

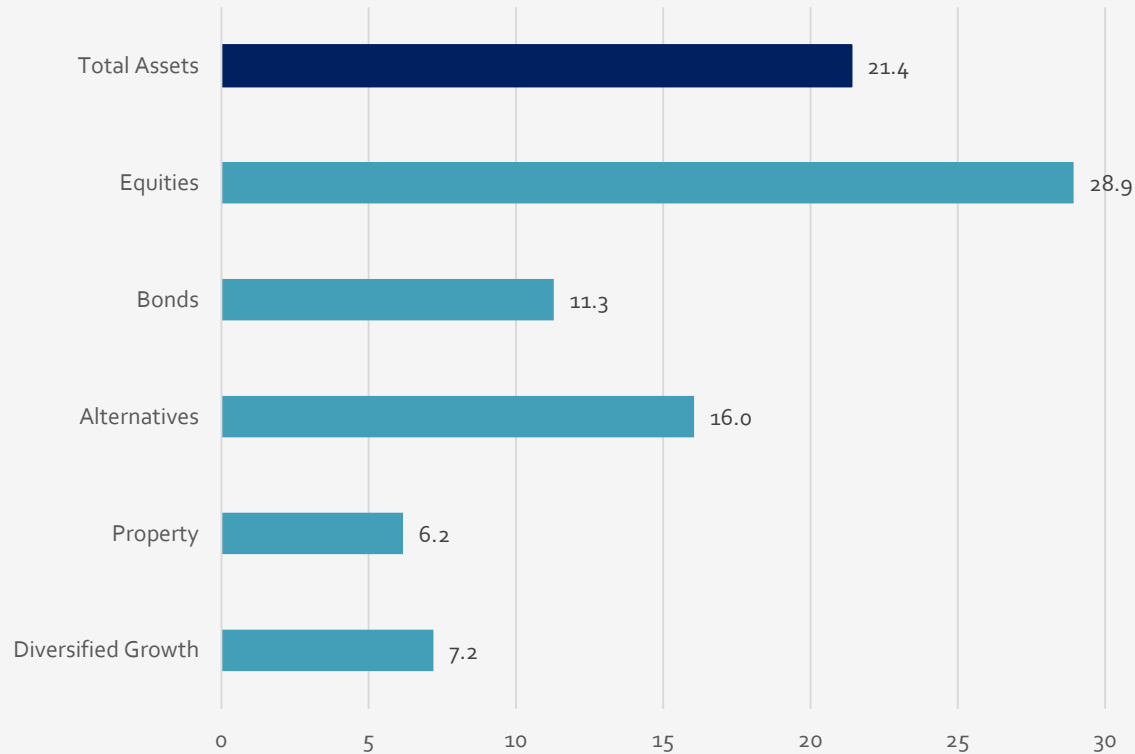


**LOCAL AUTHORITY
PENSION PERFORMANCE
ANALYTICS**

TOWER HAMLETS PENSION FUND

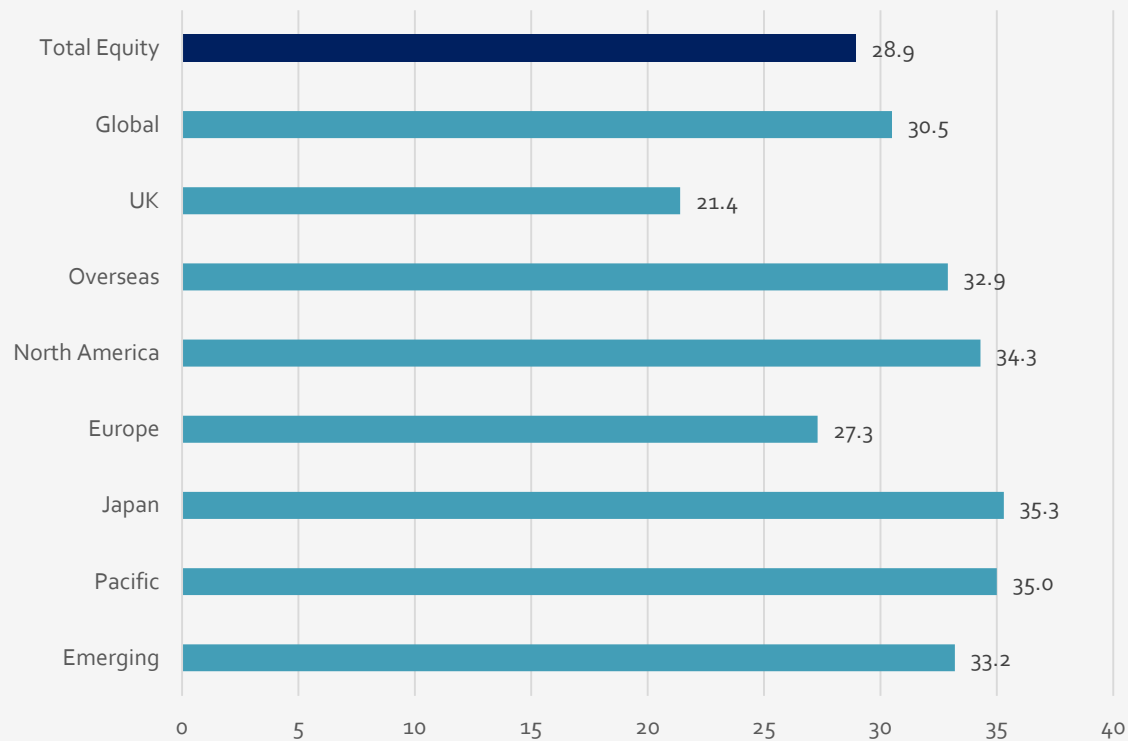
*Annual Performance Review
18th September 2017*

Universe: Latest Year Results



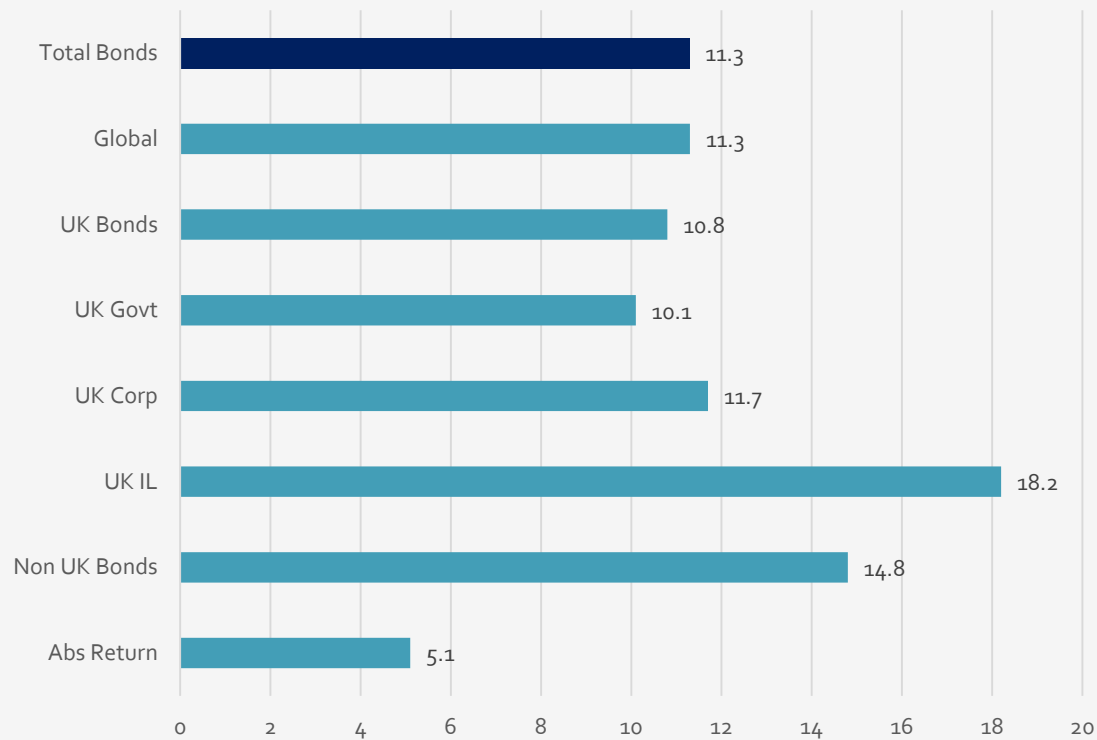
- Excellent returns for funds' assets in the latest year which, all else being equal, should have improved funding levels
- All major asset classes delivered positive returns
- Headline return driven by strong equity performance
- Alternative asset performance healthy, but mixed

Equities



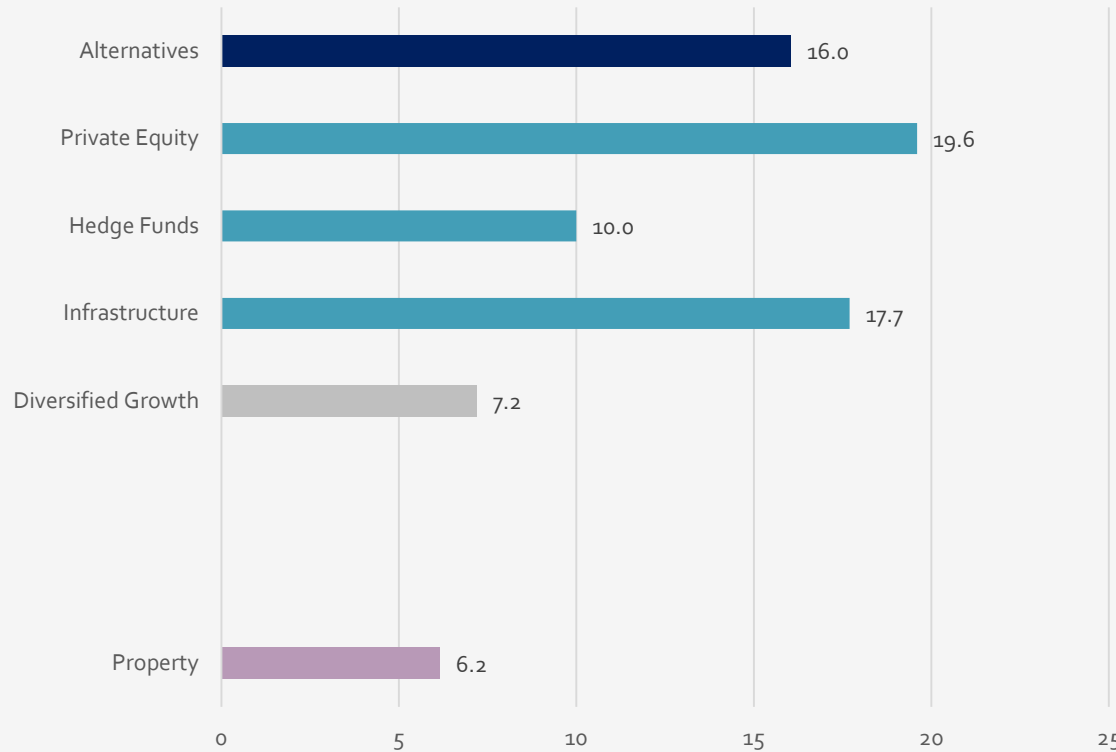
- All markets delivered significant double digit returns
- Domestic equities weakest
- Overseas markets stronger
- Bolstered by Sterling weakness
- Funds employing 'hedging' will have seen returns reduced significantly

Bonds



- Bond returns were also positive
- Index Linked produced the best returns as the market worried about inflation
- Absolute return strategies lagged by some margin

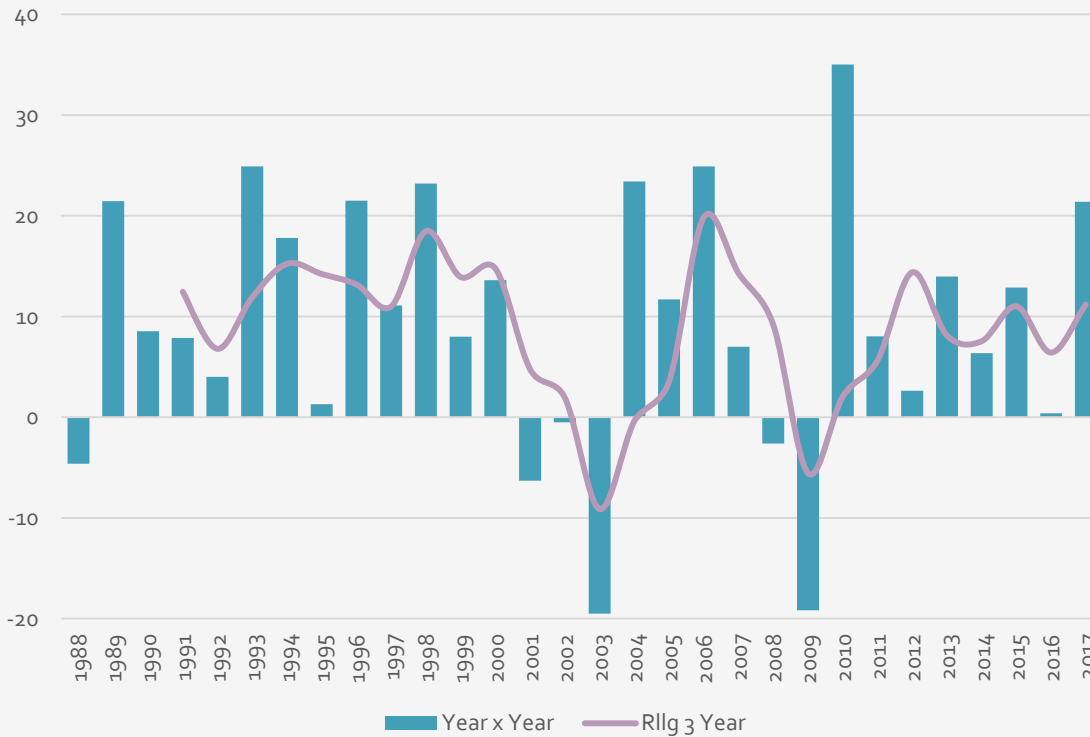
Alternatives



- Performance strong but mixed
- Private equity in aggregate performed best
- Diversified growth strategies outperformed benchmarks but lagged other assets

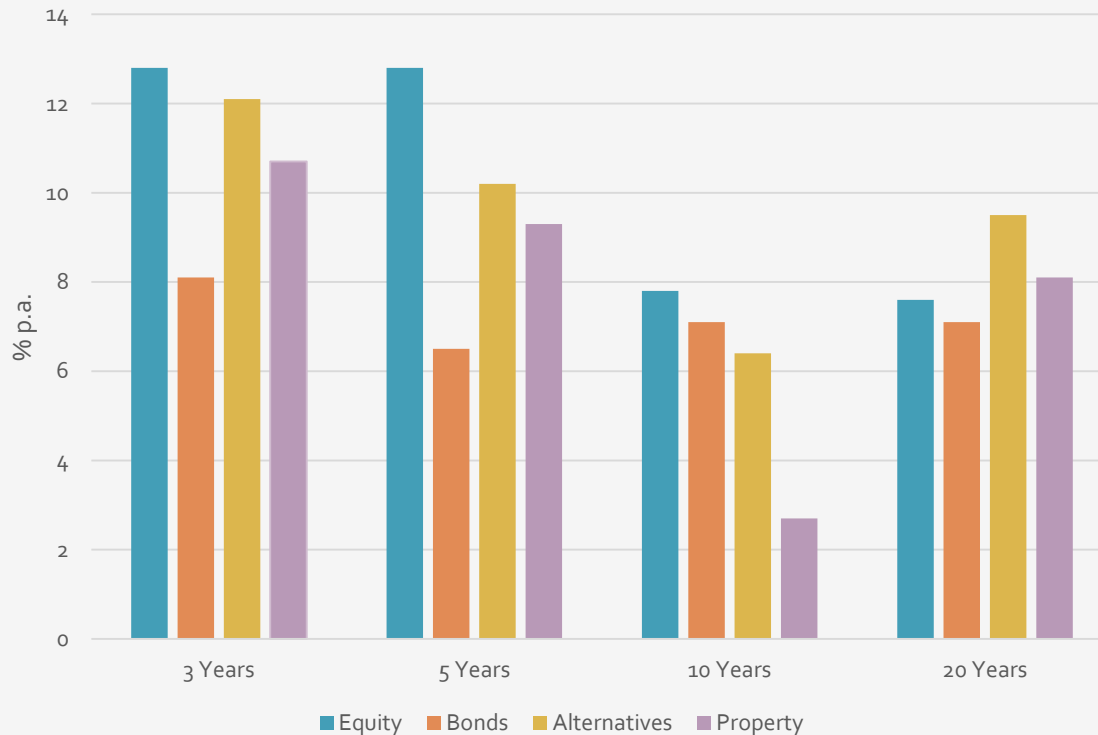
- Property returns were well below those from other investments.

Longer Term Performance



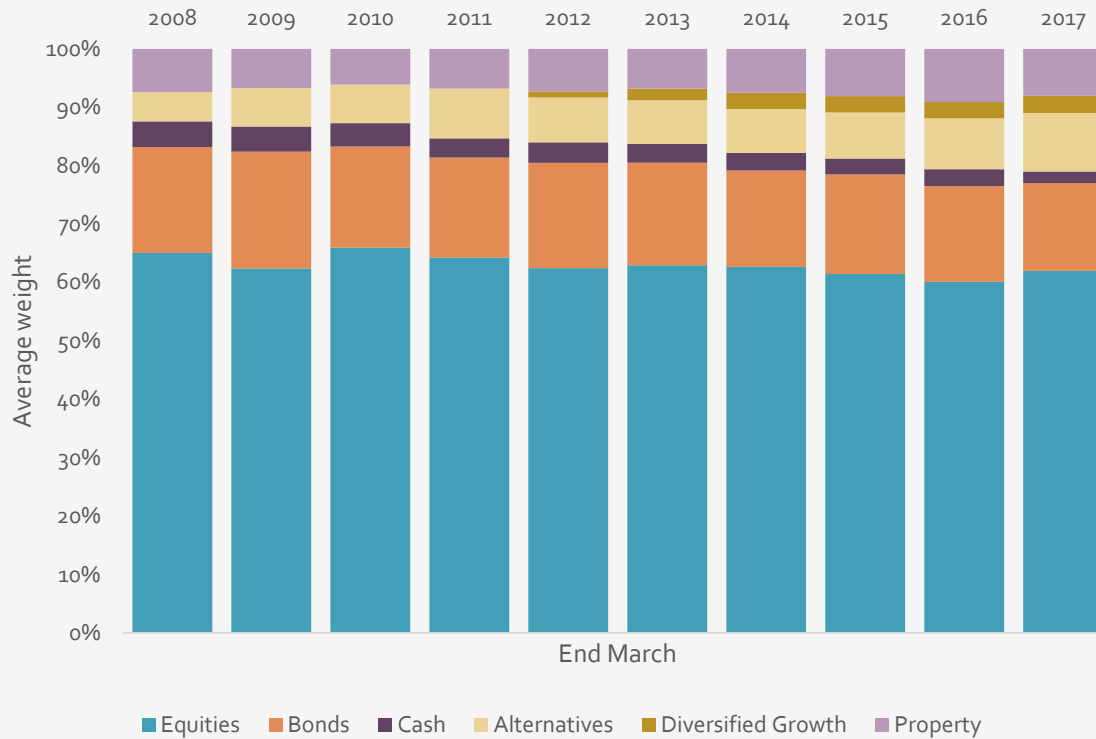
- Only six out of the last thirty years have produced negative returns
- Performance particularly strong following troughs
- Three and five year returns average around 11% p.a.
- Ten year return averages 7% p.a.
- Thirty year return averages close to 9 %p.a.
- This is a 'real' return of 6% p.a.
- Asset performance is not the LGPS issue

Longer Term Asset Performance



- Equities have driven the excellent long term performance of the LGPS
- Bond returns over the medium term have been supported by government intervention and demand from investors seeking protection from the growth in liability values
- Long term alternative asset performance enjoyed only by the large funds - early investors in private equity

Asset Allocation Changes Over Time



- Little change over time
- Funds (appropriately?) remain committed to growth assets
- Alternative asset exposure has increased and will likely increase
- There have been changes at asset class level however;
 - Domestic to global equity
 - Gilt to alternative credit sources
 - Hedge funds to more transparent alternative strategies

Tower Hamlets Fund Structure

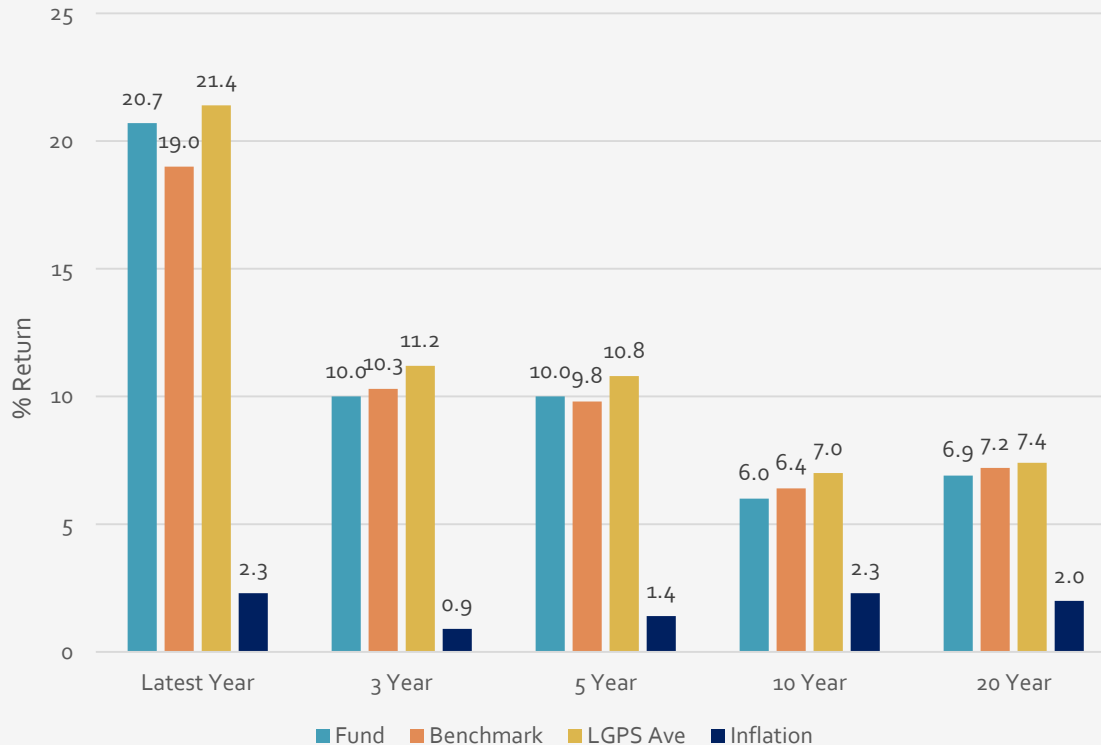
Values £'000	Mandate	Value at 31/03/2016	% Fund	Value at 31/03/2017	% Fund	% BM
L & G	UK Equities	217,537	19	266,256	19	20
GMO	Global Equities	247,257	22	325,278	24	23
Baillie Gifford	Global Equities	209,888	19	281,213	20	18
Insight	Absolute Return Bonds			71,743	5	7
L & G	UK IL Gilts	60,673	5	74,030	5	3
Baillie Gifford	Diversified Growth	56,344	5	62,166	5	5
Ruffer	Absolute Return	54,607	5	61,835	4	5
GSAM	Absolute Return			77,929	6	7
Schroders	Property	135,422	12	140,302	10	12
Internal	Cash	148,342	13	18,428	1	0
Total Fund		1,130,070	100	1,379,183	100	100

- High level of cash was held at the start of the year pending re-structure
- Insight (August) and GSAM (April) invested into during the year
- Asset allocation close to benchmark by the year end
- The Fund is well diversified both in terms of asset type and asset manager

Structure Changes over 2016/17

	Start Year	End Year	Change	Active Allocation	Market 'Drift'	
Growth Assets						
Equities	60	64	4	0	✓	• Equity component increased – Market driven
Monetary/Matching Assets						
Bonds	5	10	5	✓	0	• Bond component increased – Fund driven
Diversifying Assets						
Alt's	10	15	5	✓	0	• Alternative allocation increased – Fund driven
Property	12	10	-2	0	<	• Property reduced – Market driven
Balance						
Cash	13	1	-12	<	0	• High opening cash level – Put to work!

Fund Performance



- The Fund bettered its benchmark in the latest year by a sizeable margin
- It has tracked broadly in line with benchmark medium term but lagged longer term
- The Fund has fallen short of the LGPS average however
- Importantly, returns have consistently outpaced the important measure of inflation – and by a substantial margin

Performance Relative to Benchmark

	1 Year			3 Years % pa			5 Years % pa			10 Years % pa		
	Fund	BM	Relative	Fund	BM	Relative	Fund	BM	Relative	Fund	BM	Relative
L&G UK Equity	22.4	22.0	0.3	7.8	7.7	0.1	9.8	9.7	0.1			
GMO	31.6	32.5	-0.7	12.0	14.8	-2.4	13.0	14.0	-1.0	8.0	8.6	-0.6
Baillie Gifford	33.9	33.0	0.7	16.5	16.3	0.2	16.1	14.4	1.4			
L&G IL Gilts	22.0	22.0	0.0	14.6	14.6	0.0	9.9	9.9	0.0			
Baillie Gifford DG	10.3	3.5	6.6	5.6	3.5	2.0	5.7	3.6	2.1			
Relative Return	-0.0			-0.0			0.0					
Ruffer DG	13.2	3.5	9.4	6.8	3.5	3.1	6.0	3.6	2.3			
Schroders	3.6	3.7	-0.1	10.0	10.2	-0.2	8.0	8.5	-0.4	1.8	2.1	-0.3
Total Fund	20.7	19.0	1.4	10.0	10.3	-0.2	10.0	9.8	-0.2	6.0	6.4	-0.3

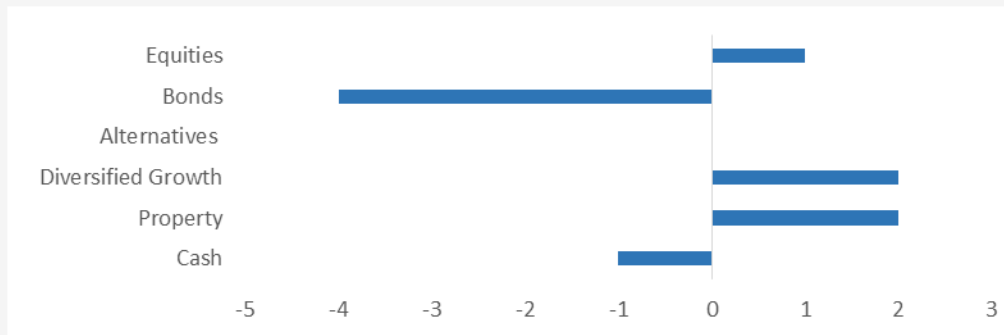
- In the latest year the Fund outperformed by 1.4%
- Strong performance from Baillie Gifford and Ruffer were offset by the negative effect of the high cash weighting held at the start of the year.
- GMO has failed to add value over any of the long term time periods.

Performance Relative to Peers

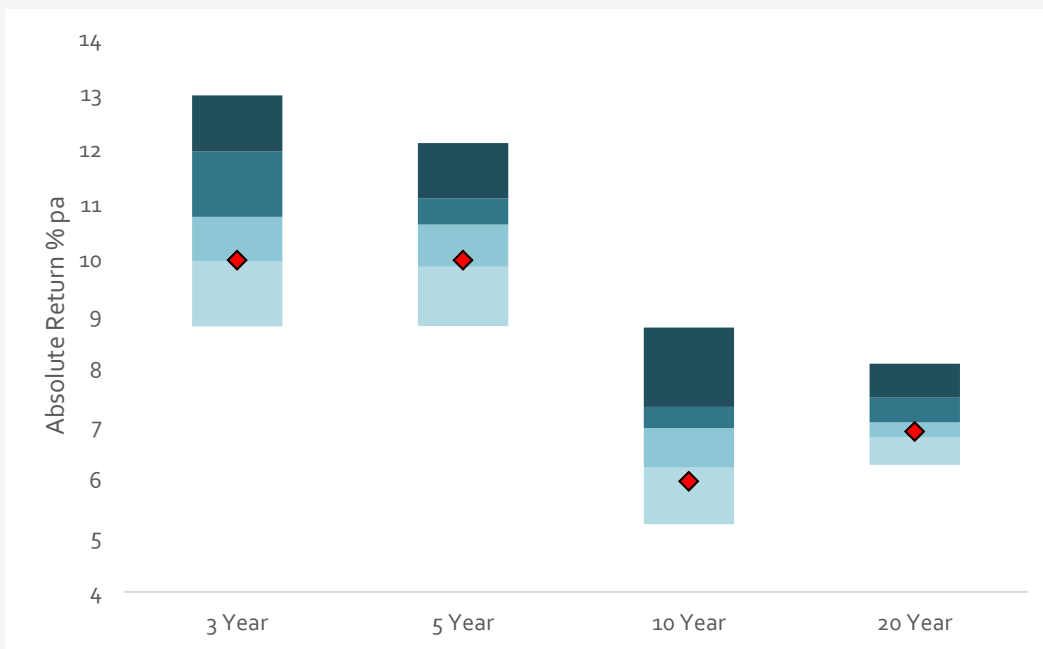
	Fund	Universe	Relative
Equities	29.4	28.9	0.4
Bonds	18.7	11.3	6.6
Alternatives	7.5	16.0	-7.3
DG	10.3	7.2	2.9
Property	3.6	6.2	-2.4
Total	20.7	21.4	-0.6

- The Fund held less than the average in bonds and more in diversified growth and property assets.
- This asset allocation had a negative effect on performance as did the initial high cash weighting held by the fund.

Asset Allocation Relative to Universe 31/3/2017

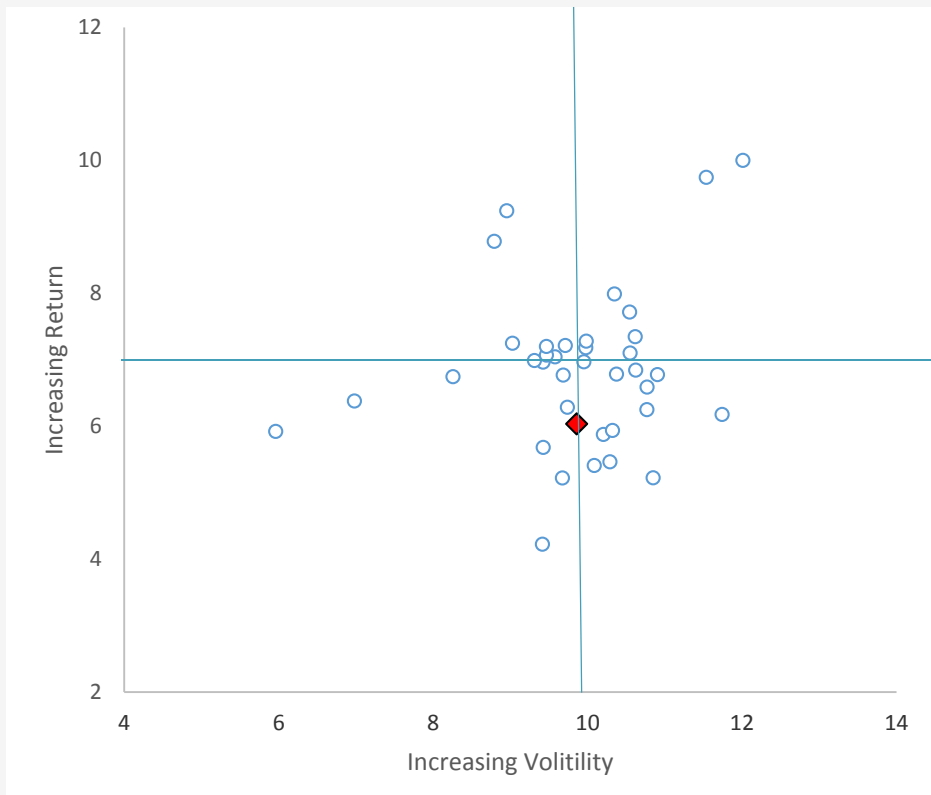


Longer Term Performance



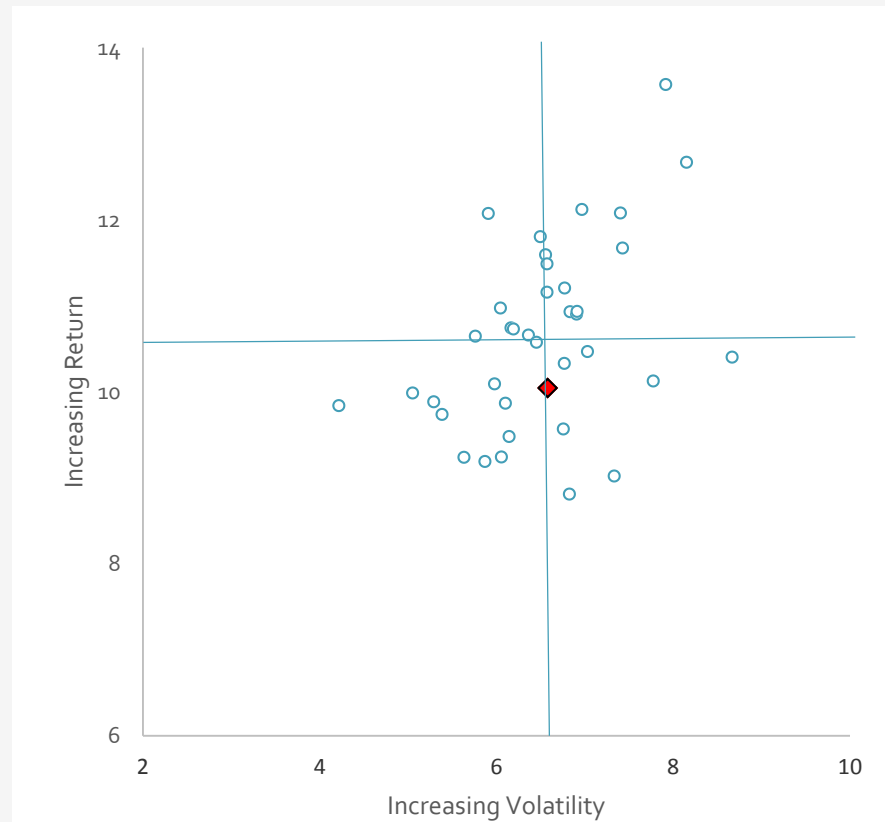
- The Fund has been below its peers over all periods
- Over the last three and five years it ranked 71st percentile, over the ten years 79th, and 65th percentile over the last 20 years

Risk & Return – Ten Years



- Funds with 'riskier' asset profiles have tended to perform better
- This is an expected outcome in a 'normal' investment environment
- Over the last ten years the Fund had an average level of volatility but delivered a below average return.

Risk & Return – Five Years



- Over the last five years the profile is similar
- Funds with higher exposures to growth assets have performed best
- The Fund has generated average volatility....
- ... and modestly underperformed

Summary

- Public sector pension funds have delivered excellent returns over all periods
 - This is not widely appreciated (nor acknowledged)!
 - Funds' commitment to growth assets has been extremely successful
 - Funding levels have improved over the latest cycle
 - There are challenges ahead however
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- The Fund enjoyed an excellent 2016/17 both in absolute, and relative terms versus the benchmark
 - The Fund has performed broadly in line with its benchmark longer term but lagged the LGPS average
 - Importantly, performance over all meaningful timeframes has outpaced inflation and actuarial assumptions for asset growth
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