Non-Executive Report of the: **Pensions Committee** 21 September 2017	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Investment Performance Review for Quarter Ending 30th June 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 first quarter of 2017/18.

The Fund delivered a positive return of 1.5% for the quarter, outperforming its benchmark return of 0.9% by 0.6%. For the twelve months to June 2017, the Fund returned 17% outperforming the benchmark of 14.5%. Looking at the longer term performance, the three year return for the Fund was 9.9% which matched the benchmark return of 9.9% for that period. Over the five years, the Fund posted a return of 10.9% slightly outperforming the benchmark return of 10.5% by 0.4%.

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, Schroder, 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 2.5%. One out of the eight mandates underperformed its benchmark. This was the mandate with Schroders which posted a return that lagged behind its benchmark by 0.4%.

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 June 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 (3.5% p.a. above the UK base rate) 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. The market value of assets as at 30 June 2017 was £63.255m. This portfolio is now named ***LCIV (BG) DGF.***

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. The market value of the assets as of 30 June 2017 was £294.146m. The portfolio is now named ***LCIV (BG) GA.***

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. The value of assets under management as of 30th June 2017 was £61.557m. The performance target for this mandate is to outperform the benchmark (3.5% p.a. above the UK base rate) net of fees over rolling 5 years with annual volatility of less than 10%. The portfolio is now named ***LCIV Ruffer.***

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. The portfolio had a market value of £277.952m at 30 June 2017.

The performance target is to outperform a balanced global equity benchmark by 1.5% per annum net of fees over a rolling three year period; this was changed September 2014 to outperform MSCI AC World Index benchmark by 1.5% per annum net of fees over a rolling three year period.

Goldman Sachs Asset Management

On 4th April 2016, the fund invested £75m in Goldman Sachs Strategic Absolute Return Bond II (STRAT II). The portfolio had a market value of £77.761m at 30th June 2017. 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.

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 £71.422m at 30th June 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.

Legal & General Investment Management

Legal & General was appointed on 2nd August 2010 to manage passively UK Equity and UK Index-Linked Mandates. At 30th June 2017, the UK Equity portfolio had a market value of £270.087m, and the UK Index linked portfolio was £72.222m.

The performance target is to track the FTSE All Share index for the UK Equity mandate and FTSE A Gov Index-Linked > 5 years benchmark for the UK Index-Linked Mandates.

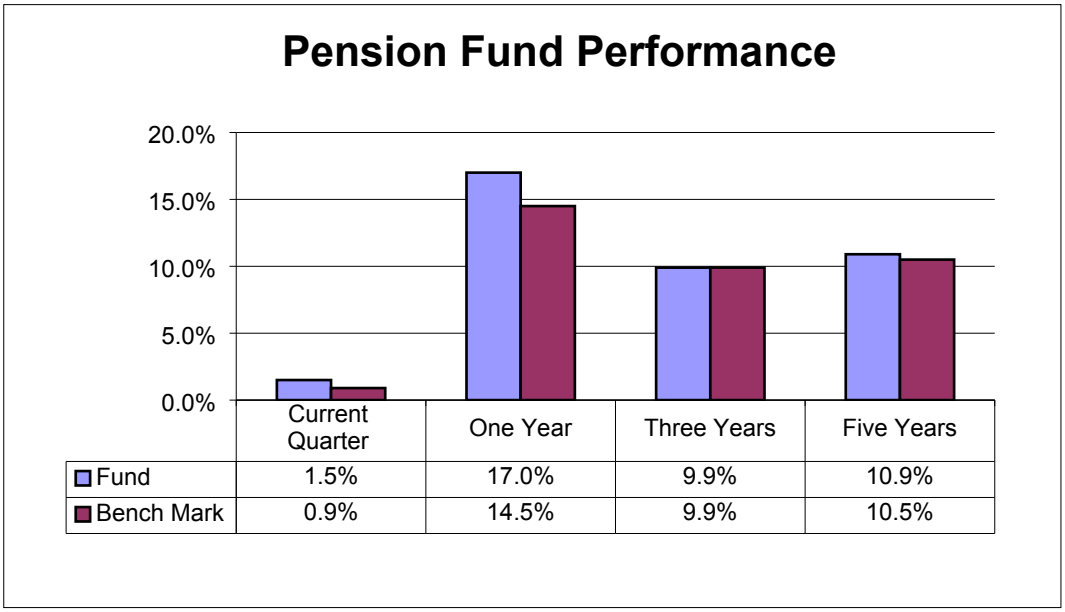
Schroder's Investment Management

Schroder manages a property mandate. The value of this mandate on 20th September 2004 was £90m. The market value of assets at 30th June 2017 was £143.229m. 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.

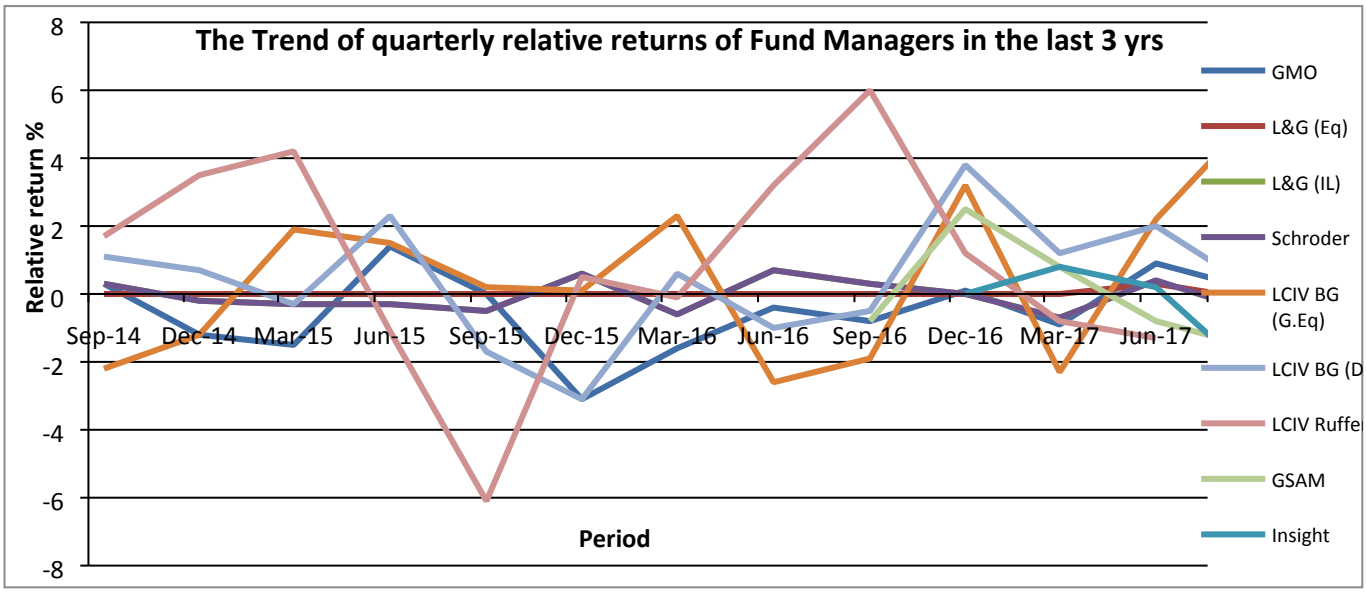
INVESTMENT PERFORMANCE

3.5. The overall value of the Fund at 30th June 2017 stood at £1,399.145m which is an increase of £19.962m from its value of £1,379.183m as at 31st March 2017.

3.6. The fund outperformed the benchmark this quarter by 0.6% with a return of 1.5% compared to its benchmark return of 0.9%. The twelve month period sees the fund ahead of its benchmark by 2.5%, as shown on the graph below.



3.7. 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.



MANAGER PERFORMANCES

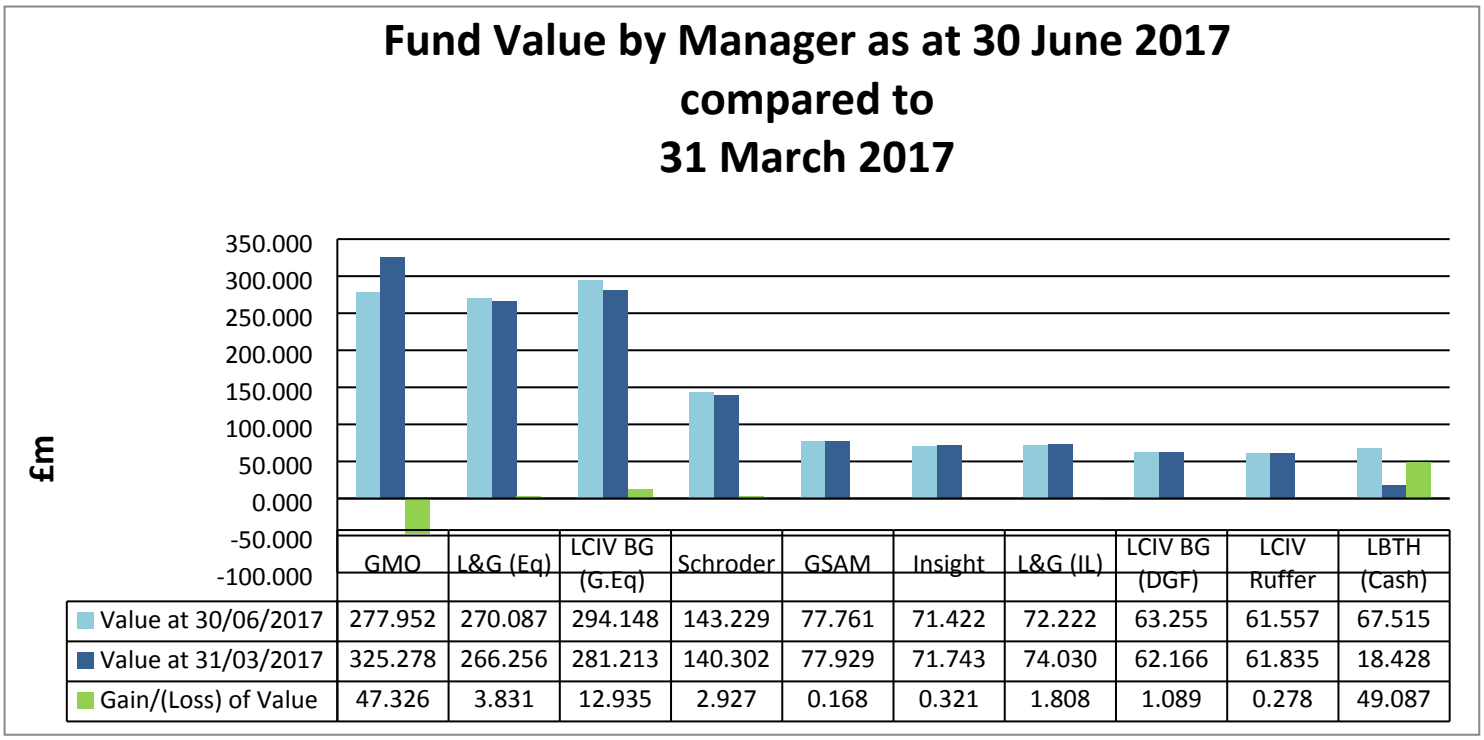
3.8. The Fund is managed on a specialist basis with GMO and LCIV (BG GE) managing the Global Equities on an active basis; UK Equities and UK Index-Linked are passively managed by LGIM; GSAM and Insight managing absolute return pooled bond funds and Schroders are the property manager.

3.9. The managers, mandate and funds held under management are set out below. The Fund was valued at £1,399.145 million as at 30th June 2017. This includes cash held and being managed internally (LBTH Treasury Management), this stands at 4.83% of the total assets value. This constitutes £50m redeemed from GMO portfolio in May 2017 and £17.5m working capital of the Fund.

Manager	Mandate	Value at 30th June 2017 £m	Strategic Weight of FM AUM*	Actual Weight of FM AUM	(Under)/ Over Weight Target	Date Appointed
GMO	Global Equity	277.952	22.00%	19.87%	-2.13%	29-Apr-05
LCIV BG (Global Equity)	Global Equity	294.146	18.00%	21.02%	3.02%	05-Jul-07 22 Apr 2016**
L & G UK Equity	UK Equity	270.087	20.00%	19.30%	-0.70%	02-Aug-10
LCIV BG (Diversified Growth)	Absolute Return	63.255	5.00%	4.52%	-0.48%	22-Feb-11 15 Feb 2016**
LCIV Ruffer (Total Return Fund)	Absolute Return	61.557	5.00%	4.40%	-0.60%	08-Mar-11 15 Jun 2016**
L & G Index Linked-Gilts	UK Index Linked	72.222	6.00%	5.16%	-0.84%	02-Aug-10
GSAM	Bonds	77.761	6.00%	5.56%	-0.44%	04-Apr-16
Insights	Bonds	71.422	6.00%	5.10%	-0.90%	01-Jul-16
Schroder	Property	143.229	12.00%	10.24%	-1.76%	30-Sep-04
Internal cash Management	Cash	67.515	0.00%	4.83%	4.83%	N/A
Total		**1,399.146**	**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.



	GMO	L&G (Eq)	LCIV BG (G.Eq)	Schroder	GSAM	Insight	L&G (IL)	LCIV BG (DGF)	LCIV Ruffer	LBTH (Cash)
Value at 30/06/2017	277.952	270.087	294.148	143.229	77.761	71.422	72.222	63.255	61.557	67.515
Value at 31/03/2017	325.278	266.256	281.213	140.302	77.929	71.743	74.030	62.166	61.835	18.428
Gain/(Loss) of Value	47.326	3.831	12.935	2.927	0.168	0.321	1.808	1.089	0.278	49.087

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

		GMO Global Equity	LCIV BG Global Equity	L&G UK 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	0.8	4.6	1.4	2.1	(0.2)	(0.4)	(2.4)	1.8	(0.4)	0.1	1.5
	Benchmark	0.4	0.4	1.4	2.3	1.1	1.1	(2.4)	0.9	0.8	0.1	0.9
	Relative	**0.4**	**4.2**	**0.0**	**(0.2)**	**(1.3)**	**(1.5)**	**0.0**	**0.9**	**(1.2)**	**0.0**	**0.6**
12 month %	Fund	22.8	31.0	18.5	5.4	4.9	N/A	7.1	11.7	8.6	1.3	17.0
	Benchmark	22.2	22.2	18.1	6.0	4.4	N/A	7.1	3.8	3.4	0.3	14.5
	Relative	**0.6**	**8.8**	**0.4**	**(0.6)**	**0.5**	**N/A**	**0.0**	**7.9**	**5.2**	**1.0**	**2.5**
3 years (% p.a.)	Fund	11.4	18.2	7.5	9.1	N/A	N/A	13.2	5.5	6.5	1.0	9.9
	Benchmark	14.2	14.9	7.4	9.5	N/A	N/A	13.2	3.9	3.5	0.3	9.9
	Relative	**(2.8)**	**3.3**	**0.1**	**(0.4)**	**N/A**	**N/A**	**0.0**	**1.6**	**3.0**	**0.7**	**0.0**
5 years (% p.a.)	Fund	14.1	18.3	10.7	8.5	N/A	N/A	9.2	6.0	6.6	1.0	10.9
	Benchmark	15.1	14.8	10.8	8.9	N/A	N/A	9.2	3.9	3.5	0.4	10.5
	Relative	**(1.0)**	**3.5**	**(0.1)**	**(0.4)**	**N/A**	**N/A**	**0.0**	**2.1**	**3.1**	**0.6**	**0.4**

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. The cash balance as at 30th June 2017, was £67.515m and this is made up of £50m redeemed from GMO portfolio in May 2017 as part of the de-risking strategy, crystallising strong performance global equity gains and £17.5m which is the working capital of the Fund. Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security and liquidity of the Fund's cash remains the overriding priority, ahead of yield.

3.15. Following the termination of the GMO mandate, the Emerging Market pooled fund was redeemed and the proceeds of some £75m were transferred to the pension fund Natwest bank account in order to fund the diversified growth funds (DGF) with LCIV. On 23rd August 2017, a total amount of £140m was transferred to LCIV to increase the Fund allocation from 5% to 10% for each LCIV (BG) DGF portfolio and LCIV (Ruffer) TF.

ASSET ALLOCATION

3.16. The revised benchmark of asset distribution and the fund position at 30th June 2017 are set out below:

Asset Class	Benchmark	Revised Benchmark agreed 16th March 2017	Fund Position as at 30th June 2017	Variance as at 30th June 2017
UK Equities	20.0%	20.0%	19.3%	(0.7)%
Global Equities	40.0%	40.0%	41.0%	1.0%
Total Equities	**60.0%**	**60.0%**	**60.3%**	**0.3%**
Property	12.0%	12.0%	10.2%	(1.8)%
Bonds	15.0%	12.0%	10.6%	(1.2)%
UK Index Linked	3.0%	6.0%	5.2%	(0.8)%
Alternatives	10.0%	10.0%	9.0%	(1.0)%
Cash	0.0%	0.0%	4.8%	4.8%
Total Equities	**100.0%**	**100.0%**	**100.0%**	

3.17. The original allocation of investments between the different asset classes was determined in conjunction with the Council's professional advisors in 2004 and is subject to periodic review by the Pensions Committee. The latest review was carried out in January 2014 and the strategic weightings in respect of index-linked gilts and corporate bonds were revised at Pension Committee meeting on 16th March 2017.

3.18. An Investment Strategy Review is currently taking place, the draft outcome was discussed with the Committee at its last meeting, and it is envisaged that final approved outcome will affect the Fund's Strategic Asset Allocation.

3.19. 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.

3.20. 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 report fulfils the requirement to report performance of the Pension Fund investments portfolio to the Pension Committee and recommends a change in the asset distribution of the fund to reflect the changes in the market. These changes are line with the investment strategy for the fund.

5. LEGAL COMMENTS

5.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to 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.

Linked Reports, Appendices and Background Documents

Linked Report

- [None]

Appendices

- Appendix 1 – Briefing notes on Managers Performance over the Quarter
- Appendix 2 – SSGS Quarterly Performance Review

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
Investment Managers Quarterly reports: (Insight, GSAM, GMO, Schroder, LCIV (Baillie Gifford Global Equity and DGF), LGIM and LCIV (Ruffer)) and SSGS Quarterly Performance Review. (To be email if required)

Officer contact details for documents:

- Bola Tobun Investment &Treasury Manager x4733

Appendix 1
Briefing notes on Managers Performance over the Quarter

1. GMO

1.1. The portfolio posted a return of 0.8% over the reporting quarter this was ahead of the benchmark by 0.4%.

1.2. Considering MSCI ACWI, for the second quarter in a row, Energy was the only sector with a implicitly negative return (posting -4.9%), although Telecommunications also finished slightly on the wrong side of flat (-0.3%). Healthcare and Information Technology were the two best performing sectors, again similarly to the first quarter, returning 6.9% and 6.6%, respectively.

1.3. The manager positioning in emerging markets emphasizes undervalued stocks identified within attractively valued countries/sectors. In the second quarter of 2017, significant overweight positions relative to the benchmark included, for example, Information Technology in Taiwan, Telecommunication Services in Russia and China, Consumer Discretionary in Korea, and a large spread of Financials (Taiwan, Korea, Turkey, India, and China). The largest underweight position was Information Technology in China.

1.4. The positioning in Emerging markets accounted for 23.0% of the total portfolio weight, on average, during the quarter. The overweight emerging markets position resulted in a positive allocation impact as it slightly beat the MSCI All Country World Index return in the second quarter. The portfolio underperformed the MSCI Emerging Markets Index, however it was a challenging quarter for the value approach and, given that the manager has a strong bias to value within the asset class, the was encouraged to be considerably ahead of the MSCI Emerging Market Value Index.

1.5. In the financial year ending 30 June 2017 the portfolio posted a return of 22.8% slightly ahead the benchmark return of 22.2% by 0.6%. The portfolio performance returns over the longer periods are not encouraging. The portfolio return lagged behind the benchmark by -2.8% for over three years and lagged behind the benchmark by -1.0% for over five years.

2. LCIV (Baillie Gifford) Global Equities

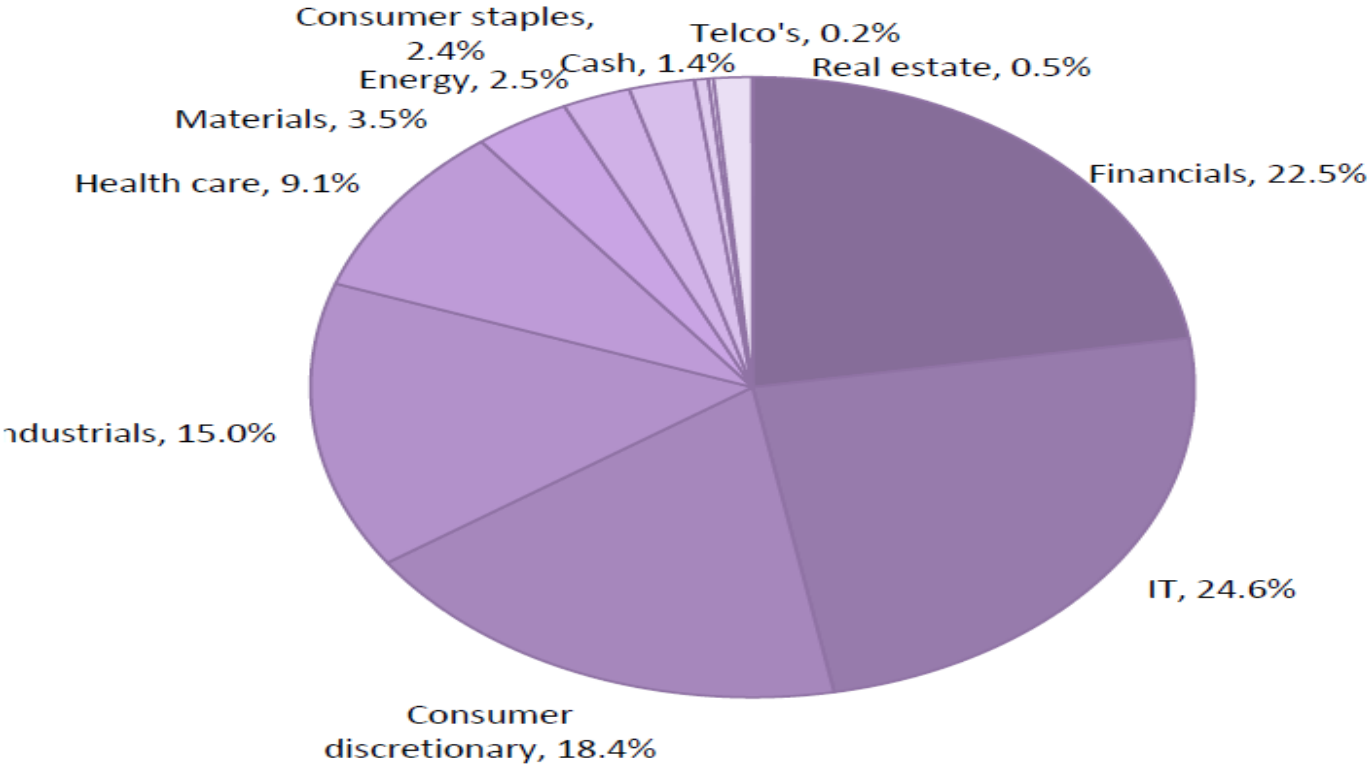
2.1. The portfolio posted a positive return of 4.60%, outperforming the benchmark by 4.2%. The equity market rose even as wider asset markets remained relatively calm, following the volatility in the previous quarter.

2.2. Strong selection effect (especially in the technology and consumer discretionary sectors) helped the fund to continue its good performance throughout the first half of the year (now 12.56% since 31/12/2016.)

2.3. After relatively few changes to the portfolio in the first quarter, the manager took the opportunity to make a number of new purchases and additions as well as taking some profit from both Amazon and First Republic Bank.

2.4. The strongest contributors to return were Ryanair (+0.4%) and Alibaba (+0.4%) which between them make up 3.5% of the total portfolio. Detractors included Seattle Genetics (-0.2%) which announced that it had decided to discontinue a

late stage trial of one of its new drugs. BG retains their confidence in the expansion of the current patient base of its existing treatment however.



2.5. As shown in the chart above, the portfolio remains tilted towards IT and Financials, with neither likely to change as the two highest proportions of the portfolio in the near future.

2.6. The fund's increased holding in Alibaba now brings it into the top ten positions in the portfolio. Queries were raised with the manager about social and governance concerns that are inherent in investing in China.

2.7. The manager agreed that there are a number of issues prevalent at the moment (the treatment of minority shareholders by management at Alibaba being one of them) but that there is nothing within the culture of the company that would suggest its extremely strong fundamentals should be ignored (the manipulation and use of data in such areas as AliPay potentially opening up new avenues of revenue to the company.)

2.8. The fine levied on Alphabet by the EU Commission was raised by the LCIV CIO as an example of the increasing scrutiny and power that is being more openly wielded by authorities across the developed world and may well be most concerning when investors are looking at how companies pay their taxes.

2.9. The BG team acknowledged the potential contingent liabilities that multinationals may suffer once domicile and tax arrangements finally come to the fore, may well hurt investors and that they continue to encourage companies to look very carefully at whether they could (and should) be paying more tax in certain jurisdictions.

3. **LCIV (Baillie Gifford) Diversified Growth Fund**

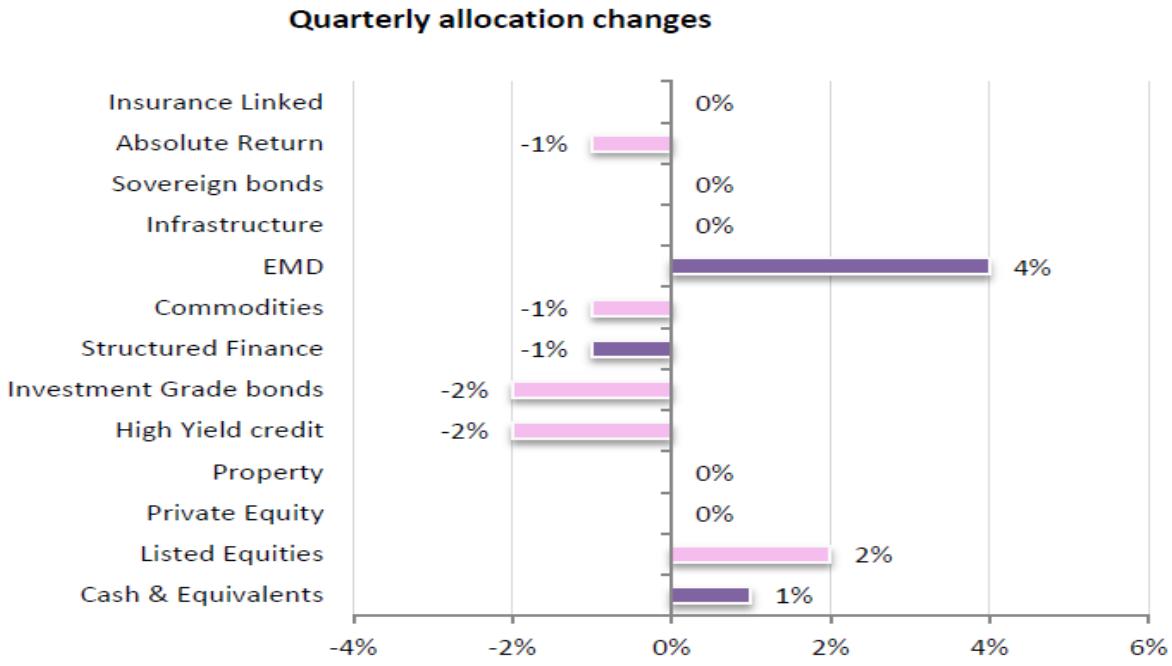
3.1. The fund delivered a 1.8% return against a benchmark return of 0.9%. Risk assets continued to trend higher with equity markets reaching new highs. The

fund also benefitted from solid returns in investment grade, high yield, emerging market and government bonds, private equity, property and hedge funds. The only loss making asset class was commodities. This was driven from a holding in platinum which has since been exited.

3.2. A strong outperformance for 12 months to June 2017 with return of 11.7% compared with benchmark return of 3.8%. The portfolio outperformed the benchmark by posting a return of 5.5% per annum over three years, which is over the benchmark return by 1.6% per annum and also ahead the benchmark return by 2.1% per annum for over five years period.

3.3. The Baillie Gifford ('BG') team have become slightly more risk-on in Q2 of 2017. The main asset allocation move is out of traditional investment grade and high yield bonds and into emerging market debt although they have also increased allocations to equity. The team retain a 10% allocation to cash which has been around their average liquid holding over the past 3 years for opportunistic investing.

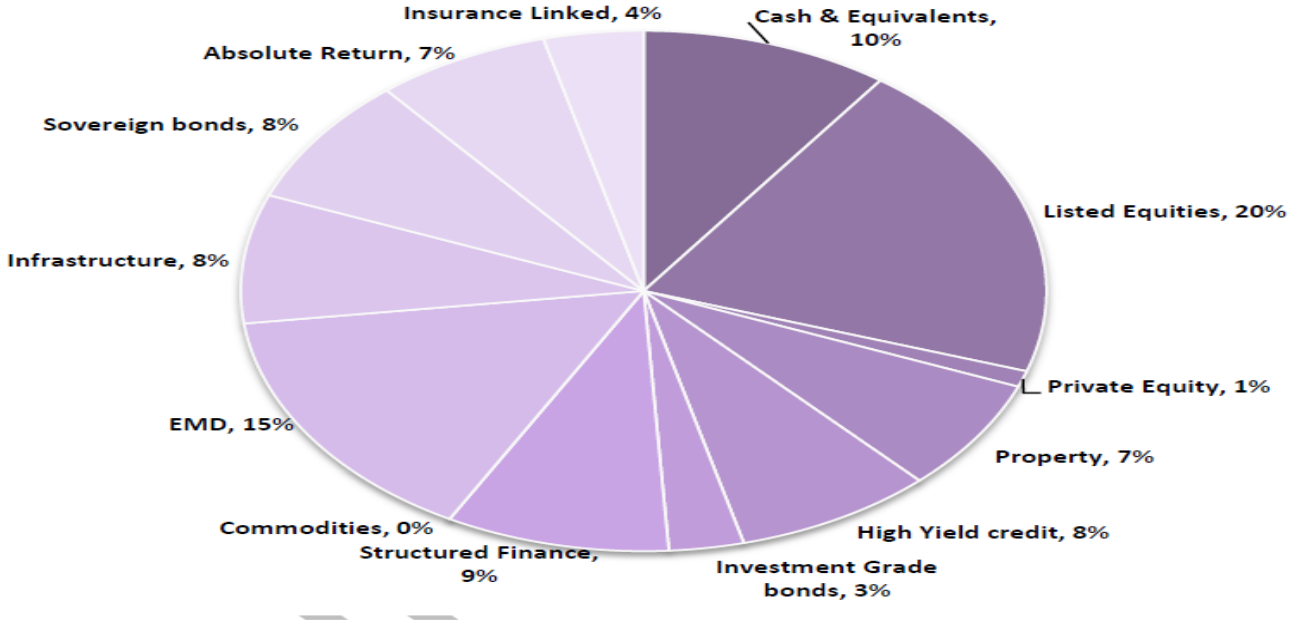
3.4. As shown in below chart, BG became more optimistic during Q2 subsequently moving into more risk-on assets including emerging market bonds. The team believes that the attractive yields are supportive of a returning growth environment. Whilst LCIV agree that this is optimism is supported by the structural reforms sweeping governments and central banks in EM nations that the growth underpinning this is still vulnerable particularly in commodity driven economies. BM is particularly supportive EM debt in Argentina, India and Indonesia and has topped up allocations to these geographies above and beyond the limitations of their internally managed EM Bond Fund holding within the fund. In line with this risk-on view the BG team have also switched out of hard currency EM debt preferring the higher risk local currency debt believing that the latter offer more attractive return prospects.



3.5. **Listed equities:** The team increased equity allocations by 2% over the quarter as part of their risk-on move into growth assets. BG discussed that US equity exposure was fully hedged given their view that the US dollar was currently overvalued but they

discussed that they were more optimistic on European equities after the French elections and that they believed that EU stock valuations looked reasonable.

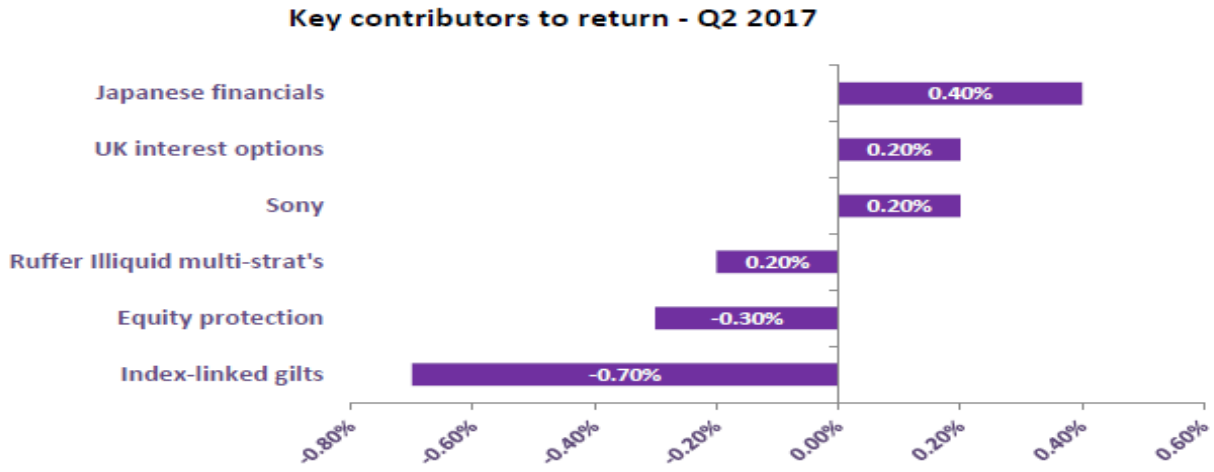
3.6. The fund invests in a diversified range of asset classes and the breakdown is shown below:



4. Ruffer Total Return Fund (Absolute Return)

4.1 The Absolute Return fund produced a -0.45% loss in the second quarter, following the flat performance in the first quarter of the year. Less dovish central bank rhetoric, resulting in the increasing probability of developed market monetary tightening, unsettled bond markets and hurt the inflation linked holdings in the Absolute return portfolio.

4.2 Ruffer added Vivendi to take advantage of the potential emerging power shift back towards music production at the expense of distributors. The overarching macroeconomic views of the team have not changed but a growing confidence in a new era for fiscal policy is more evident. The strategy is designed to offset a variety of risks over different time periods whilst taking advantage of opportunities as they arise.

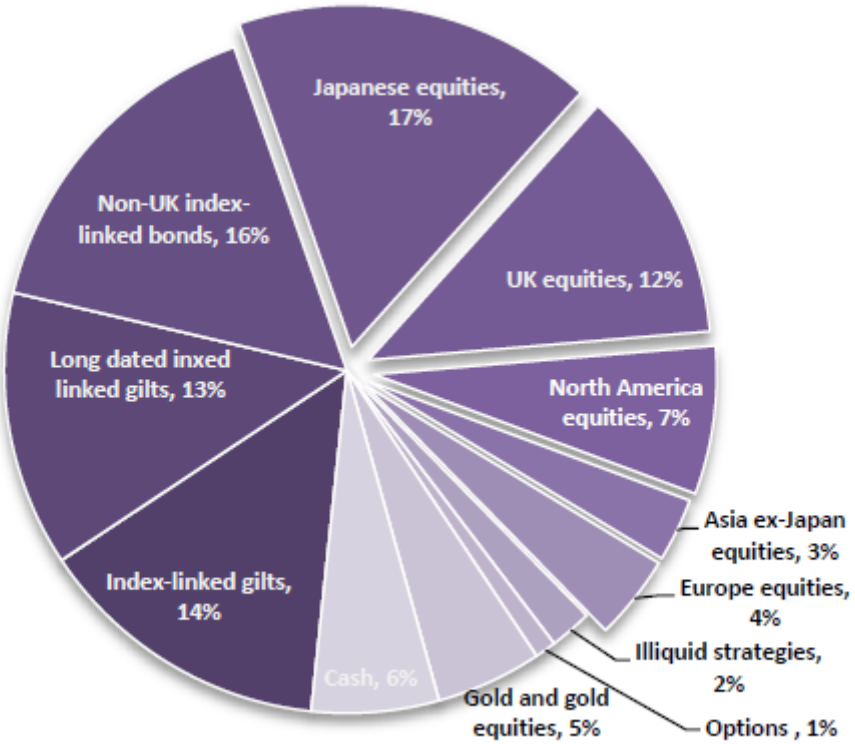


4.3 As shown in the above chart, Factors that helped performance include Japanese financials, UK interest rate options and Sony. Domestic Japanese economic strength and resilient global trade helped Japan to catch-up with western markets after lagging in Q1. Sony led the way, boosted by a growing internal appreciation of shareholder value by management, and Japanese financials also made respectable gains. Ruffer, being aware of the risk of short-term concerns over higher interest rates, purchased interest rate calls that rose in value, offsetting some of the losses from the long dated index linked (I/L) gilts.

4.4 The Index Linked gilt holdings were by the far the greatest detractor of returns at -0.7%. According to Ruffer, despite some signs of weakness in the UK economy mixed signals over the need for higher rates unsettled bond markets. With Eurozone growth picking up and another 0.25% rate rise in the U.S., global bond yields moved higher at the end of the quarter. As inflation was little changed this caused I/L gilts to give back some of last year's gains.

Portfolio positioning

4.5 Ruffer made few changes to positioning in the second quarter, but they did explicitly discuss the addition of Vivendi in LCIV officer's recent meeting. Ruffer added Vivendi, the French media group, in part due to the European recovery story, but predominantly because of its universal music business. According to Ruffer ''in 2015 the music industry saw its first increase in revenues this century; for the first time in the online age it seems the content owners, like Universal, have wrested some control back from the distributors.'' The Absolute return team holds Sony which may benefit for similar reasons, alongside its ongoing re-structuring.



4.6 With equity valuations high, and the increasing likelihood of monetary tightening, particularly in the U.S., Equities remain less than 40% of the portfolio. However, according to Ruffer, the global relation remains in place, and they continue to hold exposure to banks and other companies geared into improving economic activity.

4.7 A strong outperformance for 12 months to June 2017 with return of 8.6% compared with benchmark return of 3.4%. The portfolio outperformed the benchmark by posting a return of 6.5 % per annum over three years, which is over the benchmark return by 3% per annum and also ahead the benchmark return by 3.1% per annum for over five years period.

5. Legal & General (LGIM)

L & G (Passive UK Equity)

5.1 The portfolio returned 1.4% and matched the index return over the quarter. The FTSE 100 index moved to new all-time highs above 7,500 before falling back in the final month of the quarter as sterling strength provided a headwind for the index's international earners. UK mid-cap stocks delivered stronger returns, with the more domestically-orientated FTSE 250 index outperforming the FTSE 100 index over the quarter despite volatility following the news that that UK general election had resulted in a hung parliament. Mainland European stocks also delivered solid returns, as business activity and consumer confidence data readings highlighted improving confidence in the region's economy.

L & G Index Linked Gilts

5.2 The portfolio returned -2.4% lost matching the index return over the quarter. Having risen in late 2016 on the back of higher growth and inflation expectations, global government 10-year bond yields ended the second quarter of 2017 roughly where they started.

5.3 For much of the quarter, yields drifted lower as investors scaled back their expectations for fiscal stimulus, particularly in the US. However, yields rose notably in the final few days of the quarter on the back of hawkish central bank comments, particularly in the UK and mainland Europe.

5.4 A notable feature of global bond markets was the continued divergence between the trajectory of short and long-term interest rates. Short-term rates moved steadily higher throughout the quarter, particularly in the US where the Federal Reserve opted to raise rates by 0.25%, lifting the band to 1 – 1.25% However, long-dated global bond yields continued to retreat as investors discounted weaker long-term growth prospects for developed economies.

5.5 In the UK Mark Carney, Governor of the Bank of England indicated at the end of the quarter that "some removal of monetary policy stimulus is likely to become necessary", while in Europe, European Central Bank President Mario Draghi commented that "deflationary forces have been replaced by reflationary ones". Both these remarks increased market expectations of near-term UK and euro zone rate rises, causing short-term yields in particular to rise sharply as the quarter drew to a close.

6. **Goldman Sachs Asset Management (GSAM)**

6.1 The portfolio underperformed the benchmark in the reporting period by posting returns of -0.2% lost against its benchmark return of 1.1%. A marginal outperformance for 12 months to June 2017 with return of 4.9% compared with benchmark return of 4.4%.

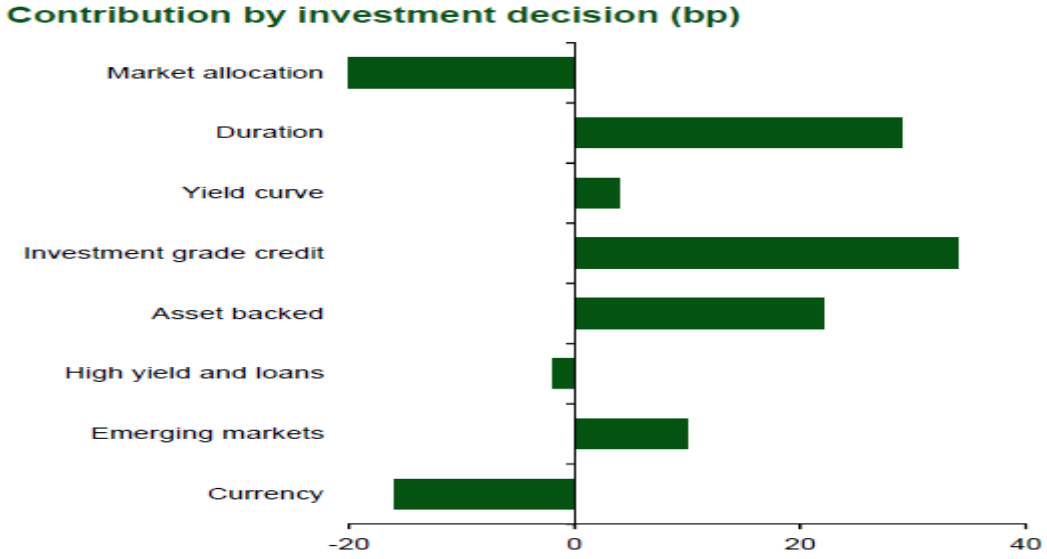
6.2 The largest contributor to performance was the manager currency strategy due to long positions in European currencies such as the Czech koruna, Polish zloty and the Swedish krona.

6.3 The manager securitized selection strategy contributed as well, with their underweight agency MBS performing positively amid spread widening.

6.4 The primary driver of underperformance was their long Canada vs short US rates position in the country strategy. Canadian rates underperformed US rates following hawkish comments from Bank of Canada (BoC) officials.

7. **Insight Investment**

7.1 The portfolio underperformed the benchmark in the reporting period by posting returns of -0.4% lost against a benchmark return of 1.1%. The following diagram demonstrates show this was achieved.

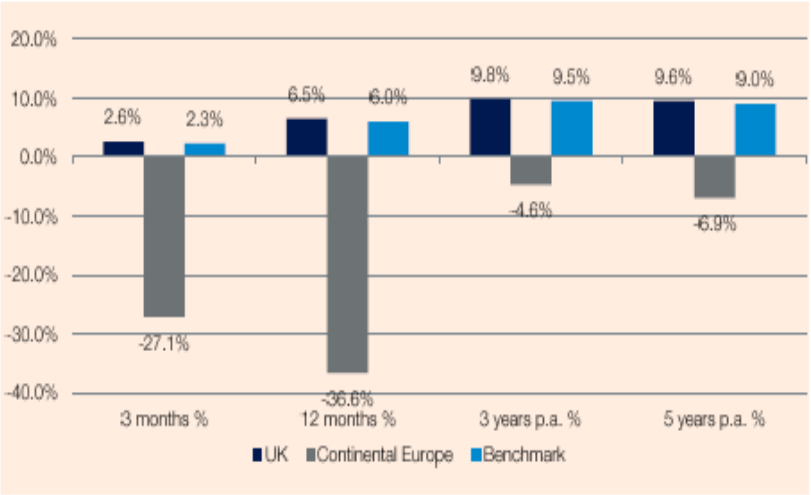


8. **Schroder (Property)**

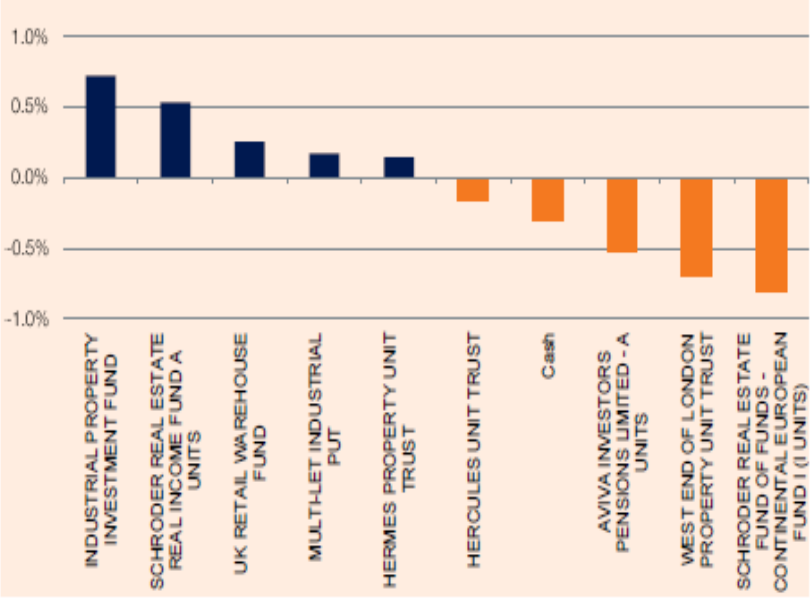
8.1 The portfolio performance was slightly below the benchmark over the reporting quarter by 0.2% and also lagging behind for all other periods; namely one year to 30 June 2017 by -0.6%, for three years marginally by -0.4% and also by -0.4% per annum for five years.

8.2 Holdings in continental Europe have been the main detractors from returns over the longer term. The UK portfolio (currently 98% by value) has outperformed the benchmark over all time periods. Holdings in the industrial sector have been the strongest drivers of performance in this reporting quarter, with Industrial Property Investment Fund, Schroder Real Estate Real Income Fund, UK Retail Warehouse Fund and Multi-Let Industrial PUT amongst the strongest contributions to returns.

Total return by region
Periods to end 30 Jun 2017



Total return attribution relative to benchmark top & bottom five contributors
12 months to 30 Jun 2017



Total return attribution relative to benchmark top & bottom five contributors
3 years to 30 Jun 2017