Non-Executive Report of the: **Pensions Committee** 29 November 2017	
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Investment and Fund Managers Performance Review for Quarter Ending 30th September 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 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.

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 30th September 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. Further contribution of £70m was paid into this portfolio on

23rd August 2017. The market value of assets as at 30 September 2017 was £133.420m. 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 September 2017 was £306.244m. 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. Capital contribution of £70m was added to this portfolio on 23rd August 2017. The value of assets under management as of 30th September 2017 was £131.247m. 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. 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. The portfolio had a market value of £211.112m at 30 September 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 £77.003m at 30th September 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 £71.375m at 30th September 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 September 2017, the UK Equity portfolio had a market value of £276.003m, and the UK Index linked portfolio was £71.648m.

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.

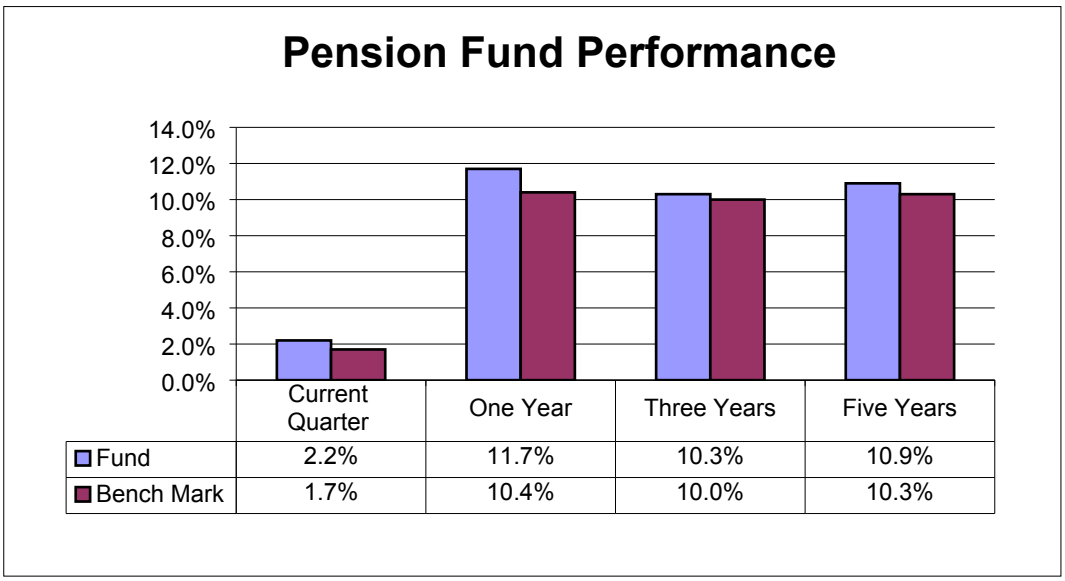
Schroder's Investment Management

Schroder manages a property mandate. The value of this mandate on 20th September 2004 was £90m. The market value of assets at 30th September 2017 was £147.860m. 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

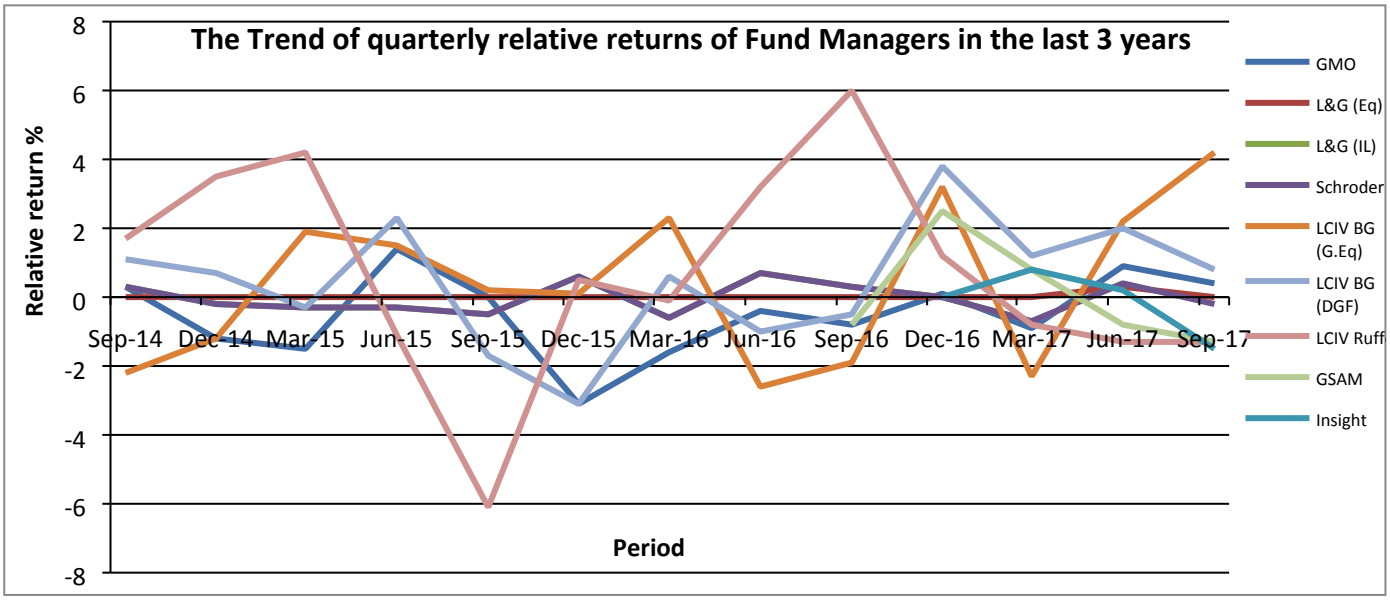
3.5. The overall value of the Fund at 30th September 2017 stood at £1,432.398m which is an increase of £33.253m from its value of £1,399.145m as at 30th June 2017.

3.6. The fund outperformed the benchmark this quarter by 0.5% with a return of 2.2% compared to its benchmark return of 1.7%. The twelve month period sees the fund ahead of its benchmark by 1.2%, as shown on the graph below.



	Current Quarter	One Year	Three Years	Five Years
Fund	2.2%	11.7%	10.3%	10.9%
Bench Mark	1.7%	10.4%	10.0%	10.3%

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

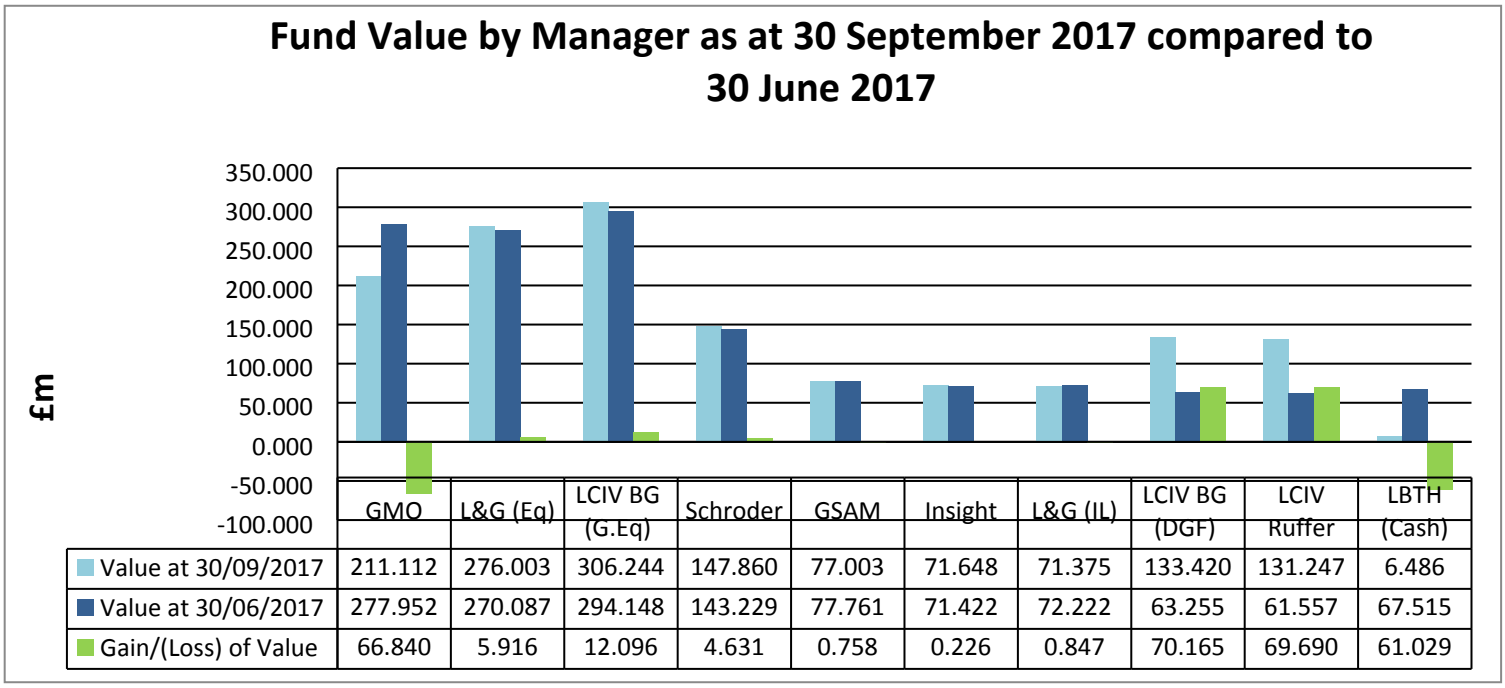
3.8. The Fund is managed on a specialist basis with GMO (terminated 31st July 2017) and LCIV (BG GE) managing the Global Equities on an active basis; UK Equities and UK Index-Linked are passively managed by LGIM; GSAM and Insight managing absolute return pooled bond funds and Schroders are the property manager.

3.9. The managers, mandate and funds held under management are set out below. The Fund was valued at £1,432.398 million as at 30th September 2017. This includes cash held and being managed internally (LBTH Treasury Management), this stands at 0.5% of the total assets value, this mainly constitutes 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	211.112	20.00%	14.70%	(5.30)%	29-Apr-05
LCIV BG (Global Equity)	Global Equity	306.244	20.00%	21.40%	1.40%	05-Jul-07 22 Apr 2016**
L & G UK Equity	UK Equity	276.003	20.00%	19.30%	(0.70)%	02-Aug-10
LCIV BG (Diversified Growth)	Absolute Return	133.420	5.00%	9.30%	4.30%	22-Feb-11 15 Feb 2016**
LCIV Ruffer (Total Return Fund)	Absolute Return	131.247	5.00%	9.20%	4.20%	08-Mar-11 15 Jun 2016**
L & G Index Linked-Gilts	UK Index Linked	71.375	6.00%	5.00%	(1.0)%	02-Aug-10
GSAM	Bonds	77.003	6.00%	5.30%	(0.70)%	04-Apr-16
Insights	Bonds	71.648	6.00%	5.00%	(1.00)%	01-Jul-16
Schroder	Property	147.860	12.00%	10.30%	(1.70)%	30-Sep-04
Internal cash Management	Cash	6.486	0.00%	0.5%	0.50%	N/A
Total		**1,432.398**	**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 30th September 2017

		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***	3.1	4.1	2.2	3.2	(0.6)	(0.1)	(0.8)	(0.1)	(0.5)	0.0	2.2
	Benchmark	1.8	1.8	2.1	2.4	1.0	1.0	(0.8)	0.3	0.8	0.1	1.7
	Relative	1.3	2.3	0.1	0.8	(1.6)	(1.1)	0.0	(0.4)	(1.3)	(0.1)	0.5
12 month %	***Fund***	16.8	22.0	12.4	9.6	1.1	1.7	(4.2)	6.6	1.0	0.5	11.7
	Benchmark	14.9	14.9	11.9	9.3	4.4	4.4	(4.2)	3.7	3.4	0.3	10.4
	Relative	1.9	7.1	0.5	0.3	(3.3)	(2.7)	0.0	2.9	(2.4)	0.2	1.3
3 years (% p.a)	***Fund***	12.5	19.0	8.7	8.9	N/A	N/A	10.8	4.8	5.4	0.9	10.3
	Benchmark	14.3	14.4	8.5	8.9	N/A	N/A	10.8	3.9	3.5	0.3	10.0
	Relative	(1.8)	4.6	0.2	0.0	N/A	N/A	0.0	0.9	1.9	0.6	0.3
5 years (% p.a)	***Fund***	14.1	18.1	10.2	9.3	N/A	N/A	9.8	5.5	6.2	0.9	10.9
	Benchmark	14.7	14.3	10.0	9.5	N/A	N/A	9.7	3.9	3.5	0.4	10.3
	Relative	(0.6)	3.8	0.2	(0.2)	N/A	N/A	0.1	1.6	2.7	0.5	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. The cash balance as at 30th September 2017, was £6.486m and this is mainly working capital of the Fund. 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

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

Asset Class	Revised Benchmark as at 21st September 2017	Benchmark weight agreed 16th March 2017	Fund Position as at 30th September 2017	Variance as at 30th September 2017
UK Equities	00.0%	20.0%	19.3%	(0.7)%
Global Equities	50.0%	40.0%	36.1%	(3.9)%
Total Equities	**50.0%**	**60.0%**	**55.4%**	**(4.6)%**
Property	12.0%	12.0%	10.3%	(1.7)%
Bonds	12.0%	12.0%	10.3%	(1.7)%
UK Index Linked	6.0%	6.0%	5.0%	(1.0)%
Alternatives	20.0%	10.0%	*18.5%	8.5%
Cash	0.0%	0.0%	0.5%	0.5%
Total Equities	**100.0%**	**100.0%**	**100.0%**	

3.16. 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. The outcome of this review affected the Fund's Strategic Asset Allocation, the revised benchmark weights shown in the above table was approved by the Committee on 21st September 2017

3.17. In July 2017, in addition to the Committee's previous decision to terminate the mandate with GMO, the Global Equities mandate, the Committee agreed to increase the investment in the Council's Diversified Global Funds mandate from 10% to 20% by topping up the existing DGF fund mandates (Bailie Gifford and Ruffer) by 5% each.

3.18. At the September 2017 meeting the Committee agreed to:

i) Decrease the Fund's allocation in Equities from 60% to 50%. This reflects an increase in the funding level and the level of risk concentrated in equities. The Fund's Adviser believes that the current strategy has heavy reliance on equities (c. 75% of expected return) and low exposure to cashflow-generative real assets.

ii) 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.

iii) Allocation to Low Carbon global equities to represent 30% of total equity allocation, 15% of total Fund assets. A Low Carbon Passive Global Equity, which is designed to track broad market indices but with lower carbon footprints; in some cases significantly lower. Low carbon indices can offer a relatively low cost solution to reducing exposure to carbon intensive companies.

iv) Allocation to passive global equities to represent 30% of total equity allocation, 15% of total Fund assets.

v) Allocation 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.

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 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 came into force on 1st November 2016. These Regulations represent an update to the LGPS (Management and Investment of Funds) Regulations 2009 and make a number of changes, including dispensing with the current, explicit limits on specified types of investment and instead charging administering authorities with determining 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 1a-1c (LCIV Sub-Fund Quarterly Summary)
- 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. Legal & General (LGIM)

L & G (Passive UK Equity)

1.1 The portfolio returned 2.2% and matched the index return over the quarter. The FTSE 100 index underperformed global markets, with a number of high-profile companies announcing disappointing results. UK mid-cap stocks delivered better returns, with the more domestically-orientated FTSE 250 index proving more resilient to sterling strength.

L & G Index Linked Gilts

1.2 The portfolio returned -0.8% lost matching the index return over the quarter. Global government 10-year bond yields moved broadly sideways over the third quarter overall, despite notable volatility around speeches from leading central banks. The Federal Reserve maintained its benchmark interest rate at 1 to 1.25% over the quarter, but Janet Yellen stole the limelight by confirming that it will begin to shrink its balance sheet in October by allowing $10 billion of bonds to mature without reinvesting the proceeds in the market.

1.3 In Europe, Mario Draghi commented that the continuing recovery in the euro area economy is yet to translate convincingly into a sustained rise in inflation. He also signalled that the European Central Bank (ECB) will remain very cautious in unwinding its highly accommodating monetary policy of negative interest rates and asset purchases. The headline inflation rate for September came in at 1.5%, unchanged from August and remaining well below the ECB's 2% target.

1.4 In the UK, inflation continued to overshoot its target. One of the largest factors increasing inflation has been the depreciation of sterling since last year's EU referendum. Governor Mark Carney commented that the UK economy remains on course for a hike in the cost of borrowing, sending short-term rates higher.

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

2.1 The portfolio underperformed the benchmark in the reporting period by posting returns of -0.6% lost against its benchmark return of 1.0%. with a very disappointing underperformance for 12 months to September 2017 with return of 1.1% compared with benchmark return of 4.4%.

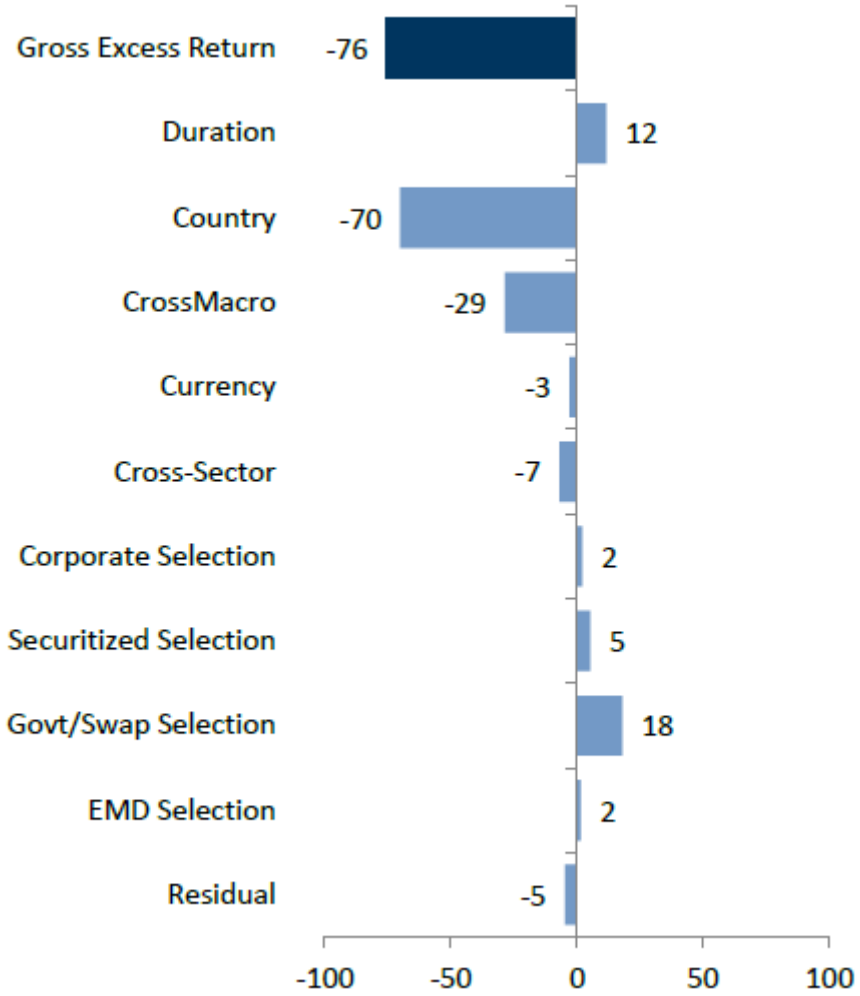
2.2 The portfolio underperformed the benchmark over the review period, predominantly driven by the Country and Cross macro strategies, while the Government/Swap selection strategy performed positively and helped offset some of the underperformance.

2.3 The Manager's country strategy was the largest detractor from performance over the period mainly driven by the long position in Canada rates at 2 year versus short position in US rates at 2 year and 5 year node, as the Bank of Canada hiked its benchmark rates by 25bps twice during the period leading to a selloff in Canadian rates.

2.4 The cross macro strategy also detracted from performance over the quarter. The overweight in Canada versus US at 2y node and short CADNOK underperformed as the Bank of Canada hiked its benchmark rates. The overweight in US versus underweight in UK at 10y node and short GBPUSD also underperformed as GBP appreciated 3% versus the US dollar, supported by raised expectations for a rate hike at the Bank of England's (BoE) November meeting and modest progress on Brexit negotiations.

2.5 The government/swap selection strategy however performed positively over the period driven mainly by the US curve steepener trades. The Manager's Canada curve steepener trade also performed positively and helped offset some of the underperformance.

2.6 Performance Attribution of the portfolio for the reporting period is shown below:



3. **Insight Investment**

3.1 The portfolio underperformed the benchmark in the reporting period by posting returns of -0.1% lost against a benchmark return of 1.1%.

3.2 The main positive contribution during the quarter came from market allocation, where the long position in 10-year Australian government bonds (held against UK and US government bonds) benefited from a significant widening in UK yields on speculation of a Bank of England interest rate rise.

3.3 The US 'break-even' inflation trade positively contributed given higher US inflation data. The yield curve positions also helped performance, as the US yield curve flattened. Further positive contributions came from the positions in investment grade bonds and asset-backed securities (ABS) which benefitted from tighter spreads and local currency emerging market bonds, which benefitted from mostly lower yields.

3.4 The main negative contribution during the period came from currency positions which underperformed against the US dollar; our duration and high yield bonds and loans positions were other slight detractors.

3.5 In terms of activity, the manager switched the offsetting short portion of their long position in 10-year Australian government bonds from 10-year UK Gilts into 10-year German Bunds. Within investment grade bonds and took profits on some of their European financials subordinated debt positions.

4. **Schroder (Property)**

4.1 The portfolio performance was above the benchmark over the reporting quarter by 0.8%, also ahead the benchmark for one year to 30 September 2017 by 0.3%, matched the benchmark for three years and marginally lagging behind the benchmark by -0.2% per annum for five years.

4.2 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.

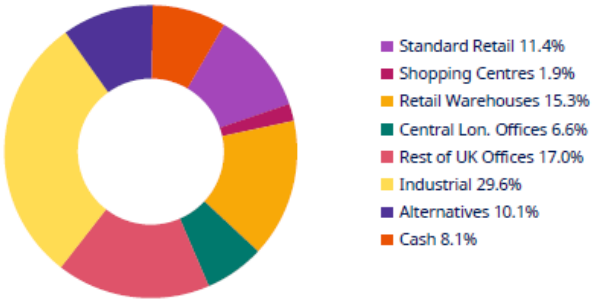
4.3 As highlighted above CEF I was the strongest contributor over the quarter. Industrial Property Investment Fund (IPIF) also made a positive contribution, due to continued yield compression and rental growth in the industrial sector. Metro PUT, a balanced fund with a strong weighting to the industrial sector, was another strong contributor. Cash was the weakest contributor over Q3.

4.4 Performance was above benchmark over one year (+0.3%). 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.

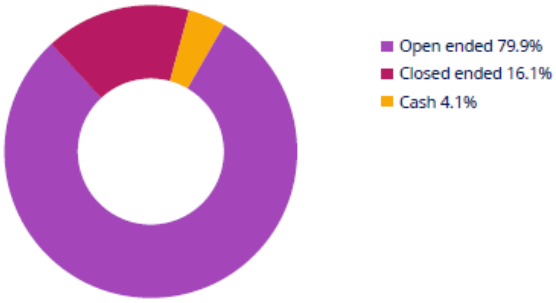
4.5 IPIF was the strongest contributor over twelve months, followed by Schroder Real Estate Real Income Fund (RIF). West End of London PUT (WELPUT) was the weakest property fund contributor over one year.

Portfolio Analysis

UK Portfolio sector exposure (including cash held by underlying property funds)



Open/closed-ended exposure



Fund style exposure