

PENSIONS PANEL

14 March 2018

Title: Pension Fund Quarterly Monitoring 2017/18 – October to December 2017	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Recommendations	
The Panel is recommended to note:	
<ul style="list-style-type: none">(i) the progress on the strategy development within the Pension Fund;(ii) the daily value movements of the Fund's assets and liabilities outlined in Appendix 1; and(iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually.	

1. Introduction and Background

- 1.1 This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 October 2017 to 31 December 2017 ("Q4"). The report updates the Panel on the Fund's investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provides a definition of terms used in this report and Appendix 3 sets out roles and responsibilities of the parties referred to throughout this report.
- 1.2 A verbal update on the unaudited performance of the Fund for the period 1 January to 12 March 2018 will be provided to Members at the Pension Panel.

2. Market Commentary Q4 2017

- 2.1 From both an economic and financial perspective, 2017 finished on a positive note. Solid economic data enabled some of the major central banks to tighten monetary policy and taper asset purchases. As measured by the MSCI World Index, global equities

returned 4.6%, while the MSCI Emerging Markets Index posted an even stronger return of 6.6%.

- 2.2 A breakthrough on the difficult Brexit negotiations in early December was an important development and UK equity markets posted healthy gains in the immediate aftermath and the FTSE All Share index was up 5.0% for the quarter.
- 2.3 Data out of the US was generally strong, tax reform boosted markets and oil prices pushed higher, with the S&P 500 Index posting a gain of 5.8% for the quarter. Sector leadership came from consumer discretionary, IT and financials; defensive sectors such as utilities, health care and real estate were the poorest performers.
- 2.4 European markets, on the other hand lagged as political tensions weighed on the region, namely the uncertain outcome of the German elections and political tensions between Spain and Catalonia. The FTSE Europe ex UK Index returned 0.4% to the sterling investor.
- 2.5 In Japan the Topix Index returned 7.7% in Q4 2017, the best performing region from a GBP investor perspective. Pacific markets in aggregate returned 7.1% for the quarter as measured by the MSCI AC Asia Pacific ex Japan Index.
- 2.6 Longer dated government bond yields entered a period of consolidation in Q4 as the Fed, Bank of England and ECB raised rates or announced the tapering of asset purchases. Global Bond market performance was flat for a UK investor and Index Linked Gilts >5-year issues returned 3.9%.
- 2.7 The euro's strong performance in 2017 continued in Q4 as it gained 0.7% against the pound. Sterling however gained 0.9% versus the JPY and 0.8% against the USD over Q4 2017; representing gains of 5.4% and 8.7% respectively over the year.
- 2.8 Rising interest rates in the US and UK fed through into higher money market rates; three-month USD LIBOR rose to 1.7% from 1.3%, while three-month GBP LIBOR rose to 0.5% from 0.3%. Property had another steady quarter returning 3%.

3. Overall Fund Performance

- 3.1 The Fund's externally managed assets closed Q4 2017 valued at £989.1m, an increase of £22.7m from its value of £966.4m as at 30 September 2017. The cash value held by the Council at 30 September 2017 was £7.9m giving a total Fund value of £997.0m.
- 3.2 For Q4 the Fund returned 3.2%, net of all fees, outperforming its benchmark by 0.1% but underperforming the PIRC LGPS Universe (PIRC) by 0.8%. Over one year the Fund has returned 11.2%, outperforming its benchmark by 1.5% but underperforming PIRC by 0.6%. Over three years the Fund has outperformed its benchmark by 0.2%, with a return of 10.4% and has underperformed PIRC by 0.6%. The Fund's returns are provided below:

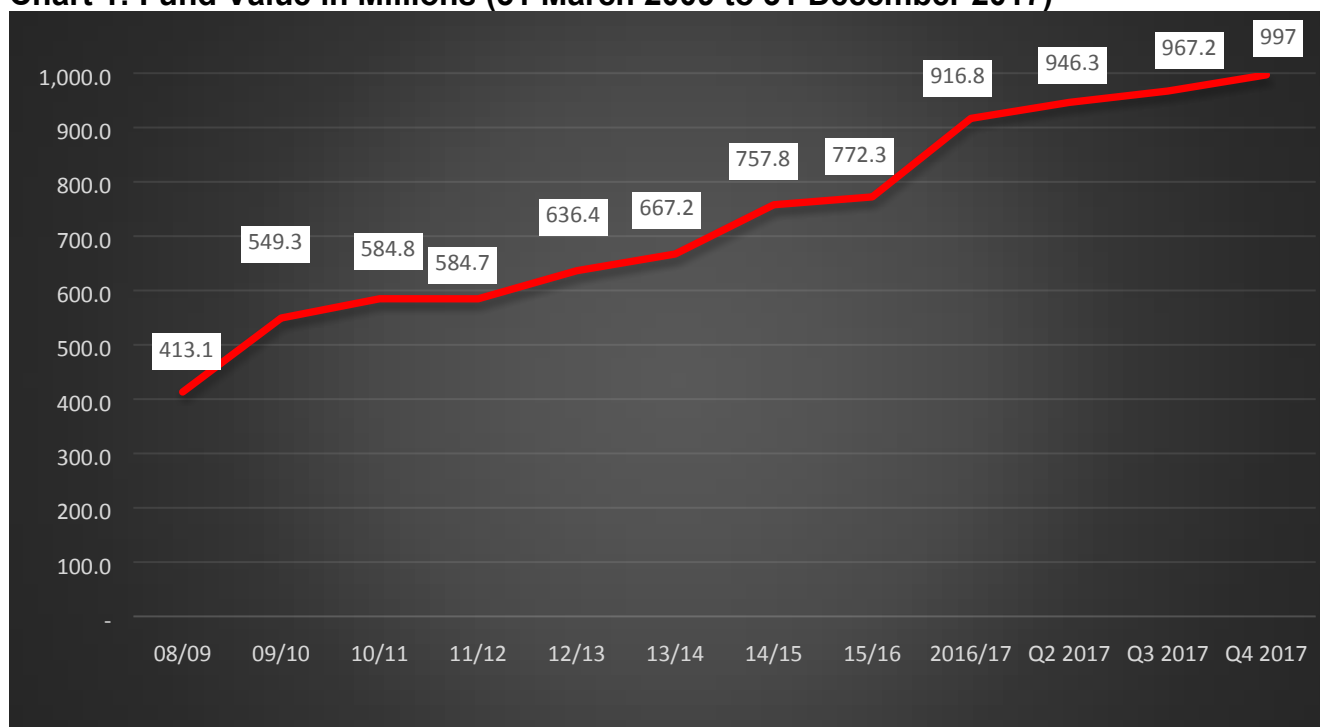
Table 1: Fund's Q4 2017, 2016 Quarterly and Yearly Returns

Year	2017				2016				One Year	Two Years	Three Years	Five Years
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1				
Actual Return	3.2	2.2	1.8	3.8	3.7	5.3	5.2	2.5	11.2	13.8	10.4	10.6
Benchmark	3.1	1.8	1.2	3.3	3.6	4.4	5.7	2.0	9.7	12.6	10.2	10.5
Difference	0.1	0.4	0.6	0.5	0.1	0.9	(0.5)	0.5	1.5	1.2	0.2	0.1
*PIRC Universe	4.0	1.6	0.7						11.8		11.0	11.1

The returns for the latest period are based on the asset allocation of the PIRC Local Authority Universe. The Universe is currently comprised of 60 funds with a value of £162bn.

3.3 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 31 December 2017. Members are asked to note the significant changes in value and the movements in the Fund's funding level. Chart 1 below shows the Fund's value since 31 March 2009.

Chart 1: Fund Value in Millions (31 March 2009 to 31 December 2017)



3.4 Stock selection contributed -0.2%, with asset allocation contributing 0.3% for the quarter. The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below.

■	RED- Fund underperformed by more than 75% below the benchmark
Δ	AMBER- Fund underperformed by less than 75% below the benchmark.
○	GREEN- Fund is achieving the benchmark return or better

3.5 Table 2 highlights the Q4 return. Several funds underperformed their respective benchmarks, although most funds returned a positive overall return, with only Standish providing a negative return for the quarter. Equities provided good returns of over 5%.

Table 2 – Fund Manager Q4 2017 Performance

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Asset Man.	1.3	1.1	0.2	O
Baillie Gifford	4.9	5.0	(0.1)	Δ
BlackRock	2.9	3.1	(0.2)	Δ
Hermes GPE	0.8	1.4	(0.6)	Δ
Kempen	5.5	4.6	0.9	O
Prudential / M&G	1.1	1.1	0.0	O
Newton	0.3	1.1	(0.8)	Δ
Pyrford	0.6	2.2	(1.6)	Δ
Schroders	3.4	3.1	0.3	O
BNY Standish	(0.5)	1.1	(1.6)	Δ
UBS Bonds	2.2	2.0	0.2	O
UBS Equities	5.7	5.5	0.2	O

- 3.6 Over one-year, (table 3), Aberdeen, Schroders and the equity managers provided good returns. Pyrford continues to struggle, significantly underperforming its benchmark.

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Asset Man.	12.3	4.4	7.9	O
Baillie Gifford	21.2	13.4	7.8	O
BlackRock	8.7	9.8	(1.1)	Δ
Hermes GPE	5.3	5.6	(0.3)	Δ
Kempen	12.1	11.3	0.8	O
Prudential / M&G	4.5	4.3	0.2	O
Newton	2.5	4.2	(1.7)	Δ
Pyrford	1.5	8.8	(7.3)	Δ
Schroders	11.4	9.8	1.6	O
BNY Standish	3.2	4.3	(1.1)	Δ
UBS Bonds	1.9	1.7	0.2	O
UBS Equities	16.3	16.0	0.3	O

- 3.7 Over two years, (table 4), all mandates are positive, with returns ranging from 2.1% with Standish to 22.5% with Kempen. Standish and Pyrford have significantly underperformed their benchmarks, underperforming by 2.4% and 2.7% respectively. The high equity returns are in sharp contrast to the rest of the strategies, where single digit returns are most prevalent.

Table 4 – Fund manager performance over two years

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Asset Man.	7.0	4.4	2.6	O
Baillie Gifford	22.2	20.0	2.2	O
BlackRock	4.6	6.3	(1.7)	Δ
Hermes GPE	8.6	5.6	2.9	O
Kempen	22.5	19.1	3.4	O
Prudential / M&G	4.6	4.4	0.2	O
Newton	3.7	4.3	0.0	O
Pyrford	5.4	8.1	(2.7)	Δ
Schroders	6.7	6.3	0.4	O
BNY Standish	2.1	4.5	(2.4)	Δ
UBS Bonds	6.1	5.9	0.2	O
UBS Equities	21.1	20.9	0.2	O

4. Asset Allocations and Benchmark

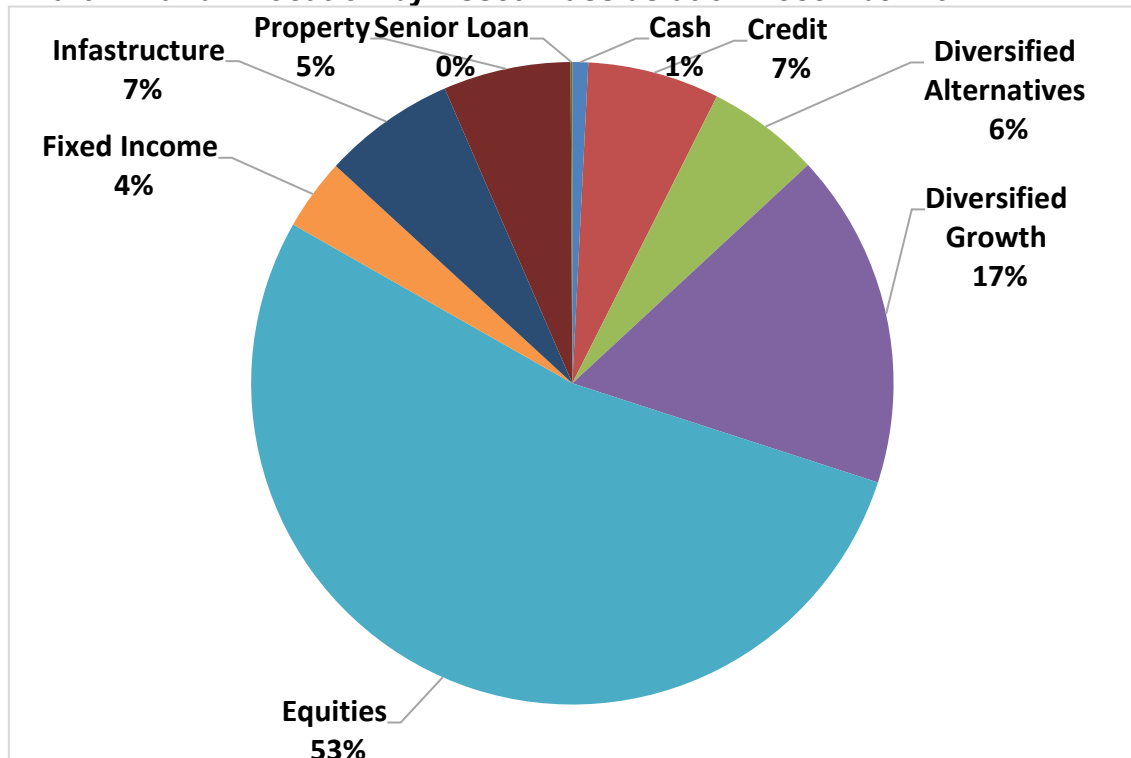
4.1 Table 5 below outlines the Fund's strategic asset allocation, asset value and benchmarks:

Table 5: Fund Asset Allocation and Benchmarks as at 31 December 2017

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Aberdeen Asset Man.	5.7%	56,615	3 Mth LIBOR + 4% per annum
Baillie Gifford	18.9%	187,945	MSCI AC World Index
BlackRock	4.0%	39,526	AREF/ IPD All Balanced
Hermes GPE	6.7%	66,476	Target yield 5.9% per annum
Kempen	16.6%	165,423	MSCI World NDR Index
Prudential / M&G	0.1%	885	3 Mth LIBOR + 4% per annum
Newton	6.7%	66,360	One-month LIBOR +4% per annum
Pyrford	10.2%	101,975	UK RPI +5% per annum
Schroders	2.5%	24,455	AREF/ IPD All Balanced
BNY Standish	6.6%	66,166	3 Mth LIBOR + 4% per annum
UBS Bonds	3.6%	35,893	FTSE UK Gilts All Stocks
UBS Equities	17.8%	177,338	FTSE AW Developed Tracker (partly hedged to GBP)
Cash & Other	0.8%	7,904	One-month LIBOR
Total Fund	100.0%	996,961	

4.2 The percentage split by asset class is graphically shown in the pie chart below.

Chart 2: Fund Allocation by Asset Class as at 31 December 2017



4.3 Overall the strategy is overweight equities and cash, with equities at the top-end of the range. Most other asset classes are underweight, with infrastructure 2% underweight but this is due to the fact that it is still purchasing assets. The current position compared to the strategic allocation is provided in table 6 below:

Table 6: Strategic Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	53%	48%	5%	45-53
Diversified Growth	17%	18%	-1%	16-20
Infrastructure	7%	9%	-2%	4-11
Credit	7%	8%	-1%	6-10
Property	6%	7%	-1%	6-9
Diversified Alternatives	6%	6%	0%	6-10
Fixed Income	4%	4%	0%	3-5
Cash	1%	0%	1%	0-2
Senior Loan	0%	0%	0%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2017				2016				One Year	Two Years	Since Start 6/2/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£165,423k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	5.5	3.3	0.1	3.2	10.9	10.2	5.8	5.9	12.1	22.5	12.0
Benchmark	4.6	1.5	0.1	5.1	7.1	7.9	9.7	2.2	11.3	19.1	13.9
Difference	0.9	1.8	0.0	(1.9)	3.8	2.3	(3.9)	3.7	0.8	3.4	(1.9)

Reason for appointment

Kempen were appointed as one of the Fund's global equity managers, specialising in investing in less risky, high dividend paying companies which will provide the Fund with significant income. Kempen holds approximately 100 stocks of roughly equal weighting, with the portfolio rebalanced on a quarterly basis. During market rallies Kempen are likely to lag the benchmark.

Performance Review

The strategy outperformed its benchmark by 0.9% for the quarter and has outperformed its one-year benchmark by 0.8% over one year and 3.4% over two years. Kempen has underperformed its benchmark since inception by 1.9%, although the return over this period is a good annualised return of 12.0%

Stock selection in most sectors and within North America in particular contributed positively to the quarters return. In addition, regional allocation and the strategies exposure to emerging markets provided the additional outperformance.

The 3% dividend threshold and sector allocations impacted negatively for the quarter, with the overweight position to Europe and underweight position to the US having the most impact. Low yielding sector Technology was the strongest sector, while the high yielding Telecom sector was the weakest sector.

Quarterly Rebalance

In December Kempen completed their quarterly rebalance, selling 14 companies and adding 9 companies.

Kempen sold: Atlantia, ABB, Philips Lighting, FNF group, Life Storage, GM, Qualcomm, Abbvie, Telus, Primax Electronics, HSBC, BAT, Imperial Tobacco, HollyFrontier and Exelon. These companies were sold on valuation grounds or due to the stocks crossing our dividend threshold. The high number of sales was needed as the rising markets significantly reduced the expected returns for several holdings.

Kempen purchased: H&M Group, Omnicom & Publicis, Simon Property Group, China Mobile, Merck, Lloyds Banking Group, Tapestry and Exxon Mobil.

The Fund now has a forward yield of around 4.8%.

5.2 Baillie Gifford

Baillie Gifford	2017				2016				One Year	Two Years	Since Start 6/2/13
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£187,945k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	4.9	4.1	4.6	7.6	3.9	12.1	6.9	0.3	21.2	22.2	17.1
Benchmark	5.0	2.0	0.6	5.8	6.5	8.5	8.8	2.9	13.4	20.0	14.3
Difference	(0.1)	2.1	4.0	1.8	(2.6)	3.6	(1.9)	(2.6)	7.8	2.2	2.8

Reason for appointment

Baillie Gifford (BG) is a bottom-up, active investor, seeking to invest in companies that will enjoy sustainable competitive advantages in their industries and will grow earnings faster than the market average. BG's investment process aims to produce above average long-term performance by picking the best growth global stocks available by combining the specialised knowledge of BG's investment teams with the experience of their most senior investors. BG holds approximately 90-105 stocks.

Performance Review

For Q4 BG returned 4.9%, underperforming its benchmark by 0.1%. BG's one-year return was 21.2%, outperforming its benchmark by 7.8%. Since initial funding the strategy has returned 17.1% p.a., outperforming its benchmark by 2.8%. BG's key statistics for the quarter are provided below:

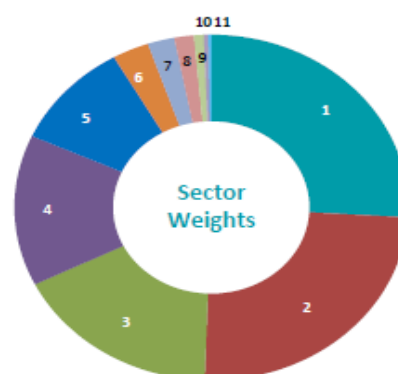
Regional Weights		(%)
1	North America	43.4
2	Emerging Markets	22.1
3	Europe (ex UK)	19.3
4	Developed Asia Pacific	10.5
5	UK	3.9
6	Cash and Deposits	0.8

Source: Baillie Gifford as at 31/12/2017



Sector Weights		(%)
1	Information Technology	25.9
2	Financials	24.6
3	Consumer Discretionary	17.1
4	Industrials	14.1
5	Health Care	10.0
6	Materials	3.0
7	Energy	2.2
8	Consumer Staples	1.6
9	Cash	0.8
10	Real Estate	0.4
11	Telecommunication Services	0.2

Source: Baillie Gifford as at 31/12/2017



Naspers was the largest contributor to relative performance during the quarter as the company continued to make steady operational progress across its portfolio of online businesses. Naspers has been selling non-core assets to focus on its most attractive growth opportunities, including Chinese gaming and social media platform, Tencent.

CRH led the negative contributors during the period as it saw volumes suppressed at its Americas division due to adverse weather and hurricane activity across the US. Ctrip detracted from performance following the announcement that its mobile application will provide value-added services on an opt-in basis rather than opt-out.

Portfolio Characteristics	
Key Statistics	
Number of Holdings	102
Number of Countries	23
Number of Sectors	10
Number of Industries	38
Active Share	91%
Rolling One Year Turnover	14%

Source: Baillie Gifford as at 31/12/2017

New Purchases During Quarter
Asset Name
AJ Gallagher & Co
Pernod Ricard
Persol Holdings
Thermo Fisher Scientific

Source: Baillie Gifford as at 31/12/2017

Complete Sales During Quarter
Asset Name
Brambles
Carlsberg
Colgate-Palmolive
Rolls-Royce
Tripadvisor

Source: Baillie Gifford as at 31/12/2017

5.3 UBS Equities

	2017				2016				One Year	Two Years	Since Start 31/8/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
UBS Equities	%	%	%	%	%	%	%	%	%	%	%
£177,338	%	%	%	%	%	%	%	%	%	%	%
Actual Return	5.7	2.8	2.3	5.5	6.6	8.2	8.7	2.4	16.3	21.1	16.7
Benchmark	5.5	2.8	2.2	5.5	6.4	8.2	8.7	2.4	16.0	20.9	16.7
Difference	0.2	0.0	0.1	0.0	0.2	0.0	0.0	0.0	0.3	0.2	0.0

Reason for appointment

UBS are the Fund's passive equity manager, helping reduce risk from underperforming equity managers and providing a cost-effective way of accessing the full range of developed market equity growth.

Performance

The fund returned 5.7% for Q4 and 16.3% over one year. Since funding in August 2012, the strategy has provided an annualised return of 16.7%. Equity markets worldwide advanced strongly in Q4, for a seventh consecutive quarter of growth.

5.4 UBS Bonds

	2017				2016				One Year	Two Years	Since Start 5/7/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
UBS Bonds	%	%	%	%	%	%	%	%	%	%	%
£35,893k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	2.2	(0.5)	(1.3)	1.5	(3.3)	2.3	6.2	5.0	1.9	6.1	5.6
Benchmark	2.0	(0.5)	(1.3)	1.5	(3.4)	2.3	6.2	5.0	1.7	5.9	5.6
Difference	0.2	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.2	0.0

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (5%) of UK fixed income government bonds.

Performance

Returns for Q4 were 2.2%, with one year returns of 1.9% and two year returns of 6.1%.

5.5 BlackRock

BlackRock	2017				2016				One Year	Two Years	Since Start 1/1/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£39,526k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	2.9	1.3	2.0	2.5	1.5	(3.5)	1.3	1.2	8.7	4.6	7.7
Benchmark	3.1	2.4	2.3	2.0	2.3	(0.7)	0.1	1.1	9.8	6.3	9.4
Difference	(0.2)	(1.1)	(0.3)	0.5	(0.8)	(2.8)	1.2	0.1	(1.1)	(1.7)	(1.7)

Reason for appointment

In December 2012, a sizable portion of the Fund's holdings with Rreef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK.

Q4 2017 Performance

BR returned 2.9% for the quarter against the benchmark of 3.1%, with a return of 8.7% over one year against its benchmark's return of 9.8%. Outperformance was from an overweight positioning to Industrials and Alternatives. Central London offices were positive from a capital value perspective although headline rents came under pressure.

Key Asset Management

The following leases and asset management initiatives were completed in the quarter:

- 25 Bedford Street, London WC2 let: Cerillion (not Carillion – which BUKPF has no exposure to) acquired the final refurbished floor.
- Planning Secured at 5 Strand, London WC2, enhancing the current gross area of 100,000 sq ft to provide a new mixed-use scheme of 150,000 sq ft.
- Redevelopment of Beechwood Shopping Centre, Cheltenham completed - the new store handed over to John Lewis, who had pre-let via a 25-year lease.

Key Transactional Activity

During Q4 completed one purchase at Oakhill Industrial Estate, Manchester for £1.7 million and this industrial unit concludes assembly of full ownership of the estate.

Five-year Forecast Returns

BlackRock's research & strategy team has revised its Q4 forecasts which are now showing a base case 5-year total return of c. 4%. Given the political and economic uncertainty that the UK is facing, the relativity of the sectors should be given more weight than the forecast absolute 5-year total return. Primary Healthcare is the top performing sector, forecast to deliver a total return of c. 7% over 5 years. Industrials, logistics and student housing are also all forecast to outperform. The Fund's overweight to industrials and alternatives and underweight retail and offices is forecast to be positive.

5.6 Schroders Indirect Real Estate

	2017				2016				One Year	Two Years	Since Start 6/8/2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
Schroder	%	%	%	%	%	%	%	%	%	%	%
£24,455k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	3.4	2.0	2.8	3.2	2.7	3.7	(5.2)	0.8	11.4	6.7	7.1
Benchmark	3.1	2.4	2.3	2.0	2.3	(0.7)	0.1	1.1	9.8	6.3	8.3
Difference	0.3	(0.4)	0.5	1.2	0.4	4.4	(5.3)	(0.3)	1.6	0.4	(1.2)

Reason for appointment

Schroders is a Fund of Fund manager appointed to manage a part of the Fund's property holdings. The mandate provides the Fund with exposure to 210 underlying funds, with a total exposure to 1,500 highly diversified UK commercial properties.

Performance

Since the market correction in Q3 2016, the strategy has rebounded strongly, with outperformance over one year and two years. In July 2016, the Fund increased its allocation by £5m due to large discounts available. This helped to rebalance the Fund's underweight property position and provided a good return of 12.8%. Schroder one-year return is 11.4%, 1.6% above its benchmark.

5.7 M&G / Prudential UK

	2017				2016				One Year	Two Years	Since Start 31/5/2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
M&G / Prudential	%	%	%	%	%	%	%	%	%	%	%
£885k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4.5	4.6	4.6
Benchmark Return	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4.3	4.4	4.4
Difference	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2

Reason for appointment

This investment seeks to maximise returns using a prudent investment management approach with a target return of Libor +4% (net of fees) and provides diversification from active bond management by holding the loans until their maturity.

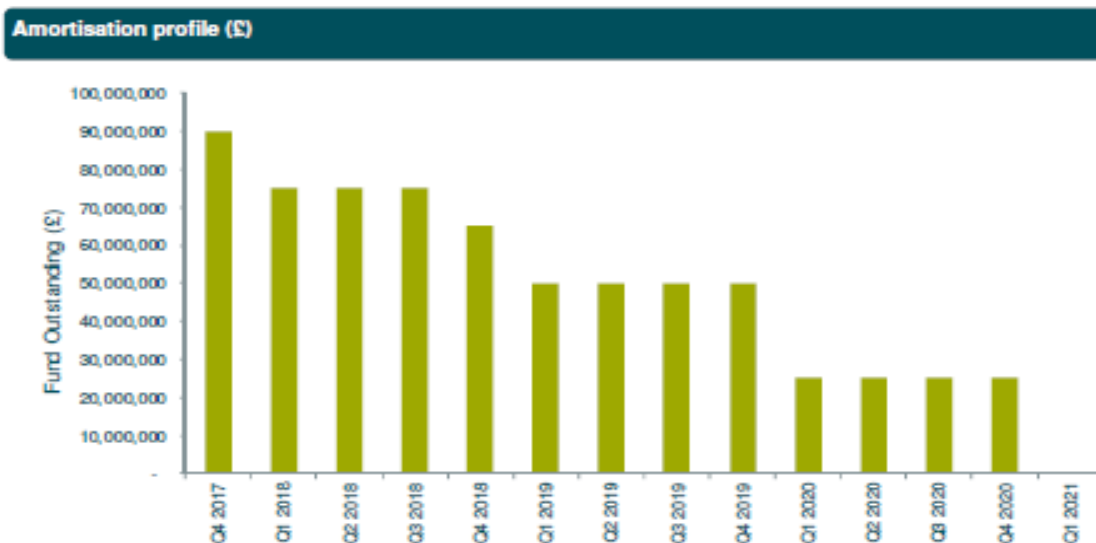
Performance and Loan Security

The strategy provided a return of 4.6% per year, with a small outperformance against benchmark of 0.2% since inception. The strategies holding has reduced in size to £885k, with most of the loans repaid. The weighted average credit rating is BB with an average life of 1.7 years.

As advised at the December Panel, an issue with one of the loans with Provident Financial ("Provident") has been identified. Subsequently, on 5 Provident announced that its Moneybarn division is being investigated by the Financial Conduct Authority. The investigation relates to processes around assessing customers' suitability for vehicle finance. The company has released no further information about the scope of the investigation. M&G's Major Problem Credit Committee, which maintains dialogue

with management. Liquidity remains adequate and the company continues to operate within its covenants. The Fund received a contractual amortisation repayment of the loan at the end of January 2018.

The funds amortisation profile is provided below, with the Provident loan making up 80% if the Fund's current holdings with M&G (£800k).



Source: M&G as at 31 December 2017

5.8 Hermes

	2017				2016				One Year	Two Years	Since Start 9/11/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
Hermes	%	%	%	%	%	%	%	%	%	%	%
£66,476k											
Actual Return	0.8	1.8	0.8	1.9	1.8	1.6	2.5	5.9	5.3	8.6	10.0
Benchmark	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	5.6	5.6	5.9
Difference	(0.6)	0.4	(0.6)	0.5	0.4	0.2	1.1	4.5	(0.3)	3.0	4.1

Reason for appointment

Hermes were appointed as the Fund's infrastructure manager to diversify the Fund away from index linked fixed income. The investment is in the Hermes Infrastructure Fund I (HIF I) and has a five-year investment period and a base term of 18 years. In March 2015 Members agreed to increase the Fund's allocation to Hermes to 10%.

Performance

As at 31 December 2017, the strategy reported a one-year return of 5.3%, underperforming its benchmark by 0.3%. Since inception the strategy has provided a good annualised return of 10.0%, outperforming its benchmark by 4.1%.

5.9 Aberdeen Asset Management

Aberdeen	2017				2016				One Year	Two Years	Since Start 15/9/2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£56,615k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.3	6.1	4.2	0.7	0.5	0.3	(1.4)	2.2	12.3	7.0	3.8
Benchmark	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4.4	4.4	4.5
Difference	0.2	5.0	3.1	(0.4)	(0.6)	(0.8)	(2.5)	1.1	7.9	2.6	(0.7)

Reason for appointment

As part of the Fund's diversification away from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Asset Management (AAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling.

Since being appointed AAM have built a portfolio of HFs, PEs and co-investments, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

The hedge funds selected for the Portfolio are a blend of:

- i. Relative Value strategies, intended to profit from price dislocations across fixed income and equity markets;
- ii. Global Macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies; and
- iii. Tail Risk protection, which in the case of Kohinoor Series Three Fund is intended to offer significant returns at times of stress and more muted returns in normal market environments.

Market Update and Performance Summary

Private Equity and Hedge Funds were both profitable over the quarter (on a currency-hedged basis). PAI Europe VI ("PAI") and Ethypharm Co-Invest ("Ethypharm") led the way in terms of the positive contributors to performance, followed by Pharo Gaia ("Pharo"). Kohinoor Series Three Fund ("Kohinoor") and OEP VI Feeder ("OEP") were the largest detractors although their contributions were small.

Performance

Overall the strategy provided a return of 6.1%, outperforming its benchmark by 5.0%. This good quarterly return helped the strategy to outperform its benchmark over one year, with a return of 11.5% against a benchmark of 4.4%. Since inception in September 2014, the strategy has return 3.7%, underperforming its benchmark by 0.8%.

As at the end of 31 December 2017 the portfolio held the following allocation to Hedge Fund's and Private Equity:

Fund	Strategy / Style
Hedge Funds	
Field Street Fund	Fixed Income, Global Macro
Horizon Portfolio Ltd	Market Neutral
Kohinoor Series Three	Tail-risk protection
Obsidian Fund	Fixed Income Relative Value
Pharo Gaia Fund	Discretionary global macro (Emerging markets)
Complus Asia Macro	Discretionary macro fund focused on Asia
Renaissance IDA	Statistical Arbitrage
BlackRock Fixed Income	Relative Value
Private Equity	
PAI Europe VI	Buyout Midcap
MML Capital Partners VI	Lower Mid-Market
Advent Int GPE VIII-B LP	Sector-focused strategy and operational approach
Cinven Allegro LP	European Fund focused on Financials & Healthcare
Ethypharm Co-Invest FPCI	European generics & specialty pharmaceutical
OEP VI Feeder LP	Merge like-sized businesses with a strategic fit

5.10 Pyrford

	2017				2016				One Year	Two Years	Since Start 28/9/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
Pyrford	%	%	%	%	%	%	%	%	%	%	%
£101,975k											
Actual Return	0.6	(0.9)	0.1	1.7	0.6	3.1	3.2	2.4	1.5	5.4	4.2
Benchmark	2.2	2.2	2.3	2.1	2.0	1.9	2	1.4	8.8	8.1	6.8
Difference	(1.6)	(3.1)	(2.2)	(0.4)	(1.4)	1.2	1.2	1.0	(7.3)	(2.7)	(2.6)

Reason for appointment

Pyrford were appointed as the Fund's absolute return manager (AR) to diversify from equities. The manager's benchmark is to RPI, which means that the manager is likely to outperform the benchmark during significant market rallies. AR managers can be compared to equities, which have a similar return target. When compared to equities, absolute return will underperform when markets increase rapidly and tend to outperform equities during periods when markets fall.

Performance

Pyrford generated a positive return of 0.6% in Q4 but underperformed its benchmark by 1.6%. Over one year the strategy has returned 1.5%, underperforming its benchmark by 7.3%. Pyrford's performance over two years and since inception is closer to its benchmark but still underperforms by 2.7% and 2.6% respectively.

Strategy and Market Update

The key contribution to returns in the final quarter and over the year came from the portfolio's allocation to equities with the MSCI World Index up over +12% in GBP. Pyrford went into the year with an equity weighting of 30%. A larger allocation would

have been more beneficial to returns over the year, however this would have been at the expense of risking our clients' capital.

Despite equities providing the greatest source of returns, stock selection within the equity portfolio – in particular the UK (50% of equity portfolio) was disappointing over the quarter (Pyrford, +1.4% v +5.0%, FTSE AS Index) and indeed the year. One area of weakness has been the portfolio's UK Utilities holdings (SSE, United Utilities and National Grid) as the market has reacted to signs of yields rising by rotating out of defensive sectors such as Utilities that are regarded as sensitive to rising bond yields.

Pyrford continue to hold UK Utilities as they believe the long term returns on offer will be attractive. The portfolio's UK bonds, positioned at the short end of the curve, underperformed the wider market (longer duration bonds) as yields fell.

Cash and currency management added to returns over the third quarter as Sterling strengthened against the three currencies hedged in the portfolio (+1.5% v CHF, +1.2% v AUD & +1.0% CAD) as well as the USD.

5.11 Newton

Newton	2017				2016				One Year	Two Years	Since Start 31/8/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£66,360k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.3	(0.8)	1.0	2.0	(5.0)	1.5	4.3	4.0	2.5	3.7	3.4
Benchmark	1.1	1.0	1.0	1.1	1.0	1.1	1.1	1.1	4.2	4.3	4.5
Difference	(0.8)	(1.8)	0.0	0.9	(6.0)	0.4	3.2	2.9	(1.7)	(0.6)	(1.1)

Reason for appointment

Newton was appointed to act as a diversifier from equities. The manager has a fixed benchmark of one-month LIBOR plus 4%. AR managers have a similar return compared to equity but are likely to underperform equity when markets increase rapidly and outperform equity when markets suffer a sharp fall.

Performance

The Fund delivered a positive return over the quarter of 0.3% but underperformed its benchmark by 0.8%. Gains within the return-seeking core drove this outcome, with several top equity contributors from the technology sector. Key detractors included utility Centrica, Sprint corporate debt and Mexican government bonds. With equity markets rising over the period, derivative protection employed in the portfolio came at a cost. However, foreign-currency hedging was beneficial, and government bonds also contributed positively. is 4.3%, which matches Newton' benchmark.

Activity

Newton introduced technology company Cisco Systems to the portfolio and purchased BAE Systems and Thales, which have exposure to the defence sector. Sales included Teva Pharmaceutical, Walgreens Boots Alliance and United Utilities, while Newton reduced the Japan Tobacco weighting. In fixed interest, Newton slightly increased the

portfolio's duration and also made some changes to the structure of the Fund's equity-market protection, while broadly maintaining net exposure to return-seeking assets.

Outlook and Strategy

The wave of liquidity injected into economies and markets over the last two years has played a role in shaping bullish expectations for the future. However, Newton think the present macroeconomic environment is likely to be as good as it gets, with markets overestimating the positive impact of proposed US fiscal reforms and underestimating the potential for a slowdown in China. While we can still identify attractive opportunities at the security level, the headline valuations of major equity indices look rich, and, with policy being tightened, we believe it is the time to emphasise caution, with an eye fixed firmly on capital preservation.

Management Change

In August, Newton announced the introduction of a new management structure. As part of the changes, Curt Custard was appointed as Chief Investment Officer. Newton also announced that Julian Lyne had taken on the position of Chief Commercial Officer.

5.12 BNY Standish

Standish	2017				2016				One Year	Two Years	Since Start 20/8/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£66,166k	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(0.5)	0.7	1.0	2.0	0.7	1.4	0.9	(1.9)	3.2	2.1	1.7
Benchmark	1.1	1.0	1.0	1.2	1.1	1.1	1.1	1.5	4.3	4.5	5.4
Difference	(1.6)	(0.3)	0.0	0.8	(0.4)	0.3	(0.2)	(3.4)	(1.1)	(2.4)	(3.7)

Reason for appointment

Standish were appointed to achieve a 6% total return from income and capital growth by investing in a globally diversified multi-sector portfolio of transferable fixed income securities including corporate bonds, agency and governments debt.

Performance

The Fund lagged its comparative index over the quarter, on a net basis, returning -0.5% against a benchmark return of 1.1%. Over one year the strategy has underperformed its benchmark of 4.3% by 1.1%.

Strong asset allocation performance was partially attributed to strong positioning in US TIPS. Globally, Fitch's rating upgrade of Portugal managed to exceed even the heightened expectations by delivering a 2-notch upgrade – moving from BB+ to BBB with a stable outlook. Corporate bonds outperformed specifically in Investment Grade and Emerging Markets.

Foreign Exchange was the largest detractor from portfolio performance. The Argentine Peso which fell roughly 6% over the month of December on news of a potential tax on foreigners. The Turkish Lira also performed poorly on economic news including Angela Merkel stating that development in Turkey was moving in

the wrong direction. Yield Curve also detracted from performance due to a flattening United States curve.

Portfolio Composition

Broadly, tracking error was flat for the quarter. The portfolio's largest risks are in duration, yield curve, and government spreads. Foreign exchange risk decreased to start the quarter but increased overall by the end of the quarter.

Credit sector positioning remained largely unchanged with a small decrease in the overweight to Emerging Markets. Within Emerging Markets, Latin American continues to be the largest overweight followed by Europe.

Financials and Industrials are the majority of Investment Grade holdings, with High Yield being concentrated in Industrials with notable holdings in Financials and Utilities. Global government spreads favour peripheral exposure in areas such as Portugal, Italy, and Spain. Underweights include Germany, Sweden, and the United Kingdom.

5.13 Currency Hedging

No new currency hedging positions were placed in Q4 2017.

6. Consultation

- 6.1 Council's Pension Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the approach, data and commentary in this report.

7. Financial Implications

Implications completed by: Claire Symonds, Chief Operating Officer

- 7.1 The Council's Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. Investment decisions are taken based on a long-term investment strategy. The investment performance has a significant impact on the General Fund. Pensions and other benefits are statutorily calculated and are guaranteed. Any shortfall in the assets of the Fund compared to the potential benefits must be met by an employer's contribution.
- 7.2 This report updates the Panel on developments within the Investment Strategy and on scheme administration issues and provides an overview of the performance of the Fund during the period.

8. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

- 8.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such

funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

- 8.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Pension Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013. They set out the arrangements which apply to the management and investment of funds arising in relation to a pension fund maintained under the Local Government Pension Scheme.

9. Other Implications

- 9.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles (equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.

Performance is under constant review, with this focused on how the Fund has performed over the past three months, one year and three years.

Background Papers Used in the Preparation of the Report:

- WM Quarterly Q4 2017 Report; and
- Fund Manager Q4 2017 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 December 2017

Appendix 2 - Definitions

Appendix 3 - Roles and Responsibilities

Appendix 4 – Aon Hewitt Hermes Infrastructure Note