hedged Share Class)

Goldman Sachs Asset Management

| As Of January 31, 2018 | Portfolio (Gross) (%) | Benchmark[1] (%) | Difference[2] (Gross) (bps) |
|---|---|---|---|
| **Trailing Periods** | | | |
| Last 1 Year (annualized) | 1.31 | 0.37 | 93 |
| Last 6 Months | 1.00 | 0.21 | 79 |
| Last 3 Months | 1.60 | 0.13 | 147 |
| **Quarters** | | | |
| 3Q17 | -0.68 | 0.07 | -76 |
| 4Q17 | 0.00 | 0.12 | -12 |
| 1Q18 | 1.21 | 0.04 | 117 |
| **Months** | | | |
| Sep-17 | -0.69 | 0.03 | -71 |
| Oct-17 | -0.38 | 0.03 | -41 |
| Nov-17 | -0.11 | 0.04 | -15 |
| Dec-17 | 0.49 | 0.04 | 44 |
| Jan-18 | 1.21 | 0.04 | 117 |
| **Since Inception[3]** | | | |
| **Annualised Return** | 2.83 | 0.41 | 242 |

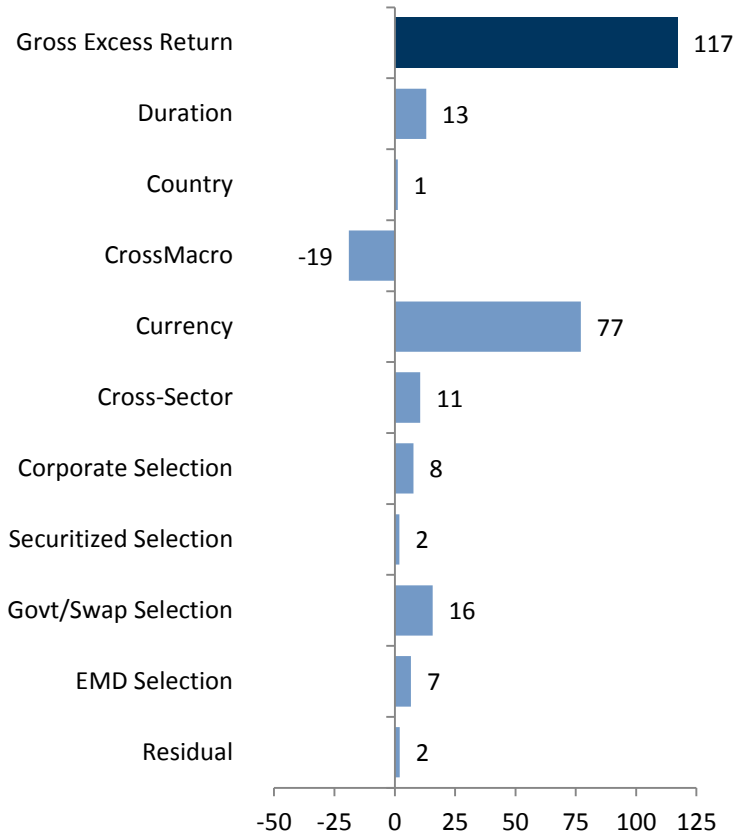



[1] Benchmark: 3-Month LIBOR (GBP) Benchmark.
[2] Gross difference is defined as the gross portfolio return minus benchmark return.
[3] Client performance inception date: 04-Apr-2016.
**Past performance does not guarantee future results, which may vary.**

# Performance Attribution

## January 2018

Goldman Sachs Asset Management




### Primary Drivers of Performance

- The portfolio outperformed by 117bps in January 2018, driven by the currency and government/ swap selection strategies whilst the cross macro strategy detracted.
- Our currency strategy was the largest contributor to performance over the period mainly due to our emerging market currency exposures. Our overweight position in Czech Koruna and Polish Zloty performed positively on the back of higher Euro area growth expectations amidst ongoing easing from the ECB.
- The government/swap selection strategy also contributed to excess returns driven by our US curve steepener trades in frond end of the curve. We are positioned for steeper yield curves in a range of developed markets. Our UK curve steepener trade also contributed to performance.
- Our cross macro strategy was the only detractor from performance during the month driven by our long US rates and Dollar versus short Japanese yen position as an upside surprise in US inflation data in January led to underperformance in US rates, though the US dollar did not receive any notable support.

Note: Allocations may not sum to total due to rounding. Residual/Other: The difference between the fixed income proprietary risk and attribution model and the official GSAM performance system may be due to varying pricing, valuation, and data sources, as well as ad hoc custodian and accounting reconciliations. Benchmark: 3 Month GBP LIBOR. **Past performance does not guarantee future results, which may vary.** Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable. The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns. As of Jan 31, 2018

# GS Strategic Absolute Return Bond II Portfolio

## Current Positioning and Opportunities - Details (Macro)

Goldman Sachs Asset Management

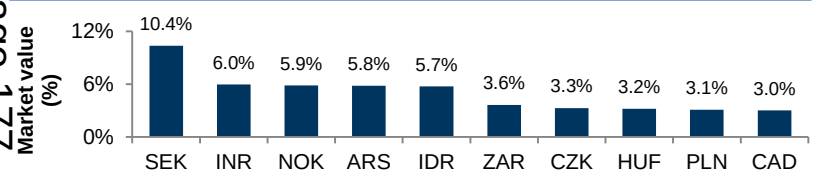
### Interest Rate Duration

| Total Portfolio Interest Rate Duration[1] : | -1.14 years |
|---|---|
| Active Duration: | -1.31 years |
| Country: | -0.06 years |
| Other[2] : | 0.23 years |

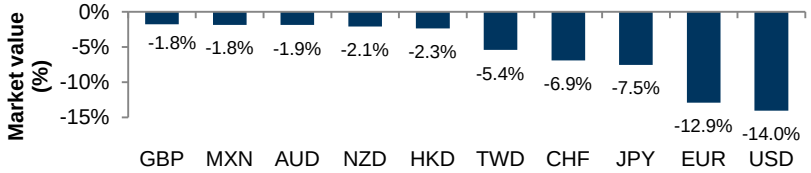
### Active Duration Positioning

| Active Duration: | -1.31 years |
|---|---|
| US: -1.21 years | UK: -- |
| Europe: 0.17 years | Sweden: -0.27 years |

### Top Net Currency Exposure




### Bottom Net Currency Exposure




### Country Strategy Positioning

| Country Strategy: | -0.06 years |
|---|---|
| US: 0.23 years | Canada: 0.85 years |
| UK: -2.21 years | Europe: 2.54 years |
| Sweden: -1.35 years | Other: -0.12 years |

### Key Cross Macro positions

**Relative Financial Conditions:**

| Overly Restrictive | Too Accommodative | Expression |
|---|---|---|
| Europe | Norway | Long EUR vs Short NOK Rates, Short EURNOK |
| Europe | Poland | Long EUR vs Short PLN Rates, Short EURPLN |

**Correlated Asset Relative Value (Rates vs FX):**

| | |
|---|---|
| Other | Long EM currencies vs Short IG Credit |
| FX vs Rates | Long SEK vs EUR FX vs Rates |
| FX vs Rates | Long USD vs GBP FX vs Rates |

Source: GSAM. Data as of Jan 31, 2018 and subject to change. Any mention of an investment decision is intended only to illustrate our investment approach and/or strategy, and is not indicative of the performance of our strategy as a whole. It should not be assumed that any investment decisions shown will prove to be profitable, or that any investment decisions made in the future will be profitable or will equal the performance of the investments discussed herein. A complete list of past recommendations is available upon request. Please see additional disclosures. Past performance does not guarantee future results, which may vary. [1] Interest Rate Duration is a modified measure of Total Average Duration that has been estimated by GSAM. This modified measure seeks to take account of the different behaviours of different bond markets around the world by re-expressing all duration exposures to a common US market standard. The goal is to improve the estimate of the portfolio's sensitivity to changes in interest rates. This estimate is guided by historical market observations amongst markets which are themselves subject to change over time and may not necessarily be reflected by the actual outcome. This refers to the duration adjusted for volatility and not raw duration. [2] Others comprises of EMD, Cross Sector, Cross Macro and Gov./Swaps strategies. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable.

# GS Strategic Absolute Return Bond II Portfolio

## Current Positioning and Opportunities - Details (Sector)

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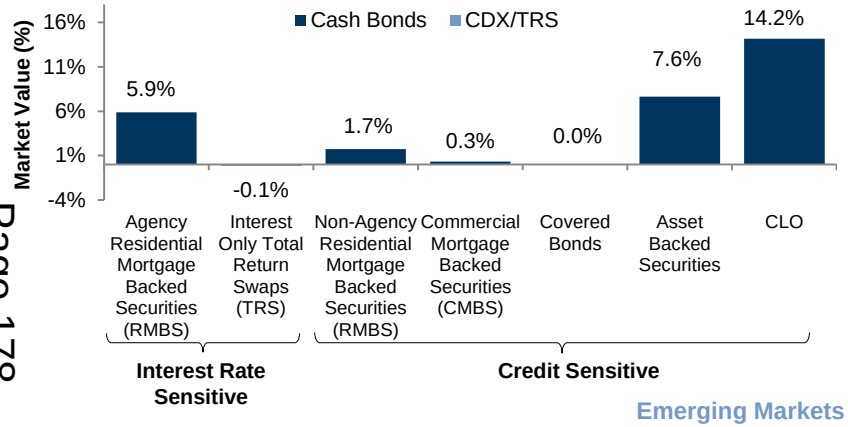
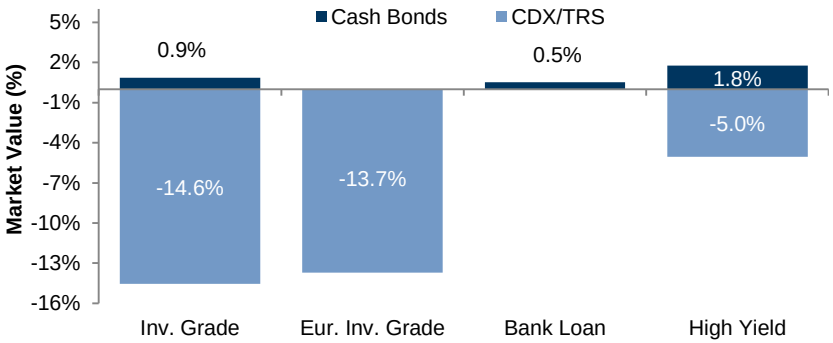
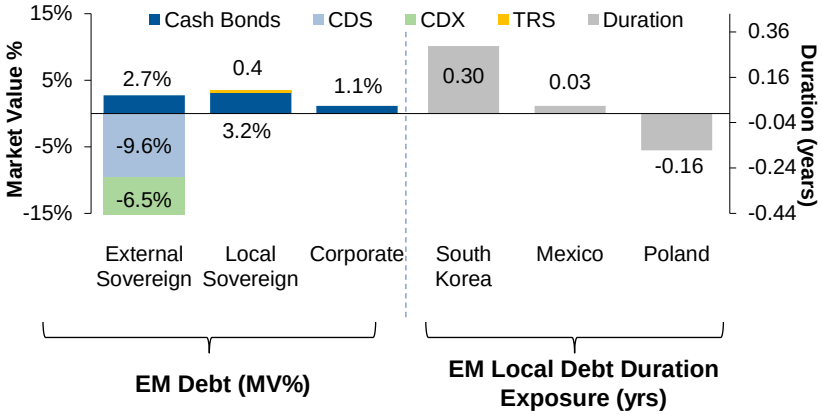
### Securitized (29.6% by MV)




### Corporate Credit (-30.2% by MV)




### Emerging Markets Debt (-8.6% by MV)




Source: GSAM. Data as of Jan 31, 2018 and subject to change. Any mention of an investment decision is intended only to illustrate our investment approach and/or strategy, and is not indicative of the performance of our strategy as a whole. It should not be assumed that any investment decisions shown will prove to be profitable, or that any investment decisions made in the future will be profitable or will equal the performance of the investments discussed herein. A complete list of past recommendations is available upon request. Please see additional disclosures.. Past performance does not guarantee future results, which may vary. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable.

# Risks

## GS Strategic Absolute Return Bond II Portfolio

Goldman Sachs Asset Management

- **Market risk** - the value of assets in the Portfolio is typically dictated by a number of factors, including the confidence levels of the market in which they are traded.
- **Operational risk** - material losses to the Portfolio may arise as a result of human error, system and/or process failures, inadequate procedures or controls.
- **Liquidity risk** - the Portfolio may not always find another party willing to purchase an asset that the Portfolio wants to sell which could impact the Portfolio's ability to meet redemption requests on demand.
- **Exchange rate risk** - changes in exchange rates may reduce or increase the returns an investor might expect to receive independent of the performance of such assets. If applicable, investment techniques used to attempt to reduce the risk of currency movements (hedging), may not be effective. Hedging also involves additional risks associated with derivatives.
- **Custodian risk** - insolvency, breaches of duty of care or misconduct of a custodian or sub-custodian responsible for the safekeeping of the Portfolio's assets can result in loss to the Portfolio.
- **Contingent Convertible ("Coco") Bond Risk:** Investment in this particular type of bond may result in material losses to the Portfolio based on certain trigger events. The existence of these trigger events creates a different type of risk from traditional bonds and may more likely result in a partial or total loss of value or alternatively they may be converted into shares of the issuing company which may also have suffered a loss in value. Such trigger events may include a reduction in the issuers' capital ratio, determination by a regulator or the injection of capital by a national authority. Investors should be aware that in the event of a financial crisis that action by regulators or the companies themselves may cause concentrations of these trigger events across the Portfolio.
- **Interest rate risk** - when interest rates rise, bond prices fall, reflecting the ability of investors to obtain a more attractive rate of interest on their money elsewhere. Bond prices are therefore subject to movements in interest rates which may move for a number of reasons, political as well as economic.
- **Credit risk** - The failure of a counterparty or an issuer of a financial asset held within the Portfolio to meet its payment obligations will have a negative impact on the Portfolio.
- **Derivatives risk** - certain derivatives may result in losses greater than the amount originally invested.
- **Counterparty risk** - a party that the Portfolio transacts with may fail to meet its obligations which could cause losses.
- **Emerging markets risk** - emerging markets are likely to bear higher risk due to lower liquidity and possible lack of adequate financial, legal, social, political and economic structures, protection and stability as well as uncertain tax positions.
- **High yield risk** - high-yield instruments, meaning investments which pay a high amount of income generally involve greater credit risk and sensitivity to economic developments, giving rise to greater price movement than lower yielding instruments.
- **Leverage risk -** the Portfolio may operate with a significant amount of leverage. Leverage occurs when the economic exposure created by the use of derivatives is greater than the amount invested. A leveraged Portfolio may result in large fluctuations in the value of the Portfolio and therefore entails a high degree of risk including the risk that losses may be substantial.

For full description of risks please refer to the Prospectus.

Goldman Sachs
Asset Management

# Appendix

# Global Fixed Income and Liquidity Solutions

Goldman Sachs Asset Management

**Jonathan Beinner, CIO & Co-Head of GSAM Global Fixed Income and Liquidity Solutions**
**Andrew Wilson, Co-Head of GSAM Global Fixed Income and Liquidity Solutions**

## FISG
9 Investors

**Jonathan Beinner**
**Andrew Wilson**
**Jonathan Bayliss**
**Simon Dangoor**
**Sam Finkelstein**
**Chris Hogan**
**Iain Lindsay**
**Michael Swell**
**Tom Teles**
**Mark Van Wyk**
**Whitney Watson**

**23+ yrs avg experience***

*Oversees portfolio strategy, key risk positions, investment process, medium to long-term themes and outlook*

## Global Portfolio Construction & Risk

**Whitney Watson**
**+7 professionals**
**6+ yrs avg experience***

*Monitors portfolio construction and provide risk oversight*

## Stable Value

**Josh Kruk**
**+5 professionals**
**18+ yrs avg experience***

*Customized capital preservation solutions for retirement plans and other investors*

## Product Management

**Alicia Keenan**
**+50 professionals**

*Provides product support across all strategies*

## Quantitative Research and Strategists

**Ersen Bilgin**
**Fred van der Wyck**
**+19 professionals**

*Build proprietary research and analysis platforms to support investment teams*

## Top-Down Strategy Teams

### Macro Rates (Jonathan Bayliss)

**Duration**

**Jonathan Bayliss**
**+4 professionals**
**17+ yrs avg experience***

*Anticipates direction of markets and changing shape of yield curve using fundamental, quantitative and technical analysis*

**Country**

**Simon Dangoor**
**+4 professionals**
**13+ yrs avg experience***

*Develops individual country views using a "balance sheet" research approach, using quantitative tools as an overlay to the process*

**Cross-Macro**

**Gilberto Marcheggiano**
**+5 professionals**
**18+ yrs avg experience***

*Invests across asset classes to take advantage of market inefficiencies arising from investor segmentation between assets & to get efficient exposure to specific macro themes via a basket of assets*

### Currency / Commodities (Sam Finkelstein)

**Currency**

**Sam Finkelstein**
**+6 professionals**
**16+ yrs avg experience***

*Employs a flexible, economics-based process to determine the relative attractiveness of currencies*

**Commodities**

**Michael Johnson**
**+3 professionals**
**13+ yrs avg experience***

*Alpha strategies: timing, curve shape, relative value, and volatility trades*
*Beta strategies: seek exposure to commodities index and manage roll on futures or enhanced swaps*

### Cross-Sector

**Jonathan Beinner / Tom Teles**
**+5 professionals**
**21+ yrs avg experience***

*Employs top-down fundamental analysis in allocating capital to bottom-up strategies*

## Bottom-Up Strategy Teams

### Securitized / Gov't /Swaps (Tom Teles)

**Securitized**

**Chris Creed / Chris Hogan**
**+9 professionals**
**12+ yrs avg experience***

*Agency mortgage selection and analysis*
*Securitized credit selection and analysis*

**Gov't /Swaps**

**Mark Van Wyk**
**+12 professionals**
**11+ yrs avg experience***

*Duration & curve*
*Relative Value*
*Issuer /Issue Selection*
*Interest rate hedging*

### Municipals

**Ben Barber**
**+16 professionals**
**16+ yrs avg experience***

*Taxable & tax-exempt*
*Tax adjusted return and income*
*Rates and curve strategies*
*Municipal credit analysis*

### EMD

**Sam Finkelstein**
**+21 professionals**
**12+ yrs avg experience***

*External and local sovereign, quasi-sovereign, corporate debt and EM currencies*
*Fundamental research of country balance sheets*
*Long-term orientation*

### Liquidity Solutions

**Dave Fishman**
**+17 professionals**
**15+ yrs avg experience***

*Provide investment solutions for all liquidity tiers*
*Incorporate liquidity issues with strategic view to determine optimum curve exposure*

## Global Corporate Credit Team

### Investment Grade

**PM / Trading**
**Ben Johnson**
**+10 professionals**
**12+ yrs avg experience***

**Research**
**Stephen Waxman**
**+18 professionals**
**13+ yrs avg experience***

### High Yield & Bank Loan

**PM / Trading**
**Michael Goldstein / Rachel Golder**
**+12 professionals**
**17+ yrs avg experience***

**Research**
**Rob Magnuson**
**+20 professionals**
**14+ yrs avg experience***

## Portfolio Managers

### Multi/Single Sector

Michael Swell
Iain Lindsay
Ronald Arons
Angus Bell
Hugh Briscoe
Jeremy Cave
Russell Gao
Rachel Golder
Michael Goosay
Matthew Kaiser
Nini Lakew
Alex Lawson
Avik Mittal
Philip Moffitt
Jonathon Orr
Owi Ruivivar
Jasper Sagoo
Diana Sands
Paul Seary
Jason Singer
Jason Smith
Ben Trombley
Jonathan Tung
Tetsuya Ukai
Ayumu Urata
Weiliang Zhang

## Liquidity Solutions

**Dave Fishman**
**+7 professionals**
**17+ yrs avg experience***

*Portfolio construction and customized investment solutions*

## Insurance

**Matthew Armas**
**+13 professionals**
**12+ yrs avg experience***

*Portfolio construction and customized investment solutions for insurance clients*

## Alternatives

**Jonathan Xiong**
**+5 professionals**
**14+ yrs avg experience***

*Focus on expanding the hedge fund alternative business, covering Global Ops, Commodities and Currency hedge fund strategies including FIMS*

Source: GSAM. As of February 7, 2018. *Average years of experience includes investment professionals, VP and above.

# Additional notes

Goldman Sachs Asset Management

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**Past performance does not guarantee future results, which may vary. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.**

**Index Benchmarks**

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein. The exclusion of "failed" or closed hedge funds may mean that each index overstates the performance of hedge funds generally.

Although certain information has been obtained from public sources believed to be reliable, without independent verification, we do not guarantee its accuracy, completeness or fairness. We have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.

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# Additional notes

Goldman Sachs Asset Management

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# Additional notes

Goldman Sachs Asset Management

The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

Portfolio Holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

High-yield, lower-rated securities involve greater price volatility and present greater credit risks than higher-rated fixed income securities.

Emerging markets securities may be less liquid and more volatile and are subject to a number of additional risks, including but not limited to currency fluctuations and political instability.

The currency market affords investors a substantial degree of leverage. This leverage presents the potential for substantial profits but also entails a high degree of risk including the risk that losses may be similarly substantial. Such transactions are considered suitable only for investors who are experienced in transactions of that kind. Currency fluctuations will also affect the value of an investment.

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# Goldman Sachs Business Principles

Goldman Sachs Asset Management

1. Our clients' interests always come first. Our experience shows that if we serve our clients well, our own success will follow
2. Our assets are our people, capital and reputation. If any of these is ever diminished, the last is the most difficult to restore. We are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us. Our continued success depends upon unswerving adherence to this standard
3. Our goal is to provide superior returns to our shareholders. Profitability is critical to achieving superior returns, building our capital, and attracting and keeping our best people. Significant employee stock ownership aligns the interests of our employees and our shareholders
4. We take great pride in the professional quality of our work. We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest
5. We stress creativity and imagination in everything we do. While recognising that the old way may still be the best way, we constantly strive to find a better solution to a client's problems. We pride ourselves on having pioneered many of the practices and techniques that have become standard in the industry
6. We make an unusual effort to identify and recruit the very best person for every job. Although our activities are measured in billions of dollars, we select our people one by one. In a service business, we know that without the best people, we cannot be the best firm
7. We offer our people the opportunity to move ahead more rapidly than is possible at most other places. Advancement depends on merit and we have yet to find the limits to the responsibility our best people are able to assume. For us to be successful, our men and women must reflect the diversity of the communities and cultures in which we operate. That means we must attract, retain and motivate people from many backgrounds and perspectives. Being diverse is not optional; it is what we must be
8. We stress teamwork in everything we do. While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the Firm and its clients
9. The dedication of our people to the Firm and the intense effort they give their jobs are greater than one finds in most other organisations. We think that this is an important part of our success
10. We consider our size an asset that we try hard to preserve. We want to be big enough to undertake the largest project that any of our clients could contemplate, yet small enough to maintain the loyalty, the intimacy and the esprit de corps that we all treasure and that contribute greatly to our success
11. We constantly strive to anticipate the rapidly changing needs of our clients and to develop new services to meet those needs. We know that the world of finance will not stand still and that complacency can lead to extinction
12. We regularly receive confidential information as part of our normal client relationships. To breach a confidence or to use confidential information improperly or carelessly would be unthinkable
13. Our business is highly competitive, and we aggressively seek to expand our client relationships. However, we must always be fair competitors and must never denigrate other firms
14. Integrity and honesty are at the heart of our business. We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives

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BNY MELLON

# BNY MELLON ABSOLUTE RETURN BOND FUND

## INVESTMENT MANAGER

Insight INVESTMENT

Insight Investment Management (Global) Limited: Insight are leaders in absolute return investing, multi-asset, specialist equity solutions, fixed income and liability driven investment.

## PERFORMANCE AIM

The Fund aims to deliver cash 3 Months EURIBOR + 3% on a rolling annualised 3 year basis before fees. In doing so, the Fund aims to achieve a positive return over a rolling 12 month period. However, a positive return is not guaranteed and a capital loss may occur.

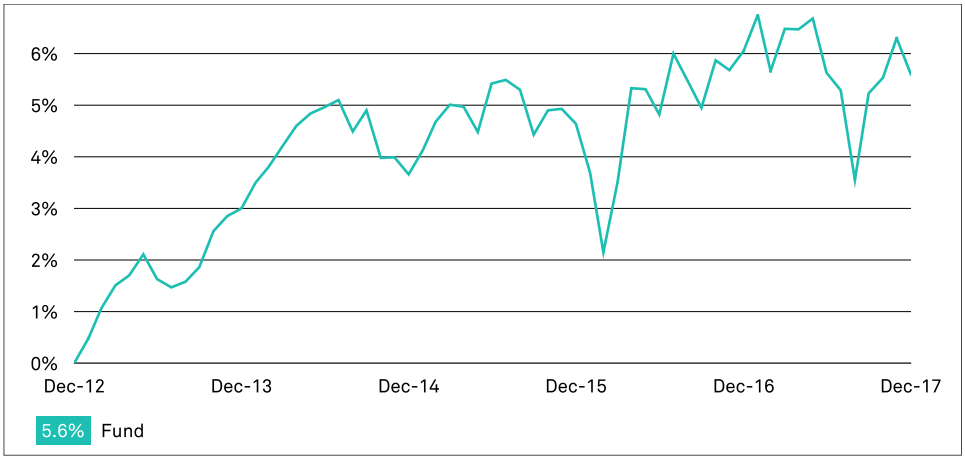
## PERFORMANCE NOTE

**Past performance is not a guide to future performance. The value of investments can fall. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed.**

## QUARTERLY HIGHLIGHTS

- Performance: The Fund generated a positive return over the quarter, on a net basis.
- Activity: We took a number of measures during the quarter to adjust our positioning across our various strategies.
- Outlook & Strategy: We retain our long-standing US inflation exposure; at the end of the quarter, we also had a short duration position, having briefly gone neutral. We remain positive on asset-backed securities (ABS).

## 5 YEAR CUMULATIVE PERFORMANCE (%)




## PERFORMANCE SUMMARY (%)

| | | | | | Annualised | | |
|---|---|---|---|---|---|---|---|
| | 1M | 3M | YTD | 1YR | 2YR | 3YR | 5YR |
| Euro W (Acc.) | -0.65 | 0.35 | -0.42 | -0.42 | 0.46 | 0.62 | 1.10 |

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Fund | 3.00 | 0.63 | 0.95 | 1.35 | -0.42 |

Source: Lipper as at 31 December 2017. Fund performance Euro W (Acc.) calculated as total return, based on net asset value, including charges, but excluding initial charge, income reinvested gross of tax, expressed in share class currency. The impact of the initial charge, which may be up to 5%, can be material on the performance of your investment. Performance figures including the initial charge are available upon request.

Performance data covering periods prior to share class launch include synthetic returns. Synthetic results do not represent actual investment returns nor costs and are not a reliable indicator of future performance. Performance data covering the period since share class launch is a record of actual returns achieved. Performance data for Euro W (Acc.) is derived from EUR X before 03/10/2016, adjusted to reflect the annual management charge of the Euro W (Acc.) share class.

## PERFORMANCE COMMENTARY

The Fund generated a positive return over the quarter because of our interest rate and credit strategies. Market allocation positively influenced Fund returns (particularly in November), helped by our long position in 10-year Australian bonds, as well as our 30-year US 'breakeven' inflation trade. Our Australian bonds did, though, give up some of their outperformance during December. However, our yield curve positions detracted from performance as the US yield curve continued to flatten (whereas we are positioned for an anticipated steepening). Our credit positions, in aggregate, also supported returns as investment grade bonds, as well as ABS, fared well. Duration, high yield bonds and loans, emerging market bonds and currency were all slight negatives.

### MARKET ALLOCATION, INVESTMENT GRADE CREDIT AND ABS CONTRIBUTED TO POSITIVE PERFORMANCE

Economic data has continued to be supportive in most major economies. The yield spread of corporate bonds over government bonds has further tightened across all major regions as investor's risk appetite remained strong, notwithstanding a market wobble in mid-November. With inflation still relatively subdued and investors concerned about issues such as escalating political tensions with North Korea and President Donald Trump's reform agenda, government bond yields remained at low levels. However, going into 2018, several central banks have either begun, or are contemplating, future monetary tightening.

Major government bond yields continued to sell off in October, only to retrace most of their losses into month-end as the European Central Bank (ECB) reassured market participants on the speed of its tapering of monthly bond purchases. Risk assets and credit spreads also rallied, helped by the ECB's actions.

Over November, bond markets experienced some volatility and changes in direction but, ultimately, there were few significant moves: most government bond yields were very marginally higher, as were credit spreads.

Over December, bond yields rose and credit spreads tightened as the US Federal Reserve (Fed) hiked interest rates, as expected, and suggested that US economic growth would remain strong (supported by recent tax reform legislation).

The main positive contribution during October came from market allocation, where our two long positions in 10-year Australian government bonds (held against US Treasuries and German Bunds) continued to recover as Australian yields again outperformed those of other markets. Our US 'break-even' inflation trades also helped performance. Further positive contributions came from our positions in investment grade bonds and ABS, which benefited from tighter spreads and a favourable supply/demand balance, respectively. The main negative contributions during the month came from our high yield bonds and loans, currency and emerging market bond positions. There was also a small loss on our long 10-year US Treasuries versus short 10-year German Bunds market allocation trade.

The main positive contribution during November came from market allocation, where our long Australia versus short Germany duration trade continued to recover as Australian yields again outperformed those of other markets. Our US 'break-even' inflation trade also helped performance, as did our long UK versus short Germany duration position, which we successfully closed out during the month. These gains were only partially offset by some mark-to-market losses on our long US versus short Germany duration position. Although credit spreads were marginally higher, we believe security selection within our investment grade credit positions was another positive. Our ABS positions – which benefited from

tighter spreads and a favourable supply/demand balance – also helped performance. The main negative contributions during the month came from our US yield curve trade (where we are positioned for a steepening but there has recently been a flattening) and our local currency emerging market bond positions. Other small negatives came from duration, high yield bonds and loans and currency.

Our credit strategies positively contributed to performance during December. Our local currency emerging market bond positions benefited from tighter yields, despite the sell-off in developed market yields. Both our investment grade credit positions and ABS positions benefited from tighter spreads; in the latter market, a continued lack of supply has been supportive. Another small positive came from our high yield bonds and loans positions. Currency had a neutral effect as we have very little risk here. Our interest rate strategies detracted from performance during December. In market allocation, our long Australia versus short Germany duration trade was negative as Australian yields sold off more than their German counterparts. Another negative contributor was our US yield curve trade (where we are positioned for a steepening but there has continued to be a flattening). Lastly, there was a small negative from our duration position, where we tactically traded between outright short and neutral in Germany duration over the month.

## ACTIVITY REVIEW

We took a number of measures during the quarter to adjust our positioning across our various strategies. In October, we switched our 10-year Australian government bond trade's offsetting short position from 10-year US Treasuries to 10-year German Bunds. We took some profits on investment grade credit and reduced risk within both our ABS and high yield bonds and loans exposures. We added back US dollar exposure, offsetting our longs in various emerging market currencies with some new short positions, and closed two emerging market bond long positions.

### WE TOOK VARIOUS ACTIONS TO REPOSITION THE FUND FOR A RISING INTEREST RATE ENVIRONMENT AND TO REDUCE ITS LEVEL OF RISK

In November, we sold down about half of the investment grade credit exposure which we had a couple of months previously. We now have a short duration position via German Bunds, having previously had neutral exposure. We also removed about a third of the currency hedges, which we had on against our local currency emerging market bond positions.

In December, we increased duration in our local currency emerging market bond positions and removed more of our currency hedges.

## INVESTMENT STRATEGY AND OUTLOOK

Our largest exposure is to US breakeven inflation, on a view that the market's inflation expectations are too low. We remain positive towards Australian bonds and ABS, because of expected further spread tightening, as well as local currency emerging market bonds (which, despite recent volatility, we believe continue to be supported by attractive long-term fundamentals).

### WE HAVE MAINTAINED OUR EXPOSURE TO US INFLATION EXPECTATIONS GIVEN CONTINUING INFLATION RISK

President Trump's tax reform legislation was finally passed in December and we believe this is likely to support the US economy, although the recent flattening of the US yield curve needs to be closely monitored. With further US interest rate increases on the horizon, political pressure also led the Fed to begin reducing the size of its $4.5 trillion balance sheet in October. Meanwhile, in Europe, further 'emergency' monetary policy appears unjustified so, despite recent euro strength and political uncertainty, the ECB recently announced a tapering of its asset purchases from early 2018.

We have a short duration position, having briefly gone neutral during the quarter. Markets are underestimating the likelihood that the Fed will follow through with its projected policy hikes in 2018, while, in Europe, the ECB has recently announced the imminent tapering of asset purchases. Given our expectation of rising US inflation, we have maintained our inflation 'breakeven' trade via a long position in 30-year US Treasury Inflation-Protected Securities, held against 30-year US Treasuries. We also have two long positions in 10-year Australian and 10-year US Treasuries (both held against 10-year German Bunds). The Fund is also positioned for an expected steepening of the US yield curve – given it has recently flattened to post financial crisis lows – via a long position in 10-year US Treasuries, held against 30-year US Treasuries.

We have a cautious approach towards credit risk, given valuation concerns and the gradual reduction in technical support from central banks. However, we have an overweight position in ABS and local currency emerging market bonds (with currency risk partially hedged), as well as small overweight positions in investment grade credit and high yield and loans. As credit spreads have tightened, we have reduced exposure to both investment grade and high yield names but could add to the latter given the recent sell-off. Our small currency positions entail very little risk.

## REGIONAL INTEREST RATE DURATION (YEARS)

| | Long | Short | Net |
|---|---|---|---|
| USA | 9.9 | -7.8 | 2.2 |
| Other Dollar Bloc | 5.1 | 0.0 | 5.1 |
| Eurozone | 0.3 | -9.6 | -9.2 |
| UK | 0.1 | -0.1 | 0.0 |
| Other europe | 0.1 | 0.0 | 0.1 |
| Emerging Markets | 0.2 | 0.0 | 0.2 |
| Total | 15.7 | -17.4 | -1.8 |

## MATURITY INTEREST RATE DURATION (YEARS)

| | Long | Short | Net |
|---|---|---|---|
| 0-1 yr | 0.0 | 0.0 | 0.0 |
| 1-5 yrs | 0.3 | -0.1 | 0.2 |
| 5-10 yrs | 5.1 | -9.6 | -4.5 |
| 10-15 yrs | 5.2 | 0.0 | 5.2 |
| 15+ yrs | 5.0 | -7.8 | -2.7 |
| Total | 15.7 | -17.4 | -1.8 |

## UNHEDGED FX EXPOSURE (%)

| | Fund |
|---|---|
| USD | 2.3 |
| EUR | 1.3 |
| GBP | 0.1 |
| AUD/NZD | 0.1 |
| Other European | -0.4 |
| CHF | -1.1 |
| JPY | -2.2 |
| Total | 0.0 |

Source: BNY Mellon Investment Management EMEA Limited

## SECTOR SPREAD DURATION (YEARS)

| | Long | Short | Net |
|---|---|---|---|
| Supra/Agencies | 0.0 | 0.0 | 0.0 |
| Non-financial corporates | 0.4 | -0.1 | 0.2 |
| Financials | 0.5 | -0.1 | 0.4 |
| ABS/MBS | 0.4 | 0.0 | 0.4 |
| Loans | 0.4 | 0.0 | 0.4 |
| Emerging Markets | 0.4 | -0.3 | 0.1 |
| CDS Indices | 1.2 | -1.1 | 0.1 |
| Money Market Instruments | 0.6 | 0.0 | 0.6 |
| Total | 3.8 | -1.7 | 2.1 |

## CREDIT RATING (HIGHEST) SPREAD DURATION

| | Long | Short | Net |
|---|---|---|---|
| AAA | 0.0 | -0.3 | -0.3 |
| AA | 0.2 | 0.0 | 0.2 |
| A | 1.3 | -1.0 | 0.4 |
| BBB | 1.0 | -0.1 | 0.9 |
| BB | 0.2 | 0.0 | 0.2 |
| B | 0.4 | -0.3 | 0.1 |
| CCC and below | 0.0 | 0.0 | 0.0 |
| NR | 0.6 | 0.0 | 0.6 |
| Total | 3.8 | -1.7 | 2.1 |

## COUNTRY OF ISSUER DOMICILE

| | Net % | Net Spread Duration (Yrs) |
|---|---|---|
| United States | 86.0 | 0.8 |
| Australia | 72.3 | 0.2 |
| Supranational | 19.7 | -0.2 |
| United Kingdom | 15.6 | 0.5 |
| France | 3.1 | 0.1 |
| Spain | 3.0 | 0.1 |
| Netherlands | 3.0 | 0.1 |
| Switzerland | 2.8 | 0.1 |
| Canada | 2.5 | 0.1 |
| Sweden | 1.6 | 0.0 |
| Norway | 1.4 | 0.0 |
| Ireland | 1.2 | 0.0 |
| Japan | 1.1 | 0.0 |
| Italy | 1.0 | 0.1 |
| Austria | 0.4 | 0.0 |
| Belgium | 0.4 | 0.0 |
| Germany | -104.0 | 0.1 |
| Cash & Others | -11.2 | 0.0 |
| Total | 100.0 | 2.1 |

## KEY RISKS ASSOCIATED WITH THIS FUND

- The performance aim is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.
- This Fund invests in international markets which means it is exposed to changes in currency rates which could affect the value of the Fund.
- The Fund will use derivatives to generate returns as well as to reduce costs and/or the overall risk of the Fund. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment. The Fund employs a long/short strategy through the use of derivatives. This strategy is substantially different from 'long only' funds and returns are likely to vary. With both long and synthetic (i.e. created through derivatives) short positions, it is unlikely to achieve the same capital growth as a long-only fund in a rising market but should not experience the same level of decline in a falling market. However, neither of these outcomes is guaranteed for the Fund.
- Investments in bonds are affected by interest rates and inflation trends which may affect the value of the Fund.
- The Fund holds bonds with a low credit rating that have a greater risk of default. These investments may affect the value of the Fund.
- The Fund may invest in emerging markets. These markets have additional risks due to less developed market practices.
- The Fund may invest in structured products which means your investment return is likely to be closely linked to changes in the value of the underlying assets on which the structured products are based.
- The Fund takes its charges from the income of the Fund in the first instance. The impact of Fund charges may be material on the value of any income you receive from your investment. There is potential for capital erosion if insufficient income is generated by the Fund to cover these charges.
- Certain share classes are denominated in a different currency from the base currency (i.e. the reporting currency) of the Fund. Changes in the exchange rate between the share class currency and the base currency may affect the value of your investment.
- Certain share classes use techniques to try to reduce the effects of changes in the exchange rate between the share class currency and the base currency of the Fund. These techniques may not eliminate all the currency risk.
- A complete description of risk factors is set out in the Prospectus in the section entitled "Risk Factors".

## INVESTMENT OBJECTIVE

To provide a positive absolute return in all market conditions over a rolling 12 month period by investing primarily in debt and debt-related securities and instruments located worldwide and in financial derivative instruments relating to such securities and instruments.

## GENERAL INFORMATION

| | |
|---|---|
| Total net assets (million) | € 1,482.53 |
| Lipper sector | Lipper Global - Absolute Return Other |
| Fund type | ICVC |
| Fund domicile | Ireland |
| Fund manager | Andrew Wickham/Peter Bentley |
| Base currency | EUR |
| Currencies available | CHF, EUR, GBP, USD |
| Fund launch | 09 Mar 2012 |

## DEALING

09:00 to 17:00 each business day
Valuation point: 12:00 Dublin time

## EURO W (ACC.) SHARE CLASS DETAILS

| | |
|---|---|
| Inception date | 03 Oct 2016 |
| Min. initial investment | € 15,000,000 |
| Ongoing charge | 0.86% |
| Annual mgmt charge | 0.75% |
| Max. initial charge | 5.00% |
| ISIN | IE00BP4JQP45 |
| Registered for sale in: | AT, BE, DK, DE, FR, FI, GG, IE, IT, JE, LU, NL, NO, PT, ES, SE, CH, GB |

## TO LEARN MORE ABOUT THIS FUND PLEASE CONTACT US:

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Source: BNY Mellon Investment Management EMEA Limited
Any views and opinions are those of the investment manager, unless otherwise noted.

## IMPORTANT INFORMATION

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# Quarterly Investment Report - Q4 2017

## London Borough of Tower Hamlets Pension Fund

Legal & General
INVESTMENT MANAGEMENT

# Contents

# Executive summary as at 31 December 2017

## Fund overview

The Fund's assets are managed by investing in the pooled funds shown in the table below.

## Important update

On-fund costs (OFC) deducted from the unit price of the Fund

Please use the link to access our latest Local Government Pension Scheme thought piece, LGPS Intelligence: www.lgim.com/lgpsintelligence

## Funds held

| Fund | Market index | Benchmark (%) |
|---|---|---|
| **London Borough of Tower Hamlets** | | |
| All World Equity Index (OFC) | FTSE All-World NetTax (UKPN) | 16.70 |
| All World Equity Index Fund - GBP Currency Hedged (OFC) | Composite | 33.30 |
| MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC) | MSCI World Low Carbon GBP Hedged | 50.00 |
| **Total London Borough of Tower Hamlets** | **-** | **100.00** |
| **London Borough Tower Hamlets Temp** | | |
| Over 5y Index-Linked Gilts (OFC) | FTSE A Index-Linked > 5 Years | - |
| Transition CSUF STBP | - | - |

## Fund performance (%)

| Period | Fund (gross of fees) |
|---|---|
| Q4 2017 | 2.76 |
| 1 Year | 8.97 |
| 3 Years | 9.28 |
| 5 Years | 9.83 |
| Since inception | 9.81 |

Inception date: 30 Jul 2010

Performance figures shown for periods in excess of one year are annualised

## Fund cashflows

| | GBP |
|---|---|
| Value at start of quarter | 347,650,620 |
| Net transactions | 220,134,794 |
| Value at end of quarter | 582,293,665 |

Pricing basis: mid

Source: Legal & General Investment Management

# Valuation summary as at 31 December 2017

We have recently launched our new client portal - LGIM Connect. To instantly view and download all valuations, transaction statements, performance, pricing and quarterly reports please log into www.lgimconnect.com. A breakdown of any investments, disinvestments and switches is also detailed in the Transaction Statements which have been issued to your nominated recipients.

| Fund | Value at start of quarter | | | Net transactions (GBP) | Value at end of quarter | | | Benchmark distribution (%) | Ranges (%) |
|---|---|---|---|---|---|---|---|---|---|
| | GBP (mid) | Total (%) | Distribution (%) | | GBP (mid) | Total (%) | Distribution (%) | | |
| **London Borough of Tower Hamlets** | | | | | | | | | |
| All World Equity Index (OFC) | - | | - | 83,715,625 | 84,396,681 | | 16.63 | 16.70 | 15.45 - 17.95 |
| All World Equity Index Fund - GBP Currency Hedged (OFC) | - | | - | 167,657,242 | 169,280,045 | | 33.35 | 33.30 | 31.05 - 35.55 |
| MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC) | - | | - | 252,188,860 | 253,903,555 | | 50.02 | 50.00 | 47.50 - 52.50 |
| **Non-benchmark Holdings** | | | | | | | | | |
| UK Equity Index (OFC) | 276,002,798 | | - | (276,481,263) | - | | - | - | - - |
| Over 5y Index-Linked Gilts (OFC) | 71,647,822 | | - | (74,504,348) | - | | - | - | - - |
| **Total London Borough of Tower Hamlets Assets** | **347,650,620** | **100.00** | **100.00** | **152,576,116** | **507,580,281** | **87.17** | **100.00** | **100.00** | **- -** |
| **London Borough Tower Hamlets Temp** | | | | | | | | | |
| UK (World) Equity Index Fund | - | | - | (233,984) | - | | - | - | - - |
| Over 5y Index-Linked Gilts (OFC) | - | | - | 74,504,348 | 74,429,771 | | 99.62 | - | - - |
| Transition CSUF STBP | - | | - | (6,711,686) | 283,613 | | 0.38 | - | - - |
| **Total London Borough Tower Hamlets Temp Assets** | **-** | **-** | **-** | **67,558,678** | **74,713,384** | **12.83** | **100.00** | **-** | **- -** |
| **Total** | **347,650,620** | **100.00** | **-** | **220,134,794** | **582,293,665** | **100.00** | **-** | **-** | **- -** |

Source: Legal & General Investment Management

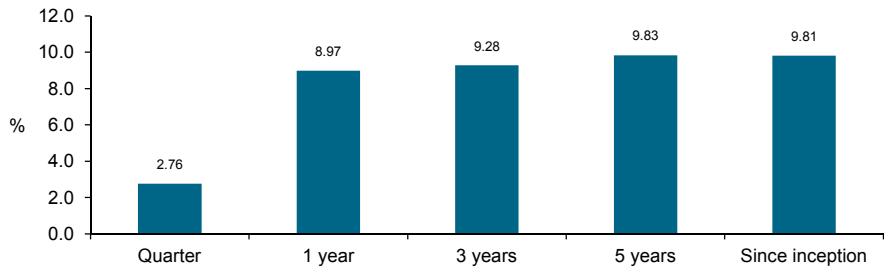
# Performance summary as at 31 December 2017

## Performance to date (%)

| | Quarter | 1 year | 3 years | 5 years | Since inception |
|---|---|---|---|---|---|
| Fund (gross of fees) | 2.76 | 8.97 | 9.28 | 9.83 | 9.81 |

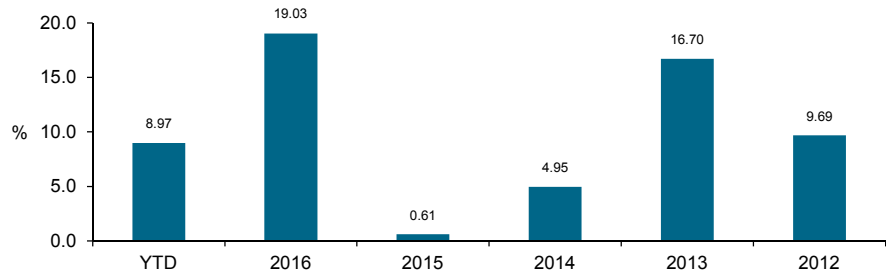
Inception date: 30 Jul 2010

Performance figures shown for periods in excess of one year are annualised




## Calendar year performance (%)

| | Year to date | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Fund (gross of fees) | 8.97 | 19.03 | 0.61 | 4.95 | 16.70 | 9.69 |




Notes:

The performance tables/charts above show the time-weighted returns i.e. taking out the effects of cash flow, for the total Fund and where applicable its benchmark. Performance figures for any externally managed funds are excluded unless managed on the LGIM investment only platform. All performance returns are for the entire period stated, except where a bought or (sold) date denotes part period, as detailed on the following page.

Source: Legal & General Investment Management

# Performance summary as at 31 December 2017

| | Bought/(Sold) date * | Quarter's performance (%) | | | 1 Year's performance (%) | | | 3 Year's performance (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Fund | Index** | Relative | Fund | Index** | Relative | Fund | Index** | Relative |
| **London Borough of Tower Hamlets** | | | | | | | | | | |
| All World Equity Index (OFC) | 14 Dec 2017 | 0.83 | 0.84 | (0.01) | - | - | - | - | - | - |
| All World Equity Index Fund - GBP Currency Hedged (OFC) | 14 Dec 2017 | 0.99 | 1.01 | (0.02) | - | - | - | - | - | - |
| MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC) | 14 Dec 2017 | 0.70 | 0.66 | 0.04 | - | - | - | - | - | - |
| **Non-benchmark Holdings** | | | | | | | | | | |
| UK Equity Index (OFC) | (30 Nov 2017) | 0.18 | 0.18 | 0.00 | 8.34 | 7.94 | 0.40 | - | - | - |
| Over 5y Index-Linked Gilts (OFC) | (14 Dec 2017) | 3.99 | 3.99 | 0.00 | 2.64 | 2.64 | 0.00 | - | - | - |
| **Total London Borough of Tower Hamlets Assets** | | **3.64** | **-** | **-** | **9.91** | **-** | **-** | **9.59** | **-** | **-** |
| **London Borough Tower Hamlets Temp** | | | | | | | | | | |
| Over 5y Index-Linked Gilts (OFC) | 14 Dec 2017 | (0.10) | (0.10) | 0.00 | - | - | - | - | - | - |
| Transition CSUF STBP | 30 Nov 2017 | 1.36 | - | - | - | - | - | - | - | - |
| **Total London Borough Tower Hamlets Temp Assets** | **30 Nov 2017** | **1.36** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | | **2.76** | **-** | **-** | **8.97** | **-** | **-** | **9.28** | **-** | **-** |

* All performance returns are for the entire period stated, except where a bought or (sold) date denotes part period.

** For some funds a comparator will be shown instead of an Index. Comparators are shown for information purposes and the fund is not managed against these.

Notes:

The performance summary table shows the returns for each fund compared with the total return of the relevant market index, composite index or comparator. The Total line(s) show the time-weighted returns i.e. taking out the effects of cash flow, for the total Fund and where applicable its benchmark. All fund returns are shown before the deduction of charges except those marked '(Net)', '(chgs)' or '(charges included)'. Some index returns are net of fees. Performance figures shown for periods in excess of one year are annualised. Externally managed funds, where applicable, are excluded. Additional information on fund level performance can be found in the fund sections later in the report.

Where applicable, the performance shown takes into account the return of funds held prior to the inception of the OFC funds.

Source: Legal & General Investment Management

# LGIM Views

## Thought leadership

### Raising cashflow awareness – effective DB scheme cashflow management

DB pension schemes, particularly underfunded ones, may be better off focusing on being cashflow aware than being cashflow matched. Being cashflow aware means seeking to use not only the cashflows from bonds, but also the natural cashflows from other types of investment such as real assets and equities.

http://www.lgim.com/uk/en/insights/our-thinking/client-solutions/raising-cashflow-awareness.html

### Assessing the key challenges in DC - Five years of auto-enrolment

What has auto-enrolment achieved so far and what are the behavioural and structural challenges that remain for savers and schemes? How can pension schemes empower their members to meet these challenges head on?

http://www.lgim.com/uk/en/insights/our-thinking/client-solutions/assessing-the-key-challenges-in-dc.html

### Fundamentals – The renewable revolution

Investors, analysts and policymakers are asking the wrong question about renewables. Economies of scale, technology improvements and the move to large-scale installations (both larger wind turbines and larger solar farms) have delivered cost improvements exceeding even the most optimistic forecasters' predictions.

http://www.lgim.com/uk/en/insights/our-thinking/long-term-thinking/the-renewable-revolution.html

## Market views

### CIO Investment Outlook

The consequences of monetary tightening will define the 2018 investment landscape. Populism, disruption and China's debt are all issues that have been largely tempered by loose policies. 2018 is the year this could reverse, and investors could face a rude awakening.

http://www.lgim.com/uk/en/insights/our-thinking/market-insights/cio-investment-outlook1.html

### Walking a tightrope in 2018

We expect another strong year for growth with the global economy firing on almost all cylinders. But the market has priced in this optimism, implying greater vulnerability to disappointment.

http://www.lgim.com/uk/en/insights/our-thinking/market-insights/walking-a-tightrope-in-2018.html

## You may have missed:

### Why did the Bank of England just hike interest rates? What happens next?

The Bank of England is in a difficult spot. Lower trend UK growth and a weaker pound mean that if it doesn't hike rates, inflation could remain above target. But if it raises rates too fast, the economy could be hurt should downside risks materialise.

https://macromatters.lgim.com/categories/economics/why-did-the-boe-just-hike-what-happens-next/

Source: Legal & General Investment Management

# Global equities: market background

## Global equity markets

Global equity markets accelerated higher in the final quarter of 2017 **(Figure 1)**, driven by a string of new all-time highs in the major US indices. The Dow Jones Industrial Average grabbed the headlines, rising to nearly 25,000 as investors were encouraged by reforms to the US tax code that included a significant cut to the rate of corporation tax.

Japanese stocks also delivered strong returns over the quarter, as investors continued to have faith in the Bank of Japan's monetary policy, while the Japanese Prime Minister received a strong vote of confidence in the country's snap election. Strength in the euro weighed on the performance of major European indices, but UK stocks had a strong end to the year, driven by miners and oil companies.

Emerging market equities continued to perform well **(Figure 2)**, spurred on by the tailwinds of synchronised global growth and a stable US dollar. Returns were broad-based, with commodity exporters such as Brazil being buoyed by the rise in oil prices, while the increasingly consumer-driven Chinese and Indian markets benefited from continued appreciation in the share prices of leading technology companies.

**Figure 1: MSCI World reaches new record**

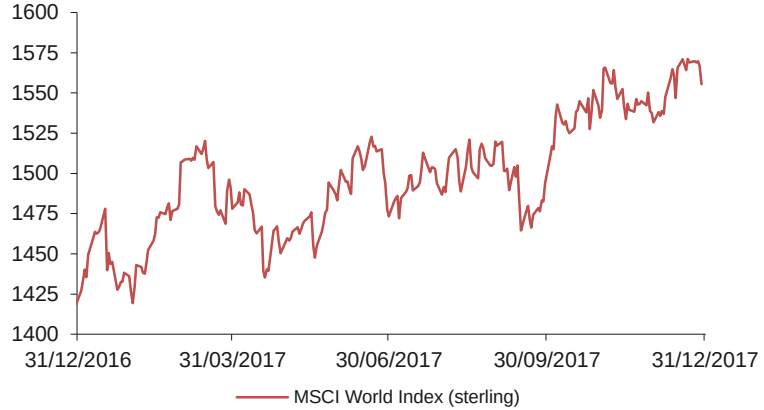
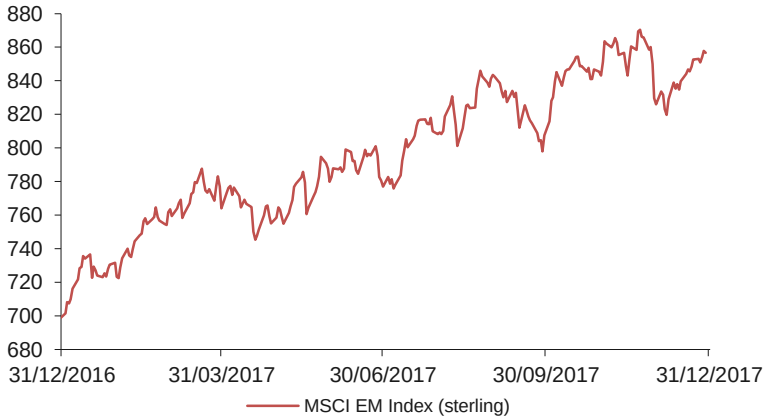



**Figure 2: Emerging markets march higher**



# Global government bonds: market background

## Global sovereign markets

The performance of global government 10-year bond yields diverged in the final quarter of the year, with US yields rising, continental European yields moving sideways and UK gilt yields falling **(Figure 3)**. With a strengthening US economy, the Federal Reserve (Fed) raised its benchmark interest rate from 1.25% to 1.5% over the quarter **(Figure 4)**, which contributed to the rise in overall US government yields. The Fed also began its programme of 'quantitative tightening' by letting government bonds on its balance sheet mature.

In Europe, the European Central Bank revised up its estimates for regional growth and inflation. Mario Draghi also signalled that European interest rates were likely to remain on hold for an extended period of time, and well after their bond-buying programmes ends. This combination of central bank comments resulted in European yields moving broadly sideways over the quarter, remaining at very low levels.

In the UK, the Bank of England raised interest rates for the first in in 10 years as domestic inflation continued to overshoot its target. However, gilt yields had already risen sharply in September following guidance from the central bank that they would likely hike rates soon, and yields actually drifted lower in the final quarter of 2017 as inflation concerns moderated.

**Figure 3: 10-year government yields diverge**

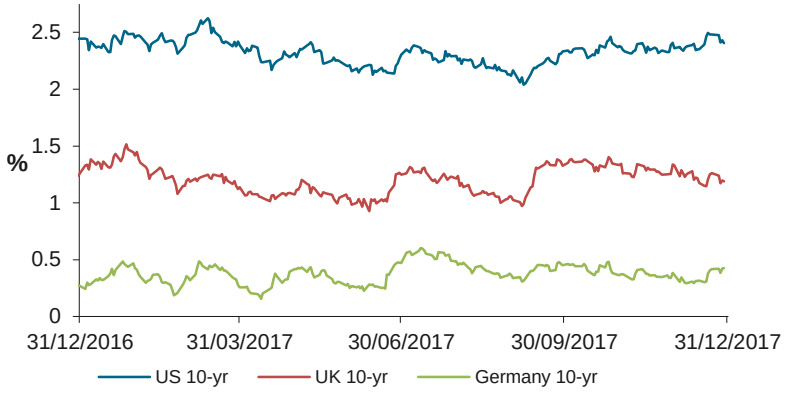
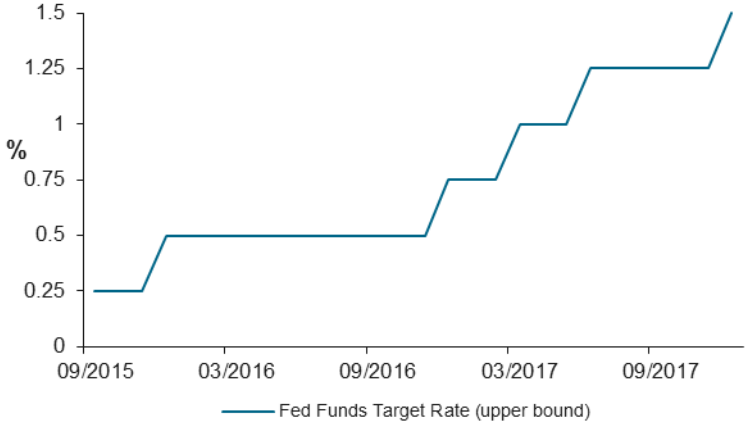



**Figure 4: Fed raises interest rates again**



# Global corporate bonds: market background

## Global credit markets

Global corporate bond markets had a positive quarter against a continued backdrop of synchronised global economic growth. Credit spreads (the additional yield available on corporate bonds compared to government bonds from the same region) continued to fall steadily across major developed markets **(Figure 5)**, even as the performance of underlying government bond yields varied.

Pan-European credit markets outperformed in absolute terms, with investors encouraged by the combination of the ongoing regional economic recovery and continued supportive monetary policy from both the European Central Bank and the Bank of England. Meanwhile, US credit faced the headwind of rising underlying yields as the Federal Reserve continued to tighten monetary policy.

The performance of global high yield bonds was more muted **(Figure 6)**, with investors taking stock and favouring investment grade credit following a strong run for high yield markets earlier in 2017. Emerging market bonds also had a mixed quarter**,** although they delivered strong returns for the calendar year as a whole.

**Figure 5: Credit spreads grind tighter**

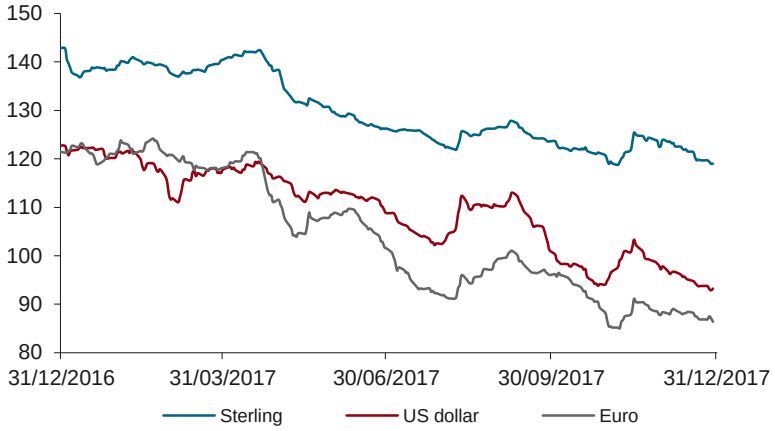
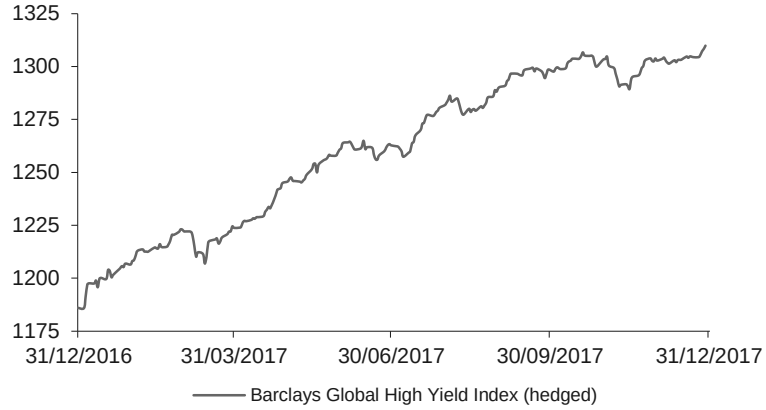



**Figure 6: Global high yield bonds stall**



# Currencies: market background

## Currency markets

Having fallen steadily for much of the year, the US dollar stabilised on a trade-weighted basis in the final quarter of 2017 **(Figure 7)**. This was despite continued monetary tightening by the US Federal Reserve, which raised interest rates and started the process of reversing quantitative easing over the quarter. The yen was also weak, with the Bank of Japan continuing its asset purchases.

Instead, investors continued to look to more cyclical currencies such as the euro and sterling, which both had a positive quarter. In continental Europe, a continued recovery in domestic growth rates and consumer confidence was behind the euro strength **(Figure 8)**. In the UK, meanwhile, progress in Brexit negotiations and the Bank of England's decision to raise interest rates for the first time since the financial crisis were both behind the move higher in the pound.

The performance of emerging market currencies was mixed. Despite a stable US dollar and a rise in natural resource prices, commodity-linked currencies such as Brazilian real and Russian ruble traded in a narrow range. However, Asian currencies performed strongly, with both the Singapore dollar and Chinese yuan appreciating, particularly in the final two weeks of the year.

**Figure 7: US dollar index stabilises**

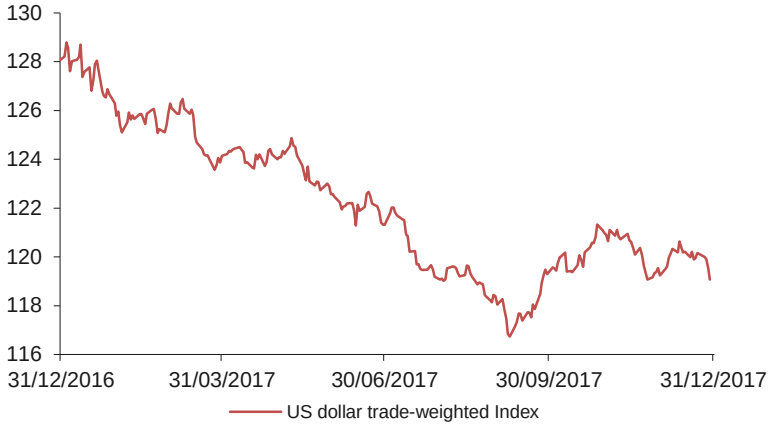
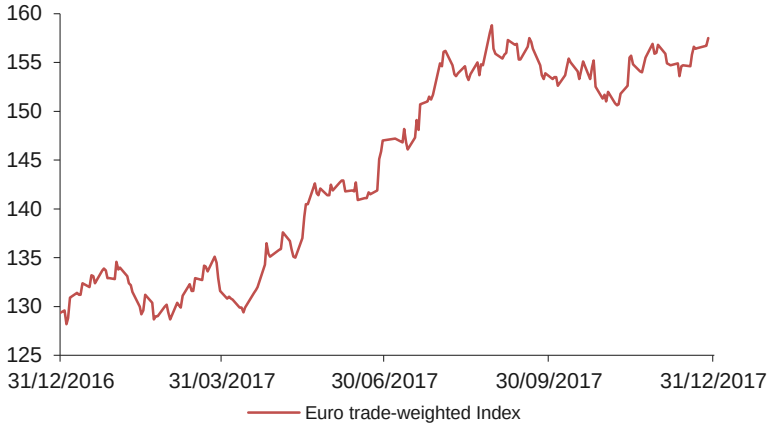
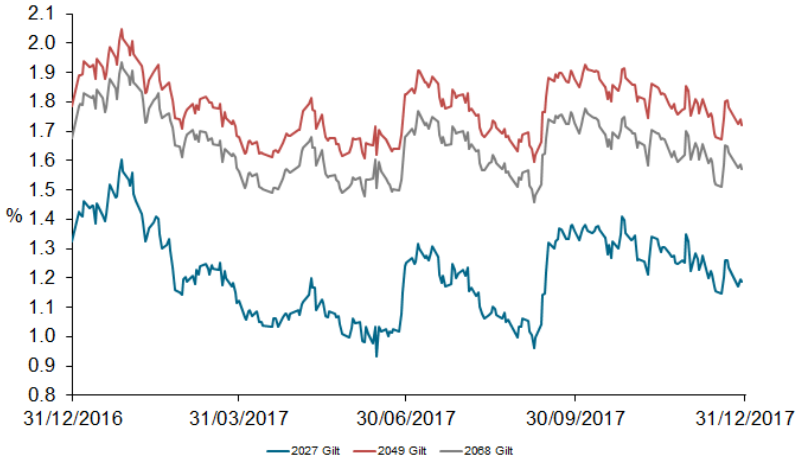



**Figure 8: Euro appreciates in value**

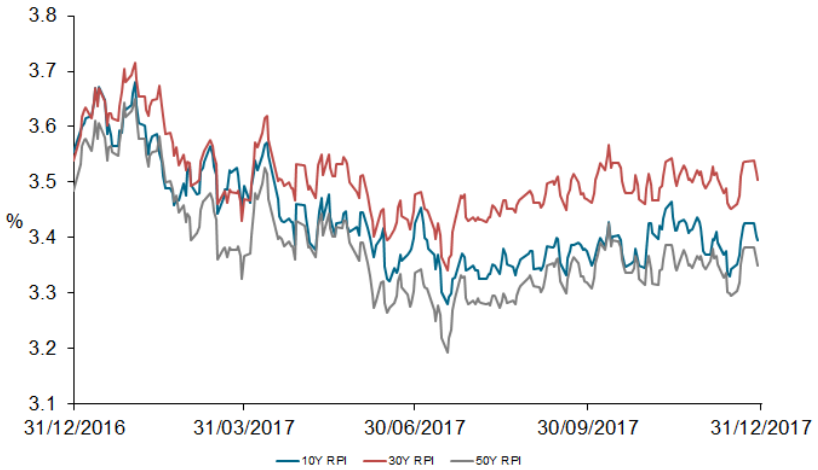


# Sterling interest rate and inflation market background

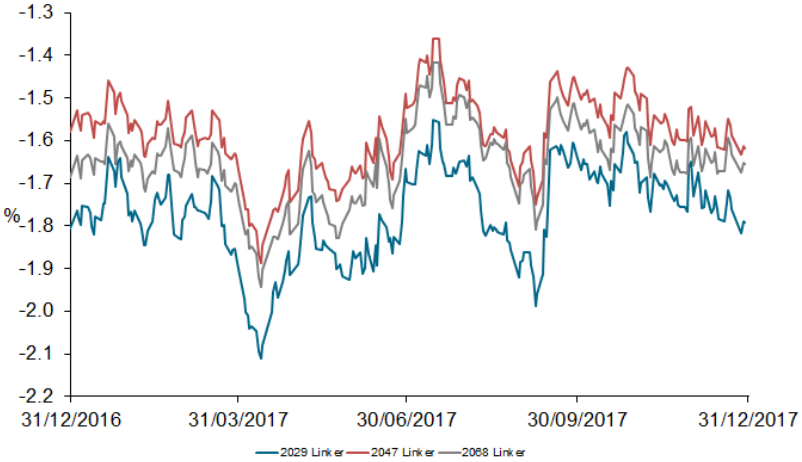
### Nominal yields




### Swap-based inflation




### Real yields




### Commentary

Having been in a long-term downtrend in recent years, nominal yields have stabilised in 2017 despite future growth expectations continuing to be scaled back. However, UK yields did rise in September following comments from the Bank of England (BoE) that interest rates could rise later in the year. Short-term rates were duly increased for the first time in 10 years in the fourth quarter, but longer-term yields drifted lower.

Long-term inflation expectations have remained steady at around 3.5% throughout 2017, with sterling stabilising and growth expectations moderating. This continued in the final quarter.

With both inflation expectations and nominal yields stabilising, real yields have moved broadly sideways in 2017 overall and remain well in negative territory. From a shorter-term perspective, real yields did moderate in the final quarter, having increased notably following September's BoE comments.

# Fund reports performance as at 31 December 2017

| | Price series | Quarter | | Year to date | | 1 year | | 3 years | | 5 years | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Fund | Index** | Fund | Index** | Fund | Index** | Fund | Index** | Fund | Index** |
| MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC) | Weekly close | 5.06 | 4.99 | - | - | - | - | - | - | - | - |
| All World Equity Index Fund - GBP Currency Hedged (OFC) | Weekly close | 5.39 | 5.40 | 19.03 | 18.98 | 19.03 | 18.98 | 10.15 | 10.13 | - | - |
| Transition CSUF STBP | Weekly close | - | - | - | - | - | - | - | - | - | - |
| All World Equity Index (OFC) | Weekly close | 5.08 | 5.09 | 13.82 | 13.77 | 13.82 | 13.77 | 15.34 | 15.27 | - | - |
| Over 5y Index-Linked Gilts (OFC) | Weekly close | 3.88 | 3.88 | 2.54 | 2.54 | 2.54 | 2.54 | 8.88 | 8.87 | 9.55 | 9.52 |

** For some funds a comparator will be shown instead of an Index. Comparators are shown for information purposes and the fund is not managed against these.



Notes:

The performance summary table shows the returns for each fund compared with the total return of the relevant market index, composite index or comparator. All fund returns are shown before deduction of charges except those marked '(Net)', '(chgs)' or '(charges included)'. Some index returns are net of fees. Externally managed funds, where applicable, are excluded.

Where applicable, the performance shown takes into account the return of funds held prior to the inception of the OFC funds.

Source: Legal & General Investment Management

# MSCI World Low Carbon Target Index Fund

## 31 December 2017

### Fund characteristics

| | Fund |
|---|---|
| Number of holdings | 1,225 |

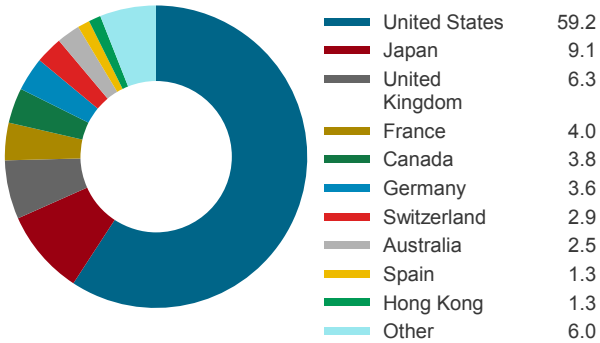
### Sector breakdown (%)

| | Fund |
|---|---|
| Financials | 19.0 |
| Information Technology | 16.8 |
| Industrials | 13.4 |
| Consumer Discretionary | 12.4 |
| Health Care | 11.7 |
| Consumer Staples | 9.4 |
| Energy | 4.3 |
| Materials | 4.0 |
| Telecommunication Services | 3.2 |
| Real Estate | 3.1 |
| Other | 2.7 |
| **Total** | **100.0** |

### Top 10 holdings (%)

| | Fund |
|---|---|
| Apple Inc | 2.2 |
| Alphabet | 1.6 |
| Microsoft Corporation | 1.6 |
| Amazon.com | 1.2 |
| Facebook Class A | 1.0 |
| Johnson & Johnson | 1.0 |
| JPMorgan Chase & Co | 1.0 |
| Bank of America | 0.8 |
| Wells Fargo & Company | 0.7 |
| Nestle | 0.7 |
| **Total** | **11.8** |

### Country breakdown (%)




Totals may not sum due to rounding

For factsheets and other key information please visit our website http://www.fundslibrary.co.uk/FundsLibrary.BrandedTools/Lgim/FundCentral

Source: Legal & General Investment Management

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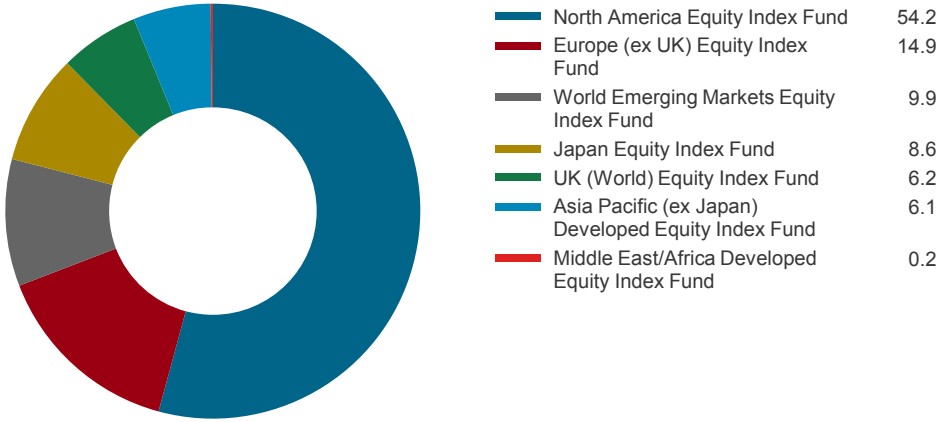
# All World Equity Index Fund

## 31 December 2017

### Asset allocation (%)

| | Fund | Benchmark |
|---|---|---|
| UK (World) Equity Index Fund | 6.16 | 6.13 |
| North America Equity Index Fund | 54.20 | 54.21 |
| Europe (ex UK) Equity Index Fund | 14.94 | 14.94 |
| Japan Equity Index Fund | 8.58 | 8.56 |
| Asia Pacific (ex Japan) Developed Equity Index Fund | 6.06 | 6.00 |
| Middle East/Africa Developed Equity Index Fund | 0.16 | 0.16 |
| World Emerging Markets Equity Index Fund | 9.90 | 10.00 |
| **Total** | **100.00** | **100.00** |




Totals may not sum due to rounding

For factsheets and other key information please visit our website http://www.fundslibrary.co.uk/FundsLibrary.BrandedTools/Lgim/FundCentral

Source: Legal & General Investment Management

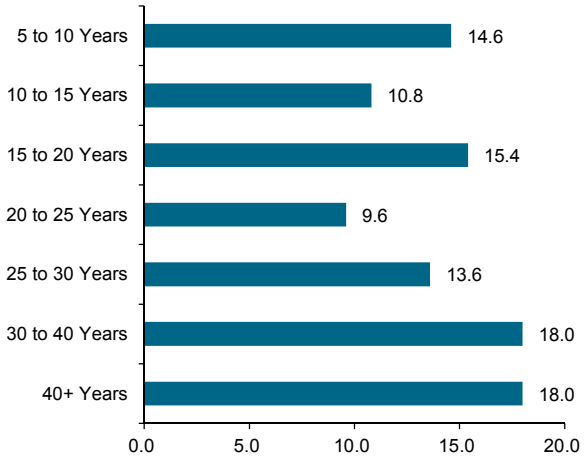
# Over 5 Year Index-Linked Gilts Index Fund

## 31 December 2017

### Fund characteristics

| | Fund |
|---|---|
| Number of issuers | 1 |
| Number of issues | 25 |
| Modified duration (yrs) | 25.0 |
| Gross redemption yield (%) | (1.7) |

### Maturity breakdown (%)




### Top 10 holdings (%)

| | Fund |
|---|---|
| Gilts I-L 1.250% 2055 | 6.1 |
| Gilts I-L 0.375% 2062 | 5.6 |
| Gilts I-L 0.125% 2068 | 5.6 |
| Gilts I-L 0.750% 2047 | 5.0 |
| Gilts I-L 0.500% 2050 | 5.0 |
| Gilts I-L 1.125% 2037 | 5.0 |
| Gilts I-L 0.625% 2040 | 4.9 |
| Gilts I-L 0.125% 2044 | 4.7 |
| Gilts I-L 0.625% 2042 | 4.7 |
| Gilts I-L 1.250% 2027 | 4.5 |
| **Total** | **51.1** |

Totals may not sum due to rounding

For factsheets and other key information please visit our website http://www.fundslibrary.co.uk/FundsLibrary.BrandedTools/Lgim/FundCentral

Source: Legal & General Investment Management

# Corporate Governance - Thought Leadership - Q4 2017

### Stakeholder Roundtable on Corporate Governance

In November 2017, LGIM invited various stakeholders including clients and governance experts to discuss our voting policies. We regularly review our policies and seek to incorporate client feedback to ensure our policies continue to reflect their investment beliefs and are aligned with best practice. Among the various topics raised, we discussed virtual shareholder meetings, shareholder resolutions, voting disclosure board independence, employee voice and protection of shareholder rights.

This roundtable was an opportunity for LGIM to understand the views of key stakeholders on topics which are pertinent to good governance. We will be using the outcomes from the discussion to strengthen our 2018 voting policies.

### Corporate Governance Code Consultations

LGIM responded to the consultation from the Hong Kong Stock Exchange on amendments to the Corporate Governance Code. Key highlights in our response included strengthening the assessment criteria of a director's independence and examining their time commitments.

In early December, the Financial Reporting Council (FRC) launched its highly anticipated consultation on proposed changes to the UK Corporate Governance Code and sought specific views on the Stewardship Code. LGIM will respond to the consultation.

### LGIM Institutional Client Conference

We participated in LGIM's inaugural Institutional Client Conference held in early November, which was focused on the investment implications of LGIM's three long-term investment themes; technology, demographics and energy. Since its inception at the start of the year, we have been actively working with other investment teams and contributing to the debate and analysis. During the conference we presented the Group's outlook for coal. More information on this and the rest of LGIM's thematic work can be found here: http://www.lgim.com/uk/en/insights/our-thinking/

### LGIM's action on climate change

In Q4, LGIM continued to push on climate change issues which we believe are part of our fiduciary duty of managing our clients' assets. LGIM's CEO and Head of Sustainability were invited to join the UK Government's Green Finance Taskforce. The taskforce will report in six months its proposals to accelerate investment in the transition to a low-carbon economy.

LGIM also joined the Climate Action 100+ initiative along with 224 financial institutions which have committed to work with the 100 most carbon polluting companies to curb their emissions under a five year plan. This initiative was undertaken as part of the OnePlanet Summit in Paris in recognition of the two-year anniversary of the Paris Agreement.

### Awards

For the third consecutive year, LGIM's Corporate Governance team received the 2017 ICSA award for Best Investor Engagement. This award rewards the investor who, in the judgment of FTSE 350 company secretaries, conducted the most constructive engagement during the year. This award recognises LGIM for demonstrating a high standard of stewardship engagement in the market. We were also recognised at the Pensions Insight DC Awards with an award in a surprise DC Innovation category for the development of the Future World Fund.

### External presentations

In November 2017, we were invited to speak to members of parliament as part of the All Party Parliamentary Group on Tax. We presented our views on why a company's approach and governance of tax represents an investment risk.

We continued our work with the Institute and Faculty of Actuaries by presenting at their Sustainable Finance event which explored how the decision-making processes within finance, including the part played by actuaries, impacts society and the environment.

At the OECD Green Investment Financing Forum, our Head of Sustainability and Responsible Investment participated in a panel on the topic of dialogue between asset managers and owners regarding climate change disclosure.

LGIM spoke on a panel at the International Corporate Governance Network conference held in Paris in December which discussed the topic of enhancing the quality of investor stewardship for strategic company engagement and long-term success. In addition, LGIM presented at the London Business School which examined the impact of index funds on wider markets. We discussed how index funds can contribute to good corporate governance through active ownership and provided case studies on successes.

### News/Media coverage

LGIM's corporate governance team was mentioned in several articles published by the Financial Times, including one on the 'new guards of the City taking aim at corporate delinquents.' LGIM was also mentioned in Reuters on the importance of impartial M&A advice for non-executive directors. This is linked with our presentation at our annual Non-Executive Director Breakfast event last September.

For more information, please go to: www.lgim.com/cgupdate

Source: Legal & General Investment Management

# Dealing costs as at 31 December 2017

## Costs of dealing in units during quarter

| | Total unit transactions (GBP)* | Total dealing costs (GBP)** | Average dealing costs (%)** |
|---|---|---|---|
| Excluding Assets | 93,980,300 | 36,009 | 0.04 |
| Including Assets | 1,928,612,922 | 40,590 | 0.00 |

*Unit transactions represent the sum of all activity and may not match total net transactions figures displayed elsewhere in the report

**Where applicable, figures shown in brackets represent total savings made rather than costs incurred

## Fund dealing cost during quarter (%)

| Fund | Explicit dealing costs (% within fund) |
|---|---|
| MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC) | less than 0.01% |
| All World Equity Index (OFC) | less than 0.01% |
| Over 5y Index-Linked Gilts (OFC) | nil |

*Fees are deducted from within the Fund - the fee scale is shown in your proposal form

#Custody and administration costs are borne by the Fund where applicable

## Investment association's pension fund disclosure code

The voluntary code (Third Version) which has been adopted by the Investment Management Association and strongly endorsed by the National Association of Pension Funds is intended to assist those responsible for the pension fund assets in the understanding of the charges and costs levied on the assets. The code sets out the direct costs and related topics which fund managers should be able to report to their pension fund clients.

There are two levels of disclosure required by the code.

**Level One** – house policies, processes and procedures in relation to the management of costs incurred on behalf of clients. LGIM has issued to clients a paper covering Level One Disclosure and this is updated yearly.

**Level Two** – client specific information. The code requires details to be available of counterparties used and the split of commissions between execution and research. It further requires a comparison with appropriate firm-wide figures. For investors in pooled funds this comparison is at the pooled fund level; it is available on request from your client account manager.

## Notes to level two disclosure - client specific information for pooled fund clients

***Proportion of portfolio covered by the Code at period end:*** All asset classes are covered with the exception of Property which is outside of the Code.

***Fund management fees:*** The fees applicable to your arrangements are shown in your quarterly invoice (unless otherwise stated).

***Custody costs borne directly by the fund:*** Custody costs are included in the fund management fees and are, therefore, not borne directly by the pooled fund (except in the circumstances stated opposite).

***Transaction values/explicit dealing costs:*** There are two tables within this dealing cost section. The first give details of the total cost to the scheme of dealing in units during the reporting period calculated by comparing the actual value of the units dealt with their mid value. The second table provides an estimate of the total explicit dealing costs incurred by each of the pooled funds during the quarter, after allowing for the dealing costs received by the pooled fund through the bid/offer spread from the dealing in units. In the second table, only the explicit dealing costs are shown.

***Underwriting/sub-underwriting commissions received:*** Any commissions received are credited to the funds that underwrote the share issue.

***Stock lending:*** Stock lending occurs in limited number of overseas equities index funds. All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending.

***Taxation:*** Any UK stamp duty and overseas taxes are included in the costs shown. VAT is not payable on the fund management fees under current legislation.

Source: Legal & General Investment Management

# LGIM News

## Company news

### LGIM acquires ETF platform Canvas from ETF Securities

Legal & General Investment Management (LGIM) acquired ETF platform Canvas from ETF Securities. The transaction included $2.7bn of existing assets across 17 products.

https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-investment-management-acquires-etf-platform-canvas/

### LGIM announces decision to absorb research costs under MiFID II

LGIM announced its decision to absorb the cost of third-party research under MiFID II, rather than passing the cost onto its clients.

### LGIM wins Best Investor Engagement Award at the ICSA Awards

For the third consecutive year, LGIM won the Best Investor Engagement Award at the Institute of Chartered Secretaries and Administration (ISCA) Awards.

### LGIM wins four pensions and investments awards

LGIM won two awards at the Pensions Insight DC Awards: the GPP Provider of the Year and DC Innovation for the Future World Fund. LGIM also received a commendation for Best Mastertrust.

LGIM also won the Index Manager of the Year award at the Professional Pensions Investment Awards and the Innovation Award at the Irish Pensions Awards.

### PensionBee partners with LGIM to introduce Future World Fund to online pensions platform

PensionBee, the UK's leading online pension manager, selected LGIM's Future World Fund for its new Future World Plan.

https://www.pensionbee.com/press/pensionbee-partners-with-legal-and-general-to-introduce-climate-friendly-pensions

## Investment solutions

### Legal & General drives forward UK urban regeneration programme with planning success at Newcastle Science Central

Legal & General has secured planning for its second Grade A office building at Newcastle Science Central as it continues to transform cities and regions across the UK, boosting local jobs and driving economic growth.
https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-drives-forward-uk-urban-regeneration-programme-with-planning-success-at-newcastle-science-central/

### Legal & General appoints infrastructure strategist as it increases exposure to clean energy and transport infrastructure

LGIM Real Assets appointed Marija Simpraga as Infrastructure Strategist as it continues to develop its infrastructure capabilities, investing in strategic infrastructure assets which stimulate economic growth.
https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-appoints-infrastructure-strategist-as-it-increases-exposure-to-clean-energy-and-transport-insfrastructure/

### Legal & General invests in financial wellbeing Fintech company, SalaryFinance

In its latest fintech investment, Legal & General invested in innovative financial wellbeing employee benefits firm SalaryFinance.

https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-invests-in-financial-wellbeing-fintech-company-salaryfinance/

## Awards for excellence

Irish Pensions AWARDS 2016 — WINNER Investment Manager of the Year

Professional Pensions Investment Awards 2016 — WINNER European Fixed Income Manager of the Year

Professional Adviser awards 2017 — WINNER Best Multi-Asset Fund Volatility Target

Professional Pensions UK Pensions Awards 2017 — WINNER 20 Years of Excellence in Investment Management

Professional Pensions UK Pensions Awards 2017 — WINNER DC Innovation of the Year

Professional Pensions UK Pensions Awards 2017 — WINNER Fiduciary Manager of the Year

European Pensions AWARDS 2017 — WINNER Transition Management Firm of the Year

LAPF INVESTMENTS AWARDS 2017 — LGPS FUND MANAGER OF THE YEAR — WINNER

European Pensions AWARDS 2017 — WINNER Transition Management Firm of the Year

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If you would like any further information or assistance on the above then please do not hesitate to contact the Client Reporting Team via email at clientreportingteam@lgim.com or by telephone on +44 (0) 20 3124 3277.

Schroders

For professional investors only

# The London Borough of Tower Hamlets Superannuation Fund

## Q3 2017

## Investment Report

## Schroder Real Estate Capital Partners

Q3/2017

Schroders

# The London Borough of Tower Hamlets Superannuation Fund

## In this report

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# Overview

## Portfolio Objective

To achieve a return of 0.75% pa net of fees over rolling three year periods above the AREF/IPD UK Quarterly Property Funds Indices - All Balanced Funds Weighted Average (benchmark).

## Portfolio Valuation

| | | |
|---|---|---|
| Value at 30 Jun 2017 | GBP | 143,229,002 |
| Net cash flow | GBP | - |
| Value at 30 Sep 2017 | GBP | 147,859,788 |

## Performance

Periods to 30 Sep 2017

| Total returns GBP | 3 months % | 12 months % | 3 years % pa | 5 years % pa | 10 years % pa |
|---|---|---|---|---|---|
| Portfolio (gross) | 3.2 | 9.6 | 9.0 | 9.3 | 2.0 |
| **Portfolio (net)** | **3.2** | **9.4** | **8.8** | **9.1** | **1.8** |
| AREF/IPD UK Quarterly Property Fund Index All Balanced Funds Weighted Average | 2.4 | 9.3 | 8.9 | 9.5 | 2.6 |
| **Difference** | **+0.8** | **+0.1** | **-0.1** | **-0.4** | **-0.8** |

| **Breakdown of performance** | | | | | |
|---|---|---|---|---|---|
| UK Investments (Gross) | 2.7 | 10.3 | 9.2 | 10.2 | 1.9 |
| European Investments (Gross) | 211.2 | 96.7 | 43.3 | 17.3 | 7.0 |

Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 30 September 2017.

The portfolio's returns are calculated on the basis that units in open-ended funds are valued at their mid price and closed-ended funds at their NAV price. Figures may be subject to rounding.

## Summary

There were circa £6.4 million of transactions over the reporting period. There were circa £4.5 million of sales / returns of capital. Circa £2.0 million was redeemed from Aviva Investors Pensions Property Fund, circa £1.3 million was sold in BlackRock UK Property Fund and proceeds were received from Schroder Real Estate Fund of Funds Continental European Fund I (circa £1.1 million) and Columbus UK Real Estate Fund (circa £80,000). There was one purchase over the quarter, a £1.9 million acquisition of units in Mayfair Capital Property Unit Trust.

Performance is above benchmark over three months (+0.8%) and twelve months (+0.1%). Returns are marginally below benchmark over three years (-0.1%). Performance is weaker over the longer term, with returns below benchmark over five years (-0.4% per annum) and ten years (-0.8% per annum). Industrial holdings have been the strongest drivers of returns in recent periods. UK performance is above benchmark over three months, one year, three years and five years.

## Portfolio Strategy

Portfolio sector structure is contributing positively to performance, in particular the overweight position to industrials and the underweight position to central London offices. Our former specialist holding in central London offices has underperformed the benchmark index by 9.4% over the past twelve months.

We are looking to increase exposure to regional offices and have made a further £2.5 million commitment to Regional Office PUT (ROPUT).

We continue to progress the underwriting of a first investment into real estate debt. Our preferred strategy is expected to provide attractive risk adjusted returns compared to UK property over the next five years.

Net of commitments to ROPUT there is circa £2.4 million of cash on account, representing 1.7% of portfolio value. We intend to invest surplus cash into real estate debt, subject to client consent to amend the Investment Management Agreement (IMA) to permit this new strategy.

# UK Property Market Summary

Economic growth slowed to 0.3% in the second quarter of 2017, as rising inflation cut households' real incomes and business investment stagnated. Despite the slowdown it seems likely that the Bank of England will raise the base rate to 0.5% in order to support sterling and restrain import prices. We think that this will be a one-off increase and that the Bank will then leave interest rates on hold due to Brexit-related uncertainty and the absence of a wage-price spiral.

Falling consumer spending may impact retail real estate rents, already under pressure from rising online sales and the squeeze on retailers' margins due to the fall in sterling and the increase in the national living wage. Furthermore, certain sectors such as pound shops, restaurant chains and luxury retailers, which had been expanding, have reached saturation and are now starting to retrench. Despite these challenges new fashion brands continue to take space in large regional shopping centres and there is good demand for shops in tourist destinations (e.g. Bath, Chester, York) and affluent London suburbs. Our retail strategy is to focus on convenience retail and bulky goods retail parks which are relatively immune to the internet and where current yields at 6-7% are above the all property average.

In the office market, vacancy rose in the City of London and Docklands in the first half of 2017, but was stable, or fell slightly in the West End of London and major regional cities. The difference was mainly due to speculative development in the City and the release of second-hand space, as occupiers moved to new offices. In general, office take-up held up in the first half of 2017, reflecting good demand from professional service, tech and media firms and HMRC, which is consolidating into fewer, larger hubs. Paradoxically, one concern is the large amount of space which has recently been taken by serviced office providers, particularly in the City fringe and South Bank. While a growing number of companies will pay a premium rent for the flexibility of a daily or weekly contract, there is a real mismatch between those agreements and the long leases signed by serviced office providers themselves, which could leave some operators vulnerable in the event of a downturn.

The industrial market is the one sector which continues to see steady rental growth, running at 3-5% p.a. There is strong demand for industrial space from both traditional retailers, who are re-engineering their supply chains to service online orders, internet retailers and, associated with these requirements, from parcel companies. In addition, industrial rents are being supported by limited levels of new building and by the loss of space to housing

and other uses. The total amount of industrial space in London has fallen by 14% over the last decade and both the West Midlands and the North West have seen declines of 8-10% (source: ONS).

In the investment market, the all property initial yield has been flat at 5.1% since July 2016 (source: CBRE). In part this stability reflects strong demand from Chinese and German investors for trophy offices in London, attracted by the fall in UK prices in foreign currency terms. It also reflects good demand from a range of investors for regional offices and industrials. Conversely, yields on secondary retail assets have risen. However, the inertia of the all property initial yield also reflects two bigger market forces. First, the low level of bond yields means that real estate looks relatively attractive and 10-year gilt yields would probably have to rise to 2-2.5% before investors started to lose appetite. Second, the more cautious approach of banks to property lending since the financial crisis means that there are currently few forced sellers in the market.

Despite the current resilience of the UK real estate market we continue to adopt a defensive stance. Our main focus is on the industrial sector serving large population centres and offices in winning cities such as Bristol, Leeds and Manchester which have good demand and supply dynamics. We are cautious about parts of the Central London office market due to falling rents. We are also investing opportunistically in certain niche sectors and strategies (e.g. residential land, real estate debt) which should be less correlated with the main commercial markets.

# Continental European Property Market Summary

The eurozone economy is currently firing on all cylinders, driven by higher consumer spending, rising exports, increasing investment, falling unemployment and reduced political uncertainty. Schroders expects eurozone GDP to grow by 2.1% in 2017, its fastest rate in ten years and on a par with the US. The recent appreciation of the euro may cause a slowdown in 2018, assuming exports moderate, but it will also restrain inflation and mean that the European Central Bank (ECB) is unlikely to raise interest rates until 2019. Germany and the Nordics are likely to lead, while Italy will lag behind. France could surprise on the upside if President Macron is able to reform the supply side of the economy.

Office vacancy fell in most European cities in the first half of 2017 and prime office rents rose. The main driving force has been the growth in media, professional services and IT. Oxford Economics forecast that eurozone employment in these sectors will increase by 5%, or 750,000 people, over the three years to end-2020. In addition, while occupiers are still keen to economise on workstations, there is a growing appreciation of the contribution that offices can make towards attracting staff and boosting productivity. Many employers are therefore now looking to increase the amount of informal space for mobile working and meetings. We expect Amsterdam, Berlin, Munich, Oslo and Stockholm to see the fastest growth in average-grade office rents over the next three years, thanks to low vacancy and modest levels of new building. The Frankfurt office market is likely to gain from investment banks and other financial services relocating some of their operations from London, although Commerzbank and Deutsche Bank are currently shedding staff.

Retail rental growth has been weaker than in the office market, due to the changing dynamics of the retail environment and the shift from physical to online sales. As a result, we generally prefer grocery anchored schemes which are less vulnerable to the internet, although the food market is also evolving in response to social change. At the discount end, Aldi and Lidl continue to open new stores across Europe, while at the other end, organic food specialists such as Biocoop in France and Alnatura in Germany and Switzerland are also expanding, in part due to growing demand from wealthy pensioners. Furthermore, the shift away from the "big weekly shop" to more frequent "small basket" shopping means that groups like Ahold, Carrefour and Metro continue to re-configure their out-of-town hypermarkets and open smaller convenience supermarkets in town and city centres.

In the logistics sector, the increase in prime rents in the eurozone grew to 2-3% p.a. by mid-2017 (source: CBRE). This is due to a

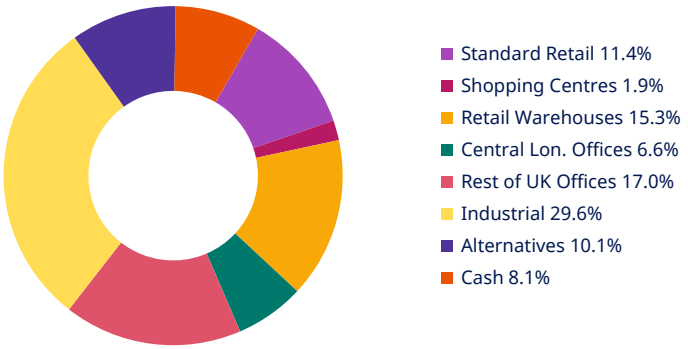
cyclical recovery in manufacturing and the growth in online retail, particularly in northern Europe. Each extra billion euros of online retail sales generates demand for around an additional 100,000 square metres of warehouse space. This also reflects the fact that online retailers require more space than traditional retailers, because they do not hold stock in stores and process a bigger volume of returned items. While the increase in demand has prompted more development, a lot of the big new warehouses are pre-let "build to suit" schemes and vacancy in most locations remains low.

In the investment market, the total value of transactions in continental Europe fell to €89 billion in the first half of 2017, 8% lower than in the first half of 2016 (source: RCA). However, most of the decline was due to a temporary pause in France ahead of the presidential elections in May and competition for prime assets is still intense with strong interest from domestic institutions, real estate investment trusts (REITs), real estate funds and international investors. In general we currently see better value in assets that have good bricks and mortar fundamentals, being well located for existing or new transport links (e.g. Grand Paris), located in mixed use areas, are let at affordable rents and have short unexpired leases. While government bond yields are likely to rise in the medium term, it is not inevitable that real estate yields will follow suit, given the near record gap in yields between the two and provided that the outlook for the eurozone economy remains favourable.

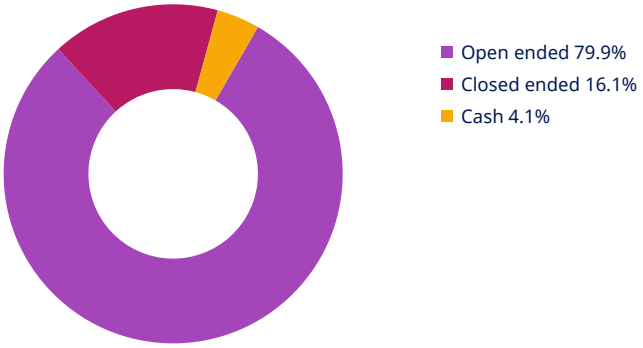
Assuming the eurozone economy continues to grow, we forecast total returns of 5-7% p.a. on average investment grade European real estate between end-2017 and end-2021. The main component will be an income return of 4.5%, while capital value growth will be generated by rental growth. Our strategy is to focus on certain major cities which have diverse economies, a large pool of skilled labour, good infrastructure and are attractive places to live. Examples include Amsterdam, Berlin, Hamburg, Frankfurt, Madrid, Munich, Paris, Stockholm and Stuttgart. We also like certain smaller university cities which share many of the same characteristics.

# Portfolio Analysis

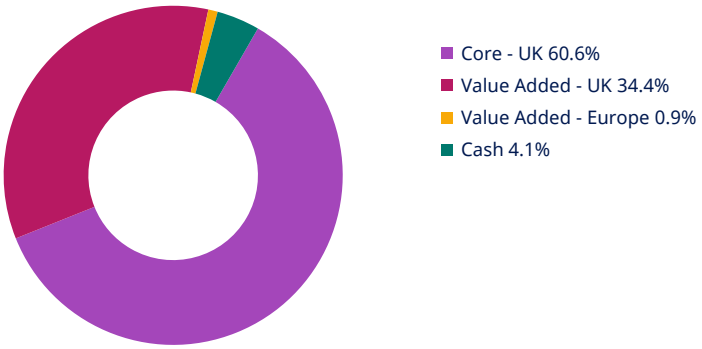
## UK Portfolio sector exposure (including cash held by underlying property funds)




## Open/closed-ended exposure




## Fund style exposure




Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 30 Sep 2017. Totals subject to rounding. Cash included looks through cash in underlying holdings in the top chart.

## Largest Stock Positions at 30 Sep 2017

| Largest Positions | Style | % of NAV |
|---|---|---|
| SCHRODER UK REAL ESTATE FUND | Core | 12.4 |
| MAYFAIR CAPITAL PROPERTY UNIT TRUST | Core | 11.7 |
| SCHRODER REAL ESTATE REAL INCOME FUND | Value-added | 8.9 |
| INDUSTRIAL PROPERTY INVESTMENT FUND | Value-added | 8.9 |
| METRO PROPERTY UNIT TRUST | Core | 8.6 |
| HERMES PROPERTY UNIT TRUST | Core | 8.4 |
| BLACKROCK UK PROPERTY FUND | Core | 8.3 |
| STANDARD LIFE POOLED PENSION PROPERTY FUND | Core | 6.7 |
| AVIVA INVESTORS PENSIONS PROPERTY FUND | Core | 4.5 |
| GBP CASH | CURR | 4.1 |

Full details of holdings can be found in the Appendix

# Performance Review

Performance is above benchmark over three months (+0.8%) and twelve months (+0.1%). Returns are marginally below benchmark over three years (-0.1%). Performance is weaker over the longer term, with returns below benchmark over five years (-0.4% per annum) and ten years (-0.8% per annum). Industrial holdings have been the strongest drivers of returns in recent periods. UK performance is above benchmark over three months, one year, three years and five years.

Returns were significantly above benchmark over the quarter (+0.8%), in part due to the reversal of the accounting anomaly related to the continental European holding referred to in the Q2 2017 report. Core funds made a neutral contribution to returns whilst value add funds (+0.3%) contributed positively to performance. Cash on account mildly diluted returns (-0.1%) although the holding in Schroder Real Estate Fund of Funds Continental European Fund I (CEF I) made a very strong +0.7% contribution.

As highlighted above CEF I was the strongest contributor over the quarter. Industrial Property Investment Fund (IPIF) also made a positive contribution, due to continued yield compression and rental growth in the industrial sector. Metro PUT, a balanced fund with a strong weighting to the industrial sector, was another strong contributor. Cash was the weakest contributor over Q3.

Performance was above benchmark over one year (+0.1%). Value add funds (+1.0%) have made a very strong contribution to returns. Core funds again made a neutral contribution, but cash (-0.4%) and continental Europe (-0.2%) have detracted from returns. Industrials and alternative sectors have again positively driven returns. After cash, central London offices, where we have been reducing exposure, has been the weakest sector.

IPIF was the strongest contributor over twelve months, followed by Schroder Real Estate Real Income Fund (RIF). West End of London PUT (WELPUT) was the weakest property fund contributor over one year.

Returns were marginally below benchmark over three years (-0.1% per annum). Cash (-0.3% per annum) and core funds (-0.1% per annum) have detracted from returns. Continental Europe (+0.1% per annum) and value add (+0.3% per annum) funds have contributed positively.

Cash and Aviva Investors Pensions Property Fund were the weakest holdings over a three year period. As well as IPIF, Hermes

PUT, Schroder UK Real Estate Fund and CEF I were also strong contributors.

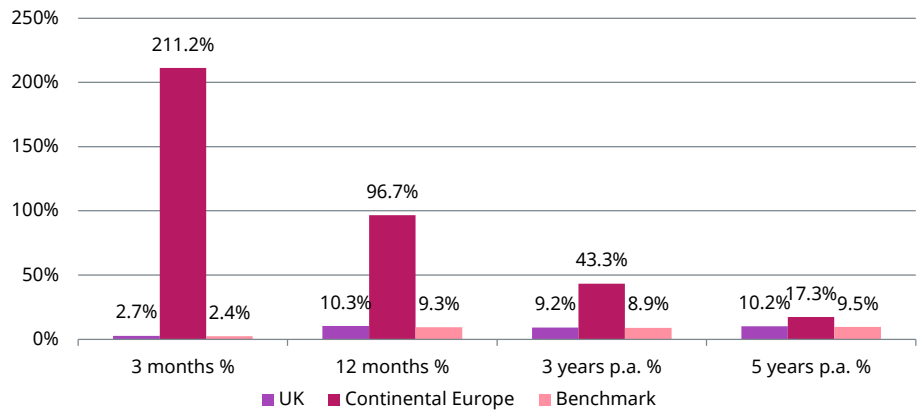
The mandate has underperformed the benchmark index over five years (-0.4% per annum). European holdings, a decreasing element of the portfolio, have diluted returns by -0.5% per annum. Value add funds (+0.6% per annum) have performed very strongly. Core funds have performed in-line with the benchmark, but cash (-0.3% per annum) has diluted returns.

IPIF is again the strongest contributor over five years. Hermes PUT and Schroder UK Real Estate Fund have also been notable performers. CEF I and cash have been the weakest contributors over the period.

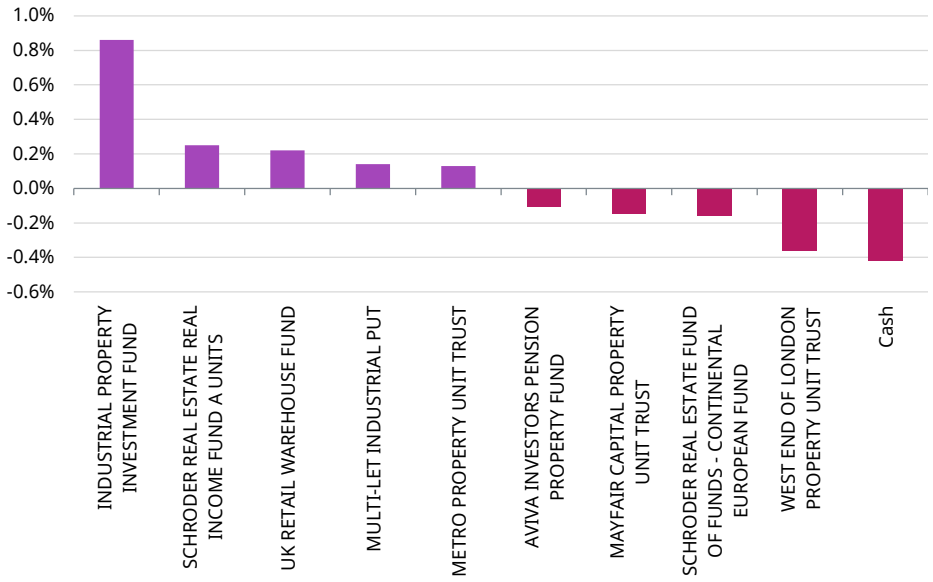
Performance is weaker over a ten year period, underperforming by -0.8% per annum. Core and value add funds have both made positive contributions (+0.2% per annum and +0.1% per annum respectively), whilst cash has tracked the benchmark. Opportunity funds and continental European holdings have detracted from performance by -0.5% and -0.3% per annum respectively over ten years.

UK holdings continue to consistently outperform, with returns above benchmark over three months (+0.3%), twelve months (+1.0%), three years (+0.3% per annum) and five years (+0.7% per annum).

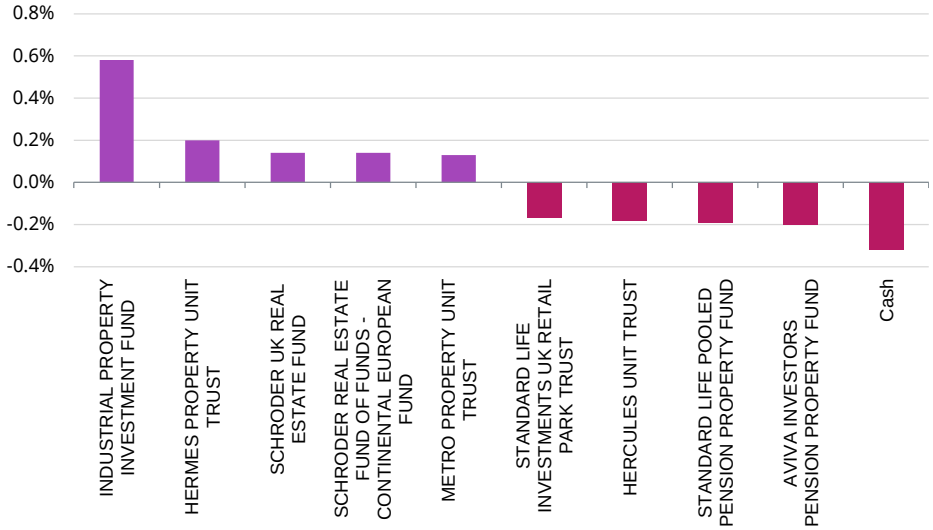
## Total return by region
## Periods to end 30 Sep 2017



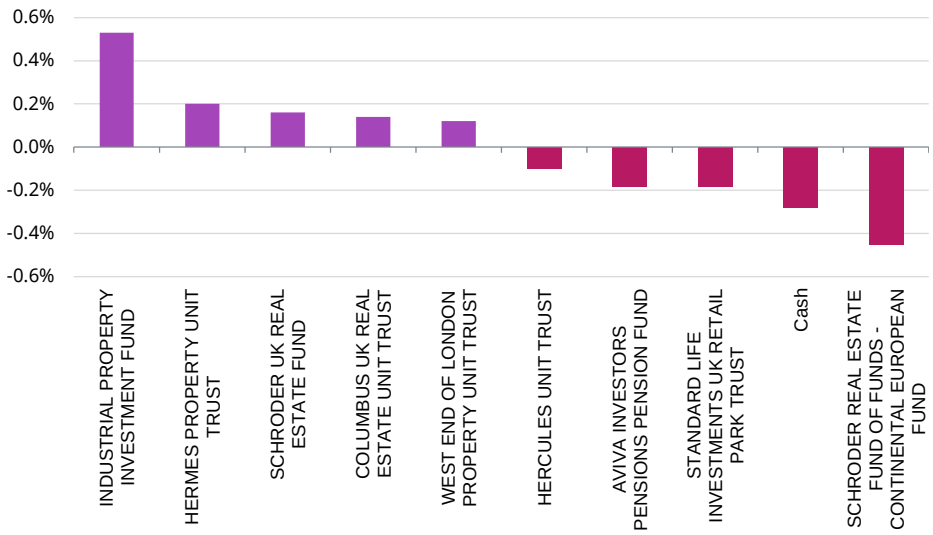

## Total return attribution relative to benchmark top & bottom five contributors
## 12 months to 30 Sep 2017




## Total return attribution relative to benchmark top & bottom five contributors
## 3 years to 30 Sep 2017



## Total return attribution relative to benchmark top & bottom five contributors
## 5 years to 30 Sep 2017




Benchmark is AREF/IPD UK Quarterly Property Fund Index All Balanced Funds Weighted Average.
Source: Schroders & AREF/IPD UK Quarterly Property Index.
Note: Stock and fund style attribution is presented gross of fees. Periods over 12 months are annualised. Totals may be subject to compounding.

# Portfolio Activity

There were circa £6.4 million of transactions over the reporting period. There were circa £4.5 million of sales / returns of capital and circa £1.9m of purchases over the quarter.

## Purchases

| Fund | Investment GBP | No. of units | Entry cost/(discount) (%) |
|---|---|---|---|
| MAYFAIR CAPITAL PROPERTY UNIT TRUST | 1,874,755 | 1,456.69 | 3.7 |

## Sales

| Fund | Disinvestment GBP | No. of units | Realised loss/gain GBP |
|---|---|---|---|
| AVIVA INVESTORS PENSIONS PROPERTY FUND | 575,616 | -39,467.57 | 189,509 |
| AVIVA INVESTORS PENSIONS PROPERTY FUND | 1,394,285 | -96,302.20 | 452,170 |
| BLACKROCK UK PROPERTY FUND | 814,041 | -19,130.00 | 71,311 |
| BLACKROCK UK PROPERTY FUND | 488,425 | -11,478.00 | 42,787 |
| COLUMBUS UK REAL ESTATE FUND | 72,473 | 0 | 72,473.42 |
| COLUMBUS UK REAL ESTATE FUND | 4,572 | 0 | 4,572 |
| SCHRODER REAL ESTATE FUND OF FUNDS - CONTINENTAL EUROPEAN FUND I | 1,138,405 | 0 | 58,725 |

## Stock Activity
## 3 months to 30 Sep 17

| Purchases |
|---|
| None |

| Sales | |
|---|---|
| Aviva Investors Pensions Property Fund | Redemptions were made to reduce exposure to this underperforming balanced fund. |
| BlackRock UK Property Fund | Two separate trades were undertaken, taking advantage of improved secondary market liquidity to reduce exposure to this balanced fund. |

| Return of capital | |
|---|---|
| Columbus UK Real Estate Fund | A further distribution was received during the quarter as the fund moves towards liquidation. |
| Schroder Real Estate Fund of Funds – Continental European Fund I | A capital distribution was received during the quarter reflecting net proceeds received from the sale of assets in underlying funds. |

| Drawdowns | |
|---|---|
| Mayfair Property Unit Trust | Commitments were called to fund the acquisition of a retail scheme in Peterborough, an office in Solihull and three industrial sheds. |

## Redemptions Outstanding

| Fund | Curr | Est. proceeds | No. of units | Date proceeds expected | Notice date |
|---|---|---|---|---|---|
| Aviva Investors Pensions Property Fund | GBP | 406,100 | 27,223.27 | Q4 2017 | Q3 2017 |

## Portfolio Commitments

| Fund | Curr | Initial commitment | Drawn | Balance | Latest possible drawdown |
|---|---|---|---|---|---|
| Regional Property Unit Trust | GBP | 8,895,000 | 5,345,990 | 3,549,010 | Q1 2018 |

# Strategy

Portfolio sector structure is contributing positively to performance, in particular the overweight position to industrials and the underweight position to central London offices. Our former specialist holding in central London offices has underperformed the benchmark index by 9.4% over the past twelve months.

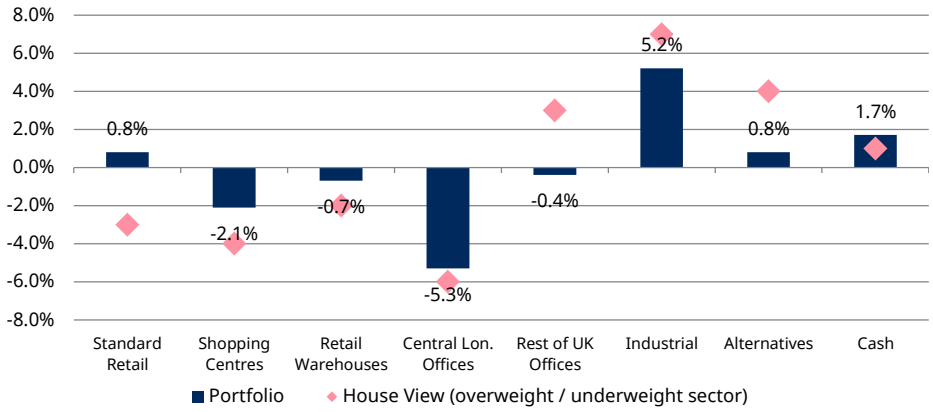
We are looking to increase exposure to regional offices and have made a further £2.5 million commitment to Regional Office PUT (ROPUT).

Income is expected to be the main driver of performance in the next phase of the property cycle. As such we favour sectors and investments that generate higher than average income distributions and look to avoid the lower yielding parts of the market.

We continue to progress the underwriting of a first investment into real estate debt. Our preferred strategy is expected to provide attractive risk adjusted returns compared to UK property over the next five years.

Net of commitments to ROPUT there is circa £2.4 million of cash on account, representing 1.7% of portfolio value. We intend to invest surplus cash into real estate debt, subject to client consent to amend the Investment Management Agreement (IMA) to permit this new strategy.

## UK portfolio sector weightings relative to benchmark




Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 30 Sep 2017

# Governance

| Investment | Date | Voting Recommendation |
|---|---|---|
| Resolution | | |
| Hercules Unit Trust | 22 Sep 2017 | Against |
| 1. Fund extension from 22 September 2020 up to and including 22 September 2030, and relevent trust instrument amendments. 2. Manager fee amendment and other costs; (i) increase the manager's fee cap from £210,000 to £350,000, increasing annually in line with UK CPI from 01 January 2019 (upwards only, increases capped at 4%) (ii) the trust fund to pay the manager costs incurred in maintaining professional indemnity insurance cover (in relation to its duties as manager of the fund) (iii) a one-off fee of £25,000 to cover all works carried out by the manager in connection with and relating to the extension of the Trust Term | | |

# Appendix

## Investment Restrictions

| Parameters | Restriction | Current status |
|---|---|---|
| Max. exposure to any common investment fund (CIS) | 30% | 12.4% |
| Max. in Schroder in-house funds (Manager & Adviser) | 60% | 16.9% |
| Min. exposure to open-ended funds | 45% | 83.9% |
| Max. exposure to opportunity funds | 20% | 0.0% |
| Max. exposure to property index certificates | 20% | 0.0% |
| Max. exposure to listed property securities | 10% | 0.0% |
| Max. exposure to Continental Europe | 20% | 0.9% |

Source: Schroders, to 30 September 2017.

Notes:

Valuation data represents value calculated as at the final business day of the quarter to which this Investment Report relates. Pricing occurs 10 days following quarter end. Accordingly, the above noted column entitled "current status" refers to the quarter end valuation data.

The Investment Management Agreement (as amended from time to time) constitutes the final record of applicable investment restrictions incumbent on Schroder Real Estate Investment Management Limited. In the event of any inconsistency between the Investment Restrictions appearing in this Investment Report and the Investment Management Agreement, the Investment Management Agreement shall prevail.

# Appendix

## Portfolio Valuation

## MID and NAV values

| Fund | Description | Value at 30 Jun 2017 GBP | Value at 30 Sep 2017 GBP | Portfolio Value % |
|---|---|---|---|---|
| AVIVA INVESTORS PENSIONS | Core | 8,466,526 | 6,624,664 | 4.5 |
| BLACKROCK UK PROPERTY FUND | Core | 13,329,509 | 12,200,631 | 8.3 |
| HERMES PROPERTY UNIT TRUST | Core | 12,263,035 | 12,466,040 | 8.4 |
| MAYFAIR CAPITAL PROPERTY UNIT TRUST | Core | 15,284,507 | 17,313,271 | 11.7 |
| METRO PROPERTY UNIT TRUST | Core | 12,351,329 | 12,718,587 | 8.6 |
| SCHRODER UK REAL ESTATE FUND | Core | 18,116,102 | 18,371,315 | 12.4 |
| STANDARD LIFE POOLED PENSION PROPERTY FUND | Core | 9,689,493 | 9,909,594 | 6.7 |
| **Sub total Core** | | **89,500,499** | **89,604,103** | **60.6** |
| | | | | |
| COLUMBUS UK REAL ESTATE UNIT TRUST | Value Add | 37,984 | 0 | 0.0 |
| HERCULES UNIT TRUST | Value Add | 4,854,849 | 4,883,365 | 3.3 |
| INDUSTRIAL PROPERTY INVESTMENT FUND | Value Add | 12,540,291 | 13,083,697 | 8.8 |
| LOCAL RETAIL FUND | Value Add | 4,554,668 | 4,565,923 | 3.1 |
| MULTI-LET INDUSTRIAL PUT | Value Add | 5,446,589 | 5,537,003 | 3.7 |
| REGIONAL OFFICE PROPERTY UNIT TRUST | Value Add | 5,235,712 | 5,304,652 | 3.6 |
| SCHRODER REAL ESTATE REAL INCOME FUND | Value Add | 12,907,266 | 13,093,143 | 8.9 |
| UK RETAIL WAREHOUSE FUND | Value Add | 4,422,372 | 4,443,538 | 3.0 |
| **Sub total Value Add** | | **49,999,731** | **50,911,320** | **34.4** |
| | | | | |
| SCHRODER REAL ESTATE FUND OF FUNDS CONTINENTAL EUROPEAN FUND I | Europe | 1,524,249 | 1,346,534 | 0.9 |
| **Sub total Europe** | | **1,524,249** | **1,346,534** | **0.9** |
| | | | | |
| EUR CASH | Cash | 34 | 34 | 0.0 |
| GBP CASH | Cash | 2,204,488 | 5,997,799 | 4.1 |
| **Sub total Cash** | | **2,204,522** | **5,997,832** | **4.1** |
| | | | | |
| **Total** | | **143,229,002** | **147,859,788** | **100.0** |

Totals may be subject to rounding

Portfolio valuations are calculated on the basis that units in open-ended funds are valued at their mid price and closed-ended funds at their NAV price.

Source: Schroders, periods to 30 September 2017.

The exchange rate as at 30 September 2017 was £1 to €1.13488.

# Appendix

## Fire Safety Review

Following the Grenfell Tower tragedy on 14 June 2017, we contacted managers of all our major holdings to ensure they had reviewed their fire safety arrangements. We asked each manager to complete a questionnaire which we would then review and provide feedback on if necessary.

We enquired into the procedures and policies of each manager, their incident plans and asked detailed about their management of buildings from a fire safety perspective.

In several cases we had to go back to managers for additional information or explanation about their fire safety practices.

All responses were graded on a three point scale: 'Green' for full compliance; 'Amber' for part (or uncertain) compliance; and 'Red' for fail. We are pleased to report that the majority of responses were graded 'Green' and that we received no 'Red' responses. We followed-up on a number of 'Amber' responses and found no cause for concern (typically an 'Amber' score was given where the manager had not carried-out additional checks outside of their usual rigorous protocol).

Overall our findings suggest that our managers operate robust fire safety procedures. All managers reviewed their procedures in light of the Grenfell Tower tragedy and although some made minor improvements to their management of buildings, the majority demonstrated excellent fire safety building management.

# Appendix

## Partnership Fund Acquisitions

| | |
|---|---|
| **Fund** | Local Retail Fund |
| **Sector** | Convenience retail |
| **Address** | Park Central, Duke Street, Chelmsford |
| **Price** | £4,250,000 |
| **Principal Tenant(s)** | Tesco, Max 99p, First Essex Buses, Anytime Fitness |

| | |
|---|---|
| **Fund** | Mayfair Capital Property Unit Trust |
| **Sector** | Industrial |
| **Address** | Unit 1, Country Oak Industrial Estate, Crawley |
| **Price** | £4,350,000 |
| **Principal Tenant(s)** | Wickes |

| | |
|---|---|
| **Fund** | Mayfair Capital Property Unit Trust |
| **Sector** | Industrial |
| **Address** | Unit 2, Country Oak Industrial Estate, Crawley |
| **Price** | £7,050,000 |
| **Principal Tenant(s)** | Yodel |

| | |
|---|---|
| **Fund** | Mayfair Capital Property Unit Trust |
| **Sector** | Industrial |
| **Address** | Eurolink Business Park, Sittingbourne |
| **Price** | £3,900,000 |
| **Principal Tenant(s)** | Powakaddy International |

| | |
|---|---|
| **Fund** | Mayfair Capital Property Unit Trust |
| **Sector** | Retail Warehouse |
| **Address** | Units 1-4 Pavillions West, Peterborough |
| **Price** | £7,100,000 |
| **Principal Tenant(s)** | Bella Italia, Chiquito, Harvester |

| | |
|---|---|
| **Fund** | Mayfair Capital Property Unit Trust |
| **Sector** | Regional Office |
| **Address** | T3 Trinity Park, Solihull |
| **Price** | £10,750,000 |
| **Principal Tenant(s)** | CGI IT UK Ltd |

| | |
|---|---|
| **Fund** | Metro Property Unit Trust |
| **Sector** | Standard Retail |
| **Address** | 2-8 Foregate Street, Chester |
| **Price** | £8,400,000 |
| **Principal Tenant(s)** | Lloyds Bank PLC |

| | |
|---|---|
| **Fund** | Multi-Let Industrial Property Unit Trust |
| **Sector** | Industrial |
| **Address** | Stag Industrial Estate, Altrincham |
| **Price** | £7,525,000 |
| **Principal Tenant(s)** | Keytech Presentation Services, City Plumbing Supplies |

| | |
|---|---|
| **Fund** | Regional Office Property Unit Trust |
| **Sector** | Regional Office |
| **Address** | 1 East Parade & 8 Paul's Street, Leeds |
| **Price** | £12,700,000 |
| **Principal Tenant(s)** | Zurich Insurance PLC, Appleyard Lees IP LLP |

**Notes**

Responsible Investment: Schroders Socially Responsible Investment and Corporate Governance policies can be found on our website http://www.schroders.com/global/about-schroders/corporate-responsibility/responsible-investment/. We also publish regular articles on Socially Responsible Investing, which can be found on Schroders Talking Point www.schroders.com/talkingpoint.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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