



# LCIV Quarterly Investment Report

London Borough of Tower Hamlets Pension Fund

31 December 2018

## Introduction

We are pleased to present the LCIV Quarterly Investment Report for the London Borough of Tower Hamlets Pension Fund for the quarter to 31 December 2018. The Report provides an Investment Summary with valuation and performance data of your Pension Fund's holdings. It includes an update on activities at LCIV, a market update and Fund commentary from the LCIV Investment Team as well as key portfolio data and a summary of ESG activity during the quarter. We hope you find this report informative. Should you require any further information regarding any aspect of your investment, or about our service, please contact our Client Service Team via e-mail (clientservice@londonciv.org.uk).



## Contents

Investment Summary .....	2
LCIV Update .....	4
Market Update .....	5
<b>Funds</b>	
LCIV Global Alpha Growth Fund .....	6
LCIV Diversified Growth Fund .....	11
LCIV Absolute Return Fund .....	16
LCIV MAC Fund .....	20
Passive Investment Summary .....	25
LCIV Fund Range .....	26
<b>Appendices</b>	
Glossary of Terms .....	28
Disclaimer .....	31

## Investment Summary

The table below shows the funds held by the London Borough of Tower Hamlets Pension Fund by asset class as at 31 December 2018 and how these have changed during the quarter.

	30 September 2018	Net Subscriptions / (Redemptions) /	Cash Distributions Paid	Net Market Move	31 December 2018
	£	£	£	£	£
<b>Active Investments</b>					
<b>Global Equity</b>					
LCIV Global Alpha Growth Fund	351,618,339	-	-	(43,848,886)	307,769,453
<b>Multi Asset</b>					
LCIV Diversified Growth Fund	135,032,255	-	-	(6,121,776)	128,910,479
LCIV Absolute Return Fund	133,880,215	-	-	(7,289,304)	126,590,911
<b>Fixed Income</b>					
LCIV MAC Fund	91,260,000	-	-	(1,827,000)	89,433,000
<b>Total</b>	<b>711,790,809</b>	<b>-</b>	<b>-</b>	<b>(59,086,966)</b>	<b>652,703,843</b>

The table below outlines the valuation of investments held per passive manager at the beginning and end of the quarter. A listing of the individual funds held can be found at the end of the Funds section of this report.

	30 September 2018	31 December 2018
	£	£
<b>Passive Investments<sup>†</sup></b>		
LGIM	360,380,443	314,882,720

<sup>†</sup> Passive investments are managed in investment funds for which LCIV has no management or advisory responsibility and are shown for information purposes only.

## Investment Summary

Please see below the performance for funds in which you are invested. Performance since inception is annualised where period since inception is over 12 months.

Net Performance	Current Quarter (%)			1 Year (%)			Since Inception p.a. (%)		
	Fund Net	Benchmark*	Relative	Fund Net	Benchmark*	Relative	Fund Net	Benchmark*	Relative
LCIV Global Alpha Growth Fund	(12.46)	(10.63)	(1.83)	(4.15)	(3.37)	(0.78)	14.34	11.77	2.57
LCIV Diversified Growth Fund	(4.59)	n/a	(4.59)	(5.07)	n/a	(5.07)	1.82	n/a	1.82
LCIV Absolute Return Fund	(5.40)	n/a	(5.40)	(6.05)	n/a	(6.05)	0.46	n/a	0.46
LCIV MAC Fund	(1.95)	n/a	(1.95)	n/a	n/a	n/a	(0.63)	n/a	(0.63)

\* For details of which benchmark is used for each fund please see the LCIV funds page towards the end of the report.

## LCIV Update

As the year drew to a close, the value of London's assets invested directly through LCIV stood at £7.5 billion. The fourth quarter saw strong inflows totalling over £0.5 billion but LCIV AUM remained broadly static as a result of markets' disappointing performance during the period. The LCIV Global Bond Fund was launched at the end of November with two Boroughs investing a combined sum of £165m. This was the fourth fund to be made available during 2018. The LCIV MAC Fund, which launched in May, continued to attract healthy levels of interest with a further three Boroughs investing during the fourth quarter. As of 31 December 2018 the Fund had nine investors with just under £640 million invested.

The value of passive assets, managed by LGIM and Blackrock, remained steady at around £10 billion with approximately £1.25 billion of this figure committed to low carbon index tracking funds. LCIV continues to generate significant cost benefits on the £17.5 billion assets under its oversight, with total savings amounting to £3.8 million for the six months to 30 September. The detailed breakdown per authority is reflected in the Medium Term Financial Strategy for LCIV.

We held our Infrastructure Forum at County Hall in early November and this sparked keen interest in the LCIV fund offering. Good progress has been made on the Infrastructure fund launch process and we anticipate a first close of 1 April 2019. Further fund launches planned for the first quarter of 2019 include Private Debt and Inflation Plus. Details of the full fund launch pipeline can be found on the Client Portal under the Company section (Fund updates).

The LCIV's Responsible Investment policy was developed in consultation with the LLA Shareholding Group chaired by Cllr Yvonne Johnson. It was endorsed by the Shareholder Committee and ratified by the LCIV Board in October 2018.

In November we moved to our new offices at Fourth Floor, 22 Lavington Street, SE1 0NZ

Please contact us through [clientservice@londonciv.org.uk](mailto:clientservice@londonciv.org.uk)

## Market Update

After much scaremongering from market commentators throughout the year, the 4th Quarter finally saw the dams break and this fear translated into market moves. A build-up of negative news, with US Government shutdowns and Trade wars/Tariffs added to an already nervous investor base, who were wary of rising interest rates, political upheaval and an impending US Dollar squeeze. The major indices all fell significantly in October and December, as seen in the table below.

	Q4	2018
Nasdaq	-17.28%	-2.81%
Topix	-14.36%	-16.03%
S&P 500 Index	-13.52%	-4.38%
MSCI World	-13.31%	-8.19%
EuroStoxx 50	-11.38%	-11.34%
FTSE All Share	-10.25%	-9.47%
Barclays Global Credit Aggregate	-0.58%	-3.17%
FTSE UK Gilts	2.00%	0.57%
Gold price	7.73%	-2.70%
Oil Price (WTI)	-38.12%	-24.98%
Hedge Fund Index	-5.85%	-7.01%
Source: Bloomberg		

As shown, there were very few places which offered protection for investors, as only Government bonds and Gold provided positive returns over the Quarter.

From a fund perspective, performance was again mixed over the Quarter, capping off an underwhelming year for the majority of funds on the platform. There were some standout performers, however, with the Global Focus Fund (Longview) and the Equity Income Fund (Epoch) providing some downside protection on the equity front. The Real Return Fund (Newton) and Total Return Fund (Pyrford) held up relatively well on the Multi-Asset side, although still posted negative returns on the Quarter.

Despite being positioned “defensively”, the UK Equity Fund (Majedie) and the Absolute Return Fund (Ruffer) particularly disappointed, as they had appeared to have been correct in their market outlook but failed to capitalise on this and struggled over the year.

The overall positioning remained defensive across all funds, as managers all determined that the markets are exhibiting “very late cycle” behaviours. The recent pull-back in equities has led Longview and RBC to talk of “pockets of opportunity” in areas such as Consumer and Telcos, while the Multi-Asset managers have “battened down the hatches” in response to Fed comments and Chinese economic concerns. All managers have indicated that volatility will persist and increase over the course of the year, making long-term investment even more important than usual.

## LCIV Global Alpha Growth Fund

### Quarterly Summary as at 31 December 2018

#### Total Fund Value:

**£2,091.8m**

Inception date:	11/04/2016
Capacity*:	See note below
Price:	144.80p
Distribution frequency:	Quarterly
Next XD date:	02/01/2019
Pay date:	29/03/2019
Estimated ppu:	0.1308

#### Investment Objective

The objective of the Sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross fee basis over rolling five year periods.

#### Tower Hamlets Valuation:

**£307.8m**

Tower Hamlets investment date: 18/04/2016  
**This is equivalent to 14.71% of the Fund**  
 Distribution option: Reinvest  
 Est. distribution to be reinvested: £278,013

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Fund	(12.46)	(4.15)	15.39
Benchmark**	(10.63)	(3.37)	12.66
Relative to Benchmark	(1.83)	(0.78)	2.73

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Tower Hamlets	(12.46)	(4.15)	14.34
Benchmark**	(10.63)	(3.37)	11.77
Relative to Benchmark	(1.83)	(0.78)	2.57

\*Total fund capacity as at 31 December 2018. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at [clientservice@londonciv.org.uk](mailto:clientservice@londonciv.org.uk).

\*\* Benchmark name: MSCI All Country World Gross Index

## LCIV Global Alpha Growth Fund

### Quarterly Commentary

The LCIV Global Alpha Growth Fund returned -12.46% in Q4 2018 which underperformed the benchmark by 1.83%.

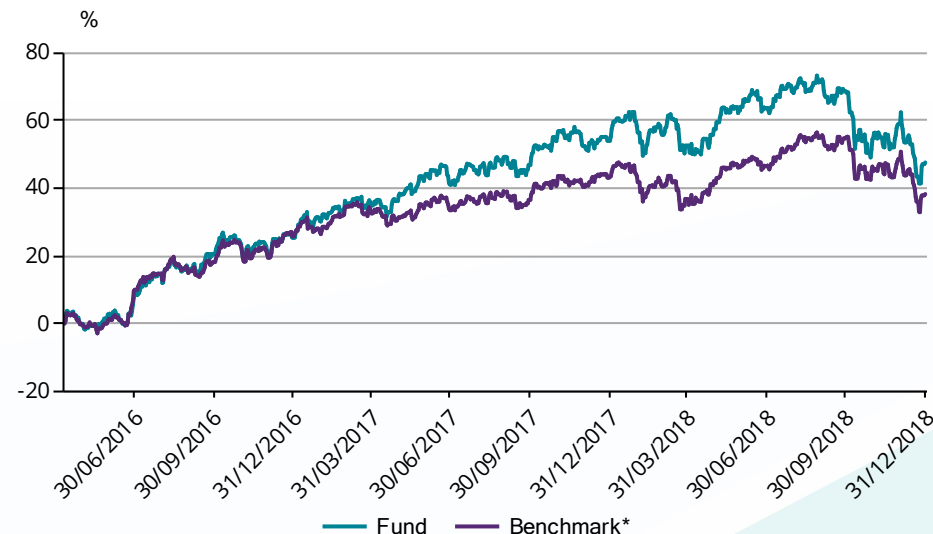
The funds exposure to US, UK and Ireland were among the worst detractors to the portfolio during the quarter as disappointing earnings growth projections caused a mass sell-off in the market. The largest positive contributions to performance included emerging markets such as India and Brazil.

Long duration stocks were particularly affected in the quarter. Both Grubhub (US online and mobile food ordering company) and Amazon fall into these categories. In the case of Grubhub, this sell-off has far more to do with sentiment than any change in the prospects for the company, as highlighted by the strong quarterly results reported during October.

Also detracting from performance was the portfolio's holding in energy related companies, particularly Apache and EOG, in line with a declining oil price.

Offsetting these to some extent, the portfolio's exposure to emerging market companies contributed positively to performance, particularly the portfolio's holding in ICICI and Banco Bradesco. Shares in the latter soared by nearly 50% as they announced results which suggested that the difficult economic environment which has persisted over the last few years may be starting to ease. In the case of ICICI, the shares finished the year strongly, rebounding from earlier weakness. Headlines about the tension between the central bank and the government obscure the facts of favourable demographics (66% of India's population is below 35), the rising number of households and the low levels of urbanisation, which, with mortgages at only 10% of GDP, is likely to drive the long-term story for ICICI.

### Performance since LCIV inception



Source: Fund prices calculated based on published NT prices. Benchmarks obtained from Bloomberg. All performance reported net of fees and charges with distributions reinvested.

\*MSCI All Country World Gross Index



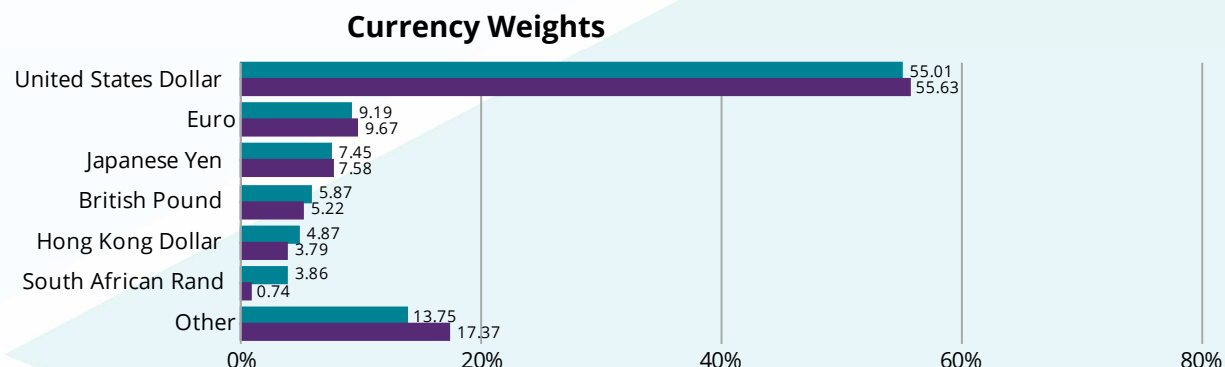
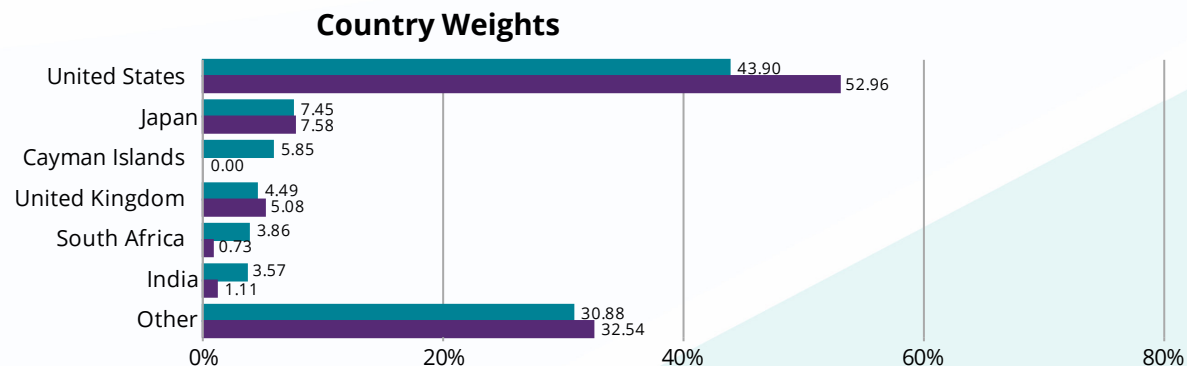
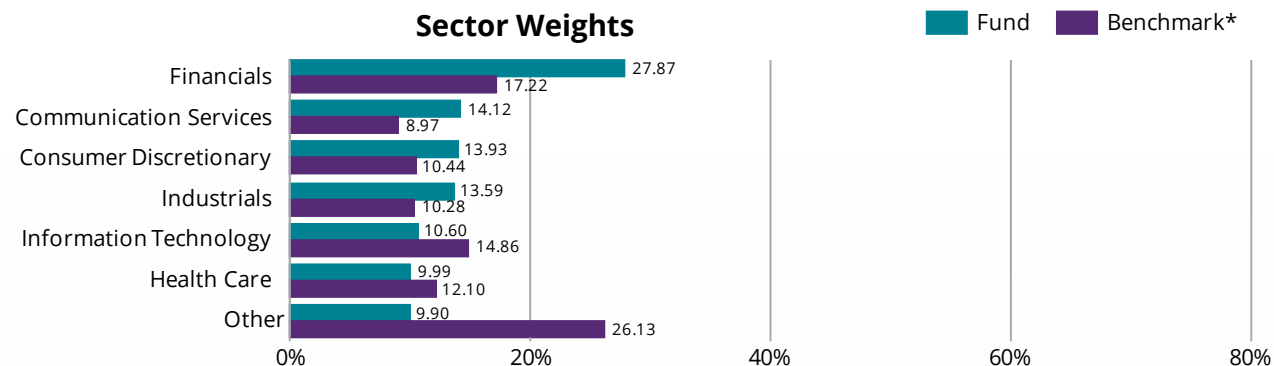
## LCIV Global Alpha Growth Fund: Portfolio Characteristics

Key Statistics	
Number of Holdings	107
Number of Countries	26
Number of Sectors	10
Number of Industries	37

Source: Northern Trust Fund Accounting December 2018

Risk Statistics	
Active Risk	1.53
Total Risk	6.69
Beta	1.04

Source: Bloomberg PORT December 2018



Source: Northern Trust Fund Accounting and Bloomberg PORT December 2018

\*MSCI All Country World Gross Index

## LCIV Global Alpha Growth Fund: Portfolio Characteristics

### Top Ten Equity Holdings

Security Name	% of Portfolio
Naspers Limited N Shares	3.86
Amazon Common Stock	3.74
Anthem Inc	2.92
Prudential plc	2.58
AIA Group Limited Ordinary Shares	2.33
Alphabet Inc C Stock	2.13
Mastercard Inc	2.12
Moody's Inc	2.06
Alibaba Group Holdings Ltd ADS	2.02
Visa Inc A	1.96

### Top Ten Contributors

Security Name	% Contribution
Banco Bradesco Stock	+0.45
Tesla Inc	+0.29
ICICI Bank Limited	+0.25
ICICI BANK LTD-SPON ADR	+0.24
B3 SA-BRASIL BOLSA BALCAO	+0.21
MarketAxess Holdings	+0.21
Housing Development Finance Corporation	+0.19
Jardine Matheson Holdings	+0.13
Kansai Paint Co	+0.07
NOVOCURE LTD	+0.07

### Top Ten Detractors

Security Name	% Detraction
Distribuidora Internacional De Alimentacion	(0.51)
Apache Corp	(0.43)
GrubHub Inc	(0.43)
Advanced Micro Devices Inc	(0.39)
Stericycle Steel Dynamics	(0.36)
SPOTIFY TECHNOLOGY SA	(0.36)
Myriad Genetics Inc	(0.35)
Persol Holdings Co Ltd	(0.35)
MEITUAN DIANPING-CLASS B	(0.35)
Wabtec Corp	(0.31)

### New Positions During Quarter

Security Name
CHEGG
NOVOCURE
BHP GRP.

### Completed Sales During Quarter

Security Name
Distribuidora Internacional De Alimentacion
China Biologic Products Holdings Inc
OC Oerlikon Corp AG
BHP Billiton plc

## LCIV Global Alpha Growth Fund: ESG Summary

### Environmental



### Social



### Governance



#### Summary of ESG Policy

In addition to face to face meetings with management, the Underlying Manager will consider factors such as management turnover, capital allocation, remuneration policies and social and environmental factors. The Underlying Manager also has a specialised independent Governance & Sustainability team which, working alongside their investment teams, monitors the companies in which they invest and engages with companies where appropriate. Their full ESG policy can be provided by LCIV upon request.

The UK Stewardship Code rating of the Underlying Manager is tier 1.

#### Summary of ESG Activity for the Quarter

Examples of engagements of the Underlying Manager during Q4 2018 include:  
 Corporate Governance: Alphabet, Amazon, Anthem, SAP, SiteOne Landscape Supply, Stericycle, Tesla

Environmental/Social: Arthur J Gallagher, Myriad Genetics

AGM or EGM Proposals: Visa

Executive Remuneration: CRH

#### Link to Underlying Managers Voting Report for the Quarter

<https://secure.londonciv.org.uk/funds/global-alpha-growth/#reports>

#### Relevant Holdings

Sector	% of portfolio
<b>Brewers</b>	<b>0.20</b>
Tsingtao Brewery Co Ltd	
<b>Casinos &amp; Gaming</b>	<b>0.40</b>
Sands China Ltd	
<b>Distillers &amp; Vintners</b>	<b>1.79</b>
Pernod-Ricard	
<b>Oil &amp; Gas</b>	<b>2.52</b>
Apache Corp	EOG Resources
<b>Total</b>	<b>4.91</b>

Source: Northern Trust Fund Accounting December 2018

## LCIV Diversified Growth Fund

### Quarterly Summary as at 31 December 2018

#### Total Fund Value:

**£627.4m**

Inception date:	15/02/2016
Capacity*:	See note below
Price:	109.50p
Distribution frequency:	Semi-Annually
Next XD date:	02/01/2019
Pay date:	29/03/2019
Estimated ppu:	0.7666

#### Investment Objective

The Sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.

#### Tower Hamlets Valuation:

**£128.9m**

Tower Hamlets investment date: 15/02/2016

**This is equivalent to 20.55% of the Fund**

Distribution option: Reinvest

Est. distribution to be reinvested: £902,491

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Fund	(4.59)	(5.07)	4.49

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Tower Hamlets	(4.59)	(5.07)	1.82

\*Total fund capacity as at 31 December 2018. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at [clientservice@londonciv.org.uk](mailto:clientservice@londonciv.org.uk).

## LCIV Diversified Growth Fund

### Quarterly Commentary

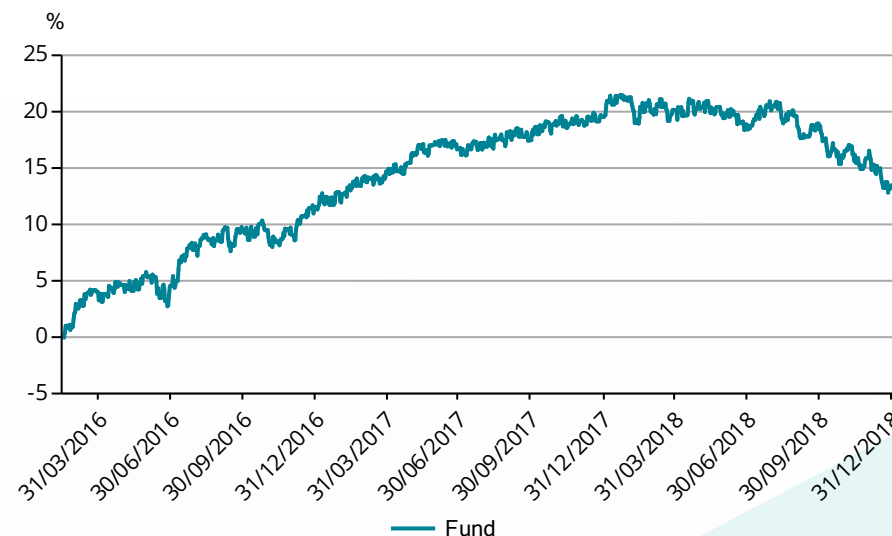
The LCIV Diversified Growth Fund delivered -4.59% return over the last quarter of the 2018. Over the full year, the fund returned -5.07%.

During the recent quarter the fund made only a few changes, mainly capitalising on opportunities where price falls led to more compelling valuations. Volatility futures (VIX) which serves as equity market hedges, were removed from the portfolio after being reinstated into the strategy in September. Within commodities, more additions were made to Nickel following price weakness and a continued belief that demand for the commodity will increase as electric vehicle battery manufacturing grows. The fund also exited their Oil market position as they reached the target price. Emerging market's hard currency bonds' allocation was increased, targeting high yield without the exchange rate risk associated with local currency issues.

Despite recent sell-off, equity valuations still remain unjustified for the manager. However, the fund continues to seek new additions in certain pockets of the market. European equities exposure was increased, initially by removing a short position in Eurostoxx 50 index futures and subsequently by adding European equity dividend futures falling sharp drops, now offering attractive pricing. Within Government bonds, short-dated US Treasury Inflation Protection Securities (TIPS), a defensive allocation which should give a reasonable return with some near-term inflation protection. The fund also maintains its longer-dated bond positions designed to benefit from growth and long-term inflation. Cash levels reduced over the quarter, reflecting the opportunity set in the quarter.

Emerging market bonds were one of the few positive contributors for the portfolio. Listed equities were the largest detractor overall. Insurance-linked bonds and property also added to the negative returns over the quarter.

### Performance since LCIV inception



Source: Fund prices calculated based on published NT prices. All performance reported Net of fees and charges with distributions reinvested.

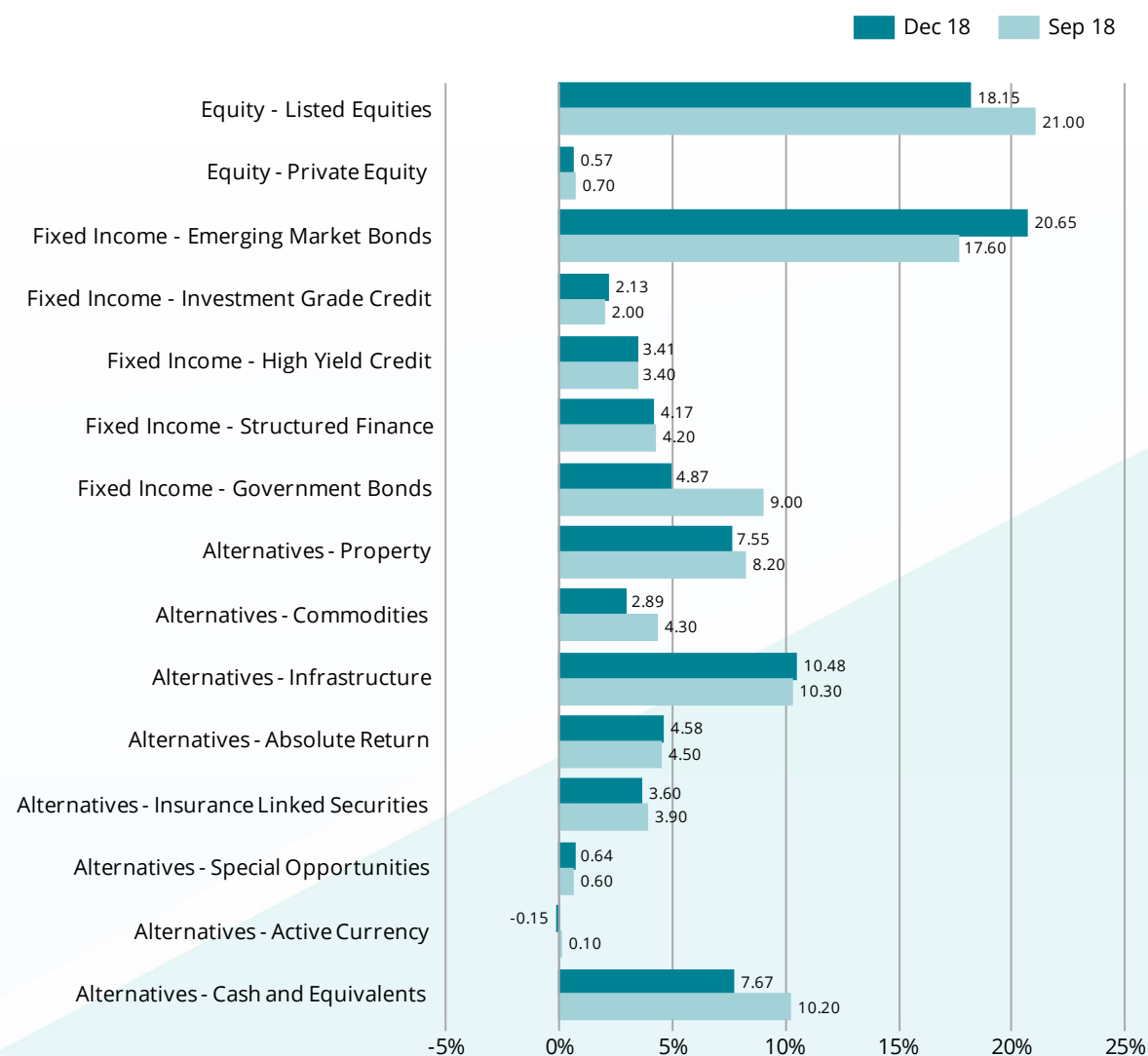
Despite a central thesis of reasonable global growth, the fund remains cautious on the number of risks that could derail this progress. This is visible in the barbell approach in the portfolio with high cash allocations and defensive assets along with a high percentage allocated to traditionally riskier assets.

### LCIV Diversified Growth Fund: Portfolio Characteristics

Key Statistics		
	30 September 2018	31 December 2018
Beta	0.27	0.19
Duration	1.28 years	1.23

Portfolio Exposures		
	30 September 2018	31 December 2018
<b>Equity</b>	<b>21.70</b>	<b>18.72</b>
Listed Equities	21.00	18.15
Private Equity	0.70	0.57
<b>Fixed Income</b>	<b>36.20</b>	<b>35.23</b>
Emerging Market Bonds	17.60	20.65
Investment Grade Credit	2.00	2.13
High Yield Credit	3.40	3.41
Structured Finance	4.20	4.17
Government Bonds	9.00	4.87
<b>Alternatives</b>	<b>42.10</b>	<b>37.26</b>
Property	8.20	7.55
Commodities	4.30	2.89
Infrastructure	10.30	10.48
Absolute Return	4.50	4.58
Insurance Linked Securities	3.90	3.60
Special Opportunities	0.60	0.64
Active Currency	0.10	(0.15)
Cash and Equivalents	10.20	7.67
<b>Total</b>	<b>100.00</b>	<b>91.21</b>



Source: Baillie Gifford & Co. Futures positions are included at their net exposure weight in the portfolio exposure column, and cash includes collateral held to back all long futures positions. Therefore total portfolio exposure may not sum to 100%.

## LCIV Diversified Growth Fund: ESG Summary

### Environmental



### Social



### Governance



#### Summary of ESG Policy

The Underlying Manager's Investment Team is responsible for engagement with the boards and management of companies and funds held directly within the Diversified Growth portfolio. A representative from their Governance & Sustainability Team provides a direct link with the investors, with regular meetings to oversee voting, support engagement and drive ESG analysis activities relevant to these investments. Their ESG Policy can be provided by LCIV upon request.

The UK Stewardship Code rating of the Underlying Manager is tier 1.

#### Summary of ESG Activity for the Quarter

Examples of engagements of the Underlying Manager in Q4 2018 include:

Votes Cast in Favour: Companies 16 / Resolutions 77

Votes Cast Against: Companies 1 / Resolutions 1

Votes Abstained/Withheld: Companies none / Resolutions none

Company Engagement:

AGM or EGM Proposals - Bluefield Solar Income Fund Limited

Corporate Governance - John Laing Environmental Assets Group Limited

Executive Remuneration - John Laing Group plc

#### Link to Underlying Managers Voting Report for the Quarter

<https://secure.londonciv.org.uk/funds/diversified-growth/#reports>

#### Relevant Holdings

Sector	% of portfolio
<b>Aerospace &amp; Defense</b>	<b>0.01</b>
Bharat Electronics	
<b>Alcohol</b>	<b>0.19</b>
Pernod Ricard SA	Ambev SA
Brown-Forman	Tsingtao
<b>Gambling</b>	<b>0.05</b>
International game	Sands China
<b>Oil &amp; Gas</b>	<b>1.70</b>
Korea Electric power	Tenaga
Petrolecs	Scottish & Southern energy
Apache Corp	Rio Tinto
Total	Mitsubishi
Mitsui	Toyota
Relaince	CNOOC
EDF	Jardine Matheson
Jefferies Financials groupl	Equinor
Alfa	Enquest
Inpex	Freeport
Range resources	Antero
Matador	Teck resource

LCIV Diversified Growth Fund: ESG Summary

**Environmental**



**Social**



**Governance**



Relevant Holdings	
Sector	% of portfolio
Tobacco	0.09
British American Tobacco	
<b>Total</b>	<b>2.04</b>

Source: Baillie Gifford & Co



## LCIV Absolute Return Fund

### Quarterly Summary as at 31 December 2018

#### Total Fund Value:

**£853.9m**

Inception date: 21/06/2016  
 Capacity\*: £1,500m  
 Price: 104.20p  
 Distribution frequency: Semi-Annually  
 Next XD date: 02/01/2019  
 Pay date: 29/03/2019  
 Estimated ppu: 0.9190

#### Investment Objective

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.

#### Tower Hamlets Valuation:

**£126.6m**

Tower Hamlets investment date: 21/06/2016  
**This is equivalent to 14.82% of the Fund**  
 Distribution option: Reinvest  
 Est. distribution to be reinvested: £1,116,478

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Fund	(5.40)	(6.05)	2.43

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Tower Hamlets	(5.40)	(6.05)	0.46

\*Total fund capacity as at 31 December 2018. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at [clientservice@londonciv.org.uk](mailto:clientservice@londonciv.org.uk).

## LCIV Absolute Return Fund

### Quarterly Commentary

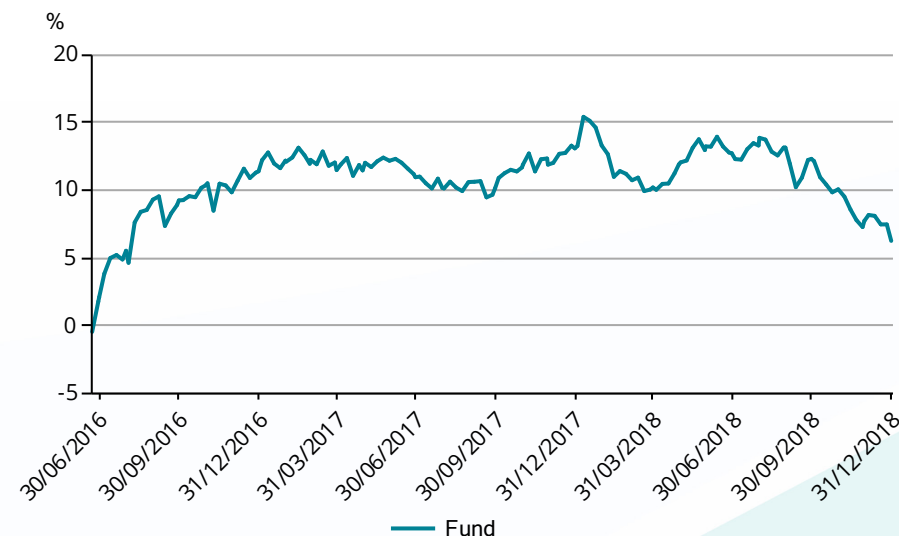
The LCIV Absolute Return Fund had a very disappointing quarter with the fund returning -5.40% over the last quarter and -6.05% for the full year.

Despite a tough quarter, the manager still believes in their premise of late cycle growth that would usually benefit certain cyclical stocks and inflation linked bonds as we see low unemployment and wage growth affect consumer spending and inflation. However, there have been alterations to the portfolio suggesting that the fund is positioning itself for any mild surprises to the up or downside.

The fund's equities saw declines in October and November, whereas December saw a revival, mainly due to equity protections through the illiquid CDS strategy that saw a 14% rise in December and 30% over the quarter. While the option protection attributed marginally positively, the manager has reduced its overall option protection down to 0.10%, seeking more protection through Ruffer Illiquid Multi Strategies Fund, for which the allocation has gone up to 5%. Amongst other defensive assets, Gold and Gold equities and UK index-linked bonds contributed positively to the portfolio. Losses within equities generally came from cyclicals and financials and the protective strategies only countered that in a muted manner.

Over the quarter, equity weightings were cut down from 41% to 35%, while Japanese equities, in particular, were reduced from 15% to 10% as the manager becomes more mindful on inflation prospects. Positions in GSK and Whitbread were sold on conviction basis, and General Motors and DowDuPont were added as a result of both their top-down and valuation thesis. The manager has increased bond duration with 4% added to 30-year Treasury Inflation Protection Securities (TIPS) and 5% to 10-year TIPS. In currencies, the fund is less exposed to US Dollar and they used the proceeds to increase their Japanese Yen exposure to benefit from any 'Flight to Safety'.

### Performance since LCIV inception



Source: Fund prices calculated based on published NT prices. All performance reported Net of fees and charges with distributions reinvested.

From this juncture, the portfolio is positioned such that more the market deteriorates, the more likely the fund's protective assets will kick in, whereas on the other end, if the markets thrive from here on, the growth stocks in the portfolio should perform positively.

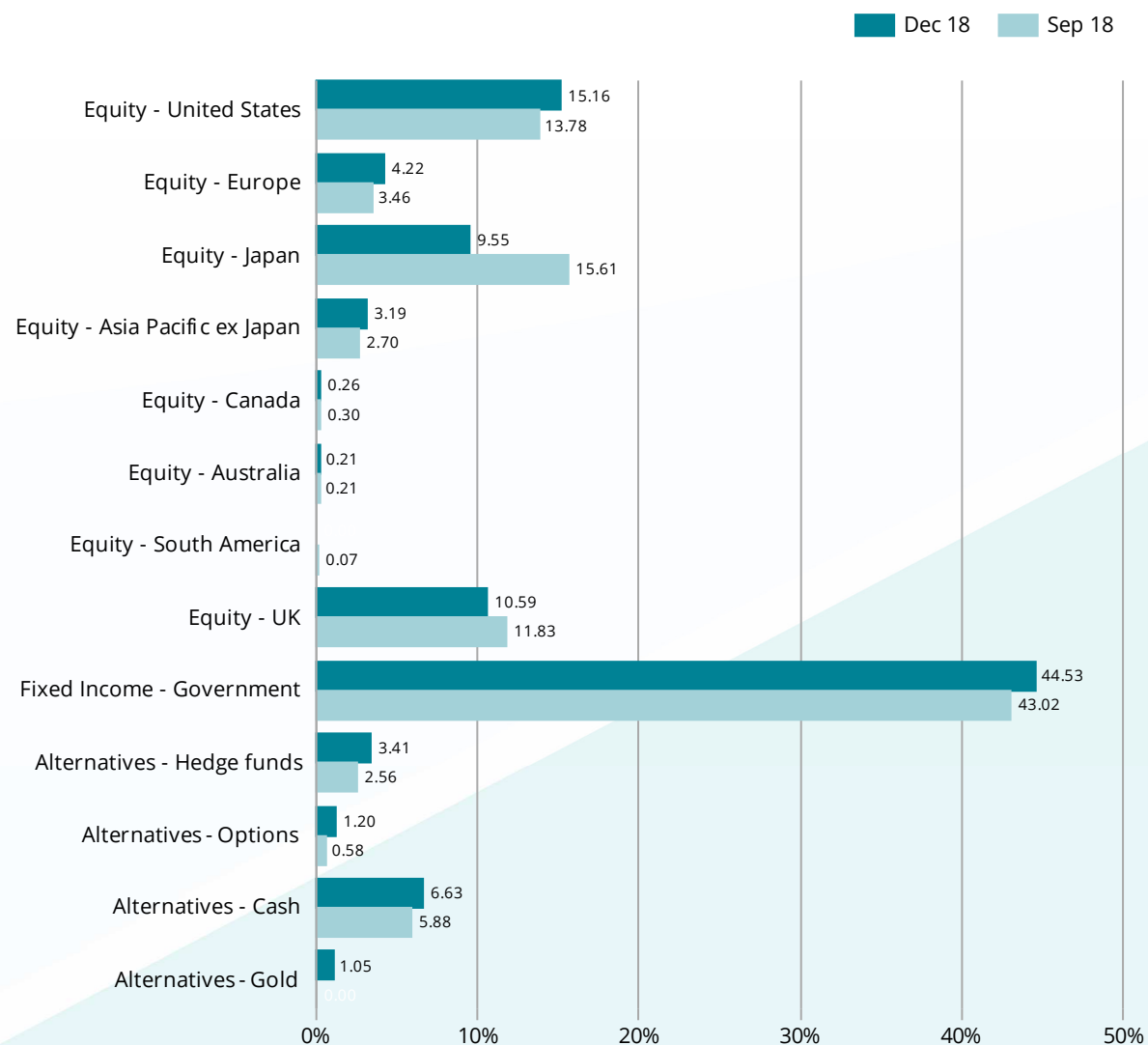
There have been no changes to the team or procedures during the quarter.

## LCIV Absolute Return Fund: Portfolio Characteristics

Key Statistics		
	30 September 2018	31 December 2018
Beta	0.42	0.38
Duration	5.95	7.40

Portfolio Exposures		
	30 September 2018	31 December 2018
<b>Equity</b>	<b>47.96</b>	<b>43.18</b>
United States	13.78	15.16
Europe	3.46	4.22
Japan	15.61	9.55
Asia Pacific ex Japan	2.70	3.19
Canada	0.30	0.26
Australia	0.21	0.21
South America	0.07	0.00
UK	11.83	10.59
<b>Fixed Income</b>	<b>43.02</b>	<b>44.53</b>
Government	43.02	44.53
<b>Alternatives</b>	<b>9.02</b>	<b>12.29</b>
Hedge funds	2.56	3.41
Options	0.58	1.20
Cash	5.88	6.63
Gold	0.00	1.05
<b>Total</b>	<b>100.00</b>	<b>100.00</b>



## LCIV Absolute Return Fund: ESG Summary

### Environmental



### Social



### Governance



#### Summary of ESG Policy

ESG issues are integrated into the Underlying Manager's investment process from idea generation stage through to research review, front office review and conviction review. When ESG risks are identified they will endeavour to draft an active stewardship plan. Their ESG policy can be provided by LCIV upon request.

The UK Stewardship Code rating of the Underlying Manager is tier 1.

#### Summary of ESG Activity for the Quarter

Exxon - Ruffer participated in a Climate Action 100+ group meeting with ExxonMobil's Corporate Secretary. Co-filing Resolution asking for the company to disclose greenhouse gas targets which are aligned with the Paris Agreement

Ocado - Meetings with Chair of the Remuneration Committee to discuss the remuneration policy.

Imperial Oil - continued discussion around alignment and oversight of climate impact As part of Climate Action 100+, joined the working group for ArcelorMittal

#### Link to Underlying Managers Voting Report for the Quarter

<https://secure.londonciv.org.uk/funds/absolute-return/#reports>

#### Relevant Holdings

Sector		% of portfolio
<b>Fertilizers &amp; Agricultural Chemicals</b>		<b>1.98</b>
DowDuPont	Yara	
<b>Oil &amp; Gas</b>		<b>2.56</b>
BP	Exxon	
<b>Total</b>		<b>4.54</b>

Source: Ruffer LLP

## LCIV MAC Fund

### Quarterly Summary as at 31 December 2018

#### Total Fund Value:

**£638.9m**

Inception date: 31/05/2018  
 Capacity\*: Unlimited  
 Price: 99.37p  
 Distribution frequency: Semi-Annually  
 Next XD date: 02/01/2019  
 Pay date: 29/03/2019

#### Investment Objective

The Sub-fund's objective is to seek to achieve a return of LIBOR+4-5%, with a net asset value volatility of 4-6%, on an annualised basis over a rolling 4 year period, net of fees.

#### Tower Hamlets Valuation:

**£89.4m**

Tower Hamlets investment date: 31/05/2018  
**This is equivalent to 14.00% of the Fund**  
 Distribution option: Reinvest  
 Est. distribution to be reinvested: £-

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Fund	(1.95)	n/a	(0.63)

Net Performance	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)
Tower Hamlets	(1.95)	n/a	(0.63)

\*Total fund capacity as at 31 December 2018. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at [clientservice@londonciv.org.uk](mailto:clientservice@londonciv.org.uk).

## LCIV MAC Fund

### Quarterly Commentary

The fund has a single holding in the CQS Credit Multi Asset Fund, which produced its worst quarter since inception returning -1.95% and the year down -0.66%.

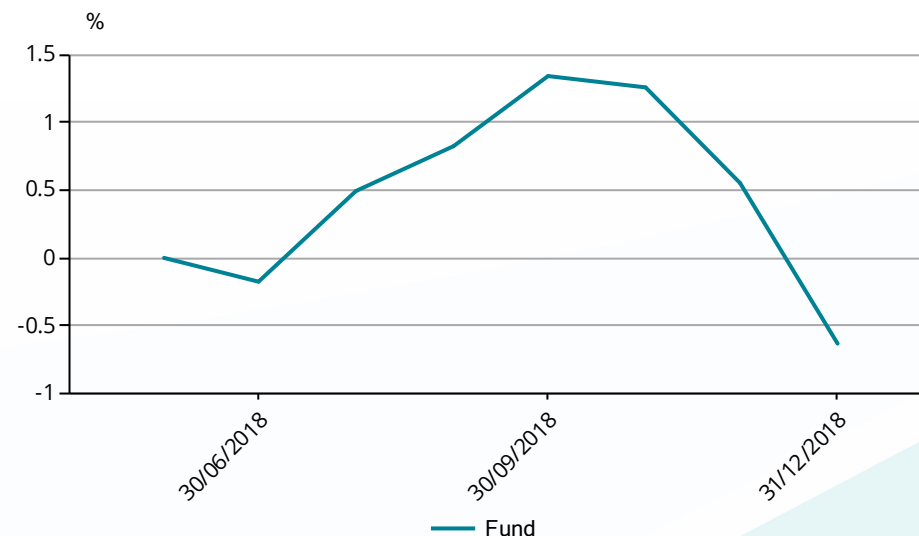
The combination of volatility and bulk credit trades between ETFs resulted in challenging conditions for the manager whereby market marks and pricing became materially dislocated. The losses experienced by the fund during this period were all mark-to-market not defaults. A further drag on performance over the quarter was hedging costs.

**Asset Backed Securities** - The Book started the quarter positively adding to performance in October, however as increased risk in the market led to spreads widening, this resulted in downwards pressure on pricing. Whilst the higher quality US RMBS helped to reduce this downward trend, the returns from CLO investments were not able to offset this and the book contributed -0.40% for the quarter.

**Corporate Bonds** - CQS began Q4 with a large uninvested High Yield allocation having realised many holdings in late Q3. This resulted in the team buying into a downward trending high yield market. This was good for opportunistic investing however the mark to market value of these securities in the short term did weigh heavily on performance. The High Yield allocation at year end was 12.33% and contributed -0.46% to quarterly performance whilst the Investment Grade allocations remained low at 2.87% and contributed -0.12% to performance. CQS and LCIV have been discussing at what point it may be advantageous to switch the floating rate US loan exposures to fixed rate corporate bonds.

**Loans** - The exposure has reduced slightly over the quarter, but it is still 52.9% of the portfolio with a 0.22% return at the start of the quarter and ending the quarter with a net contribution of -0.62%.

### Performance since LCIV inception



Source: Fund prices calculated based on published NT prices. All performance reported Net of fees and charges with distributions reinvested.

**Convertible Bonds** - The convertible bonds portfolio was down over the quarter contributing -0.12% to performance. Net exposure has come down slightly over the quarter to 3.7% with the largest holdings remaining in Japanese utilities and chemical holdings.

### Outlook

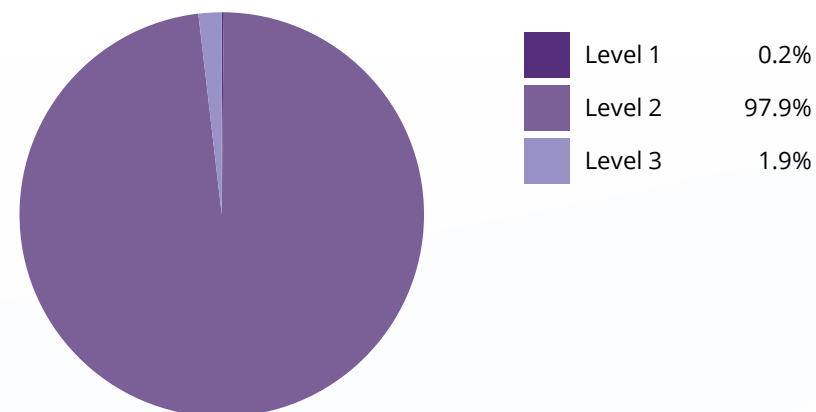
LCIV share CQS's frustrations at market conditions late in the year but are happy that CQS has used the opportunity to transact on attractive trades. The portfolio has increased its yield to deliver a strong and robust cash yield which should help protect it better in more volatile markets and without materially adding to risk.

### LCIV MAC Fund: Portfolio Characteristics

#### Risk Highlights

Weighted Average Rating	B+
% Long Bond Equivalent Exposure with Public Rating	84.53%
% of Investment with Public Rating	83.74%
Yield to Expected Maturity GBP	5.80%
Spread Duration	4.09
Interest Rate Duration	1.27

#### Liquidity Management



#### Stress Test

Asset Class	Equities -10%	Equities +10%	Credit -25%	Credit +25%	IR -100bps	ABS -10%	ABS +10%
ABS						(2.02)%	2.02%
Convertibles	(0.11)%	0.13%	0.03%	(0.03)%	0.07%		
Loans	(0.00)%	0.00%	3.21%	(3.21)%	0.32%		
High Yield	(0.01)%	0.01%	0.83%	(0.95)%	0.50%		
Investment Grade			0.22%	(0.21)%	0.08%		
Uncommitted Capital							

## LCIV MAC Fund: Portfolio Characteristics

### Asset Classification

Classification	Nominal Exposure (%)	Contribution to Return (%)	Risk Weighted Exposure (%)
Loans	52.90	(0.62)	0.01
ABS	20.20	(0.40)	0.04
HY Corporate Bonds	12.33	(0.46)	0.05
FX	7.97	(0.19)	(0.03)
Convertibles	3.73	(0.20)	0.02
IG Corporate Bonds	2.87	(0.12)	0.03

### Top Contributors to Performance

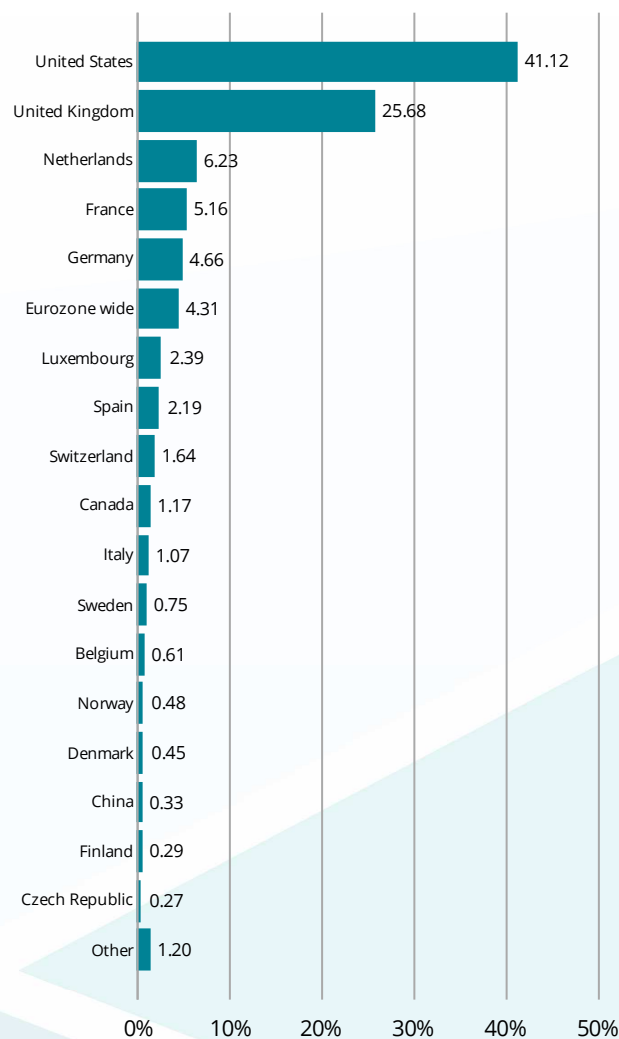
Security Name	Nominal Exposure (%)	Contribution to Return (%)
Healthcare Equipt & Services	4.30	0.00
Media	3.60	(0.01)
ABS	1.30	0.06
Telecommunication Services	1.30	(0.01)

### Bottom Contributors to Performance

Security Name	Nominal Exposure (%)	Contribution to Return (%)
Semiconductors & Equipment	2.10	(0.15)
Software & Services	4.70	(0.13)
Energy	9.30	(0.17)
Diversified Financials	20.20	(0.40)

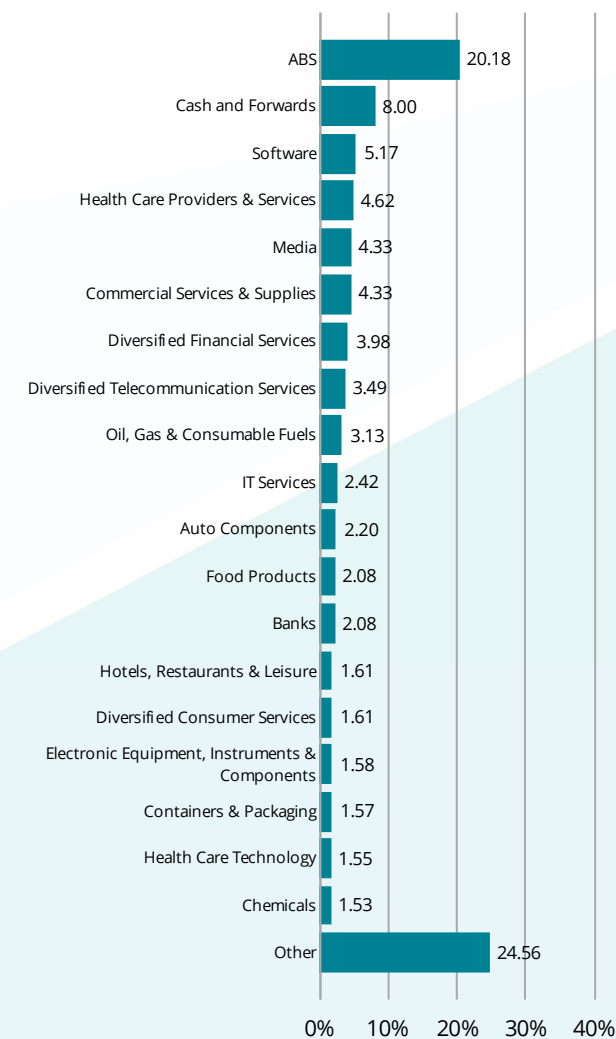
### Country Weights

#### NAV (%)



### Sector Weights

#### NAV (%)





## LCIV MAC Fund: ESG Summary

### Environmental



### Social



### Governance



#### Summary of ESG Policy

LCIV reviews the ESG policies of all holdings within the LCIV MAC Fund. The Underlying Manager believes that ESG factors can influence the performance of companies and the value of their securities. While these factors are typically skewed toward impacting equity security valuation more than the value of an issuer's debt, it is possible for these factors to affect an issuer's ability to meet its financial obligations as and when they fall due, potentially materially so. The Underlying Manager assesses each of these factors as part of the fundamental research process that supports the investment process. Their research process considers both bottom-up and macro ESG factors in assessing investments. Where they perceive there may be material risk or opportunity resulting from company exposure to these matters, this is considered in constructing strategies.

#### Relevant Holdings

Sector	% of portfolio
Aerospace & Defense	0.63
Casinos & Gaming	0.74
Fertilizers & Agricultural Chemicals	0.40
Oil & Gas	3.13
<b>Total</b>	<b>4.90</b>

Source: CQS

## Passive Investment Summary

The table below outlines the valuation of investments held per passive manager at the beginning and end of the quarter. For details on the performance of these funds please contact the passive managers directly.

	30 September 2018	31 December 2018
<b>LGIM</b>	<b>£</b>	<b>£</b>
MSCI World Low Carbon Target Index GBP Currency Hedged	251,551,867	217,964,522
All World Equity Index	85,486,091	76,497,636
All World Equity Index Currency Hedged	23,339,742	20,416,155
Transition CSUF STBP	2,743	4,407
<b>Total</b>	<b>360,380,443</b>	<b>314,882,720</b>

Source: Passive Investment Manager LGIM

## LCIV Fund Range

Please see below a summary of the LCIV funds, including both those in which you are invested, and those you are not. All performance is reported Net of fees and charges with distributions reinvested. For performance periods of more than a year performance is annualised.

	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
<b>UK Equity</b>							
<b>LCIV UK Equity Fund</b>	£467m	£1,000m	(10.69)	(9.74)	(4.87)	18/05/2017	3
<i>Benchmark: FTSE All Share Index</i>			(10.25)	(9.47)	(2.61)		
<b>Performance Against Benchmark</b>			(0.44)	(0.27)	(2.26)		
<b>Global Equity</b>							
<b>LCIV Global Equity Alpha Fund</b>	£106m	Unlimited	(11.54)	(3.13)	12.08	02/12/2015	1
<i>Benchmark: MSCI World Index Total Return (Net) in GBP</i>			(11.35)	(3.04)	11.11		
<b>Performance Against Benchmark</b>			(0.19)	(0.09)	0.97		
<b>LCIV Global Alpha Growth Fund</b>	£2,092m	See note below	(12.46)	(4.15)	15.39	11/04/2016	12
<i>Benchmark: MSCI All Country World Gross Index</i>			(10.63)	(3.37)	12.66		
<b>Performance Against Benchmark</b>			(1.83)	(0.78)	2.73		
<b>LCIV Global Equity Fund</b>	£557m	Unlimited	(9.58)	0.35	3.59	22/05/2017	3
<i>Benchmark: MSCI All Country World Index Total Return (Gross)</i>			(10.57)	(3.27)	2.88		
<b>Performance Against Benchmark</b>			0.99	3.62	0.71		
<b>LCIV Global Equity Focus Fund</b>	£700m	£1,500m	(7.96)	4.29	5.50	17/07/2017	5
<i>Benchmark: MSCI World Index Total Return (Net) in GBP</i>			(11.35)	(3.04)	1.28		
<b>Performance Against Benchmark</b>			3.39	7.33	4.22		
<b>LCIV Equity Income Fund</b>	£222m	£750m	(5.60)	(2.96)	(3.36)	08/11/2017	2
<i>Benchmark: MSCI World Index Total Return (Net) in GBP</i>			(11.35)	(3.04)	(3.02)		
<b>Performance Against Benchmark</b>			5.75	0.08	(0.34)		
<b>LCIV Emerging Market Equity Fund</b>	£276m	£1,000m	(3.38)	n/a	(12.56)	11/01/2018	6
<i>Benchmark: MSCI Emerging Market Index (TR) Net</i>			(5.26)	n/a	(12.17)		
<b>Performance Against Benchmark</b>			1.88	n/a	(0.39)		
<b>LCIV Sustainable Equity Fund</b>	£249m	£1,000m	(12.01)	n/a	(0.58)	18/04/2018	2
<i>Benchmark: MSCI World Index Total Return (Net) in GBP</i>			(11.35)	n/a	0.48		
<b>Performance Against Benchmark</b>			(0.66)	n/a	(1.06)		

## LCIV Fund Range (continued)

	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
<b>Multi Asset</b>							
LCIV Global Total Return Fund	£308m	Unlimited	(2.02)	(1.41)	2.81	17/06/2016	5
LCIV Diversified Growth Fund	£627m	See note below	(4.59)	(5.07)	4.49	15/02/2016	8
LCIV Absolute Return Fund	£854m	£1,500m	(5.40)	(6.05)	2.43	21/06/2016	10
LCIV Real Return Fund	£182m	Unlimited	(1.65)	0.10	1.97	16/12/2016	2
<b>Fixed Income</b>							
LCIV MAC Fund	£639m	Unlimited	(1.95)	n/a	(0.63)	31/05/2018	9
LCIV Global Bond Fund	£167m	Unlimited	n/a	n/a	0.38	30/11/2018	2
<i>Benchmark: Barclays Aggregate – Credit Index Hedged (GBP) Index</i>			<i>n/a</i>	<i>n/a</i>	<i>1.00</i>		
<b>Performance Against Benchmark</b>			<b>n/a</b>	<b>n/a</b>	<b>(0.62)</b>		
<b>Total LCIV Assets Under Management</b>	<b>£7,447m</b>						

\*Total fund capacity as at 31 December 2018. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at [clientservice@londonciv.org.uk](mailto:clientservice@londonciv.org.uk).

## Glossary of Terms

- **Reporting Date** All data and content within this report is as per the date noted on the front cover, unless otherwise noted. Where the reporting end date falls on a weekend or Bank holiday, data from the previous business day will be used.
- **Set up of the Sub-Funds** The London LGPS CIV Ltd (“London CIV” or “LCIV”) is the Alternative Investment Fund Manager for the London LGPS CIV Authorised Contractual Scheme and manages the sub-funds on either a delegated or pooled basis.
  - Delegated: the sub-fund is structured as a delegated mandate with an appointed manager selecting individual securities overseen by the London CIV. The sub-funds directly own the assets which are held by the custodian. This is the case for the active global equity and UK equity sub-funds.
  - Pooled: The sub-fund holds units in collective investment schemes managed by other investment managers rather than directly holding the individual securities. This is the case for the multi-asset sub-funds.
- **Net Market Move** Change in valuation of the holding due to movement in the market rather than cash flows into or out of the portfolio.
- **Performance Calculation Basis** Fund performance is calculated net of all fees and expenses. Where a fund has been open for less than a year the performance will show as n/a. Performance is calculated in one of two ways depending which option is taken for reinvestment. Where distributions are reinvested fund performance is shown including the impact of this reinvestment. Where the cash option is taken distributions are included however no growth in distributions is included. Additional external flows such as subscriptions or redemptions are factored in on a Modified Dietz basis. This may mean that the performance for an LLA is different to the performance of the fund in total.
- **Since Inception Performance** For fund / LLAs that have been live for a period exceeding 12 months, figures are annualised taking into account the period the fund has been open.
- **Capacity** Total capacity of the fund. Further details can be found within the prospectus, funds may be limited by subscriptions into the fund or by the total fund valuation size. For queries on remaining capacity as at a relevant date, please contact the Client Service Team at [clientservice@londonciv.org.uk](mailto:clientservice@londonciv.org.uk).
- **XD Date** The date on which the distribution amount will be determined. Units purchased in the fund on its ex-dividend date or after, will not receive the next payment. Any units held in the fund before the ex-dividend date, receive the distribution.
- **Pay Date** The date on which the distribution amount will be paid in cash. If a reinvestment option is taken this will be reinvested on paydate -2 BD.
- **Estimated PPU** The estimated distribution pence per unit payment that will be made to unitholders at the next paydate.
- **Sectors and Industry Characteristics** The number of holdings in different sectors and industries is counted based on the classification to GICS categories of all individual portfolio holdings within the northern trust fund accounting system.
- **Country Characteristics** The number of holdings in different countries is counted based on the classification to countries of risk of all individual portfolio holdings within the northern trust fund accounting system.
- **Active Risk** A measure of the risk in an investment portfolio that is due to active management decisions made by the portfolio manager; it indicates how closely a portfolio follows the benchmark.
- **Total Risk** A measure of the total risk in an investment portfolio.

## Glossary of Terms

- **Beta** Ex ante is a measure of the volatility, or systematic risk, of the portfolio in comparison to the benchmark. Ex-ante analysis helps to give an idea of future movements in price.
- **Top Ten Holdings** Largest ten holdings within the investment portfolio as at the reporting date.
- **Performance Attribution** For delegated portfolios the top ten contributors and detractors to performance are shown. This is to show how the structure of the portfolio contributed to the total performance.
- **New Positions** For delegated portfolios any new positions are shown. This is new holdings entered into during the quarter that were not held at the last quarter end. If there are more than ten it is limited to the largest ten as at the end of the quarter. This is not necessarily the same as the largest ten purchases for the quarter if pre-existing holdings have been topped up.
- **Completed Sales** For delegated portfolios any completed sales are shown. This is holdings held at the last quarter end which have been sold out of and are no longer held as at the reporting date. If there are more than ten it is limited to the largest ten as at the end of last quarter. This is not necessarily the largest ten sales for the quarter.
- **ESG** This stands for Environmental, social and governance and refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a company or business.
- **UK Stewardship Code** A code which aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. Asset managers who sign up are given a tier rating of one or two. Details of all signatories, with links to the statements on their websites are available on the FRC website <https://www.frc.org.uk/investors/uk-stewardship-code>
- **Relevant Holdings** This table highlights holdings within the investment portfolio in GIC sub-industries which may be considered relevant for ESG considerations. Specifically this calls upon sub-industries:
  - ✓ Aerospace & defence
  - ✓ Brewers
  - ✓ Casinos & Gaming
  - ✓ Distillers & Vintners
  - ✓ Fertilizers & Agricultural Chemicals
  - ✓ Integrated Oil & Gas
  - ✓ Oil & Gas Drilling
  - ✓ Oil & Gas Equipment & Services
  - ✓ Oil & Gas Exploration & Production
  - ✓ Oil & Gas Storage & Transportation
  - ✓ Tobacco
- List of **Underlying Manager** per Fund
  - ✓ Allianz Global Investors for LCIV Global Equity Alpha Fund
  - ✓ Baillie Gifford & Co for LCIV Global Alpha Growth Fund and LCIV Diversified Growth Fund
  - ✓ Epoch Investment Partners for LCIV Equity Income Fund
  - ✓ Henderson Global Investors for LCIV Emerging Market Equity Fund
  - ✓ Longview Partners for LCIV Global Equity Focus Fund
  - ✓ Majedie Asset Management for LCIV UK Equity Fund
  - ✓ Newton Investment Management for LCIV Global Equity Fund and LCIV Real Return Fund
  - ✓ Pyrford International for LCIV Global Total Return Fund
  - ✓ RBC Global Asset Management (UK) Limited for LCIV Sustainable Equity Fund
  - ✓ Ruffer LLP for LCIV Absolute Return Fund
  - ✓ CQS for LCIV MAC Fund

## Glossary of Terms

✓ PIMCO for LCIV Global Bond Fund

- **Weighted Average Rating** This is the weighted average credit rating of all the bonds in the fund which gives an idea of the credit quality and riskiness of the portfolio.
- **% Long Bond Equivalent Exposure with Public Rating** This represents the percentage market value of all debt instruments that the fund has bought and have a rating issued by a credit agency.
- **% of Investment with Public Rating** This represents the percentage market value of all debt instruments that the fund is long or short and have a rating issued by a credit agency.
- **Yield to Expected Maturity** It is the total return expected on the bond if it is held until it matures.
- **Spread Duration** This represents the price sensitivity of the portfolio to changes in spreads between different credit quality bonds.
- **Interest Rate Duration** It is the price sensitivity of the portfolio to changes in interest rates.

## Disclaimer

### London CIV

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