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PENSION POLICY & INVESTMENT COMMITTEE

Wednesday, 6th September, 2017 at 10.00 am in The Aon Centre, 122 Leadenhall Street, London EC3V 4AN

Membership:

co : Derek Levy, Terence Neville OBE JP, Daniel Pearce, Toby Simon, Alan Sitkin (Cabinet Member for Economic Regeneration & Business Development) and Doug Taylor (Leader of the Council)

AGENDA

1. **WELCOME & INTRODUCTION**

2. **DECLARATIONS OF INTERESTS**

3. **MINUTES OF THE PREVIOUS MEETING: 26 JUNE 2017** (Pages 1 - 6)

   To agree the minutes of the previous meeting held on 26 June 2017

4. **PENSION FUND CASHFLOW UPDATE** (Pages 7 - 8)

5. **TRAINING UPDATE** (Pages 9 - 16)

6. **RISK REGISTER UPDATE** (Pages 17 - 18)

7. **BENEFIT STATEMENT UPDATE**

   To receive a verbal update.

8. **ANTIN PURCHASE OF KISIMUL** (Pages 19 - 28)

   (Note: This report contains exempt information as defined in Paragraph 3 (information relating to the financial or business affairs of any particular person – including the authority holding that information) of Schedule 12A to the Local Government Act 1972, as amended)

9. **MIFID2** (Pages 29 - 50)

10. **INVESTMENT STRATEGY REVIEW** (Pages 51 - 86)

11. **LUNCH**

12. **HENDERSON EMERGING MARKETS FUND PRESENTATION** (Pages 87 - 114)

13. **DISCUSSION ON EQUITY PORTFOLIO** (Pages 115 - 126)

14. **INVESTMENT UPDATE INCLUDING QUARTERLY INVESTMENT REPORT** (Pages 127 - 178)

15. **LEGAL & GENERAL PROPERTY PRESENTATION** (Pages 179 - 208)

16. **DATES OF FUTURE MEETINGS**

To note the date of the next meeting:

Monday 20 November 2017

Item 3

LONDON BOROUGH OF ENFIELD
PENSION POLICY & INVESTMENT COMMITTEE
26 JUNE 2017
THE AON CENTRE, 10.00AM

MINUTES

Members:
Councillor T. Simon JP (Chair)
Councillor T. Neville OBE JP
Councillor D. Levy
Councillor D. Taylor

Officers:
Paul Reddaway – Head of Finance Pension Investments
Stephen Fitzgerald – Assistant Director of Finance
Carolan Dobson – Independent Advisor
Jodie Deighton – Operational Support Officer

Also attending:
Emily McGuire – Aon, Investment Consultant
Daniel Carpenter – Aon, Investment Consultant
Rohan Meswani – Aon, Investment Consultant
Kerry Duffain – Markham Rae
Jonathan Martin – Markham Rae
Ramzi Rishani – Longview
Alistair Graham – Longview
Marina Lund – Longview

1. WELCOME AND INTRODUCTION

The Chair Cllr Toby Simon welcomed all to the meeting.

Apologies for absence noted from Cllr D. Pearce.

2. DECLARATION OF INTERESTS

NOTED:

(a) Cllr Toby Simon declared his wife is a governor of Enfield Learning Trust, a multi-academy trust and has a contingent interest in the Pension Fund through his wife who is a pensioner member.

(b) Carolan Dobson declared she is a non-executive member of the London CIV.

3. MINUTES OF THE PREVIOUS MEETING

Minutes of the meeting held 22 May 2017 were noted and agreed by all present.

4. MARKHAM RAE PRESENTATION AND DISCUSSION

RECEIVED: ‘’Markham Rae – Recap Slides’’, ‘’Markham Rae Investment Letter’’ which were circulated by PR prior to today’s meeting and ‘’Markham Rae Presentation’’ provided today by Markham Rae representatives.

REPORTED: EM gave a brief recap summary from the last committee meeting. Representatives from Markham Rae, Kerry Duffain and Jonathan Martin, were welcomed to the meeting and gave a presentation which focused on the cause of losses.

Markham Rae propose to increase the stop-loss from 12% to 17% for this year. The initiative would give the appropriate risk capacity to maintain long convexity positions in the Fund and hence appropriately deliver macro themes to investors while respecting the stop loss as a risk management tool and not as an impediment to performance recovery.

Members queried how much of the loss could have been avoided. JM believed about half. Markham Rae had taken an aggressive review of disruptions in market positions

It was asked why there wasn’t any interim stopping points in place in terms of the risk budget; it seemed very unusual for all risk capital to be lost and to ask for more. JM explained they managed the portfolio to a 12% draw down, an error was made in holding the risk too long in the first quarter.

Markham Rae proposed a reduced the management fee payable by the Fund until the High Water Mark is met. It was queried why any fees should be paid, given that this was not a market failure. JM said fees had been cut to the point where the business is running cash flow flat; more would make the business unstable. Once each of the investors get back to their High Water Mark, they think it is reasonable to go back to the fees that were previously agreed .

3 investors had pulled out £8 million, 2 of which were rebalancing their portfolios. Enfield were unfortunate in the sense that they invested recently and haven’t benefited from previous positive returns.

Markham Rae were thanked for their presentation and left the meeting. The Committee considered and discussed the proposal to extend the risk limit.

RESOLVED:

(i) The Committee agreed to stay in the fund for the next quarter, with a view to review quarter by quarter.
(ii) PR will provide the Committee with monthly updates.
(iii) Markham Rae must inform the Committee of any further redemptions.
(iv) SF will seek a view from Waltham Forest. **ACTION: SF**

5. LONGVIEW PARTNERS PRESENTATION

RECEIVED: "Longview Partners – Equity Total Return'' provided today by Aon and ''Longview Partners Presentation'' provided today by representatives of Longview Partners.

REPORTED: Longview had been appointed as an equity manager by the London CIV.

Representatives from Longview Partners, Ramzi Rishani, Alistair Graham and Marina Lund were welcomed to the meeting and gave a presentation. The manager's investment process results in a highly-concentrated portfolio comprising approximately 30 to 35 stocks with little reference to any benchmark.

Longview Partners were thanked for their presentation and left the meeting. The Committee considered whether Longview is an appropriate manager to appoint for the Fund.

RESOLVED: By a majority, that the Committee would invest through the London CIV to the sub-fund managed by Longview Partners.

6. DISCUSSION ON EQUITY PORTFOLIO

RECEIVED: ''Equity Portfolio Construction June 2017'' circulated by PR prior to today's meeting.

REPORTED: The Committee considered manager options.

The Committee would like to see a presentation from Henderson for their LCIV emerging markets portfolio. This will be added to the agenda of the next Committee meeting. **ACTION: PR**

RESOLVED:
The Committee agreed to:

(i) Disinvest in Trilogy. PR will inform them. **ACTION: PR**
(ii) Invest in Longview. The Committee will decide on the exact amount at the next Committee meeting.
(iii) The Committee will also then decide how much to allocate to emerging markets, whether in the form of Henderson or Blackrock.

7. CASH MANAGEMENT AND OPTIONS

Deferred to the next Committee meeting.

8. QUARTERLY REVIEW

The Committee reviewed all its other current holdings. No action was required.

9. FUTURE MEETING DATES:

The meeting due to take place on 23rd August 2017 would be rescheduled to early September, date TBC; & 20th November 2017.

Signed………………………………………………… Date………………
Chair, Pension Policy &Investment Committee

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Pension Fund Cash Flow at Enfield Level 2017/18

	INCOME	April actual £	May actual £	June actual £	July actual £	August forecast £	September forecast £	October forecast £	November forecast £	December forecast £	January forecast £	February forecast £	March forecast £	total exp/-inc £	BUDGET £	Actual over/ -under budget £
	Total contrib - ees	-791,611	-745,144	-831,052	-748,231	-824,980	-779,980	-779,980	-779,980	-779,980	-779,980	-779,980	-779,980	-9,400,878	-8,967,000	433,878
	Total contrib - ers	-2,733,025	-2,610,731	-2,784,776	-2,621,638	-2,759,700	-2,667,700	-2,667,700	-2,667,700	-2,667,700	-2,667,700	-2,667,700	-2,667,700	-32,183,770	-30,568,000	1,615,770
	Transfer Values received	-234,876	-369,081	-46,072	-333,786	-40,000	-40,000	-40,000	-40,000	-40,000	-40,000	-40,000	-40,000	-1,303,815	-1,000,000	303,815
	Early Retirement cost				-350,697		-100,000			-150,000			-150,000	-750,697	-500,000	250,697
	Interest received		-8	0										-8		8
	total income	-3,759,512	-3,724,964	-3,661,900	-4,054,352	-3,624,680	-3,587,680	-3,487,680	-3,487,680	-3,637,680	-3,487,680	-3,487,680	-3,637,680	-43,639,168	-41,035,000	2,604,168
	EXPENDITURE	April actual £	May actual £	June actual £	July actual £	August forecast £	September forecast £	October forecast £	November forecast £	December forecast £	January forecast £	February forecast £	March forecast £	total exp/-inc £	BUDGET £	Actual over/ -under budget £
total	Total Benefit	3,184,898	3,390,209	3,173,324	3,327,315	3,181,250	3,180,250	3,181,250	3,181,250	3,180,250	3,181,250	3,181,250	3,181,250	38,523,746	38,380,000	-143,746
total	Total Admin	69,629	66,680	66,666	67,424	68,567	68,566	68,567	68,567	68,566	68,567	68,567	768,566	1,518,932	721,000	-797,932
total	Total Overview & Scrutiny	18	51,161	5,120	83,231	114,545	29,095	40,545	15,545	36,545	40,545	15,545	28,595	460,490	434,000	-26,490
total	Total Manager fees	244,840	330,461	0	61,023	258,000	0	318,000	0	0	318,000	0	0	1,530,324	1,500,000	-30,324
	total expenditure	3,499,385	3,838,511	3,245,110	3,538,993	3,622,362	3,277,911	3,608,362	3,265,362	3,285,361	3,608,362	3,265,362	3,978,411	42,033,492	41,035,000	-998,492
	Net Total - month	-260,127	113,547	-416,790	-515,359	-2,318	-309,769	120,682	-222,318	-352,319	120,682	-222,318	340,731	-1,605,676	0	1,605,676
	Net Total - cumm.	-260,127	-146,580	-563,370	-1,078,729	-1,081,047	-1,390,816	-1,270,134	-1,492,452	-1,844,771	-1,724,089	-1,946,407	-1,605,676			
Balance - Carry Forward		500,840.84	-285,823.94	341,212.15	0.00									556,229.05		
hsg rent from wages		-664.67	74.40	747.59	-789.08	631.76								0.00		
total SAP		240,049.17	-172,202.54	-74,830.26	-516,148.08	-1,686.24	-309,769.00	120,682.00	-222,318.00	-352,319.00	120,682.00	-222,318.00	340,731.00	-1,049,446.95		

The London Borough of Enfield Pension Fund Training/CPD Action Plan

Introduction

At the Committee meeting held on 22nd May 2017 a report setting out the Fund's strategy for developing a formal training/CPD plan in line with the CIPFA Code of Practice and the Pension Regulator Code of Practice was presented to members. Members requested a further report on how to implement this strategy. This was very timely given the increased attention emanating from the need to demonstrate that Committee decisions are made in a considered and professional manner to meet the MIFID 2 requirements.

The Committee is very fortunate to have members with a sound and thorough knowledge of governance, investment issues and an understanding of risk around pension investments. Nevertheless, it is necessary for the Committee to be able to document what training has been undertaken and to formally assess its future requirements

With the potential intake of new members onto the Committee after the 2018 local elections, a clear strategy is, therefore required for the induction and training of new members. This paper will set out a proposed way forward.

The training/CPD plan will also extend to the Local Pension Board. Wherever possible training will be run concurrently with the PP&IC and with other LGPS units.

Recommendations

The Committee agree to adopt the training action plan and to include it as a standing item on future Committee agendas to monitor progress.

The Committee agree a training plan on an annual basis at the first meeting of the Municipal Year. The training plan will be developed taking into consideration the needs of the Committee, the Board and officers to both enhance existing knowledge and skills and to develop new areas of understanding.

Individual Training Needs

Each Committee member will undertake to complete a check list of knowledge requirements. Members are encouraged to undertake a gap analysis and identify any development needs so that appropriate training can be arranged.

Members are encouraged to undertake the Pension Regulator Public Sector tool kit. This provides comprehensive coverage of all Pension Fund matters.

The link to the Pension Tool is shown below. **Appendix 2** sets out the syllabus:
https://education.thepensionsregulator.gov.uk/login/index.php

New Members joining the Pension Policy & Investment Committee or the Local Pension Board will be required to complete a training programme. Normally this will include:

- An officer-led induction course on the LGPS. **Appendix 3** provides a check list of areas to be covered.
- Completion of the Pension Regulator self-assessment toolkit, and
- Attendance at the LGA three day (over three months) investment training course as set-out in **Appendix 1**.

Hot Topic Training
Training items may be included on Committee agendas to ensure appropriate training is provided in relation to hot topic areas, such as a high risk area or a specific area where decisions need to be made.

General Awareness
PP&IC members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Enfield Pension Fund. Attendance at conferences and training events will be encouraged, especially those specific to the LGPS.

Appendix 1

Pension Topic Areas	**Tick Box ☑**
The Benefits Framework "Past and Present"	
• Brief history of the LGPS and its interaction with State provision	
• The 2014 Scheme – a core scheme plus discretions; a look at the comprehensive benefit structure of the scheme	
• Differences in the 2015 Scheme in Scotland	
• Administering Authority and Employing Authority Discretions	
The Investment Framework	
• The Management and Investment of Funds Regulations 2009 – the statutory framework for investments	
• CIPFA Principles – a look at the six investment principles	
• Statement of Investment Principles	
• Interaction with the Funding Strategy Statement	
• Governance Compliance Statements	
• Annual Reports and Auditing	
Delivering the Service	
• Partnership Working	
• Framework Agreements	
• Financial Services procurement and relationship management	
• Supplier risk management	
• Performance of support services	
Traditional Asset Classes	
• UK Equities, Overseas Equities	
• UK Gilts, UK Index-Linked Gilts	
• Corporate Bonds, Property	
• Why invest in Fixed Income and Equity Markets?	
• Long Term Investment Performance of Equities and Fixed Income	
• Benchmarks used	
• Cashflows	
• The Bond Market	
• Return / Risk Profiles	
Valuations	
• The Purpose of an Actuarial Valuation	
• Assets and Liabilities	
• How do liability calculations work	
• What assumptions are used?	
Funding Strategy Statements	
• What is the funding strategy?	
• Different Employers – different characteristics and objectives	
• What is the strength of the covenant?	
• Deficit Recovery Periods	
Corporate Governance	
• Approach to Corporate Governance	

• Voting, Activism and Engagement	
• Institutional Shareholders Committee principles	
• Socially Responsible Investment	
Communication Strategies/Policies	
• Policy Statement Requirements	
• LGPS – Valuable part of employment package	
• Purpose and effect – Changes and Choices	
• A look at some good practice initiatives	
Established Alternative Investments	
• Private Equity, Commodities, Hedge Funds, Emerging Markets, Currency Funds, High Yield Bonds and Overlays	
• The market evolution of Alpha and Beta	
• Private Equity sectors	
• Commodities – what do they cover and why include them in a portfolio?	
• The Hedge Fund universe	
• The background to Emerging markets	
• The value of Currency Funds and Currency Overlays	
• How High Yield Bonds fit into the Bond market	
Duties and Responsibilities of Committee Members	
• The LGPS in its legal context	
• General local authority legal issues	
• LGPS specific duties and responsibilities	
• Wider duties and responsibilities	
• What happens when things go wrong?	
The Future for the LGPS	
• LGPS2014 – outstanding/new issues	
• Cost control mechanism	
• Managing investment fees	
New governance arrangements	
• The new, evolving requirements	
• Committee vs Board - delegation and representation	
• The governance budget	
• The Pension Regulator's involvement	
Bringing it all together	
• The Evolution of LGPS Benchmarks	
• Portfolios and Portfolio Construction	
• Portfolio Concepts	
• Combining Assets in your Portfolio	
• Risks and Efficient Frontiers	
• Standard Deviation	
• Correlation	
• Diversification	

Pension Regulator Public Sector tool kit **Appendix 2**		
Module	**Tutorials included**	**Average completion time (mins)**
Introducing pension schemes	• What is a pension scheme? • Benefits • What is a trustee? • Important documents	60
The trustee's role	• Becoming a trustee • Trustee meetings • Conflicts of interest • Duties and powers • Trustee liabilities and protections	75
Running a scheme	• Scheme governance • Risk management and internal controls • Scheme administration and member data • Introducing advisers and service providers • Appointing advisers and service providers	75
Pensions law	• Pensions related legislation • The Pensions Regulator • Tax and the state pension • Internal dispute resolution procedure	75
An introduction to investment	• Investment in a pension scheme • Setting an investment strategy • Types of asset – Common assets • Types of asset – Alternative assets • Capital markets and economic cycles • Risk and reward • Active and passive management • Suitability and diversification • Reviewing investments	135

Module	Tutorials included	Average completion time (mins)
How a DB scheme works	• The basics • Managing the liabilities • Employer covenant • Risks to employer covenant • Implications of winding up a DB scheme • Corporate transactions	90
Funding your DB scheme	• The statutory funding objective • Valuing the scheme's liabilities • Calculating the liabilities • Impact of assumptions • Individual and bulk transfers • Additional employee funding	90
DB recovery plans, contributions and funding principles	• Determining the contribution rate • Accrued benefits funding methods • Recovery plans • Future service funding methods • Agreeing a schedule of contributions • The statement of funding principles	90
Investment in a DB scheme	• Understanding investment strategy • Changing asset and liability values • Future projections and scenario analysis • Stochastic modelling • Changing the asset allocation strategy • Reviewing the investment strategy	120

Appendix 3

Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Enfield Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Enfield Pension Fund:

- The members' guide to the Local Government Pension Scheme (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
- The Funding Strategy Statement
- The Governance Policy and Compliance Statement
- The Investment Strategy Statement (ISS) including the London Borough of Enfield Pension Fund's statement of compliance with the LGPS Myners Principles
- The Communications Policy
- The Administration Strategy
- The administering authority's Discretionary Policies
- This Training Policy

In addition, an individual training plan will be developed to assist each Pensions Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pensions Committee members, Pension Board members and senior officers.

Pension Fund – Investment Strategy:							
Risk	**Likeli-hood**	**Impact**	**Risk Rating**	**Current Controls**	**Additional Control Identified/Required**	**Responsibility**	**Risk Note**
MIFID 2: failure to Opt-up to become a professional investor. Failure to opt-up would mean the Fund would be regarded as a retail customer and that many of the Fund's current managers would not accept the Fund as a client. The opting-up process has to be complete by 2nd January 2018. Managers also have different requirements to confirm professional status.	1	9	9	To prepare an opt-up form as advised. Outlining and evidencing the rationale for the Fund to be allowed to opt-up to professional status.	Ensure good communications with managers. Officers will report regularly back to the Committee. Early opt-up request, to allow time to provide further evidence	Pension Policy & Investment Committee (PPIC)& Director of FRSC	Needs to implemented by 2nd January 2018

Pension Fund – Governance and Strategy:							
Risk	**Likeli-hood**	**Impact**	**Risk Rating**	**Current Controls**	**Additional Control Identified/Required**	**Responsibility**	**Risk Note**
General Data Protection Regulation: comes into effect from 25 May 2018. The GDPR will provide data subjects—the members and beneficiaries of pension schemes—with enhanced rights of access to their personal data, and new rights of erasure (the 'right to be forgotten') and data portability. Failure to comply could result in fines and reputational risk.	2	4	8	The Administering authority should take steps to understand and document what data they have and how it is used. Also to become familiar with data subjects' rights under the GDPR, and when they will apply. The Administering authority as data controllers need to be able to demonstrate how we comply with the GDPR. They and their appointed data processors will each have to maintain records of the processing activities for which they are responsible. We will be obliged to make those records available to the ICO on request.		Pension Policy & Investment Committee (PPIC) & Pension Board& Director of FRSC	Needs to implemented by 25th May 2018

Document is Restricted

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Item 9

Pension Policy & Investment Committee of London Borough of Enfield Pension Fund

Implementation of the Markets in Financial Instruments Derivative (MiFID II)

Report summary

This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

Recommendations: That the pensions committee

i. Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018

ii. Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

iii. In electing for professional client status the committee acknowledges and agrees to forgo the protections available to retail clients attached as **APPENDIX 1**.

iv. Agrees to approve delegated responsibility to Head of Finance Pensions Investment for the purposes of completing the applications and determining the basis of the application as either full or single service. He will report regularly on the process as it progresses.

Context

1. Under the current UK regime, local authorities are automatically categorised as per se professional clients in respect of non‑MiFID scope business and are categorised as ‘per se professional clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain ‘opt up criteria’.

2. Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a “per se professional client” or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted-up by firms to an “elective professional client” status.

3. Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Potential impact

4. A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

5. Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

6. Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

Election for professional client status

7. MiFID II does allow for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution. the quantitative and the qualitative test.

8. The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

9. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be

performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as **APPENDIX 2**

10. The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take ‘appropriate action’ which could include a termination of the relationship at a significant financial risk to the authority.

11. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats...

12. A flowchart of the process is attached as **APPENDIX 3** and information template is attached as **APPENDIX 4**

13. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

14. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority’s investment advisor was terminated.

LGPS pools

15. LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.

16. In some circumstances, in particular where the pool only offers access to fund structures such as ACS the pool could use ‘safe harbour’ provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the “FPO”) or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the “PCISO”). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

17. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions the number of which would reduce as assets are liquidated and cash transferred.

Next steps

18. In order to continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional clients should be submitted to all financial institutions with whom the authority has an existing or potential relationship with in relation to the investment of the pension fund.

19. This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.

20. The officer s should be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis .

Attachments

APPENDIX 1 – Retail client protections
APPENDIX 2 – Summary of FCA policy statement
APPENDIX 3 – Opt up process flowchart
APPENDIX 4 – Opt up letter template
APPENDIX 5 – Opt up information template

Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions

2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment

3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test

4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion

5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions

6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.

7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged

8. Changed the portfolio size threshold to £10m

9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage **Finalise standard opt-up process**	**End July 2017**	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 **Local authorities to complete letter and questionnaire and send to investment firms**	**August – September 2017**	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 **Investment Firms to validate the information and run the client status assessment**	**September – October 2017**	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 **Dispatch the confirmation letter to LA clients confirming professional client status**	**October 2017**	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 **Client re-categorisation**	**3 January 2018**	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY: London Borough of Enfield

CAPACITY: As administering authority of the local government pension scheme

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE: Paul Reddaway

DATE:6th September 2017

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

Please answer question (a) with a "Yes" / "No" answer	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme **exceed GBP 10,000,000**? Portfolio size £1,079m as at 31st March 2017 (latest accounts attached)	☑ Yes ☐ No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	☑Yes ☐ No
If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least **10 per quarter** for the **previous four quarters** (i.e. at least 40 investments on the relevant market in the last year)? Transaction total: ……………………………………………………………………...	N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged? Details of role: ………………………………………………………………………	☐ N/A

QUALITATIVE TEST

Section 1: Decision making body for pension investing within your authority

The Council has delegated management of the Fund to the Pension Policy & Investment Committee (the Committee) who have responsibility for investment policy. The Committee is made up of six members of the Council each of whom has voting rights. An independent financial adviser (a former portfolio manager) attends the Committee.

To ensure the continuity of membership members are expected to join the Committee for a four-year term. In fact, three of our current committee members have over 10 years of Pension Fund investment experience.

In addition, the Committee receives appropriate advice asset/liabilities issues, asset allocation and manager selection from AonHewitt, the Fund's investment consultant. The Committee expects that AonHewitt, will only bring forward investment managers where they have conducted full due diligence and that there will be meticulous ongoing monitoring.

The Committee is also supported by Council officers who are qualified accountants (CIPFA & ACCA) with an extensive background in Pension Fund investments.

The Committee, with its professional advisers, is able to demonstrate that it has the capacity to understand the decisions it makes and the risks involved in make the decision.

The Committee review all investments held on a quarterly basis against performance benchmarks. They interview all prospective managers. Officers bring to the Committees attention any issues or concerns as they arise between meetings. Regular meeting are held with managers either at full Committee or by officers, or officers and members jointly.

In line with the provisions of the Public Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. The Board meets quarterly and has its own Terms of Reference. Board members are independent of the Pension Fund Committee.

The terms of reference of the Pension Policy & Investment Committee are attached.

Section 2: Expertise, experience and knowledge

On joining the Pension Policy & Investment Committee members are given an internal induction session on the LGPS and how pension fund investment work. They are also expected to
to attend an initial induction course on the Local Government Pension Scheme produced by the Local Government Association on Pension Fund Investing over three days and to undertake tPR's online training tool on Pension Fund investments

Where a new asset class is being considered, our consultant Aon will bring a portfolio analyst to explain the risks and explains what this investment role will operate in the Fund's portfolio.

The Committee's independent advisor will also offer insights into investment types and managers, and will challenge both the Committee and our investment consultants on manager and investment issues.

Committee members and officers also attend investment conferences both held by existing managers and forums where there are opportunities to see new managers and hear about new investment opportunities.

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES☑ NO ☐
Index-linked securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES☑ NO ☐
Listed equities	0 ☐ 1-3 ☐ 4-5 ☐ 5+☑	YES ☑ NO ☐
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+☑	YES ☑ NO ☐
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES ☑ NO ☐
Property PIVs	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES☑ NO ☐
Private equity funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES ☑ NO ☐
Property	0☑ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☑
Exchange traded derivatives (ETDs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES☑ NO ☐
Over-the-counter derivatives (OTCs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES ☑ NO ☐
Commodities	0 ☑ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☑
Cash deposits	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES☑ NO ☐
Commercial paper	0 ☑ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☑
Floating rate notes	0☑ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☑
Money market funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☑	YES ☑ NO ☐
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed Link	☑ ☐

3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES NO	☑ ☐

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments? (*Please tick whether you have enclosed or provided a link to a details of the framework/policy*)	YES NO Enclosed Link	☐ ☑ ☐
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?	YES NO	☑ ☐
	If yes, please provide the name of the advisor: Aon Hewitt		
3	Is the risk framework/policy reviewed on a regular basis?	YES NO	☑ ☐
	If YES please state the frequency of the review. A review formal Following each 3 yearly valuation The Committee undertakes a formal asset investment review every three following the tri-annual valuation. It also as part of the Committee's quarterly review of our investment portfolio.		
	(*Please tick whether you have enclosed or provided a link to details of the last review*)	Enclosed Link	☑ ☐
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? Selection of infrastructure manager	YES NO Enclosed Link	☑ ☐ ☑ ☐
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☑ ☐ ☐

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each officer providing support to the committee or sub-committee please provide the following information.

Job title	Relevant qualifications	Years experience in role[1]
Interim Assistant Director of Finance*	Association of Chartered Certified Accountants	Xx Years
Head of Finance	Chartered Institute of Public Accountants	20 years
* Recruitment to substantive role in progress		

2.	For each officer with delegated investment powers please provide the following information (these may be the same officers as above).

No such delegation

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?	YES NO	☐ ☑
	(*Please tick whether you have enclosed or provided a link to details of the succession plan*)	Enclosed Link	☐ ☐

4.	For each individual investment advisor used by the authority please provide the following information *only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below)*.

Name	Relevant qualifications	Years experience in role[2]
Carolan Dobson		Over 30 years
Carolan. Dobson has over 30 years' experience in investment, pensions and financial markets and has held positions as trustee, chairman and non-executive director for pension schemes and investment trusts. She has a strong understanding of governance matters, with particular regard to investment, and has a strong working knowledge of risk and controls. In her career she has worked as a fund manager, Head of Research. Carolan has been the Enfield Pension Independent advisor for over 10 years.		

[1] Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.
[2] Or similar role which would provide knowledge of the provision of the services envisaged.

5.	For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6.	For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below*).

Name	Relevant qualifications	Years experience in role[3]

7.	For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8.	Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES ☐ NO ☐

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? (*If yes please tick whether you have enclosed or provided a link to a details of the breach*)	NO Enclosed Link	☐ ☐

2.	Please use the box below to provide any further information which may be useful in the support of your application.

[3] Or similar role which would provide knowledge of the provision of the services envisaged.

PENSION POLICY AND INVESTMENT COMMITTEE

MEMBERSHIP
6 Members of the Council

Committee Responsibilities
The Committee acts with delegated powers from the Council as Administering Authority for the Pension Fund and accordingly;

- takes key policy decisions in relation to the Pension Fund
- reviews the performance of the Fund's investments and funding strategies;
- approves admissions into the Fund.

The Committee is accountable to:
- Full Council and the Pensions Board.

Committee Structure
- For any matters relating to investments the Independent Professional Adviser appointed by the Committee (if available) and the Fund's Investment Advisers shall be in attendance.
- For matters relating to the triennial valuation, the Fund's Actuary shall be in attendance.
- The Committee shall meet at least once each quarter

Terms of Reference
The Committee shall:

1. Keep under review the fund's long-term strategic asset allocation.
2. Approve the appointment and removal of the actuary, investment managers and investment advisers, following appropriate procurement and selection procedures.
3. Set performance benchmarks and investment guidelines for the investment managers, supervise their activities and monitor their performance and risk against the benchmarks and guidelines.
4. Give directions to the actuary, investment managers and investment advisers with regard to any matter requiring the consent of the Authority or on which directions are sought.
5. Agree the Statement of Investment Principles
6. Ensure compliance with all relevant best practices for institutional investors and LGPS pension funds.
7. Commission and consider actuarial valuations and set contribution rates;
8. Consider any other policy or investment issue as the Committee see fit.

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Investment Strategy Review

September 2017

Agenda Item 10

Prepared by Aon Hewitt
Retirement & Investment

Presentation to London Borough of Enfield Pension Fund

QAS Institute and Faculty of Actuaries ®
Quality Assurance Scheme

AON
Empower Results®

Overview

Purpose

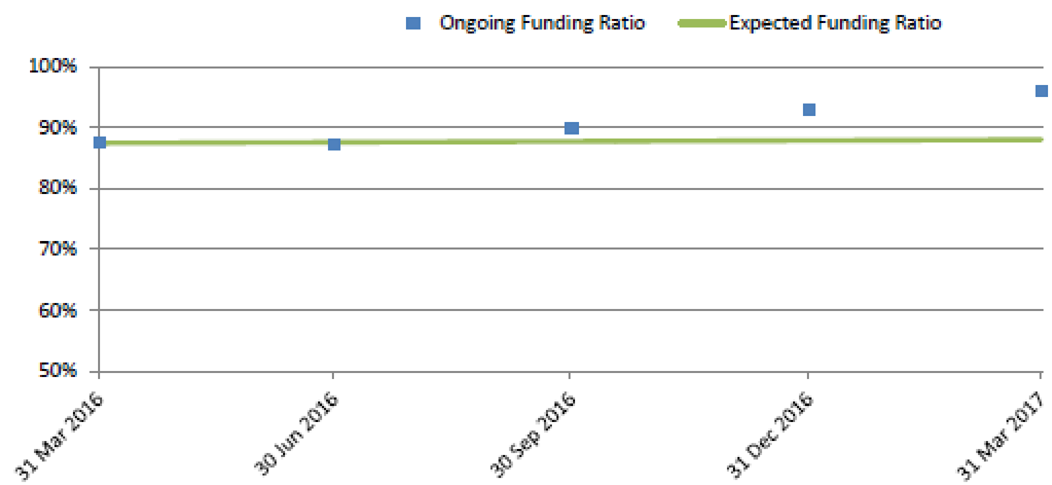
- The Fund last undertook an investment strategy review in 2014. Since then, the Fund's liability profile has changed alongside a change in the economic environment. The purpose of this strategy review is to re-assess the Fund's investment strategy in the context of the Fund's updated liabilities and to ensure appropriateness with the Pension Policy and Committee's (the "Committee") investment beliefs and views.
- We have worked with the Fund's Actuary and conducted an asset liability modelling exercise to consider the Fund's investment strategy in the context of the 31 March 2016 Actuarial Valuation and experience up to 31 March 2017.

Primary Objectives

- To achieve and then maintain sufficient assets to cover 100% of accrued liabilities (the "funding target") assessed on an ongoing basis
- To meet all liabilities as they fall due, by maintaining sufficient liquidity in the portfolio
- To minimise the "contribution risks", that the contributions required by the Council will increase at some point in the future due to a deteriorating funding level

Funding level progression

- As at 31 March 2017 the Fund was c. 96% funded, an improvement from c. 87% as at the actuarial valuation date of 31 March 2016
- The improvement in funding level has been driven by better than assumed investment returns. In particular, the Fund has returned 17.6% over the one year to 31 March 2017.
- Over the last 3 years, the Fund has returned around 11.1% per annum, an annual return in excess of the Fund's 31 March 2016 actuarial discount rate of 4.5%* (average discount rate was 5.5% at the time of the 2013 actuarial valuation).
- As the Fund approaches a 100% funding level, the risk-reward profile in the investment strategy may need to be reconsidered.



	31 March 2013	31 March 2016	31 December 2016	31 March 2017
Ongoing Funding level (%)	85%	87%	93%	96%

Source: Fund Actuary
Note: Fund-level performances are sourced from the Fund's performance measurer, Northern Trust, and is not reflective of the asset returns used by the Fund Actuary for the purposes of calculating the Fund's ongoing funding level.
* Analysis in this report are based on a discount rate of 4.4%. This is the Fund Actuary's discount rate assumption as at 31 March 2017, which has been updated to reflect changes in market conditions.

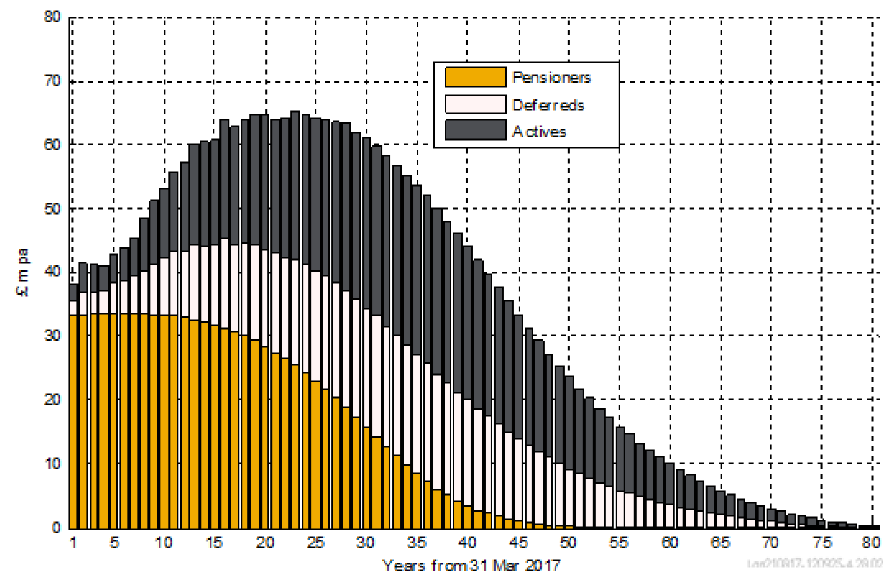
Starting position

The fund Actuary carries out a formal actuarial valuation on a triennial basis. The key features of the latest valuation are:

- Ongoing funding ratio of 87% *(96% as at 31 March 2017)*
- A deficit of £131.9m *(c. £45m at 31 March 2017).*
- A recovery plan of 19 years from 1 April 2017
- Aggregated Employer total contribution rate of 22.8% of total Pensionable Pay required to remove the shortfall (of which 17.7% reflect the cost to the Employers of future benefits building up). *(Figures are 20.1% and 18.3% respectively at 31 March 2017)*
- The Fund's 31 March 2017 discount rate is 4.4%. The Fund uses a risk based approach for its discount rate, as opposed to a "gilts or swaps plus" approach.

Our starting point of this review, however, is 31 March 2017. This is to provide a more up to date and accurate picture of the Fund given the change in assets and liabilities over the one year period.

- The chart to the right details the cashflow profile of the Fund's liabilities on the Fund's 2016 actuarial valuation, adjusted for the Fund's recent experience whereby 10% of the Fund's active members have become deferred members.
- The Fund's cashflow requirements peak around 2035.
- The Fund's long term nature provides a natural buffer against short term asset volatility.
- This gives time to deal with any unexpected outcomes on future experience.



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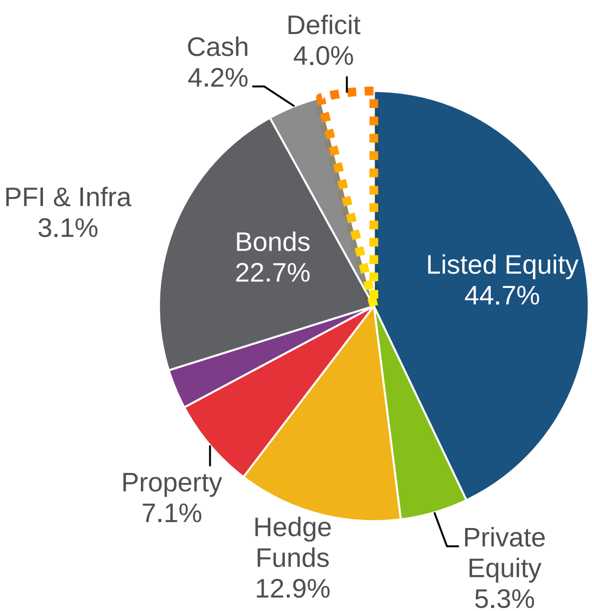
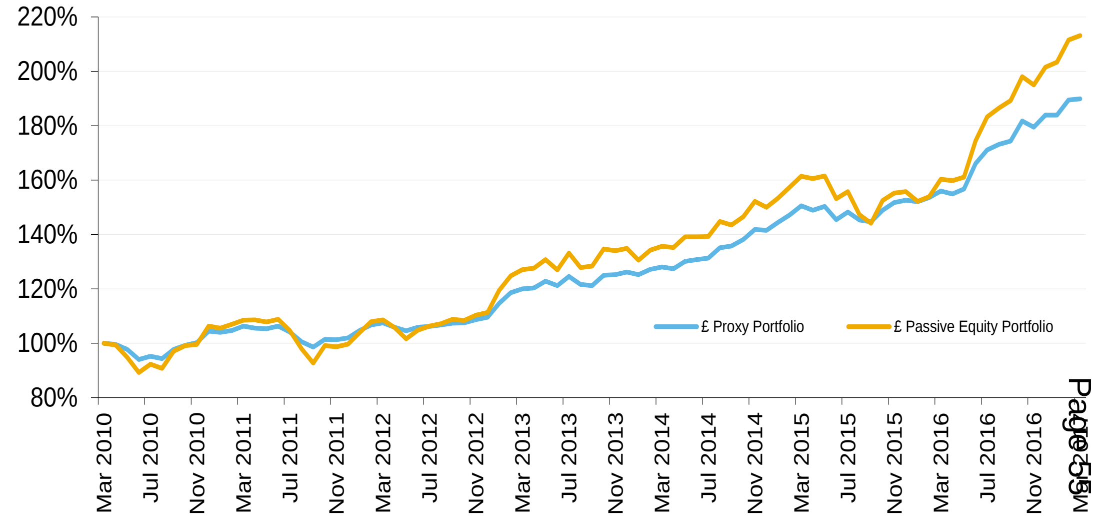
Current allocation

- The Fund's growth portfolio is invested across Listed Equity, Private Equity, Hedge Funds, Property, Infrastructure.
- Whilst the Fund's growth portfolio has underperformed equities, it has held up well over one of the longest bull markets in history.
- The Fund's growth portfolio is more efficient than a pure equities portfolio from a risk adjusted return perspective, and would be expected to provide better downside protection during bear markets, where traditionally equities would decline in value.

Fund asset allocation (31 March 2017)



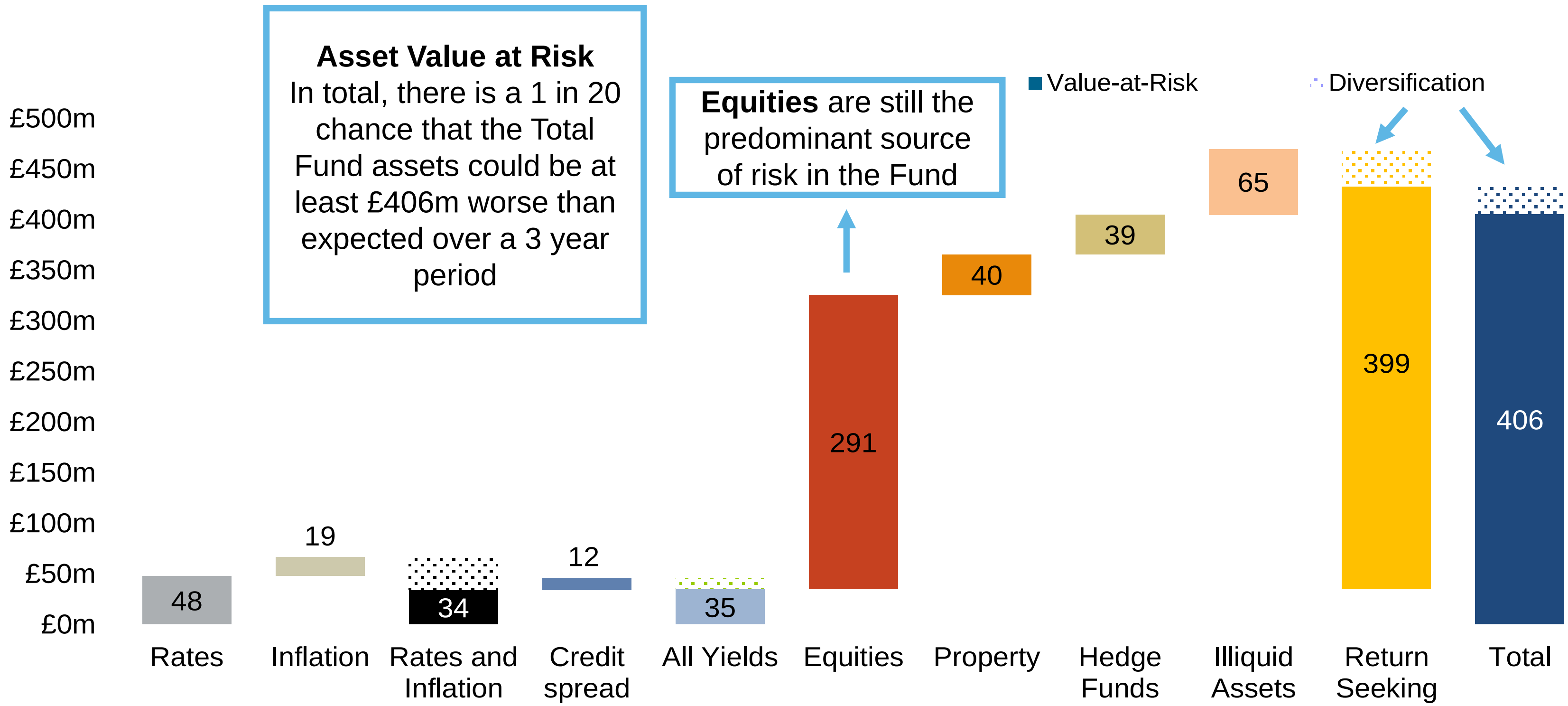
Portfolio versus passive equity portfolio in £



	Return (% pa)	Risk (%)	Return/Risk ratio
Model equity portfolio, £	11.4	11.1	1.0
Proxy Fund growth portfolio, £	9.6	6.5	1.5

Note: Information shown to 31 March 2017.
Information shown is net of fees.

Current allocation: 3 year, 5% VaR (Asset only)



- The dotted bars represent diversification benefits. For example the sum of the Equities (£291m), Property (£40m), Hedge Fund (£39m) and Illiquid assets (£65m) VaR bars is £435m. However, as a result of the assets being less than perfectly correlated, there is a **diversification benefit which reduces the VaR by £37m to £399m.** This diversification benefit is also seen for the Rates and Inflation, All Yields and Total Fund VaR. The diversification benefit at the Total Fund level is £28m (£399m + £35m - £406m).

Note: “Illiquid Assets” includes Infrastructure, Private Equity, and M&G Inflation Opportunities. Currency risk is included within each of the bars of the respective categories.

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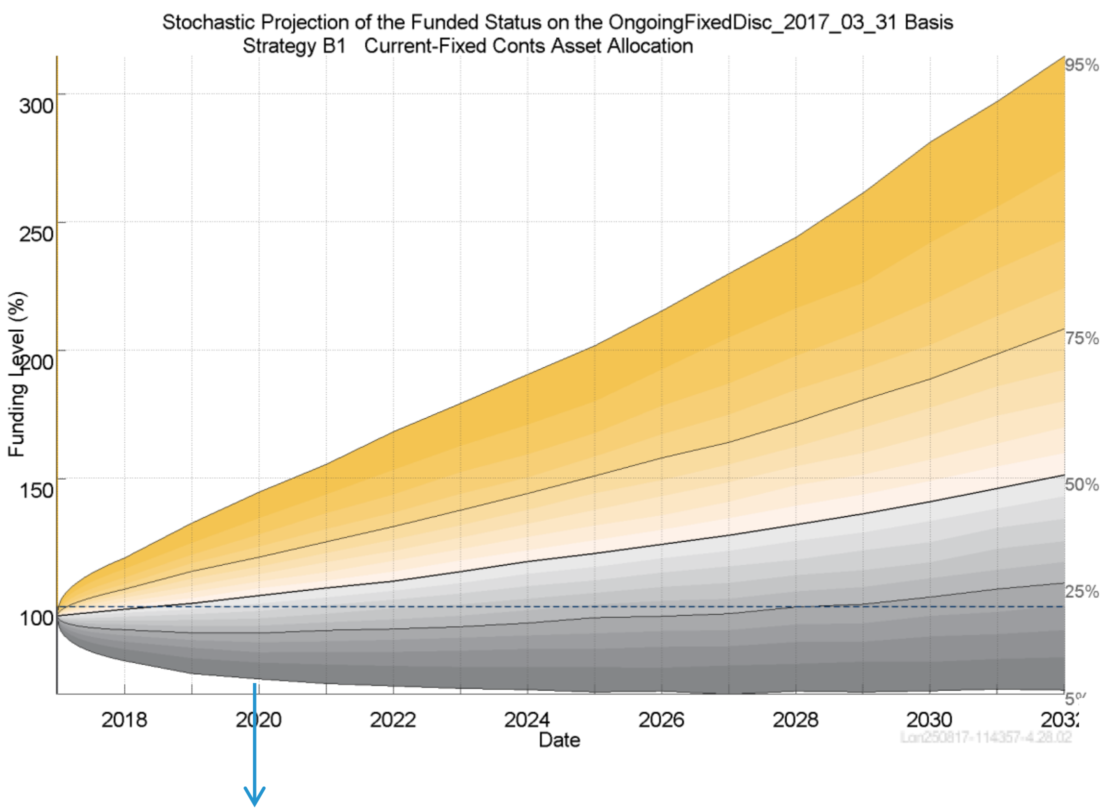
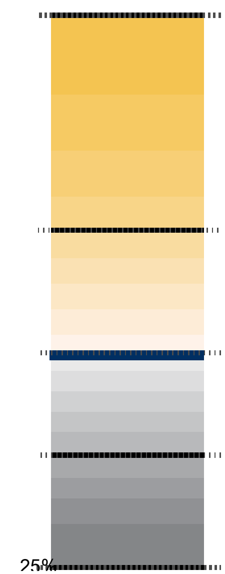
Current allocation: Funding projection

The distribution below encompasses 90% of the outcomes from the 5,000 simulations. In other words, there is a 5% chance (1 year in 20) that the outcome will be worse than this range and a 5% chance that it will be better. This is illustrated below:



90% of outcomes

5% extreme outcomes ('favourable')



5% extreme outcomes ('unfavourable')

Thick back line represents median (50%) outcome – half the simulations are above and half the simulations are below.

Two markers indicate 50% range of outcomes

Each shade represents a range of 5%.

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A three year 95% Value at Risk ("VaR") is a measure of risk representing an unfavourable outcome. It is calculated as the loss relative to the expected funding position in 3 year's time that there is a 5% chance of exceeding.

Investment Themes

- Unlike pension schemes with a “gilts/swaps plus” approach, where there are assets available which broadly mimic the liability basis’s return, the Fund adopts a “risk based approach” whereby the resultant discount rate is derived from the expected return assumptions of the Fund’s investment strategy.
- Therefore, in essence, the optimal portfolio for the Fund is a well diversified mix of assets which provide a stable expected return over the long term.
- In our review we consider the Fund’s investment strategy through various themes. We consider the level of risk in the Fund’s investment strategy, whilst exploring whether further diversification is possible, and beneficial, whilst also considering the cost and governance structure of the Fund. To provide a fuller picture of the Fund’s investment strategy, we consider not only the risk-return characteristics of each strategy, but analyse the strategies across alternative lenses.

Are we running the right level of risk?

Current allocation

Current benchmark

Further Diversification

Diversification across existing assets

Diversification across new assets

Cost and governance

Cost reduction, reduce risk and simplify

Cost reduction and simplify

- Governance
- Fees
- Pooling of assets with London CIV
- Liquidity

Improving portfolio on other lenses?

Are we running the right level of risk?

- Over the period since the strategy was last set (in 2014) the Committee has held an overweight position to equities, expressed predominantly via an underweight to bonds, as a result of:
  – A medium term view on the relative attractiveness of equities versus bonds
  – The general strong performance of equity markets
- The table below shows the comparison between the current allocation and the current long term strategy

Key Statistics	Current Allocation	Current strategy
Probability of meeting discount rate	**72%**	**71%**
Median funding level in 10 years	**128%**	**123%**
5^{th} percentile funding level in 10 years	**66%**	**70%**
3 year, 5% Value at Risk	**£406m**	**£350m**
10 year median return rel. to discount rate (p.a.)	**2.3%**	**1.9%**
10 year median volatility rel. to discount rate (p.a.)	**12.0%**	**10.4%**

Note: stochastic projection of liabilities assumes that the discount rate for the Fund is held constant over the projection period

- The current allocation has a higher expected return, and associated volatility, profile than the current strategy.
- Rebalancing towards the current strategic allocation would reduce the 3-year Value at Risk ("VaR") by c.£56m (14%).
- The probability meeting the discount rate is similar across both strategies, although the 5^{th} percentile funding level is higher for the current strategy, reflecting the increased downside protection profile.

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Diversification

- Below we show the results of the Current allocation ("CA") versus two strategies:
  - Diversifying using existing assets ("DE") considers an investment strategy whereby a 10% reduction to listed equity is re-allocated across PE (+2.5%), property (+5%) and Infrastructure (+2.5%).
  - Diversifying using new assets ("DN") considers a strategy whereby the Fund reduces its allocation to listed equity by 10%, as well as changing the composition of the bond portfolio. Corporate bonds are reduced by 4% and index-linked gilts are reduced by 3.5%, with the assets allocated towards inflation protecting illiquid assets (5%), multi-asset credit (5%) and private debt (5%). In addition, the property allocation is increased by (+2.5%).

Key Statistics	Current Allocation (CA)	Diversification using existing assets (DE)	Diversification using new asset classes (DN)
Probability of meeting discount rate	**72%**	**73%**	**73%**
Median funding level in 10 years	**128%**	**126%**	**126%**
5^{th} percentile funding level in 10 years	**66%**	**69%**	**71%**
3 year, 5% Value at Risk	**£406m**	**£373m**	**£353.3m**
10 year median return rel. to discount rate (p.a.)	**2.3%**	**2.2%**	**2.2%**
10 year median volatility rel. to discount rate (p.a.)	**12.0%**	**11.0%**	**10.5%**

Note: stochastic projection of liabilities assumes that the discount rate for the Fund is held constant over the projection period

- There are limitations of both DE and DN, particularly with regards to governance and how many asset classes the Committee would like to invest in. We have intentionally chosen asset classes such as MAC and private debt which are expected to be available on the London CIV in coming years. Other asset classes, such as inflation protection illiquid assets, are more favourable than the CA's allocation to index-linked gilts.

Cost and governance

- Where suitable opportunities arise the Committee has expressed a desire to pool assets with the London CIV to greater benefit from economies of scale and reduced fees. However, it is also understood that the Fund's current investment strategy will not completely overlap with the London CIV's opportunities and that the Fund's diversified strategy means that certain areas, such as hedge funds, will not be on the London CIV's radar. We have considered the pipeline of London CIV opportunities and modelled:
  – A cost reduction and simplification strategy (**"CRS"**) strategy considers what happens if the Fund re-allocates 7.5% of assets from hedge funds to a DGF.
  – The next strategy **("DRCS")** considers a 10% decrease in equities and removal of hedge funds (-12.5%), with the assets earmarked for DGFs (+15%) and bonds (+7.5%). For this strategy we have modelled the bonds with an illustrative portfolio based on existing bond assets plus multi-asset credit and private debt, areas which the London CIV is considering.

Key Statistics	CA	CRS	DRCS
Probability of meeting discount rate	**72%**	**70%**	**70%**
Median funding level in 10 years	**128%**	**126%**	**121%**
5th percentile funding level in 10 years	**66%**	**65%**	**68%**
3 year, 5% Value at Risk	**£406m**	**£403m**	**£361m**
10 year median return rel. to liabilities (p.a.)	**2.3%**	**2.2%**	**1.8%**
10 year median volatility rel. to liabilities (p.a.)	**12.0%**	**12.0%**	**10.7%**

Note: stochastic projection of liabilities assumes that the discount rate for the Fund is held constant over the projection period

- Our modelling analysis conclude that removing the entire hedge fund portfolio and replacing it with a 12.5% allocation to DGF will reduce the Fund's expected return by c. 30 basis points per annum over a 10 year period.

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Considering strategy through different lenses

- When considering an investment strategy, the chosen strategy should meet the required return but also reflect the views and investment beliefs of the Committee, the liquidity requirements of the Fund and the governance structure.
- In this section we consider the strategies through alternative lenses to provide a fuller view of the suitability of each of the strategies. We consider:
  - **I. Fees –** the expected base management fee of each of the strategies as a percentage of Fund assets
  - **II. Liquidity –** the ability of the Fund to liquidate holdings based on realistic liquidity times
  - **III. Governance –** the complexity of an investment into an asset class, including the expected number of asset classes and managers as well as the initial and ongoing time commitment expected for the strategy due to monitoring and manager selections
  - **IV. Pooling of assets** – the expected % of the portfolio which is aligned, or is expected to be aligned in the near future, with the London CIV. This accounts for the London CIV's expected pipeline of opportunities over the coming year.

	Current allocation	Current strategy	Diversification across existing assets	Diversification across new assets	Cost reduction and simplification	Reduced equity, cost reduction and simplification
Approximate Average Manager Fee	0.65%	0.65%	0.70%	0.75%	0.55%	0.55%
% of portfolio that could be held with London CIV	50% -70%	45%-65%	40%-60%	40%-60%	55%-75%	60%-80%
% of portfolio that can be liquidated in a week	55%	50%	45%	45%	65%	65%
Governance requirement (rel. to current strategy)	=	=	↑	↑↑	↓	↓↓

Note: The table above has been populated based on our expectation of the London CIV's pipeline of assets and approximate fee schedules

Considering strategy through different lenses (2)

Fees

- The fees paid on an investment strategy will be a function of the asset classes that the Fund invests in, and the proportion of allocation to the individual asset classes. Further diversification into existing assets or new assets will increase the level of fees paid as typically the assets considered have higher fees than equities; reflecting the importance of manager skill in delivering the return stream expected. It is expected, however, that diversification utilising assets with the London CIV will reduce fees
- Our analysis is sensitive to the assumptions of fees here, in particular for considerations of the London CIV's fees given the final fee for a product will only be known once the London CIV has selected a manager. Therefore we have allowed for some prudence in our analysis and the resulting fees could be higher or lower.

London CIV pooling of assets

- The London CIV's focus in currently on pooling liquid assets, such as bonds and equities, but there are plans in the pipelines to offer a wider range of illiquid products, such as private debt, infrastructure, and property.
- The cost reduction and simplification strategies have been designed to reduce the Fund's manager costs and governance requirement, and to increase the proportion of assets held with the London CIV. As shown in the table, meaningful improvements across these categories can be achieved.

Liquidity

- We believe that across all strategies the Fund has sufficient liquidity. The Fund is able to liquidate c.45% of the portfolio, at a minimum, inside a week, allowing for realistic liquidity and implementation time. We do not believe that the Fund's liquidity profile is an issue.

Governance

- Diversifying by increasing the number of asset classes would typically lead to an increase in the complexity of the portfolio and the degree of governance required. Managers chosen with the London CIV are considered to reduce the governance burden on the Committee given the London CIV monitors each fund on an ongoing basis.

Appendices

Modelling strategies, statistics and assumptions

Strategies considered

	Current allocation	Current strategy	Diversification across existing assets	Diversification across new assets	Cost reduction and simplification	Reduced equity, Further cost reduction and simplification
Strategy reference in review	**("CA")**	**("CS")**	**("DE")**	**("DN")**	**("CRS")**	**("DRCS")**
Listed Equity	45.0	35.0	35.0	35.0	45.0	35.0
Private Equity	5.0	5.0	7.5	5.0	5.0	5.0
Hedge Funds	12.5	15.0	12.5	12.5	5.0	0.0
Property	10.0	10.0	15.0	12.5	10.0	10.0
Infrastructure	5.0	5.0	7.5	5.0	5.0	5.0
DGF	0.0	0.0	0.0	0.0	7.5	15.0
Bonds	22.5	30.0	22.5	25.0	22.5	30.0
Inflation protection illiquids	0.0	0.0	0.0	5.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Summary of key statistics

	Current allocation	Current strategy	Diversification across existing assets	Diversification across new assets	Cost reduction and simplification	Reduce risk, cost reduction and simplification
Expected Return						
10 year p.a. median return, relative to discount rate	2.3%	1.9%	2.2%	2.2%	2.2%	1.8%
10 year p.a. median vol, relative to discount rate	12.0%	10.4%	11.0%	10.5%	12.0%	10.7%
10 year median absolute return	7.0%	6.5%	6.8%	6.8%	6.8%	6.4%
Risk						
Value at Risk (VaR) over 3 years (£m)	£406m	£350m	£373m	£353m	£403m	£360m
% change from current allocation	-	-14%	-8%	-13%	-1%	-11%
Funding metrics						
Probability of meeting discount rate in 10 years	72%	71%	73%	73%	70%	70%
Median funding level in 10 years	128%	123%	126%	126%	126%	121%
5th percentile funding level in 10 years	66%	70%	69%	71%	65%	68%
Alternative investment lenses						
Approximate Average Manager Fee	0.65%	0.65%	0.70%	0.75%	0.55%	0.55%
% of portfolio that could be held with London CIV	50% -70%	45%-65%	40%-60%	40%-60%	55%-75%	60%-80%
% of portfolio that can be liquidated in a week	55%	50%	45%	45%	65%	65%
Governance requirement (rel. to current strategy)	=	=	↑	↑↑	↓	↓↓

Source: Aon. Modelling results as at 31 March 2017. Liability return is a flat rate of 4.4% p.a.

Glossary

- Median expected relative return – this shows the relative expected return per annum over the next 10 years on a 50:50 basis vs the Fund's discount rate (4.4%)
- Median expected relative volatility – this shows the relative expected volatility per annum over the next 10 years on a 50:50 basis vs the Fund's discount rate (4.4%)
- 50th or 5th Percentile funding level – The median funding level can be interpreted as our best estimate funding level over 10 years. In a similar manner to expected return, there is a 50% chance the funding level could be above or below this level. In a one in twenty (5%) event, this is the 10 year funding level we would expect. This figure arises as a result of our projections being stochastic in nature, meaning that there are a range of outcomes depending on different scenarios. The 5th percentile return can be interpreted as a measure of "risk".
- Value at Risk – this shows the worst 5% (i.e. 1 in 20) of outcomes and their impact on the value of the Fund's assets relative to the central scenario. It shows that there is a 1 in 20 chance that the Fund's assets could fall in value by £xm or more, relative to where it is expected to be over a given time frame (typically 1 or 3 years). A strategy with a lower VaR is usually preferable.
- Probability of meeting discount rate – The probability that the Fund's expected return is greater than the Fund's discount rate (4.4%) in 10 years time. It is the probability that the Fund's assets outperform a static discount rate over the period.

Aon Hewitt Capital Market Assumptions

10 year expected returns	31 March 2017 (%)	31 March 2016 (%)	31 March 2013 (%)
UK Equities	6.6	6.8	8.0
European ex UK Equities	6.8	6.9	7.6
US Equity	6.3	6.2	7.5
Emerging Markets	7.6	7.4	9.0
Private Equity	8.2	8.5	9.6
Hedge Funds (Enfield)	6.9	-	-
Hedge Funds (fund of funds)	3.9	4.6	6.0
UK Property	5.5	5.8	7.3
European Infrastructure	6.0	6.4	8.1
Corporate Bonds (10 yr AA)	2.1	3.1	3.2
Index Linked Gilts (15yr)	0.7	1.6	1.5
Gilts (15 yr)	1.4	2.1	2.5
Currency: GBP/USD: 1.32. GBP/EUR: 1.20			

Source: Aon Hewitt. Please note that these are Aon Hewitt's standard CMA's and will differ to the specific assumptions used when modelling the Fund's investment strategy.

- It is important to note that during our modelling of the assets we have used a projection period of 10 years. The Fund Actuary will typically use a 30 year period, which is more appropriate for long term funding.

Modelling principles

- As part of the investment strategy review, we have conducted some asset liability modelling in order to allow a statistical comparison of the features of different investment strategies.
- To do this, we have used our asset liability model and capital market assumptions as at 31 March 2017. The analysis projects the assets of the Fund over the long term, using 5,000 different economic scenarios. Each of these scenarios projects a different profile of returns.
- Whilst each investment strategy can be summarised by a single return or risk statistic, it is important to also look at the spread of returns, particularly in a poor scenario. For example a strategy with a higher expected return may also have a higher volatility associated with it. The model uses the long-term expected returns and volatilities of each asset class to calculate overall portfolio expected return and risk.
- Given the interaction between the assets and liabilities, a poor performing investment strategy may directly result in a greater deficit within the Fund due to a fall in the asset value. This could then put further pressure on the contributions required at a future date. Therefore an investment strategy which we expect to have a more steady profile of returns (or put another way fewer dramatic shocks) may be preferred to one with greater volatility.
- In setting the discount rate the Fund Actuary is required to take prudence. When we share output from strategic modelling we normally do so on what is called a 'median' basis. This means that there is a 50% chance that expected returns are greater than this level and a 50% chance that expected returns are less than this level. We have built in a margin of safety in our analysis through two main areas:
  - Target a greater level of return than that expected by the Fund Actuary (greater than 4.4%)
- Whilst statistical analysis is helpful in comparing investment strategies, we do not believe it should be the sole factor in setting the investment strategy. There are many other practical considerations that need to be factored in and we have commented on some of these throughout the paper and would be pleased to discuss these further with the Committee.

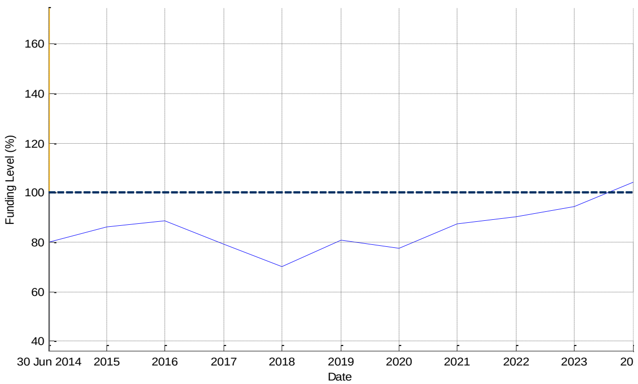
Modelling Methodology

- The assessment of the funding projection and Value at Risk within the Fund uses a stochastic model to project the Fund's assets and liabilities.
- A number of financial and demographic assumptions are made to project the assets and liabilities.
- A stochastic model works by projecting a very large number (typically 5,000) of different economic simulations. Each simulation is randomly generated, but allows for:
  – the interaction of key economic factors reflecting the way markets have behaved in the past (volatilities/correlations)
  – future development of these key economic factors based on current market conditions and future expectations

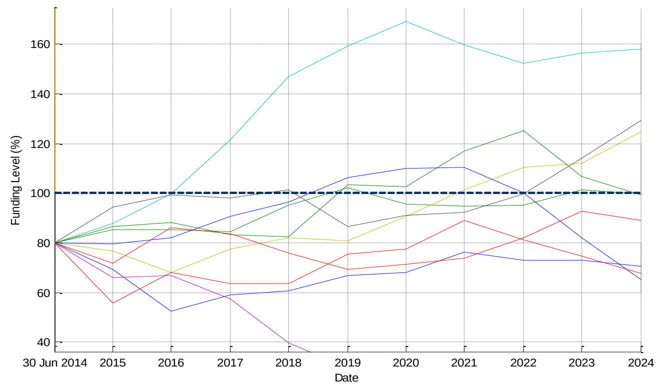
The model generates a number of different simulations and produces a picture of future funding levels on each simulation.

This can be used to provide a distribution of possible outcomes and assess the relative likelihood of events happening

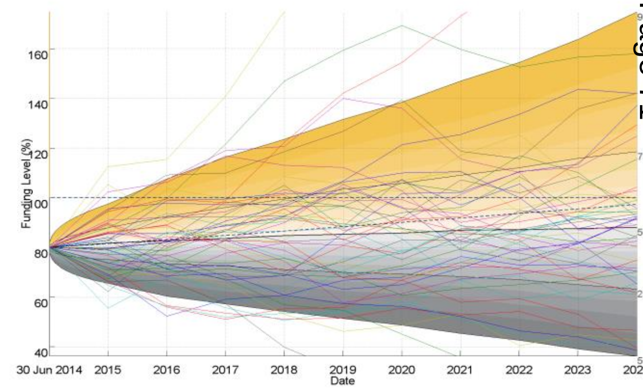
A single simulation



10 simulations



Stochastic distribution



Modelling Data, Assumptions and Limitations

- **Assets**
  - Assets value of £1,046M used to reflect a funding level of 96% at 31 March 2017 as per actuarial report. Actual Market value of invested assets were £1,035M
- **Future asset allocation**
  - The allocations are assumed to be annually rebalanced.
- **Contributions**
  - Contributions are assumed to be paid based on the recovery plan agreed with the Administering Authority dated 27 March 2017. In particular £7.8M p.a. deficit contributions, increasing at 3.5% p.a., will be paid until 31 March 2036 and salary based contributions would cover accrual. Contributions are assumed to be fixed and do not allow for the Shortfall Contribution Review Mechanism.
- **Liabilities**
  - The projected liabilities are calculated based on liability data provided by the Fund's Actuaries, and on the Technical Provisions basis as set out in the formal actuarial valuation as at 31 March 2016, provided by the Fund's Actuaries to the Trustees in the formal actuarial valuation report dated 27 March 2017.
  - The liabilities are projected using the return metric and inflationary assumptions as at the valuation date and held constant throughout the projection period. The update does not allow for experience in mortality and other demographic items to be different from that assumed under the Technical Provisions assumptions.
  - Technical provisions assumptions are derived using Aon Hewitt flat rates and methods where appropriate.
  - The liability update and projections are considered appropriate for indicating the liability indications of various scenarios. However, they are approximate and a full actuarial valuation carried out at the same date may produce a materially different result. The liability update and projections are not formal actuarial advice and do not contain all the information you need to make a decision on the contributions payable or investment strategy.

Report Framework

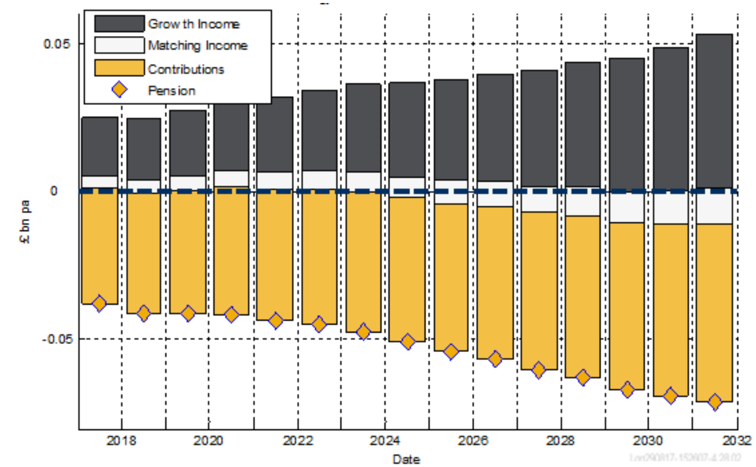
- This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100')
- The compliance is on the basis that the London Borough of Enfield is the addressee and the only user and that the report is only to be used to assess the investment strategy of the Fund so that the Committee can consider reviewing the strategy if appropriate. If you intend to make any other decisions after reviewing this report, please let us know and we will consider what further information we need to provide to help you make those decisions.
- The report has been prepared under the terms of the Agreement between the Fund and Aon Hewitt Limited on the understanding that it is solely for the benefit of the addressee.

Liability analysis and cashflow

How much illiquidity can the Fund tolerate?

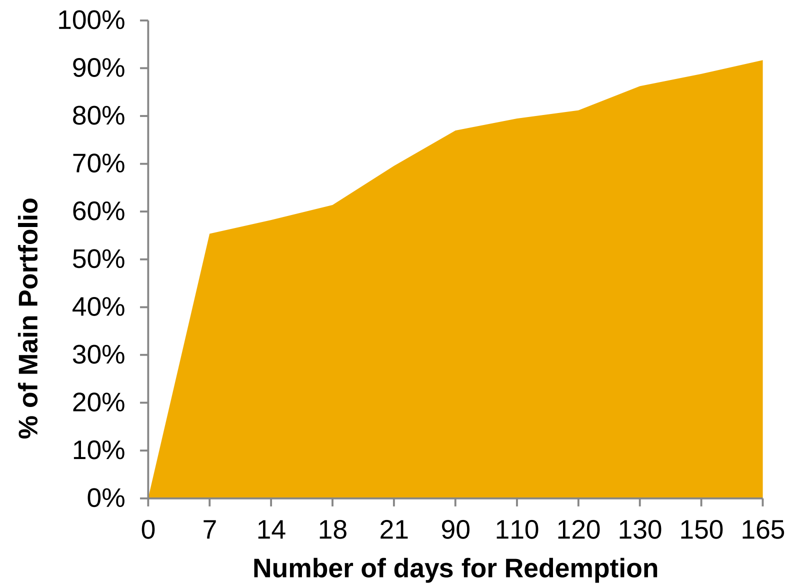
Cashflow profile

- The chart on the right shows the liquidity requirement of the Fund.
- The top of the bars show the net requirement, i.e. it shows the Fund is cashflow positive.
- The diamond represents the benefit payments and the yellow bar represents what monetary amount is paid through contributions, with the remainder being sourced from the Fund's assets.



How much illiquidity can the Fund tolerate?

- The chart below shows the realistic liquidity of the Fund, taking into account dealing dates, notice periods and settlement dates for the Fund's current investment managers.
- **Within 7 days, we estimate that the Fund would be able to liquidate 55% of its portfolio – c. £575m will be available in cash.**
- From a purely economical perspective, the Fund has sufficient liquidity to withstand a significant cashflow requirement. However, we also appreciate that it may not be beneficial for the Fund to sell these assets and that generating income to meet pensioner payments is important.



Liability analysis

- The tables on the following pages form analysis undertaken by the Fund Actuary. The Actuary has stressed the Fund's approximate liability cashflows to consider the benefits and contributions paid by the Fund under certain scenarios.
- We have assumed market conditions remain unchanged between the 2016 and 2019 valuations, and therefore liabilities have changed in line with expectations and the future service rate is unchanged and the deficit has been made good early through positive asset returns in the inter-valuation period. The effect of changes in market conditions would likely have an impact on the expected benefits to be paid and on the future service rate (which would impact the contribution income received).
- The cashflow analysis here is approximate and should not be considered as formal advice, but rather an illustration of what could happen using scenario analysis.
- In summary, the Fund does not have a significantly cashflow negative position and is able to withstand stresses to its position. However, should it become more evident that one of these scenarios is likely to materialise, either through the passage of time or through changes in the Fund's liabilities, it would be sensible to revisit the likely impact on the Fund .

100% Funded at the 2019 valuation

Year	Benefits	Contributions	Net Cashflows
2017/18	(38.9)	44.5	5.6
2018/19	(42.6)	46.8	4.2
2019/20	(43.0)	49.0	6.0
2020/21	(43.1)	40.6	(2.5)
2021/22	(46.1)	42.1	(4.0)
2022/23	(48.2)	43.5	(4.7)
2023/24	(50.4)	45.1	(5.3)
2024/25	(54.8)	46.6	(8.2)
2025/26	(59.2)	48.3	(10.9)
2026/27	(62.2)	49.9	(12.3)
2027/28	(66.8)	51.7	(15.1)

Liability analysis

Effect of 20% redundancies

Year	Benefits	Contributions	Net Cashflows
2017/18	(39.5)	37.4	(2.1)
2018/19	(42.7)	39.4	(3.3)
2019/20	(43.0)	41.2	(1.8)
2020/21	(43.2)	42.6	(0.6)
2021/22	(45.7)	44.1	(1.6)
2022/23	(47.4)	45.7	(1.7)
2023/24	(49.4)	47.2	(2.2)
2024/25	(52.9)	48.9	(4.0)
2025/26	(56.5)	50.6	(5.9)
2026/27	(60.7)	52.4	(8.3)
2027/28	(65.0)	54.2	(10.8)

100% replacement (steady state) and 75% replacement (reducing membership)

	100%			75%		
Year	Benefits	Contributions	Net Cashflows	Benefits	Contributions	Net cashflows
2017/18	(38.9)	44.5	5.6	(38.9)	44.0	5.1
2018/19	(42.6)	46.8	4.2	(42.6)	45.9	3.3
2019/20	(43.0)	49.0	6.0	(43.0)	47.6	4.6
2020/21	(43.1)	50.7	7.6	(43.1)	48.9	5.8
2021/22	(46.1)	52.4	6.3	(46.0)	50.2	4.2
2022/23	(48.2)	54.3	6.1	(48.1)	51.4	3.3
2023/24	(50.4)	56.2	5.8	(50.3)	52.7	2.4
2024/25	(54.8)	58.1	3.3	(54.6)	54.0	(0.6)
2025/26	(59.2)	60.2	1.0	(58.9)	55.2	(3.7)
2026/27	(62.2)	62.3	0.1	(61.9)	56.5	(5.4)
2027/28	(66.8)	64.5	(2.3)	(66.3)	57.9	(8.4)

Miscellaneous

Currency risk

- The Fund is exposed to currency risk through its exposure to any overseas holdings and through its non-Sterling denominated Funds. The Fund has a global portfolio and therefore it is exposed to changes in the value of Sterling versus different foreign currencies.
- The tables below shows the Fund's exposure to different currencies and also which share classes the Fund holds.

Currency exposure	% of Fund	(£m)
Sterling	48.9	533.4
US Dollar	33.6	366.1
Euro	7.7	84.4
Yen	3.3	36.2
Other	6.4	69.7
Total	**100.0**	**1,089.8**
Note: Totals may not sum due to rounding. Manager currency exposures are based on geographical exposure		

Base currency	Asset class / manager
Sterling	Listed equities, Property, Bonds, Lansdowne, Brevan Howard, CFM, Markham Rae, IPPL,
US Dollar	Adams Street, York, Davidson Kempner and Gruss
Euro	Antin

- The Fund's USD share classes have performed very well since Brexit, as the pound has depreciated significantly.
- Whilst we do not view currency as a significant risk in the Fund's portfolio, the Committee could consider banking these gains by moving to a GBP share class where possible.
- Currency hedging is a possibility for the Fund but will impose further complexity and operational burden on the Committee.

What is a Diversified Growth Fund?

- Diversified Growth Funds (DGFs) are actively managed funds which are designed to deliver absolute returns similar to the long run return on equities with lower volatility
- Each DGF differs markedly in how its portfolio is constructed and so DGFs do not fit neatly into a generic box; the only common characteristic these funds have is that they typically aim to reduce absolute volatility compared to that of equities and a return target in excess of either cash or inflation. Typical risk / return objectives:
  - Cash (Libor) or inflation (RPI) + 3-5% (gross of fees) over a market cycle
  - Funds will typically target ½ to ⅔ of the volatility of equities
- Sources of return:
  - Top down dynamic asset allocation
  - Beta (market returns)
  - Alpha (manager skill)

- Hedge Fund and DGF's are often compared but it should be noted that they are different propositions. Hedge Funds and DGF's are similar in the sense in that they both aim for absolute returns in all market environments, but the way this is achieved is quite different.
- DGF's aim for absolute returns through diversification and dynamic asset allocation, whilst hedge funds do so through accessing "alternative risk premia", using manager skills to exploit market inefficiencies and generate absolute returns.
- As a result, DGF's have much higher correlation with traditional asset classes such as equities and bonds than hedge funds, although this varies significantly depending on which hedge fund strategy is chosen.
- Typical DGF managers typically have a correlation of between 0.5-0.8 with equities, whilst the Fund's hedge fund managers have correlations ranging from -0.3 (Markham Rae) to 0.7 (York, Lansdowne) with equities.

Pros and Cons

Diversification away from equities

Potential to generate equity like returns with lower volatility

Delegation of underlying fund selection and monitoring may be attractive

Relatively short track record for some DGFs

There may be an extra layer of fees compared to direct investment

Ability to invest in a wide range of asset classes, without additional governance required

Potential for a level of capital preservation as they offer downside protection

Dynamic asset allocation to reflect market - makes fund more nimble

Diversification may drop in stressed markets (when needed most)

Unlikely to have full expertise across all underlying asset classes

Access to asset classes where a direct holding may not otherwise be possible

Can accommodate different investment styles and objectives

Managers may be biased towards own in-house strategies

Cannot influence the allocation between underlying asset classes

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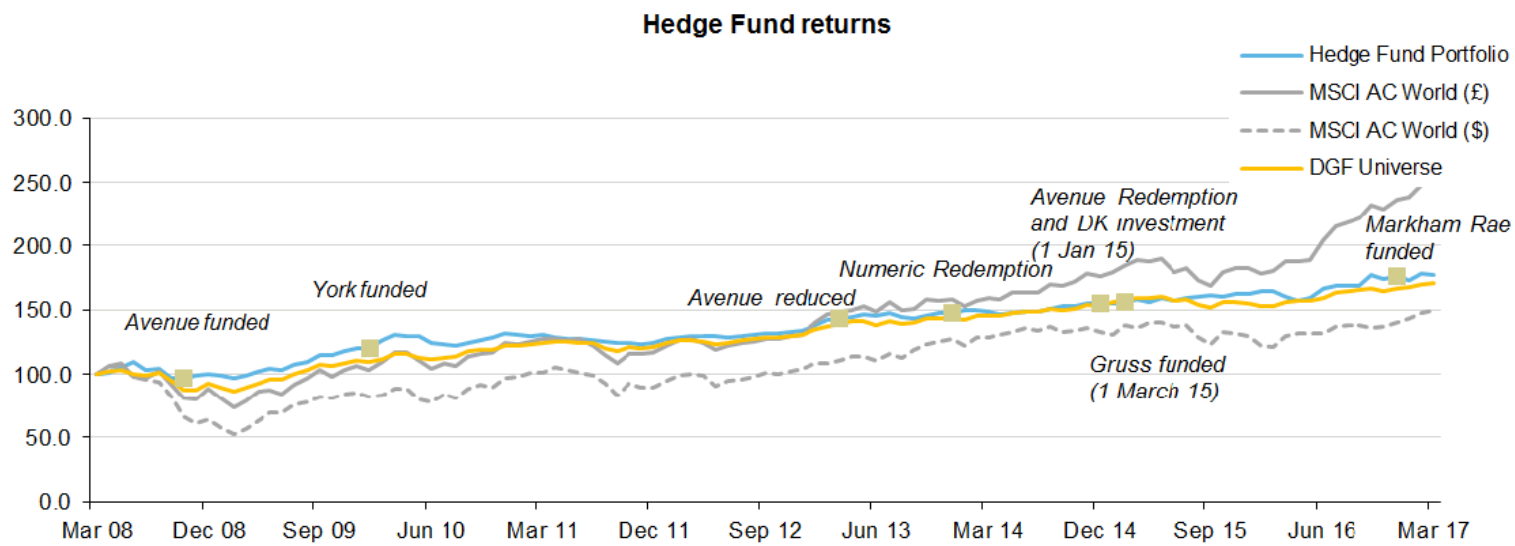
DGF's vs Hedge Funds

- The chart below shows the cumulative performances of the Fund's hedge funds portfolio against the universe of DGF managers, and the MSCI AC World Index (in both GBP terms and USD term) over the past 7 years.
- Hedge Funds have performed similarly to DGF's in recent years. Extraordinary central bank actions in recent years have distorted asset prices, and have allowed equities and bonds assets to deliver historically high levels of returns with relatively low associated levels of volatility. This has contributed to a negative market environment for hedge funds, which typically exploits volatility to generate additional returns.



Illustrative portfolio returns

- The table below shows the return of the Fund, as measured by Northern Trust, over various time periods to 31 March 2017, versus illustrative portfolios.
- The illustrative portfolio is comprised of a split between a global equity index (MSCI ACWI) and a corporate bond index (Bank of America Sterling Corporate Bond Index) and assume no rebalancing over the time periods.

	Fund	60/40 equity/bond
1 year	13.6%	24.0%
3 year (p.a.)	11.0%	12.8%
5 year (p.a.)	10.5%	11.7%

Source: NT, Aon. Returns for illustrative portfolios are shown net of fees. We have assumed 0.15% p.a. on equities and 0.10% p.a. on corporate bonds

Effect of investment returns on funding position

Direct impact:

- When actual (net) asset returns are higher than the discount rate, the value of the Fund's assets will be higher than expected and hence, all things being equal, the funding level will improve relative to the funding plan, and vice versa

As an example, estimated returns from the 31 March 2016 valuation date to 31 March 2017 used in the funding update were approximately 16%. This is significantly higher than the assumed discount rate as at 31 March 2016 of 4.5% p.a. The effect on the funding level is (approximately) as follows:

$$87\% \times [\ 1.16 / 1.045 - 1\ ] = +10\%$$

Indirect effect:

- Investment returns achieved can also have an indirect effect on the funding position via a change in the real discount rate used to value the liabilities.
- Strong performance in the main asset classes usually results in lower expectations for future returns, which in turn also reduces the discount rate. Even if the effect of the reduced discount rate is matched by the increase in the value of assets, contribution requirements may still rise due to the increased cost of meeting the cost of ongoing accrual.
- Holding all other factors constant, as market valuations rise, so future return expectations are likely to fall, and vice versa.

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London Borough of Enfield – Janus Henderson Emerging Market Equities

Wednesday 6 September 2017

Ian Tabberer
Investment Manager

Mark Fulwood
Head of UK Institutional Business Development

Janus Henderson INVESTORS

Global Emerging Markets

Agenda

- Team structures
- Global Emerging Markets team assets
- Investment philosophy
- Process
- Henderson Emerging Markets Opportunities Strategy:
  - Positioning
  - Performance
- Engagement
- Conclusion
- Appendix

Janus Henderson INVESTORS

Boutique culture – Edinburgh based investment team

Global research effort: Blurring boundaries between emerging and developed market opportunities means neither should be analysed in isolation

Global Emerging Market Equities

Glen Finegan
(16, 2)
Nicholas Cowley
(19, 13)
Stephen Deane
(9, 1)
Michael Cahoon
(5, 2)
Ian Tabberer
(16, <1)

GEM insights →

← **Global insights**

Global Equities

Ian Warmerdam
(21, 16)
Ronan Kelleher
(7, 6)
Gordon Mackay
(21, <1)
Steve Weeple*
(20,<1)

Sharon Davidson
Research Assistant

Eva Donaldson
Assistant

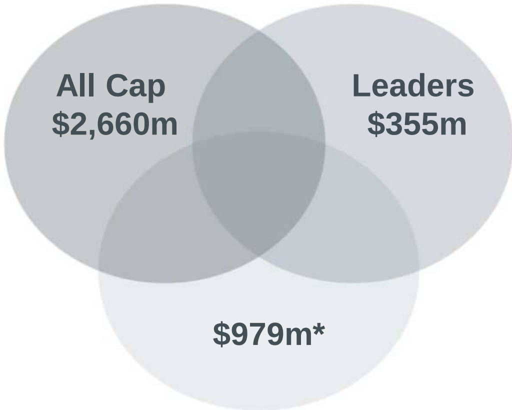
Source: Henderson Global Investors, as at 31 March 2017
Note: Numbers in brackets refer to (years investment experience, years with firm)
* Steve Weeple joined the Global Equities team on 2 May 2017

Janus Henderson INVESTORS

Global Emerging Markets

Assets under management

Total GEM team assets = $3,994m



All Cap Pooled $1,327m

Henderson Emerging Market Opportunities Fund (UK OEIC)	**$575m**
Henderson Gartmore Emerging Markets Fund (SICAV)	**$468m**
Henderson Emerging Markets Fund (US Mutual)	**$188m**
Henderson Gartmore Latin American Fund (SICAV)	**$70m**
Henderson Global Emerging Markets Equity Fund (Australian UT)	**$26m**

All Cap Segregated Mandates $1,333m

Leaders Internal Mandates and Pooled Vehicle $355m

* Segregated concentrated portfolio $979m

Notes: Janus Henderson Investors, as at 30 June 2017
Internal mandates include an Emerging Markets sleeve of Janus Henderson International Opportunities Fund (US Mutual) and an Emerging Markets sleeve of The Bankers Investment Trust PLC.

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Investment philosophy

- Bottom up
- Don’t follow the index
- Long term
- Quality companies
- Strict valuation discipline
- Invest with an absolute rather than relative return mind set

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Process: Quality at the core

1. **Opportunity set**
   - Company meetings
   - Research visits
   - Endorsements
     - Competitors
     - Customers
     - Suppliers

2. **Quality analysis**
   - Management
   - Franchise
   - Financials

3. **Portfolio construction**
   - Valuation
   - Growth

Universise: Expanding → Watch list: 250 – 300 → Portfolio: GEM 40 – 80

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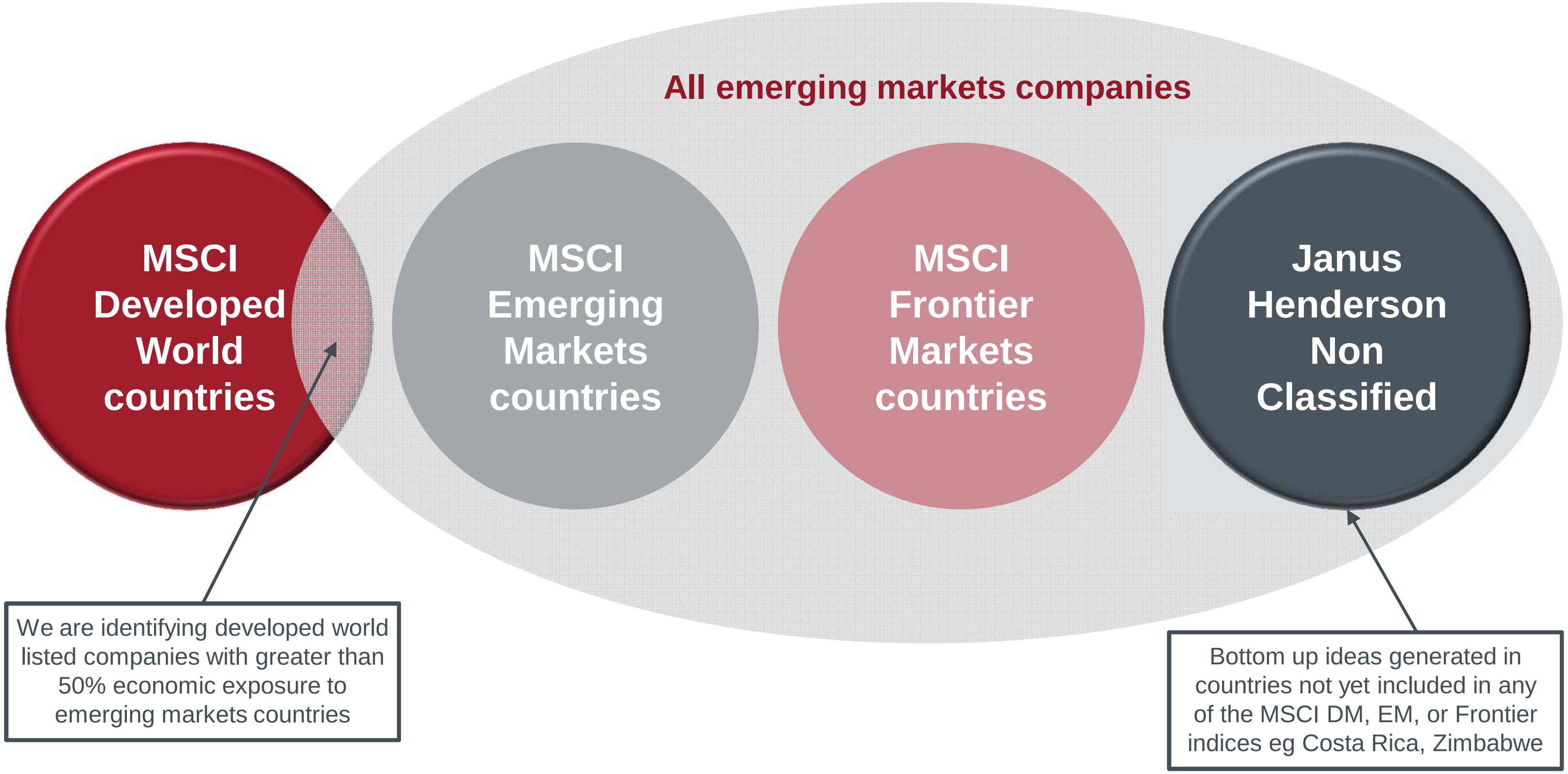
The universe is expanding

1. Opportunity set – we follow an 'all emerging markets' approach



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A high calibre watch list

2. Quality analysis – what we look for

Management/ controlling shareholders	Good governance record and alignment with minorities Track record of delivery over the long term Conservative approach to risk Awareness of non financial risks (social/environmental/taxation etc)
Franchise	Price makers over price takers Barriers to entry Resilience in previous downturns
Financials	Conservative attitude to debt – quantity & denomination Cash flow over accounting profits

Balancing the equation

3. Portfolio construction

Watchlist:
250 – 300

Growth

Earnings/cash flow to beat inflation over the economic cycle

Prefer predictable over cyclical growth

Valuation

Absolute rather than relative financial & non financial metrics

Set five year target review prices

Portfolio:

GEM 40 – 80

POSITION SIZING
Starting: 1%
Established: 1-3%
High conviction: 3-7%

Investing in people and track records

Our process seeks to identify individuals behind businesses with long track records of integrity and financial delivery – examples of people we invest alongside:

Deepak Parekh
Chairman of HDFC
India's leading housing finance company

Cao Dewang
Chairman of Fuyao Glass
Leading Chinese auto glass manufacturer expanding into the US and Europe

Kumar Mangalam Birla
Chairman of Grasim Industries, UltraTech Cement and Idea Cellular

Jean-Paul Luksic
Chairman of Antofagasta
Family controlled Chilean copper miner with an excellent track record

Source: [1] http://forbesindia.com/printcontent/20732
[2] http://www.forbes.com/profile/cho-tak-wong/gallery/7
[3] http://www.adityabirla.com/media/press-reports/its-now-or-never
[4] http://www.quinenco.cl/esp/directores.html

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ESG* – An indivisible part of the investment process

Note: * Environmental, social and corporate governance

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Henderson Emerging Markets Opportunities Strategy

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INVESTORS

Henderson Emerging Markets Opportunities Strategy

Investment characteristics	
Inception date	29 September 2000
Fund manager	Glen Finegan
Managed since	1 February 2015
Fund aim	Benchmark plus 2.5% net of fees over rolling 3 year periods
Benchmark	MSCI Emerging Markets Index
Peer Group	IA Global Emerging Markets

Guidelines that ensure a diversified portfolio	
Single country exposure	Max: 25%
Single sector exposure:	Max: 40%
Holding size	Starting: 1% Established: 1-3% High conviction: 3-7% Liquidity considerations
Number of holdings	Min: 40 Max: 80
Cash position	Max: 10%
Currency hedging	No
Derivatives	No

Source: Janus Henderson Investors, as at 31 July 2017

Henderson Emerging Markets Opportunities Strategy

Positioning: Top 10 holdings and sectors as at 31 July 2017

Security	% of fund	% of index
Tiger Brands	4.0	0.1
Uni-President Enterprises	3.4	0.2
Standard Bank Group	3.4	0.3
Heineken	3.3	0.0
Newcrest Mining	3.2	0.0
Housing Development Finance	3.1	0.9
Cia Cervecerias Unidas	3.0	0.0
Grasim Industries	2.8	0.1
Banco Bradesco	2.5	0.2
Inversiones Aguas Metropolitanas	2.3	0.0
Weight of top 10 holdings	**31.0**	**1.8**
Weight of top 20 holdings	**51.5**	**2.2**

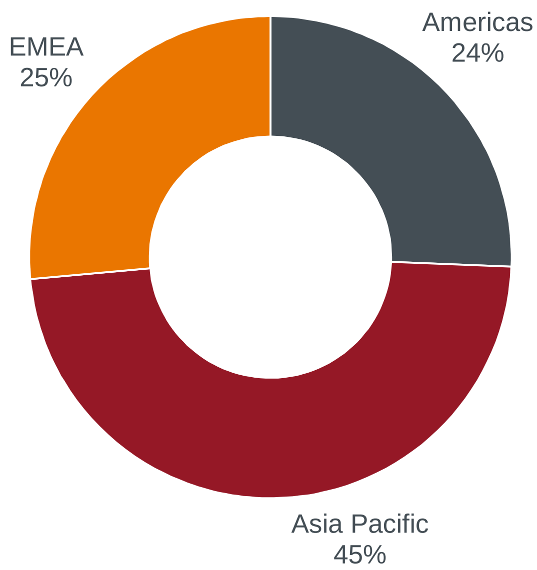
Sector	% of fund	% of index
Consumer Staples	32.0	6.5
Financials	16.5	23.7
Materials	12.2	7.3
Information Technology	7.7	26.9
Industrials	6.9	5.6
Utilities	6.3	2.6
Consumer Discretionary	5.4	10.5
Telecommunication Services	3.6	5.3
Health Care	1.8	2.3
Energy	0.7	6.5
Cash	6.8	0.0

Source: Janus Henderson Investors, as at 31 July 2017
Fund: Henderson Emerging Markets Opportunities Strategy
Benchmark: MSCI Emerging Markets Index
Note: Totals may not add up due to rounding. Sector classifications follow the Global Industry Classification Standard (GICS).
References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security

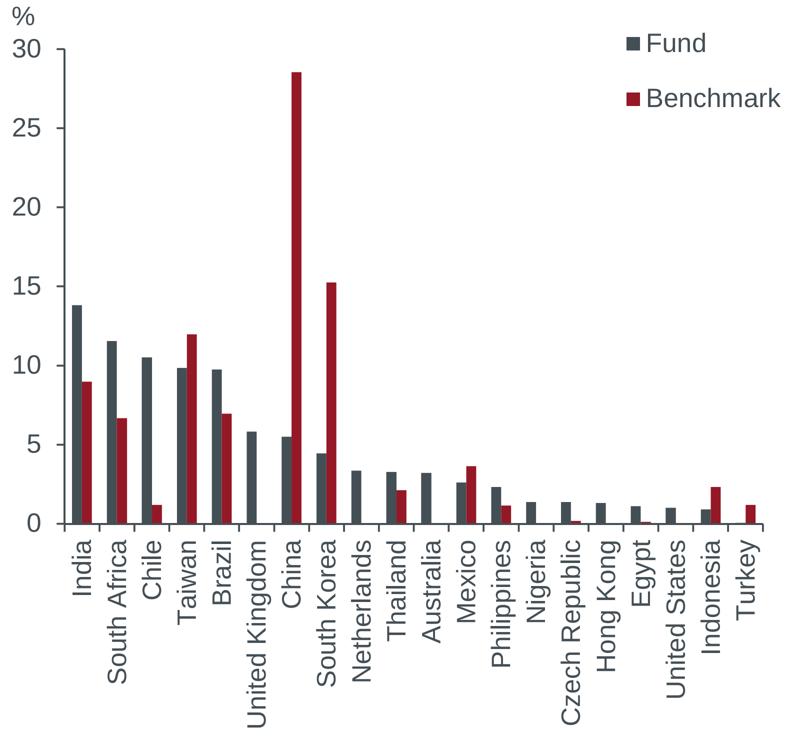
Henderson Emerging Markets Opportunities Strategy

Positioning: Exposure – regions and countries as at 31 July 2017

Regional exposure



Country exposure



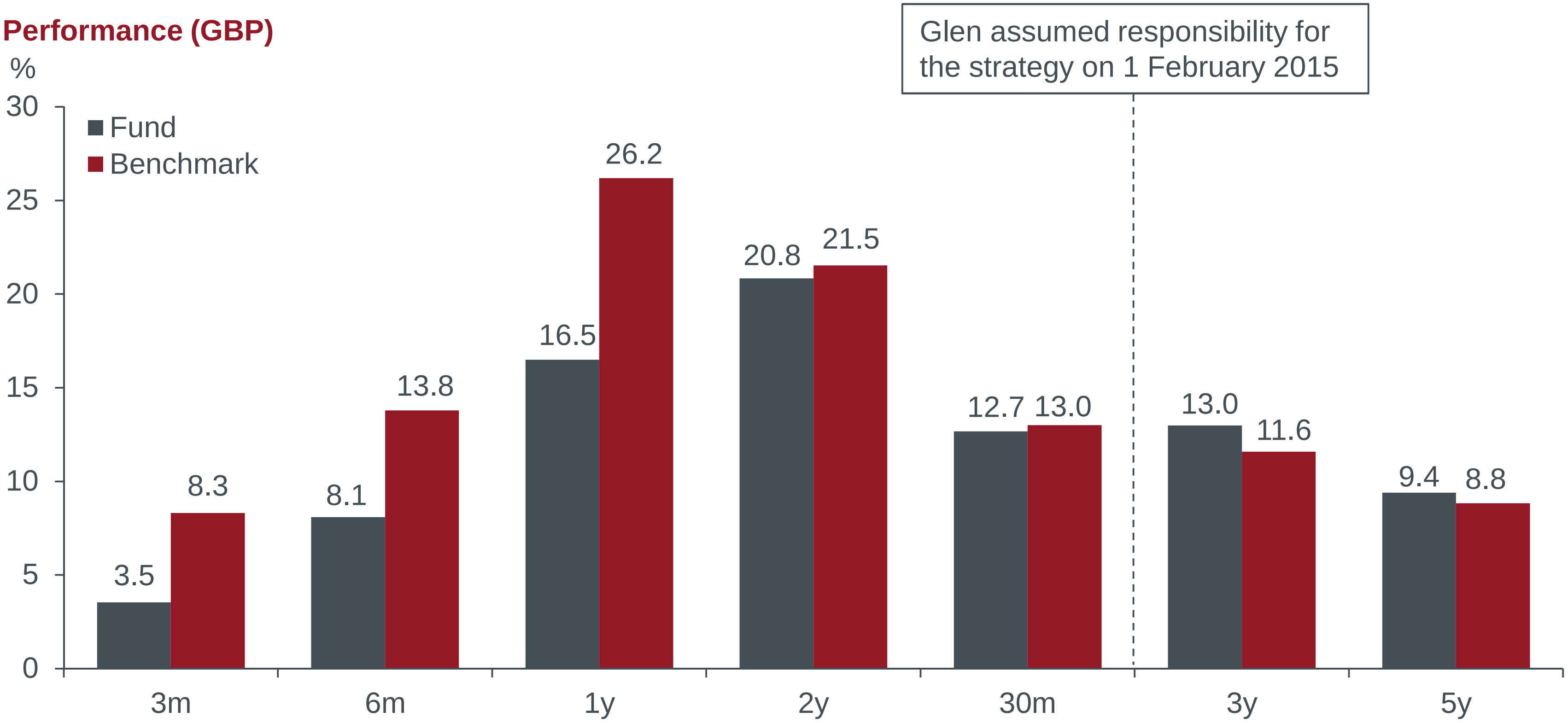
Source: Janus Henderson Investors, as at 31 July 2017
Fund: Henderson Emerging Markets Opportunities Strategy
Benchmark: MSCI Emerging Markets Index
Note: Excludes cash. MSCI country classifications standard used to determine country classifications.

Janus Henderson INVESTORS

Henderson Emerging Markets Opportunities Strategy

Performance as at 31 July 2017

Performance (GBP)



Source: Henderson Global Investors, as at 31 July 2017
Note: Glen Finegan, Head of Emerging Market Equities, joined Henderson and assumed responsibility of the strategy on 1 February 2015
Basis: Gross of fees, C Acc share class, in Sterling, close of business prices, annualised for periods over one year
Benchmark: MSCI Emerging Markets Index

Past performance of the fund is not necessarily indicative of the future or likely performance of the fund

The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Supplementary to the GIPs disclosures in the appendix.

Janus Henderson INVESTORS

Engagement

Examples of corporate engagement YTD

Security	Engagement type	Engagement detail	Method of engagement	Outcome
Nampak	Governance	AGM engagement regarding a more detailed explanation regarding board attendance.	Email	Company communicated an understandable situation. Voted in favour of re-appointment.
Tiger Brands	Governance	Reminder letter written as follow up to our conversation in November 2016 regarding improvements in remuneration policies ahead of AGM.	Written letter	Continued engagement with new CEO, Laurence MacDougall about the need to further develop a performance minded culture as a means of improving results. Focus is on coming up with a more suitable remuneration policy that will create better alignment with shareholders.
Grasim-ABNL	Governance	Conference call with management to discuss particulars around merger of group companies.	Conference call	Merger approved. Increased conviction in Aditya Birla Group and position size. Comfortable with the approach to minority investors. Reiterated appreciation for Group's long term approach.
Natura	Governance	AGM engagement regarding approval of a restricted stock to departing CEO.	Email	Further dialogue with the company regarding remuneration policies and the need for better disclosure.
Guaranty Trust Bank	Governance	AGM engagement regarding procedural issues in Nigeria concerning shareholder representatives on the audit committee.	Email	Vote against current procedure. Continued efforts with company to improve the process. Similar to situation in Chile a year earlier.
Grupo Herdez	Governance	AGM engagement regarding increased disclosure on proposal to increasing employee stock plan.	Email	Increased corporate awareness of need for more disclosure. It also provided an opportunity for the team to compare with other Mexican corporates. This could be an area of further engagement.
Genomma Labb	Governance	Conference call with CFO regarding acquisition of minority holdings in company subsidiaries.	Conference call	Further support for investment thesis. Company continues to make efforts to improve governance and alignment between managers and shareholders, while providing more professional disclosure than in past.
Entel	Governance	AGM engagement regarding rationale for increasing director tenure from two to three years.	Email	Reiterates company's long term approach. Investment team agrees an additional year provides more stability. Voted in favour of re-appointment.
Coca-Cola Andina	Environment	Discussed policies around environmental sustainability. Most notably the introduction of returnable bottles into LatAm markets.	Email	Reiterates company's approach to long term sustainable growth.

Source: Janus Henderson Investors, as at 30 June 2017
Note: References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security
The above is for illustrative purposes only and should not be misconstrued as advice

Janus Henderson INVESTORS

Conclusion

We aim to:

- Preserve as well as grow client capital
- Invest alongside owners and managers with a record of integrity and delivery
- Stay focused on the long term
- Enjoy what we do

Appendix

Investment team

Global research effort: Blurring boundaries between emerging and developed market opportunities means neither should be analysed in isolation

Glen Finegan, Head of Emerging Market Equites – 16 years investment experience
Glen Finegan is Head of Emerging Markets Equities at Janus Henderson Investors, a position he has held since joining Henderson in 2015. Mr Finegan also serves as a Fund Manager on the emerging markets strategy. Prior to joining Henderson, Mr Finegan was a senior portfolio manager at First State Stewart (formerly First State Investments) where he covered global emerging market all capitalisation equity strategies. He was based in Edinburgh from 2001 until 2011, when he relocated to Singapore. Prior to First State Stewart, he spent three years working as a geophysicist within the oil and gas industry. Mr Finegan holds a BEng (Hons) in civil engineering and an MSc in oceanography, both from the University of Southampton. He has 16 years of financial industry experience.

Ian Warmerdam, Director, Global Equities – 21 years investment experience
Ian Warmerdam is Head of Global Growth Equities at Janus Henderson Investors, a position he has held, as part of the Henderson team, since 2014. He also serves as a Portfolio Manager for global growth funds and growth sleeves of larger global equity portfolios. Prior to joining Henderson in 2001, Mr Warmerdam worked at both Scottish Widows and Scottish Life where his career began as a US equity analyst. Mr Warmerdam earned a BSc in technology and business studies from the University of Strathclyde and MSc in investment analysis from the University of Stirling. He is an associate member of the Society of Investment Professionals (ASIP) and has 21 years of financial industry experience.

Nick Cowley, Portfolio Manager – 19 years investment experience
Nick Cowley is a Fund Manager at Janus Henderson Investors responsible for an offshore Latin American strategy and an offshore emerging markets strategy, positions he has held since 2016. He joined Henderson in 2004 as a fund manager for North American equities and transitioned to emerging markets in 2012. Mr Cowley began his career at Chiswell Associates as a trainee fund manager for overseas equities prior to being named a fund manager for US equities.
Mr Cowley earned a BSc (Hons) in computer science and mathematics from York University and an MSc in business finance from Brunel University. He holds the Institute of Investment Management & Research qualification and has 19 years of financial industry experience.

Stephen Deane, Portfolio Manager – 9 years investment experience
Stephen Deane is a Portfolio Manager on the Janus Henderson Investors Emerging Markets Equities strategy, a position he has held since joining Henderson in 2016. Prior to Henderson, Mr Deane worked for Stewart Investors (formerly First State Investments) covering global equities. He started as an investment analyst before becoming co-manager on the team's global funds. He also contributed research and investment ideas to the Asian and emerging markets teams, which worked closely together. Prior to joining the investment industry, Mr Deane was chief technology officer for Digital Barriers, where he worked on listing the company on AIM and making several acquisitions. He started his career with Accenture, where he became a senior manager working for clients primarily in the technology, media and telecommunications industry. Mr Deane holds a bachelor of arts degree in psychology from Trinity College, Dublin and an executive MBA from INSEAD, Paris. He has 9 years of financial industry experience.

Ian Tabberer, Investment Manager – 16 years investment experience
Ian Tabberer is an Investment Director at Janus Henderson Investors, a position he has held as part of the Henderson team since 2017. He joined Henderson in 2015 as an Investment Manager for Global Equities. Prior to Henderson, Mr. Tabberer worked at Baillie Gifford and Scottish Widows Investment Partnership where his investment career began as a North American and Global investor. Before joining the investment industry, Mr. Tabberer was a Submarine Warfare Officer within the Royal Navy. Mr. Tabberer holds a Bachelor of Science (Honours) in Geography and holds the Chartered Financial Analyst designation, He has 16 years of financial industry experience

Source: Henderson Global Investors, as at 31 March 2017

Investment team (continued)

Ronan Kelleher, Portfolio Manager – 7 years investment experience
Ronan Kelleher is a Portfolio Manager on the Global Growth Equities team at Janus Henderson Investors. In January 2016, Mr Kelleher was appointed co-manager of an onshore global growth equities fund, having been co-manager of the offshore version since 2015. In addition to his portfolio management responsibilities, Mr Kelleher is a generalist Equities Analyst for the strategy, having previously spent a portion of his time as a sector specialist for the technology equities team. Mr Kelleher joined Henderson in 2011, initially working as a fund manager assistant before becoming an investment analyst in 2012 and an associate fund manager in 2015. Prior to Henderson, he worked at SIG in Dublin as an operations associate. Mr Kelleher holds an MSc in finance and investment from the University of Edinburgh and a BSc (Hons) in finance from University College Cork in Ireland. He holds the Chartered Financial Analyst designation, an investment management certificate (IMC) and has 8 years of financial industry experience

Michael Cahoon, Portfolio Manager – 5 years investment experience
Michael Cahoon is Co- Portfolio Manager of the Janus Henderson Emerging Markets strategy at Janus Henderson Investors, a position he has held since 2016. He joined Henderson in 2015 as an emerging markets equities analyst. Prior to Henderson, Mr Cahoon was an analyst at Ashmore Group, an emerging markets asset manager. While there he served as a member of the frontier markets team covering Africa, as well as global metals and mining. Mr Cahoon graduated with honours from the University of Massachusetts, Amherst with a bachelor's degree in business administration in finance and operations management with a dual concentration in legal studies. He holds the Chartered Financial Analyst designation and has 6 years of financial industry experience.

Gordon Mackay, Portfolio Manager – 21 years investment experience
Gordon Mackay is a Portfolio Manager for global growth equities at Janus Henderson Investors, a position he has held since joining Henderson in 2016. Most recently, Mr Mackay was a senior investment analyst at Speirs & Jeffrey Ltd covering a range of UK equity sectors. Prior to this, he was a portfolio manager at Ignis Asset Management between 2004 and 2014 responsible for managing a range of Asian equity portfolios. Mr Mackay's career began at Abbey National Asset Managers as a trainee investment analyst covering North American equities before progressing to become an investment manager for that region. Mr Mackay has a BA (Hons) in economics and finance from the University of Strathclyde. He is also an Associate Member of the Society of Investment Professionals (ASIP) and has 21 years of financial industry experience

Steve Weeple* – 20 years investment experience
Steve Weeple is a Portfolio Manager within the Global Growth Equities team at Janus Henderson Investors. He joined Janus Henderson in May 2017 after 16 years at Standard Life Investments where he held a number of senior positions over his time there, including Global Equity Portfolio Manager, Director of Equity Research & Head of US Equities. Mr Weeple earned an MA (Hons) in Economics & International Relations from the University of St. Andrews and diploma in investment analysis from the University of Stirling. He has 20 years of financial industry experience, managing institutional & retail client assets.

Source: Henderson Global Investors, as at 31 March 2017
Note: * Steve Weeple joined the Global Equities team on 2 May 2017

Janus Henderson INVESTORS

Investment team (continued)

Sharon Davidson, Research Assistant

Sharon Davidson joined Henderson in 2014 as a Research Assistant for the Global Technology and Global Growth teams with the addition of the Global Emerging Markets team in January 2015. Prior to joining Henderson, Sharon worked at Ignis Asset Management for a number of years. She started her time there as an Executive Assistant for the North American Equities and Real Estate teams whilst later becoming a Desk Assistant for the Far East, Emerging Markets and North American Equities teams. Sharon started her career at Argyll Property Asset Manager Ltd as a Personal Assistant before moving to Talisker Properties Ltd/Andleigh Properties Ltd as an Office Manager/Personal Assistant. Sharon holds the Business Management Certificate.

Eva Donaldson, Assistant

Eva Donaldson joined Henderson in 2014 on a temporary basis. She took up a permanent position as a Secretary for the Global Growth and Global Technology teams in March 2015. Eva started her career at Austin Estates as a Managers Assistant before moving to County Hotel Woodford where she was a Front of Office Manager and later a Sales & Revenue Manager. She went on to become a Front of House Manager for the Raglan Hotel in London for a number of years. Prior to joining Henderson Eva worked as a Reception/Administration & Viewings Co-ordinator for Dunpark (Edinburgh) Ltd. Eva has a Level 2 certificate in ESOL Skills for Life from Trinity College London. She studied International Relations and Political Science at Vilnius University in Lithuania and Geography at Vilnius Pedagogical University in Lithuania.

Source: Henderson Global Investors, as at 31 March 2017

Henderson emerging markets

Risk control – understand intended risk; avoid unintended risk

Qualitative	Sector and country maximum exposure limits ensure a diversified portfolio No minimum exposure requirements
Quantitative	Proprietary screens developed by the in-house risk team Riskmetrics Style Analysis
Independent	Portfolios are regularly reviewed by Henderson's independent risk team

Glen Finegan track record

Portfolio manager cumulative performance track record at First State Stewart

June 2009 – October 2013	1 year	2 years	3 years	4 years	Total analysis period
Frontier Fund	**21.46%**	**47.14%**	**44.55%**	**94.79%**	**139.99%**
MSCI Frontier Emerging Markets Index	26.02%	27.32%	12.40%	25.27%	38.55%

January 2011 – October 2013	1 year	2 years	Total analysis period
Global Emerging Markets	**12.29%**	**31.18%**	**23.64%**
MSCI Emerging Markets Index	6.90%	10.08%	-2.33%

April 2008 – October 2013	1 year	2 years	3 years	4 years	Total analysis period
Global Emerging Markets Best Ideas*	**20.97%**	**45.23%**	**42.66%**	**102.90%**	**126.89%**
MSCI All Country World (ACWI) Index	23.95%	26.50%	17.09%	45.06%	25.88%

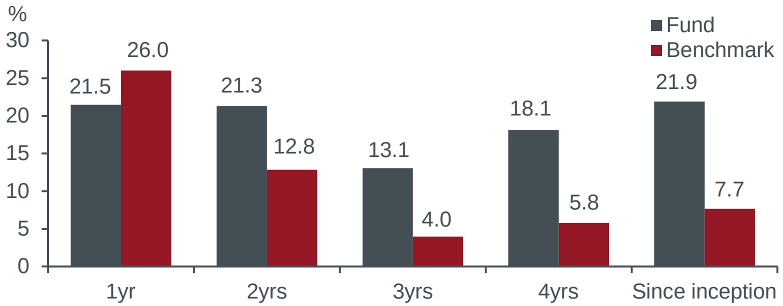
Source: First State Investments, as at 31 October 2013
Fund and Index performance shown in USD, gross returns
Note: * Global Emerging Markets Best Ideas was a 15 stock portfolio
First State Investments make no representation as to the accuracy or completeness of the above data

Janus Henderson INVESTORS

Glen Finegan track record

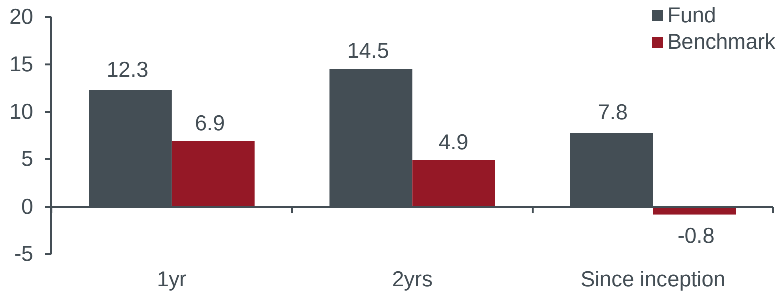
Portfolio manager annualised performance track record at First State Stewart

Frontier Fund



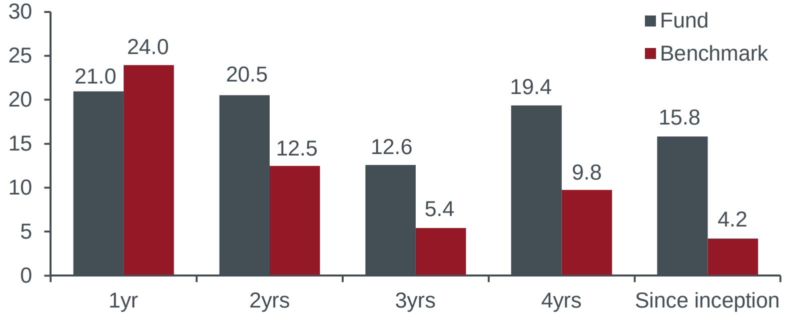
Source: First State, as at 31 October 2013
Fund and Index performance shown in USD, gross returns
Benchmark is the MSCI Frontier Emerging Markets Index

Global Emerging Markets Fund



Source: First State, as at 31 October 2013
Fund and Index performance shown in USD, gross returns
Benchmark is the MSCI Emerging Markets Index

Global Emerging Markets Best Ideas*



Source: First State Investments, as at 31 October 2013
Fund and Index performance shown in USD, gross returns
Benchmark is the MSCI All Country World (ACWI) Index

Note: * Global Emerging Markets Best Ideas was a 15 stock portfolio
First State Investments make no representation as to the accuracy or completeness of the above data

Composite performance

Composite performance results

- Composite: Emerging Markets Equity
- Benchmark: MSCI Emerging Markets Index (USD)
- Composite base currency: Pound Sterling
- Reported currency: Pound Sterling
- Gross returns as at: 31 March 2017
- Firm: Henderson

Year	Composite gross return (%)	Benchmark return (%)	Composite 3-yr standard deviation (%)	Benchmark 3-yr standard deviation (%)	Number of portfolios	Number of portfolios throughout period	Dispersion (%)	Market value at end of period GBP	Percentage of firm assets (%)	Total firm assets GBP
2017 (YTD)	11.42	10.17	14.54	15.99	6	5	0.28	951,434,633	1.00	95,143,509,507
2016	32.94	33.12	15.07	16.33	5	3		743,755,157	0.81	92,301,330,823
2015	-5.40	-9.65	12.23	13.00	3	2	N/A	191,054,460	0.23	84,903,634,155
2014	5.63	4.29	13.62	13.05	2	2	N/A	189,933,844	0.28	68,149,433,447
2013	-1.81	-4.08	17.60	15.90	2	2	N/A	214,264,128	0.35	60,569,162,583
2012	15.01	13.42	19.01	17.30	2	2	N/A	283,240,435	0.55	51,272,900,063
2011	-21.19	-17.57	22.10	21.67	2	2	N/A	325,174,527	0.66	49,634,616,496
2010	25.58	22.94	28.86	28.33	3	3	N/A	621,403,321	4.21	14,757,505,508
2009	48.29	59.39	29.33	28.40	6	6	1.25	968,343,211	4.57	21,175,253,424
2008	-41.30	-35.18	27.96	25.62	7	6	0.54	748,313,237	4.23	17,676,084,039
2007	44.19	37.43	20.19	18.20	7	6	0.82	1,624,050,413	6.28	25,871,110,727
2006	21.22	16.30	19.12	17.50	6	6	1.05	1,054,565,489	4.57	23,099,549,328
2005	50.19	50.46	18.81	17.06	6	5	0.97	971,796,510	4.57	21,242,416,636
2004	12.77	17.44	20.91	19.20	7	7	0.71	607,017,487	3.18	19,096,729,611
2003	52.97	40.54	29.11	25.65	6	5	1.24	450,414,176	2.01	22,463,544,569
2002	-15.59	-15.02	29.53	25.24	4	3	N/A	107,496,032	0.54	19,843,864,475
2001	2.13	0.20	32.47	26.84	4	4	N/A	91,267,629	0.32	28,209,300,667
2000	-26.34	-25.13	34.25	31.09	4	2	N/A	68,121,663	0.20	33,560,000,000
1999	98.34	71.79	35.43	33.69	2	2	N/A	48,637,343	0.13	38,230,000,000

Source: Henderson Global Investors, as at 31 March 2017
Past performance is not indicative of future results

Composite disclosures

Composite: Emerging Markets Equity
As at: 31-Mar-2017

Compliance statement
Henderson Global Investors claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in accordance with the GIPS standards. Henderson Global Investors has been independently verified for the period from 1st January 2009 to 31st December 2016, a copy of the verification report is available on request.
Verification assesses whether the firm has complied with all the composite constructions requirements of the GIPS standards on a firm-wide basis and the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A list of composite description and policies for valuing portfolios, calculating performance, and preparing compliant presentations, are available upon request.
A full list of composites is available upon request.
The firm
For the purposes of claiming GIPS compliance, the GIPS Firm is defined as those entities within Henderson Group plc that directly manage assets, both in the UK and overseas registered and regulated entities as follows: Henderson Investment Funds Limited, Henderson Investment Management Limited, Henderson Alternative Investment Advisor Limited, Gartmore Investment Limited, Henderson Global Investors (Australia) Funds Management Limited (Australian regulated), Henderson Global Investors (Singapore) Limited (regulated by Monetary authority of Singapore), Henderson Global Investors (North America) Inc. (regulated by SEC)
Description
Global Emerging Markets Equities composite comprising fully discretionary accounts managed in a similar manner seeking to achieve long-term growth of capital primarily through the investment into the equity of between 40 and 80 companies exposed to emerging market countries. Investment performance will be derived primarily from stock selection. The composite was previously named Emerging Markets High Alpha Composite and following the composites review and verification it has been renamed Emerging Markets Equity Composite order to reflect the investment strategy with more accuracy. On the 30/04/2017 the composite name has changed from Emerging Markets Equity to Janus Henderson Emerging Markets Equity All-Cap Composite following the merger of Janus Capital Group with Henderson Global Investors. On the 24th March 2005, Gartmore merged it's Jersey 'CSF' fund range with its Luxembourg Sicav fund range. This composite contained both funds prior to the fund merger. As composites are calculated monthly, the Feb 2005 return is the final month where both funds are in the composite, and the March 2005 return used is the CSF fund return to the 24th March 2005 compounded to the Sicav fund return from the 24th to the 31st March. This is in line with the approval we received from the Luxembourg regulator to quote the CSF funds historic track record where two funds of the same investment objective were merged together.
Benchmark
MSCI Emerging Markets Index (USD) captures large and mid cap representation across emerging markets countries.
Fee disclosure
Henderson composites contain both Retail, Hedge and Segregated funds, the highest Annual Management Charge fee for any retail funds is 2.0% + performance fee although fees for individual share classes within retail funds may differ. All fees for segregated funds are negotiated individually with each client.
On 22nd of July 2016 the performance track record was restated. The performance calculation methodology changed from gross of Annual Management Charge to gross of Total Expense Ratio for all of our Retail funds. This change was made after discussion with our GIPS verifiers, PricewaterhouseCoopers. As well as using the new methodology going forward, the track record was amended to reflect this change historically (from the 31st December 2008).
Basis of returns
Time weighted gross of fee returns are presented before deduction of investment management fees and non-investment related expenses but after deduction of all trading expenses. Composite returns are calculated after deduction of non reclaimable withholding taxes on dividends, interest and capital gains but including any reclaimable element. Benchmark returns do not include any transaction costs, management fees or other costs, and are gross of non-reclaimable withholding taxes, if any. All returns in excess of 12 months are annualised. If no 3 Year Standard Deviation is displayed, this is because a full 36 monthly data points are not available for the calculation.
Composite dispersion
Asset weighted composite dispersion is shown where a composite consists of five or more constituent accounts for the full year.
GIPS Policies and Procedures
The firm's policies and procedures for valuing portfolios, calculating performance and preparing the compliant presentation is available on request.
This composite was created on 1987-03-31 00:00:00
Composite currency
The base currency for returns and values is GBP for composite and USD for benchmark.

Note: A new philosophy and process was implemented since February 2015

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Important information

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Any investment application will be made solely on the basis of the information contained in the Prospectus (including all relevant covering documents), which will contain investment restrictions. This document is intended as a summary only and potential investors must read the prospectus, and where relevant, the key investor information document before investing.

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Aon Hewitt
Retirement & Investment

London Borough of Enfield Pension Fund

Date:	29 August 2017
Prepared for:	Pensions Policy & Committee Meeting
Prepared by:	Aon Hewitt Ltd

Equity portfolio construction

Introduction

At the May and June 2017 Pensions Policy & Investment Committee ("Committee") meetings, discussions took place in relation to the London Borough of Enfield Pension Fund's (the "Fund") equity portfolio.

The equity portfolio was discussed in light of new offerings now available through the London CIV. In particular, Longview Partners and Janus Henderson Investors ("Henderson") have been appointed by the London CIV with a mandate to manage a Global Equity and an Emerging Market Equity sub-fund respectively. These mandates are now open to invest in.

The Committee met with Longview in June 2017 and it was broadly agreed that the proposition was attractive. The Committee agreed to consider an allocation size to the strategy in September 2017, in addition to meeting with Henderson to discuss their proposition in more detail.

In this paper, we set out information to assist the Committee in considering suitable allocation sizes and the resultant equity portfolio.

Executive Summary

- Broadly a third of the Fund's equity portfolio is currently being managed passively by BlackRock through a range of equity index funds. The Committee should re-affirm that the split between active and passive equities is appropriate.
- The Fund currently allocates to three active global equity managers. Longview Partners and Janus Henderson Investors ("Henderson") have recently been appointed by the London CIV with a mandate to manage a Global Equity and an Emerging Markets Equity sub-fund respectively.
- The Committee should consider the allocation size to Longview. We recommend a full disinvestment from Trilogy, with the assets earmarked for Longview and a top-up of Baillie Gifford.
- Whilst Henderson's emerging markets equity strategy is not currently rated by Aon, we would be supportive of an allocation to this product. Should the Committee decide an allocation to Henderson is appropriate, we would consider moving the passive emerging market element (£11m), currently held with BlackRock, to Henderson. In addition, we recommend increasing the allocation to in order to bring the emerging market allocation up to the region's market capitalisation weight in a global index (a further c. £22m).
- Our recommendations lead to the following asset movements:
  - Disinvest £158m with Trilogy and disinvest c. £11m with BlackRock. Invest c. £44m with Baillie Gifford, c. £92m with Longview and c. £33m with Henderson.

Investment Strategy Review

Following the finalisation of the 31 March 2016 Actuarial Valuation the Fund is in the process of undergoing an investment strategy review, which is earmarked for discussion at the September Committee meeting.

The analysis in this paper has been conducted on the assumption that the current allocation towards listed equities (c. 45%) would remain unchanged. Further consideration would be needed if the current allocation towards listed equities were to materially change as a result of the upcoming strategy review. However, the principles of our proposal in this report could be applied to a different equity portfolio allocation.

London CIV

The Fund is a participating scheme in the London Collective Investment Vehicle Pool ("London CIV") and the Fund has expressed its intention to invest its assets through the London CIV as and when suitable investment solutions become available. The Fund currently invests in the Baillie Gifford Global Alpha Equity Fund through the London CIV.

In its Medium Term Financial Strategy, the London CIV stated their plan to expand their Global Equities offering substantially over 2017/18, with a view to offer up to 10 Global Equity sub-funds by the end of Q1 2018.

Constructing an equity portfolio

When considering the Fund's equity portfolio we have considered the following decisions to be made:

- **The proportion of equity assets held in active and passive management**
  The Fund broadly has a mix of 32% passive and 68% active management and the Committee should discuss the appropriateness of this mix.

  The choice and balance of managers in the Fund's combined active global equity portfolio
  Currently the Fund has MFS, Trilogy and Baillie Gifford (accessed through the London CIV). When considering an active equity manager allocation it is important to have the right balance between the managers. The managers vary by investment process and philosophy and therefore will have investment portfolios with different characteristics. Diversification brings lower volatility of returns and reduces the risk of prolonged underperformance should certain investment styles be favoured in the prevailing market conditions.

- **The allocation to emerging markets and the approach for accessing this investment**
  At previous Committee meetings, we have discussed that we believe emerging market equities will outperform developed equities over the long term, noting that short term performance can be more volatile. We have also discussed that we have a preference for emerging market equities to be managed on an active basis.

Current global equity portfolio

The table below shows the Fund's equity portfolio as at 30 June 2017.

	Market Value (£m)	Percentage (%)	Strategic weight (%)	Relative (%)	Equity Portfolio (%)
BlackRock Global Passive	158.9	14.6			32.3
Trilogy Global Unconstrained	158.0	14.5	32.5	10.0	32.2
MFS Global Unconstrained	98.7	9.1			20.1
Baillie Gifford	47.7	4.4			9.7
Lansdowne Equity L/S[1]	28.0	2.6	2.5	0.1	5.7
Total Equities	**491.2**	**45.1**	**35.0**	**10.1**	**100.0**
Total Assets	**1,089.8**	**100.0**	**100.0**		

[1] Due to the equity-like nature of the Lansdowne long-short hedge fund investment, the allocation has been split 50:50 between equities and hedge funds.

Passive equity allocation

Passive equity

c.32% of the equity portfolio is being managed passively by BlackRock, with the BlackRock investment being allocated c.86% towards the World ex-UK equity index fund, and c.7% allocated to each of the UK equity index fund and the Emerging Markets equity index fund.

The Committee should re-affirm that the split between active and passive equities is suitable.

Active global equity

The Fund currently allocates to three active global equity managers - Trilogy, MFS and Baillie Gifford. We believe that the Fund’s three global equity managers are similar in the sense that they are all growth orientated managers. Whilst MFS's focus on cash flow would tend to provide exposure to a different set of growth stocks, there are likely to be some overlap between Trilogy and Baillie Gifford's strategy with regards to identifying potential growth prospects.

Whilst they have different portfolio constructions and investment processes, we would prefer to see a more balanced portfolio in order to provide the Fund with a diversified set of managers who, when put together, can outperform the broader index.

Further information on the Fund's global equity managers can be found in Appendix B.

Allocation considerations

At the 26 June meeting Longview presented to the Committee. It was broadly discussed and agreed that an allocation to Longview could form part of the Fund's equity portfolio and that the Committee would consider an appropriate allocation size to Longview.

Recommendation

We recommend that an allocation to Longview is funded through full termination of the Trilogy mandate. The Fund could invest c. £103m with

Longview and invest the remainder with Baillie Gifford (£55m). This results in an equity portfolio which is broadly balanced between Longview, MFS and Baillie Gifford.

	Current allocation (£m)	Current allocation (%)	New allocation (£m)	New allocation (%)
BlackRock	158.9	32.3	158.9	32.3
Trilogy	158.0	32.2	**0.0**	**0.0**
MFS	98.7	20.1	98.7	20.1
Baillie Gifford	47.7	9.7	**102.8**	**20.9**
Lansdowne	28.0	5.7	28.0	5.7
Longview	-	-	**102.8**	**20.9**
Total Equity Portfolio	**491.2**	**100.0**	**491.2**	**100.0**
No of managers	*5*		*5*	
Average equity portfolio fee p.a. %	*0.42%*		*0.41%*	
% of equity assets with London CIV	*42%*		*74%*	

Source: Aon, Northern Trust. Data as at 31 March 2017.

Comparison of portfolios

- Our recommended portfolio increases the allocation towards our high conviction equity managers and increases the proportion of assets invested through the London CIV.
- An allocation towards Longview is also beneficial from a portfolio diversification perspective.
- We would note that while Longview's growth style bias is notably less pronounced than Trilogy or Baillie Gifford, the Fund's Equity portfolio will retain a quality / growth bias. The Committee should understand this and recognize the characteristics that the overall portfolio exhibits.

Governance

- Our recommendation does not alter the governance burden for the Committee, although it increases the proportion of equity assets held with the London CIV from 42% to 74% (this includes the BlackRock passive equity portfolio given the preferential fee schedule between BlackRock and the London CIV).
- It does, however, reduce flexibility to allocate a portion of the Trilogy proceeds to another manager, potentially with a value bias, in the future. However, our view is that extending the global equity portfolio with another manager may impose an additional governance burden on the Committee and in previous meetings the Committee has expressed desire to simplify the Fund's manager structure.

Fees

- From a fees perspective, there is not a material difference in the fees paid between the current portfolio and the two proposed options. The Fund currently pays Trilogy a fee of 0.5% p.a., and Longview's standard tiered fee rates, when aggregated across the AUM at launch of £450m estimated by the London CIV, comes to c.0.5% p.a.

Henderson Emerging Markets Equity

The Committee has previously considered an allocation to emerging market equities. The Fund currently accesses the asset class through its passive BlackRock offering and in previous meetings it has been considered that emerging market equity is best accessed on an active management basis.

The London CIV has recently appointed Henderson on the platform. We have been researching the strategy and have a scheduled debrief for the strategy in September 2017, where we hope to finalise a conclusion. Our research to date has included two on-sites in Edinburgh (most recently Q2 2017), with further meetings in London and North America.

Henderson

- The Henderson Emerging Markets strategy is an unconstrained approach to Emerging Markets investing. The fees are 0.65% p.a. for the manager, with the total annual management cost, including the London CIV's fee, coming to 0.70% p.a.
- The strategy will typically provide good downside protection though may lag in narrow or thematic rallies, as has been the case over 2017 YTD.
- ESG is deeply integrated into the investment approach, with the strategy favouring quality companies where investors are closely aligned with management or controlling owners of the company. Meanwhile large parts of the universe, such as state owned enterprises, are not typically invested in. The team has long investment horizon and portfolio turnover is resultantly low.
- Glen Finegan, the lead PM, comes with good pedigree from First State Stewart (now Stewart Investors), and he has been impressive in our meetings to date. The new venture has some echoes of the origins of First State, which was a successful blueprint.
- We are generally encouraged by what we have seen of the strategy to date. Our final rating and the challenges that we will seek to address will be; ramifications of the Janus-Henderson merger and its impact on the team; that the team is relatively new in working together (though two came from First State Stewart / Stewart Investors); the ‘portability’ of Glen’s previous track records, and progress in formalising the investment process.

Emerging market equity allocation

Allocation considerations

The Fund currently has exposure to emerging markets through the passive element with BlackRock (£11.3m) plus through the Fund's global equity managers, who have discretion to allocate to the region.

The table below shows the allocation to emerging markets within the equity portfolio as at 30 June 2017, alongside our recommendation.

	Current strategy	New allocation with Longview
Emerging market allocation (%)	8.3	6.9
Emerging market allocation (£m)	41.0	33.8

- In aggregate, 8.3% of the Fund's current equity portfolio is currently allocated to emerging markets. As at 30 June 2017, the MSCI All Countries World Index had an 11.3% exposure to emerging markets.
- The decision of the global equity allocation impacts the emerging market allocation as the Fund's global equity managers and Longview have discretion to invest in emerging markets.
- Our recommendation decreases the allocation to emerging markets as Trilogy has an 11.5% allocation to emerging markets whilst Longview typically does not allocate to that region (although does have discretion to).

Recommendation

- Should the Committee favour Henderson as a manager then we recommend that:
  - The passive emerging market allocation (c. £11.3m) with BlackRock is invested with Henderson.
  - The Committee increases the allocation to Henderson by a further c. £22m. This will bring the Fund's total allocation closer to, but not completely up to, emerging market's weight in a global equity index (11.3%).
- The total allocation size to Henderson would therefore be c. £33m.
- The c. £22m needed could be sourced from the Trilogy disinvestment, whilst reducing the final amounts invested in Baillie Gifford and Longview equally. Whilst this will have a knock on impact on the overall emerging market equity allocation, this is likely to be small and can be modified after the initial implementation (there will also be an inevitable time lag given we are using 30 June 2017 data).
- There will also be a marginal increase in fees payable by the Fund in this scenario given that emerging markets typically have higher fees than developed markets (Henderson 0.7% p.a. versus Trilogy 0.5%).
- We do not recommend, at this point in time, increasing the allocation to EM beyond its market capitalisation weight. We continue to be supportive of a higher long term allocation to EM equity but given strong performance of the asset class over the last 18 months, we believe that there is scope to hold off further investment

opportunistically.

- A higher, long term allocation can be built up steadily over time, dependent on the Committee's view of emerging markets and market conditions.

Recommended portfolio

The table below summarises our recommendations for the Fund's equity portfolio, assuming that the Committee allocates to Longview and Henderson in line with our recommendations.

	Current allocation (£m)	Current allocation (%)	New allocation (£m)	New allocation (%)
BlackRock	158.9	32.3	**147.6**	**30.0**
Trilogy	158.0	32.2	**0.0**	**0.0**
MFS	98.7	20.1	98.7	20.1
Baillie Gifford	47.7	9.7	**92.0**	**18.7**
Lansdowne	28.0	5.7	28.0	5.7
Longview	-	-	**92.0**	**18.7**
Henderson			**33.0**	**6.7**
Total Equity Portfolio	**491.2**	**100.0**	**491.2**	**100.0**
No of managers	*5*		*6*	
Average equity portfolio fee p.a. %	*0.42%*		*0.44%*	
% of equity assets with London CIV	*42%*		*76%*	

The transition of assets would work as follows:

- Disinvest £158m with Trilogy and Disinvest £11.3m with BlackRock
- Invest £44.3m with Baillie Gifford, £92m with Longview and Invest £33m with Henderson

Summary and next steps

- We recommend that an allocation to Longview is funded through a full redemption of the Trilogy mandate. The Trilogy proceeds can be allocated to Longview and Baillie Gifford in order to create a more balanced equity portfolio.
- Whilst Henderson's emerging markets equity strategy is not currently rated by Aon, we would be supportive of allocating to Henderson, should the Committee consider Henderson to be an appropriate manager for the Fund.
- If the Committee wish to appoint one or both of the managers, we will work with the Committee to manage the transitions and to action the transfers between investment managers in a timely and efficient manner.
- We will also continue to work with the Committee to keep abreast of developments at the London CIV to ensure that any developments in the CIV align with developments at the Fund.

Appendix A – 30 June 2017 Asset Allocation

	Market Value (£m)	Percentage (%)	Strategic (%)	Relative (%)
Equities	**491.2**	**45.1**	**35.0**	**10.1**
BlackRock Global Passive	*158.9*	*14.6*	*32.5*	*10.0*
Trilogy Global Unconstrained	*158.0*	*14.5*		
MFS Global Unconstrained	*98.7*	*9.1*		
Baillie Gifford	*47.7*	*4.4*		
Lansdowne Equity L/S[1]	*28.0*	*2.6*	*2.5*	*0.1*
Private Equity	**55.8**	**5.1**	**5.0**	**0.1**
Adams Street	*55.8*	*5.1*	*5.0*	*0.1*
Hedge Funds	**135.5**	**12.4**	**15.0**	**-2.6**
Lansdowne Equity L/S[1]	*28.0*	*2.6*		
York Distressed Securities	*18.8*	*1.7*		
Brevan Howard	*4.1*	*0.4*		
Davidson Kempner	*26.1*	*2.4*		
Gruss	*23.5*	*2.2*		
CFM Stratus	*26.0*	*2.4*		
Markham Rae	*9.0*	*0.8*		
UK Property	**74.7**	**6.9**	**10.0**	**-3.1**
BlackRock	*36.9*	*3.4*		
Legal & General	*30.2*	*2.8*		
Brockton[2]	*7.6*	*0.7*		
PFI & Infrastructure	**38.5**	**3.5**	**6.0**	**-2.5**
IPPL Listed PFI	*38.5*	*3.5*		
Antin[3]	*0.1*	*0.0*		
Bonds	**245.0**	**22.5**	**29.0**	**-6.5**
BlackRock Passive ILGs	*85.6*	*7.9*	*29.0*	*-6.5*
Western Active Credit	*86.1*	*7.9*		
M&G Inflation Opportunities	*40.8*	*3.7*		
Insight Absolute Return Bonds	*32.5*	*3.0*		
Cash	**49.1**	**4.5**	**-**	**4.5**
Enfield Cash	*49.1*	*4.5*	*-*	*4.5*
Total Assets	**1,089.8**	**100.0**	**100.0**	

Source: Managers, Aon, Enfield
Note: Numbers may not sum due to rounding.
[1]Due to the equity-like nature of the Lansdowne UK equity long / short hedge fund investment, the valuation has been split 50:50 between equities and hedge funds.
[2]The Brockton valuation is the value of the drawn down commitment as at Q1 2017.
[3]The Antin valuation is the value of the drawn down commitment as at Q1 2017.

Appendix B – Additional manager information

Manager summaries

Trilogy

Trilogy employs a bottom-up, growth-at-a-reasonable-price philosophy. The firm believes that by investing in companies with above average earnings growth it will be able to produce above average investment performance, as long as those companies are purchased at reasonable valuations. Initial filtering of ideas is achieved through straightforward quantitative screens combined with research team contributions. The process is then structured to monitor upside returns relative to downside risk for those stocks identified as potentially attractive investments.

The Fund has been invested in the Trilogy Global Equity strategy since October 2007, and the strategy is currently rated as "Qualified". We believe that the Trilogy strategy has the core elements that should make it an attractive proposition for clients. However, it is not one of our top picks and does not appear on our 'Buy' list of global equity managers; this partly reflects poor performance and also takes into account our view that the quality of staff has deteriorated and the impact this has had on the investment process. Whilst we believe that Trilogy may be able to meet its performance target over the long term, our level of conviction in this has reduced over time.

Trilogy has returned 8.2% p.a. since inception to 31 March 2017, underperforming its benchmark by 0.2% p.a. over the period. Three year and five year performance is also 0.8% p.a. and -0.6% p.a. behind benchmark, with one year performance at 0.8% ahead of the benchmark.

MFS

The Fund has been invested in the MFS Global Equity strategy since August 2010, and the strategy is currently "Buy" rated. The investment process is founded upon a belief that fundamental research is the most reliable way of adding value. Idea generation is reliant on the output of the regional and sector research teams with a focus on sustainable growth in corporate earnings and cash flow. The portfolio manager aims to create a bottom up driven portfolio that pays minimal attention to index weightings. Once an idea enters the portfolio, it typically remains a long term holding and portfolio turnover is very low.

MFS has outperformed its benchmark by 2.8% p.a. since inception for the Fund, returning 15.8% p.a.

Baillie Gifford

The Fund has been invested in the London CIV Baillie Gifford Global Alpha strategy since September 2016, and the strategy is currently "Buy" rated. The strategy offers investors exposure to a range of growth style businesses. The resulting stock portfolio blends several types of growth businesses (e.g. 'Growth Stalwarts', 'Rapid Growth' etc.), which we believe is a relatively unique and attractive proposition. The team makes use of non-financial research to gain industry insights, and stock ideas are debated amongst the Portfolio Review Group where all members are required to submit views in order to generate discussion.

The Fund has been invested in Baillie Gifford since October 2016 and since then the strategy has underperformed the benchmark by 0.6%. However, long term performance for the strategy continues to be strong. The strategy has outperformed the benchmark by 3% p.a. over the last 5 years.

The table below provides a high level comparison of the managers' strategies as well as performance.

Longview

Longview is a very successful, high conviction boutique equity manager which has strictly controlled asset growth in its Equity Total Return strategy, though the London CIV has secured extra capacity.

Aon Hewitt 'Buy' rates the strategy and we have a positive view of the firm. The focused portfolio of 30 – 35 stocks shows a modest style bias to growth and quality and a consistent but moderate tilt away from large cap stocks. In sector terms Longview's highest overweight positions are to Health Care, Technology, Consumer Discretionary sectors. It is also overweight to Financials though underweight in bank stocks.

Longview has had a prolonged period of strong performance and could be vulnerable to a sell-off in US shares or a rally in commodity and interest rate sensitive stocks but we would back the very capable team at Longview to adapt to any such change in market conditions.

Summary of equity managers

	Trilogy	MFS	Baillie Gifford	Longview	Henderson
Firm / strategy size £m	£6.3 billion/ £1.8 billion	£355.0 billion/ £43.7 billion	£166.6 billion/ £31.6 billion	£17.9 billion/ £17.9 billion	£265.5 billion/ £1.3 billion
Key staff	William Sterling	David Mannheim	Charles Plowden	Ramzi Rishani	Glen Finegan
Investment style	Fundamental Large Cap Growth	Fundamental All Cap Core	Fundamental All Cap Growth	Fundamental Mid-Large Cap Core	Fundamental All Cap Other
Typical no of stocks and turnover	100-200 holdings	80-100 holdings	70-120 holdings	30-35 holdings	40-80 holdings
5 yr Beta	1.12	1.03	0.97	0.88	0.90
5 yr Information ratio	0.07	1.25	0.95	1.4	0.46
5 year return and risk (p.a.)	15.1%/ 11.8%	18.5%/ 10.2%	19.0%/ 10.3%	21.2%/ 9.5%	10.4%/ 13.7%
Aon Hewitt rating	Qualified	Buy	Buy	Buy	Not Rated

		Trilogy	MFS	Baillie Gifford*	Longview	Henderson
1 year	**Performance**	31.4	25.5	32.4	22.5	23.7
(%)	**Benchmark**	22.2	22.2	22.2	22.2	27.4
3 years	**Performance**	15.1	17.9	18.9	20.2	13.7
(% p.a.)	**Benchmark**	14.9	14.9	14.9	14.9	10.8
5 years	**Performance**	15.1	18.5	19.0	21.2	10.4
(% p.a.)	**Benchmark**	14.8	14.8	14.8	14.8	8.0
7 years	**Performance**	13.5	16.6	16.4	18.1	7.7
(% p.a.)	**Benchmark**	12.7	12.7	12.7	12.7	6.0

Source: eVestment/ Managers
Note: All performances are as at 30 June 2017, and are shown gross of fees.
*Returns shown for Baillie Gifford reflect the returns of the Baillie Gifford Global Alpha fund, and not the London CIV version the Fund holds, which has only been available since April 2016.

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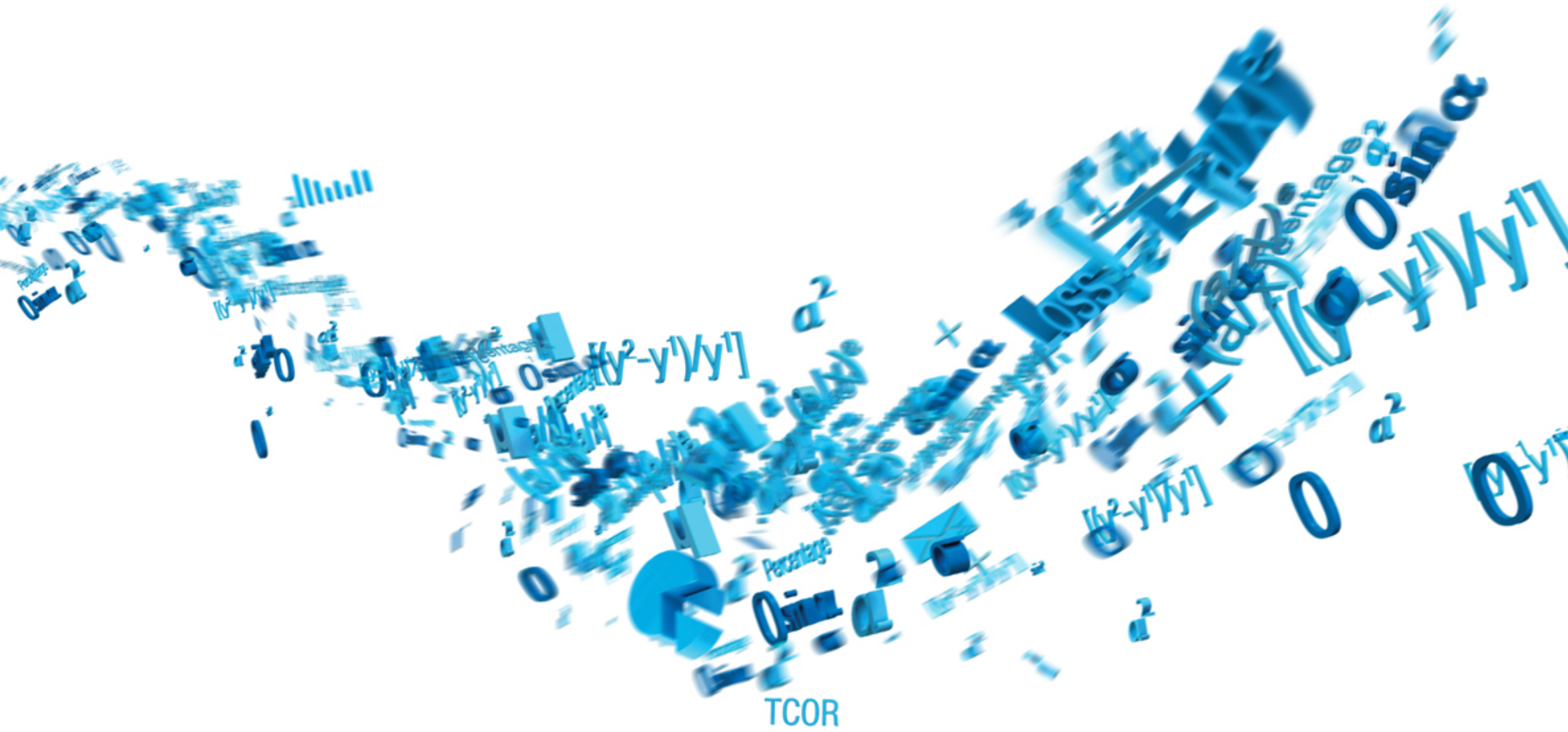
Agenda Item 14

Aon Hewitt
Retirement & Investment



Quarterly Investment Report Q2 2017

Prepared for	London Borough of Enfield Pension Fund
Prepared by	Aon Hewitt
Date	29 August 2017

QAS Institute and Faculty of Actuaries® Quality Assurance Scheme

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Executive Summary – Q2 2017

Performance	Quarterly (%)			Annual (%)			Since Inception p.a. (%)		
	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active
Equities									
BlackRock UK Passive	1.5	1.4	0.1	18.3	18.1	0.1	-	-	-
BlackRock World ex UK Passive	0.5	0.4	0.1	23.3	22.9	0.4	-	-	-
BlackRock EM Passive	2.3	2.3	0.0	27.3	27.4	-0.2	-	-	-
Trilogy Global Unconstrained	1.0	0.4	0.7	29.2	22.2	7.0	8.1	8.2	-0.1
MFS Global Unconstrained	3.3	0.4	3.0	24.7	22.2	2.5	15.7	12.6	3.1
Baillie Gifford	4.6	0.4	4.2	-	-	-	17.0	12.8	4.2
Private Equity									
Adams Street	2.2	5.5	-3.3	28.9	33.2	-4.3	12.3	10.8	1.5
Hedge Funds									
Lansdowne Global Equity L/S	6.9	-	-	6.5	-	-	8.7	-	-
York Distressed Securities	-0.3	-	-	16.7	-	-	8.9	-	-
Brevan Howard	-3.1	-	-	-2.1	-	-	1.9	-	-
Davidson Kempner	-2.1	-	-	11.6	-	-	13.0	-	-
Gruss	-1.8	-	-	7.7	-	-	8.8	-	-
CFM Stratus	-1.5	-	-	-1.5	-	-	-5.4	-	-
Markham Rae	-3.9	-	-	-	-	-	-9.6	-	-
UK Property									
Blackrock	2.2	2.3	-0.1	4.1	6.0	-1.9	n/a	n/a	n/a
Legal & General	1.3	2.3	-1.0	8.6	6.0	2.6	7.9	7.4	0.5
Brockton	4.0	-	-	25.0	-	-	12.8	-	-
PFI & Infrastructure									
IPPL Listed PFI	4.1	1.1	3.0	7.3	3.5	3.8	9.9	3.0	6.8
Bonds									
BlackRock Passive ILGs	-1.1	-1.1	0.0	3.9	3.7	0.2	2.2	2.0	0.2
Western Active Credit	0.9	0.4	0.4	-	-	-	6.5	6.0	0.6
M&G Inflation Opportunities	1.5	1.1	0.4	9.9	3.5	6.4	7.9	2.1	5.8
Insight Absolute Return Bonds	-0.8	-	-	3.0	-	-	1.8	-	-
Total Assets	**1.1**	**0.3**	**0.8**	**13.6**	**10.3**	**3.3**	**8.7**	**-**	**-**

Source: Investment managers/ Aon Hewitt/ Northern Trust. Performance is shown net of fees. In the absence of audited net performance figures from Northern Trust, performance has been sourced from the managers or estimated by Aon Hewitt using manager data where possible. Totals may not sum due to rounding.
1) The Fund is invested in a passive global equity mandate with BlackRock. The performance shown is for the underlying pooled funds.
2) Trilogy/MFS/ Baillie Gifford are measured against the MSCI AC World TR Index
3) Adams Street and Brockton are close ended funds and traditional time weighted returns are not reflective of true performance. Adam Street numbers are IRR figures. Returns are lagged by a quarter due to the nature of the asset class (returns are as at Q1 2017).
4) The Adams Street, Davidson Kempner, Gruss and York returns will partly reflect currency movements. Over the quarter, Sterling appreciated against the Dollar and, as a result, these returns are weaker in sterling than in local currency terms.
5) The BlackRock property line shows the return of the BlackRock fund for the quarter and year. Since inception returns relating to the combined property portfolio are not shown as accurate figures cannot be obtained in the absence of figures provided by a performance measurer.
6) Benchmark is composed of 35% global equities 5% private equity (proxied by a global equity index), 10% property, 29% bond composite (based on underlying manager benchmarks) 6% infrastructure and 15% hedge funds

Manager Allocations

	31.03.2017		30.06.2017			
	Market Value (£m)	Percentage (%)	Market Value (£m)	Percentage (%)	Strategic (%)	Relative (%)
Equities	**481.0**	**44.7**	**491.2**	**45.1**	**35.0**	**10.1**
BlackRock Global Passive	*157.7*	*14.6*	*158.9*	*14.6*		
Trilogy Global Unconstrained	*156.1*	*14.5*	*158.0*	*14.5*	*32.5*	*10.0*
MFS Global Unconstrained	*95.5*	*8.9*	*98.7*	*9.1*		
Baillie Gifford	*45.6*	*4.2*	*47.7*	*4.4*		
Lansdowne Equity L/S[1]	*26.2*	*2.4*	*28.0*	*2.6*	*2.5*	*0.1*
Private Equity	**56.7**	**5.3**	**55.8**	**5.1**	**5.0**	**0.1**
Adams Street	*56.7*	*5.3*	*55.8*	*5.1*	*5.0*	*0.1*
Hedge Funds	**139.4**	**12.9**	**135.5**	**12.4**	**15.0**	**-2.6**
Lansdowne Equity L/S[1]	*26.2*	*2.4*	*28.0*	*2.6*		
York Distressed Securities	*18.8*	*1.7*	*18.8*	*1.7*		
Brevan Howard	*8.5*	*0.8*	*4.1*	*0.4*		
Davidson Kempner	*26.7*	*2.5*	*26.1*	*2.4*		
Gruss	*23.9*	*2.2*	*23.5*	*2.2*		
CFM Stratus	*25.9*	*2.4*	*26.0*	*2.4*		
Markham Rae	*9.4*	*0.9*	*9.0*	*0.8*		
UK Property	**76.4**	**7.1**	**74.7**	**6.9**	**10.0**	**-3.1**
BlackRock	*36.1*	*3.4*	*36.9*	*3.4*		
Legal & General	*29.5*	*2.7*	*30.2*	*2.8*		
Brockton	*10.8*	*1.0*	*7.6*	*0.7*		
PFI & Infrastructure	**33.9**	**3.1**	**38.5**	**3.5**	**6.0**	**-2.5**
IPPL Listed PFI	*33.7*	*3.1*	*38.5*	*3.5*		
Antin[2]	*0.2*	*0.0*	*0.1*	*0.0*		
Bonds	**244.9**	**22.7**	**245.0**	**22.5**	**29.0**	**-6.5**
BlackRock Passive ILGs	*86.5*	*8.0*	*85.6*	*7.9*		
Western Active Credit	*85.0*	*7.9*	*86.1*	*7.9*	*29.0*	*-6.5*
M&G Inflation Opportunities	*40.7*	*3.8*	*40.8*	*3.7*		
Insight Absolute Return Bonds	*32.7*	*3.0*	*32.5*	*3.0*		
Cash	**44.7**	**4.2**	**49.1**	**4.5**	**-**	**4.5**
Enfield Cash	*44.7*	*4.2*	*49.1*	*4.5*	*-*	*4.5*
Total Assets	**1,077.1**	**100.0**	**1,089.8**	**100.0**	**100.0**	

Source: Northern Trust, Managers
Note: Numbers may not sum due to rounding.
[1]Due to the equity-like nature of the Lansdowne UK equity long / short hedge fund investment, the valuation has been split 50:50 between equities and hedge funds.
[2]The Antin valuation is the value of the drawn down commitment as at Q2 2017.

Ratings

	Overall	ODD	Business	Staff	Process	Risk	Performance	T&C
Equities								
BlackRock Global Passive	Buy	Pass	4	4	4	4	4	2
Trilogy Global Unconstrained	Qualified	NER	✓	✓	⚐	✓	⚐	✓
*MFS Global Unconstrained**	Buy (closed)	Pass	3	3 (4)	3	2	3 (4)	2
Baillie Gifford Global Alpha	Buy	A1	4	3	3	3	3	3
Private Equity								
Adams Street	Qualified	Pass	*Please see Appendix D for our ratings on this fund*					
Hedge Funds								
Lansdowne Global Equity L/S	Buy (closed)	A2	4	4	3	2	3	3
York Distressed Securities	Buy	A2	3	3	3	2	3	2
Brevan Howard Global Macro	Qualified	Pass	3	3	3	3	2	2
Davidson Kempner	Buy	A2	4	4	4	3	3	3
Gruss Event Driven	Buy	Pass	3	3	3	2	3	2
CFM Stratus	Buy (Closed)	A1	3	4	3	3	3	2
Markham Rae	Buy	A2	2	3	3	2	3	3
UK Property								
BlackRock	Buy	Pass	4	4	3	3	3	2
Legal & General	A1	Pass	4	3	4	3	3	2
Brockton	Buy (Closed)	Pass	3	4	4	2	4	2
PFI & Infrastructure								
IPPL Listed PFI	Not Rated	-	-	-	-	-	-	-
Antin	Buy	A2	4	4	3	3	3	2
Bonds								
BlackRock Passive ILGs	Buy	Pass	4	3	4	4	4	2
Western Active Credit	Qualified	NER	✓	-	✓	⚐	⚐	✓
M & G Inflation Opportunities	Buy (closed)	Pass	3	3	3	3	3	3
Insight Absolute Return Bonds	Buy	A1	4	4	4	3	3	4

Note:
1. Ratings shown as at 30 June 2017
2. Previous quarter's ratings are shown in brackets where they have changed.
3. ER = Exceptions reported/ NER = No exceptions reported

* MFS's sub-ratings have been downgraded post-quarter end. Ratings as at 30 June 2017 are shown in brackets.

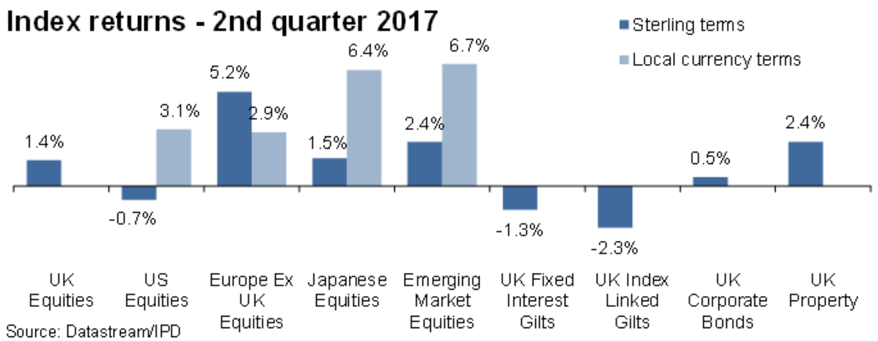
- Aon Hewitt previously assigned ODD ratings of pass, conditional pass, or fail. The prior ratings may persist until the process of refreshing all ODD ratings to the new terminology is completed.
- During Q2, Baillie Gifford, CFM, Insight Absolute Return Bonds have all moved from a Pass to an A1 rating, Lansdowne, York, Davidson Kempner, Markham Rae, Antin all moved from a Pass to an A2 rating. Please see Appendix C for an explanation of our manager ratings.

Summary of Key Developments

6 September Committee meeting	▪ Janus Henderson Investors ("Henderson") have been appointed by the London CIV with a mandate to manage an Emerging Markets Equity sub-fund. Henderson has been invited to the September Committee meeting to discuss their proposition in more detail. ▪ LGIM has also been invited to present to the Committee in order to provide a refresher on their UK Property Fund that the Fund is invested in.
Hedge Fund portfolio	▪ The final tranche of the Brevan Howard redemption proceeds (c. £17m in total) were received in July 2017. The redemption proceeds were received in 4 tranches (£4.3m each tranche), with the first three tranches of the redemption proceeds being received in October 2016, January 2017, and April 2017 respectively.
MFS sub-rating changes	▪ The performance and staff sub component ratings for MFS Global Unconstrained Equity Fund has changed from a “4” to a “3”. This follows a due diligence review of MFS's ratings following David Mannheim's decision to retire. ▪ Further information can be found in the manager section of the report.

Quarterly Investment Outlook Summary

Market background Q2 2017



Summary

- Central banks' anxiety over the slow pace of monetary normalisation is palpable, but we still expect only baby steps on their long journey.
- Sterling corporate bonds are structurally challenged by less depth and weaker liquidity, an added incentive to widen credit exposure globally.
- After a weak half decade, emerging currencies are doing better. This should continue to be a modest tailwind to emerging market assets.
- Equity markets are offering another chance to look at protective gain-locking measures or pursue more non-correlated sources of return. A style and regional value tilt looks reasonable.
- Market conditions are hurting systematic macro and helping event-driven hedge fund strategies, but a flipping over could happen quickly.
- Illiquid assets are somewhat overcrowded but opportunities remain.
- Brexit still refuses to give up its potency as a portfolio impact driver.

Portfolio overview

Statement of Investment Principles target ranges

The table below shows the target ranges for each class of asset as set out in the Statement of Investment Principles (SIP):

	Strategic asset allocation	SIP ranges
Equities (including private equity)	40%	30-50%
Hedge Funds	15%	10-20%
Property	10%	5-15%
Infrastructure	6%	3-9%
Bonds	29%	19-39%

Split of equity portfolio

The table below shows the allocation to emerging markets within the equity portfolio, excluding Lansdowne:

	30 Jun 2017 AUM (£m)	Emerging Market Allocation (%)	Emerging Market Allocation (£m)
BlackRock	158.9	7.1	11.3
Trilogy	158.0	11.8	18.6
MFS	98.7	2.1	2.1
Baillie Gifford	47.7	16.5	7.9
Total	**463.2**	**8.6**	**39.9**

Source: Investment managers. Totals may not sum due to rounding.

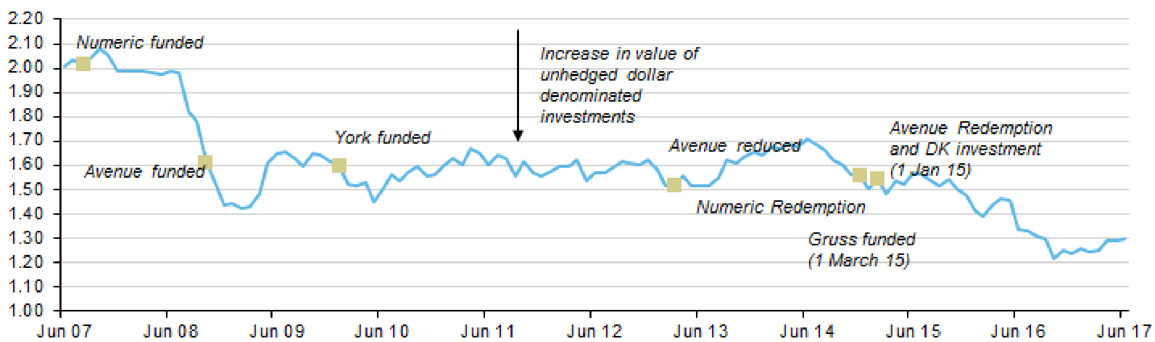
- C. 34% of the equity portfolio is being managed passively by BlackRock. The remainder is being managed on an active basis, with Trilogy the largest holding.
- In aggregate, 8.6% of the Fund's equity portfolio is allocated to Emerging Markets. As at 30 June 2017, the MSCI All Country World Index had an 11.3% exposure to Emerging Markets.

The Committee is currently working with the London CIV to appraise suitable managers to invest in. Janus Henderson Investors ("Henderson") have been appointed by the London CIV with a mandate to manage an Emerging Markets Equity sub-fund, and have been invited to the September Committee meeting to discuss their proposition in more detail.

Sterling-US dollar exchange rate

The chart below shows the movements in sterling versus the US dollar over time.

Sterling-US Dollar exchange rate over time



The appreciation of sterling versus the US dollar over the quarter decreased the value of dollar denominated holdings.

Currency analysis

The Fund has exposure to the euro, US dollar, yen and other currencies within its portfolio.

The active equity managers have exposures to various currencies as they are all global mandates, and we have approximated the currency exposures based on the geographical split of the underlying investments.

Adams Street, York, Davidson Kempner and Gruss are US dollar denominated, while Antin is euro denominated. The Lansdowne, Brevan Howard, CFM, BlackRock (bonds and property), Western, M&G Inflation Opportunities, Legal & General, Brockton, Insight and IPPL mandates are assumed to have no direct exposure to foreign currencies as they are either hedged to sterling or are sterling share classes.

Currency	Total	
	%	£m
Sterling	48.9	533.4
US dollar	33.6	366.1
Euro	7.7	84.4
Yen	3.3	36.2
Other	6.4	69.7
Total	**100.0**	**1,089.8**

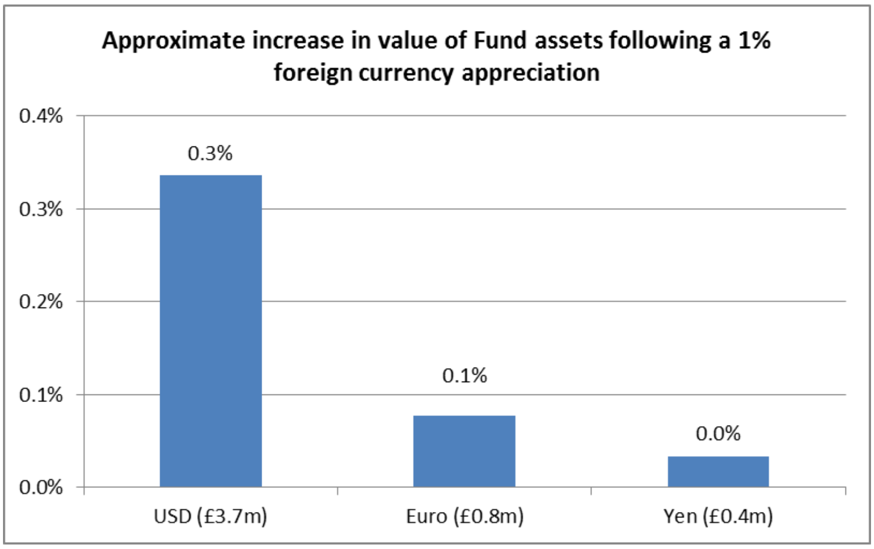
Note: Totals may not sum due to rounding.
Manager exposures are based on geographical, not currency, exposures.

Summary

US dollar exposure is the largest foreign currency risk for the Fund.

Following a 1% foreign currency appreciation (depreciation), we approximate that the value of the Funds' US dollar denominated assets will increase (decrease) by £3.7m, euro denominated assets will increase (decrease) by £0.8m and yen denominated assets will increase (decrease) by £0.4m.

Note that movements in currencies may either contribute to or be caused by factors that move other asset classes. For example, the US dollar may appreciate at times of stress which could coincide with a fall in the value of the Fund's equity holdings.



Currency	Fund exposure to currency (£m)	1% change in currency (£m)	1% change in currency (% in Fund's assets)
US dollar	366.1	3.7	0.3
Euro	84.4	0.8	0.1
Yen	36.2	0.4	0.0

Analysis of Alternatives Portfolio

The analysis below aims to evaluate whether the impact of increasingly diversifying the Fund's growth portfolio away from equities over the last seven years has been in line with prior expectations.

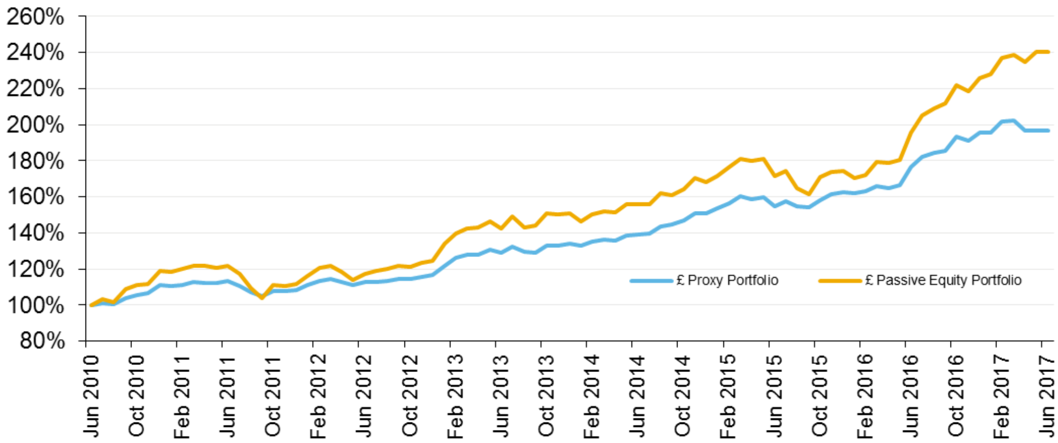
The aim of portfolio diversification is to reduce reliance on a single stream of returns (i.e. equities) and serve to reduce the expected volatility of the Fund and potential funding level variability.

We have constructed a proxy for the Fund's growth portfolio and have calculated the performance of this portfolio for the seven year period to June 2017. This portfolio takes into account the major diversification themes that have been introduced into the growth portfolio over time excluding unlisted infrastructure. The portfolio incorporates changing weights of each of the asset classes, varying over time in line with the changes made to the Fund's investment structure. The return of this proxy portfolio is calculated by using manager returns for the alternatives and the equity element assumes these assets are managed passively in a global equity fund.

We also constructed a model equity portfolio, invested solely in passively managed global equities.

We tracked the performance of these two portfolios over the seven years to 30 June 2017 (see chart) and evaluated their risk and return characteristics (see table).

Portfolio versus passive equity portfolio in £



	Return (% pa)	Risk (%)	Return/Risk ratio
Model equity portfolio, £	13.3	10.7	1.2
Proxy Fund growth portfolio, £	10.2	6.4	1.6

Note: Information shown to 30 June 2017.
Information shown is net of fees.

We had expected the proxy growth portfolio to underperform the model equity portfolio given the strength in equities since the financial crisis. However, we also expected the returns of the latter to be significantly more volatile.

Our analysis shows that the proxy growth portfolio underperformed the model equity portfolio by 3.2% p.a. over the last seven years. Whilst investing passively would have resulted in higher absolute returns it would have also lead to higher absolute risk. When analysed on a risk-adjusted basis, the Fund's proxy growth portfolio produced a higher return per unit of risk. If this characteristic were to hold, we would expect a diversified portfolio to outperform equities in a falling equity market.

The results of this exercise are in line with our prior expectations and we believe illustrate that the portfolio is providing a good level of diversification from equities.

BlackRock – Passive Global Equity

Buy

Key Information:

30 June 2017 Value:

£158.9 million

Vehicle:

Aquila Life

Mandate:

Global Equities

Benchmark:

FTSE All Share/ FTSE All World Developed ex UK/ MSCI Emerging World

Target:

To perform in line with the benchmarks

Fee Scale:

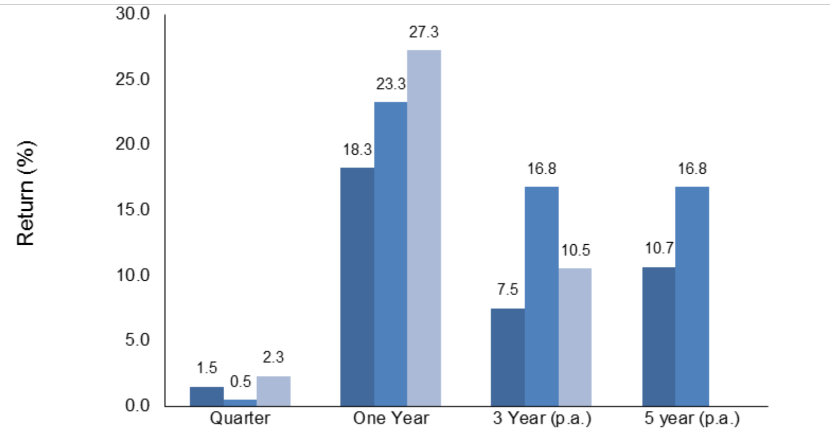
Fees following transition of units to London CIV:

UK Equity, World ex UK Equity:

0.005% p.a.

Emerging Markets Equity:

0.03%



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)
UK	1.5	18.3	7.5	10.7
World ex UK	0.5	23.3	16.8	16.8
Emerging Markets	2.3	27.3	10.5	

Source: Blackrock. Returns are shown net of fees.

Performance

The pooled equity funds within the BlackRock equity portfolio exhibited acceptable tracking error during the second quarter of 2017.

Our Ratings:

Overall	**Buy**
ODD	**Pass**
Business	4
Staff	4
Process	4
Risk	4
Performance	4
Terms	2

Aon Hewitt
Retirement & Investment

Trilogy - Global Unconstrained

Qualified

Key Information:

Appointed:

November 2007

30 June 2017 Value:

£158.0 million

Initial Investment

£68 million

Vehicle:

Segregated

Mandate:

Global Equity

Benchmark:

MSCI AC World Total Return Index

Target:

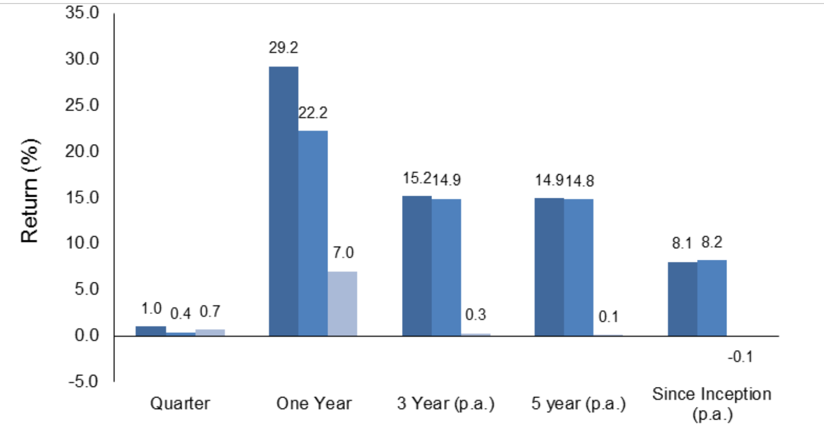
To outperform the benchmark by 3% pa over rolling three year periods.

Fee Scale:

Fixed base fee of 0.50% pa on AUM. No performance fee.

Our Ratings:

Overall	**Qualified**
ODD	**No Exceptions Reported**
Business	✓
Staff	✓
Process	
Risk	✓
Performance	
Terms	✓



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	1.0	29.2	15.2	14.9	8.1
Benchmark	0.4	22.2	14.9	14.8	8.2
Relative	0.7	7.0	0.3	0.1	-0.1

Source: Northern Trust. Returns are shown net of fees.

Overall Views

Trilogy employs a bottom-up, growth-at-a-reasonable-price philosophy, which generally results in portfolios focused towards this style tilt. Initial filtering of ideas is achieved through straightforward quantitative screens combined with research team contributions. We expect the strategy to outperform in rising markets and underperform in falling markets due to its focus on higher growth companies.

Performance

The Trilogy mandate delivered a return of 1.0% over the quarter, outperforming the benchmark by 0.7%. Trilogy's overweight to Information Technology contributed to relative returns over the quarter, as did the underweight towards Energy and Telecommunications.

In terms of attribution, stock selection was the main driver of outperformance over the quarter, with stock selection in the Consumer Financials and Industrials sectors particularly adding value. Regional allocation also contributed from returns over the quarter, as the Fund was overweight towards emerging markets, following positive Chinese economic data releases.

Positioning and Transactions

With respect to the portfolio's structure, trading and market activity during the period resulted in increased exposure to the Health Care and Financials sectors and decreased exposure to the Information Technology and Telecommunications sectors.

MFS - Global Unconstrained Equity

Buy (Closed)

Key Information:

Appointed:

August 2010

30 June 2017 Value:

£98.7 million

Initial Investment:

£35.9 million

Vehicle:

MFS Global Equity Fund

Mandate:

Global Equity

Benchmark:

MSCI AC World Total Return Index

Target:

To outperform the benchmark by 2% pa gross of fees

Cash Limits

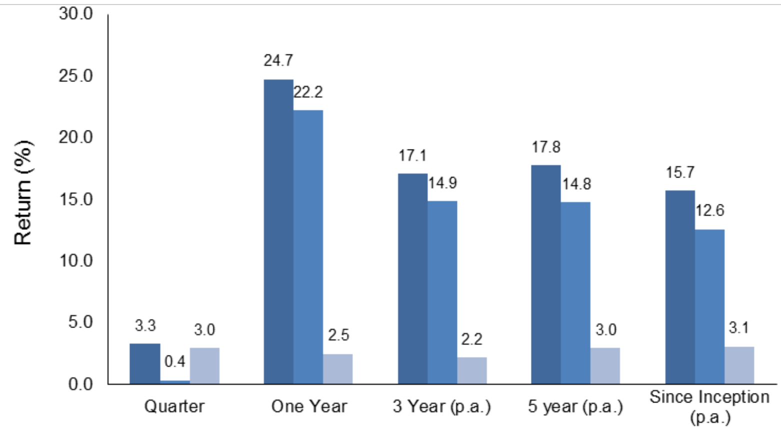
At most 30% of the portfolio can be held in cash

Fee Scale:

Tiered base fee based on the AUM of 0.65% pa on the first £25.0m, 0.50% pa on the next £25.0m, 0.45% pa on the next £50.0m and 0.40% pa thereafter. No performance fee.

Our Ratings:

Overall	**Buy Closed**
ODD	**Pass**
Business	3
Staff	3 (4)
Process	3
Risk	2
Performance	3 (4)
Terms	2



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	3.3	24.7	17.1	17.8	15.7
Benchmark	0.4	22.2	14.9	14.8	12.6
Relative	3.0	2.5	2.2	3.0	3.1

Source: MFS. Returns are shown net of fees.

Overall Views

The MFS Global Equity strategy is led by David Mannheim, a talented and experienced portfolio manager, who demonstrates a deep knowledge of the stocks in the portfolio. MFS recently announced that Mr. Mannheim plans to retire from the firm, and our current expectation is that Mr. Mannheim will retire at or around the end of Q1 2018.

Roger Morley, who has been a Co-Portfolio Manager for the strategy since 2009 will remain in his current role. While we believe the retirement of Mr. Mannheim to be a loss in talent, we continue to have a high opinion of Mr. Morley, who has worked in conjunction with Mr. Mannheim for many years. Portfolio construction is driven by high conviction stock selection and pays little attention to indices, true to the unconstrained investment approach.

Aon Hewitt's Global Investment Management ("GIM") team has taken this opportunity to conduct a full review of our MFS global equity ratings including meeting with Mr. Morley and Mr. McAllister. In our consideration of the strategy rating we have been mindful of the continuity provided by Mr. Morley and our confidence in the MFS global research platform.

In addition, our initial view of Mr. McAllister was of having a good knowledge of the portfolios, to be very much aligned with the MFS investment philosophy, as we would expect, and realistic about the task in front of him. Since the global financial crisis Mr. Mannheim has maintained a strong quality bias to the manager's underlying growth at a reasonable price ('GARP') philosophy, and this quality style bias has been a significant, though not the only, contributor to both strategies' strong and consistent returns over this period.

We have reduced the scores on Investment Staff (from '4' to '3') and Performance (from '4' to '3') for the Global Equity and Global Concentrated Equity strategies as we carefully monitor the transition in personnel.

However, given the careful management of the transition and underlying continuity, we still believe that both strategies can deliver strong outperformance in the medium term and we have therefore retained their Buy (Closed) ratings.

Performance

The MFS Global Equity strategy outperformed the benchmark in the second quarter of 2017.

Stock selection within Health Care, Consumer Staples and Materials were the main drivers of outperformance. LVMH, a major holder in Christian Dior, added value over the quarter after markets reacted positively to a simplification of the Christian Dior purchase agreement.

Companies such as Walt Disney, Autozone and WPP were detractors over the quarter. Despite solid earnings Walt Disney reported lower than expected earnings guidance based on an increase in costs in theme parks and weaker advertising revenues based on weaker ratings.

Positioning and Transactions

From a weighting perspective, the largest sector overweight positions are Health Care and Consumer Staples, while the largest underweights are Financial Services and Technology. Regionally, the strategy is overweight Europe Ex-U.K and underweight Japan and North America.

London CIV – Baillie Gifford Global Alpha Growth Fund

Buy

Key Information:

Appointed:

October 2016

30 June 2017 Value:

£47.7 million

Initial Investment:

£41.4 million

Vehicle:

London CIV

Mandate:

Global Equities

Benchmark:

MSCI ACWI World Total Return Index

Target:

To outperform the benchmark by 2-3% pa gross of fees over rolling five year periods.

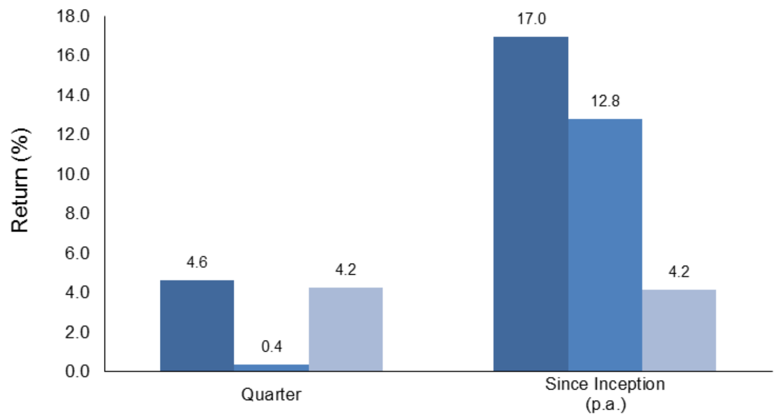
Fee Scale:

Tiered base fee based on the aggregate AUM of the Fund, 0.65% pa on the first £30.0m, 0.50% pa on the next £30.0m, and 0.35% p.a. thereafter.

No performance fee.

Our Ratings:

Overall	**Buy**
ODD	**A1**
Business	4
Staff	3
Process	3
Risk	3
Performance	3
Terms	3



	Quarter	Since Inception (p.a.)
Fund	4.6	17.0
Benchmark	0.4	12.8
Relative	4.2	4.2

Source: London CIV/Aon Hewitt

Overall Views

We believe Global Alpha is capable of delivering long-term outperformance close to the strategy target. The strategy offers investors exposure to a range of growth style businesses. The resulting stock portfolio blends several types of growth businesses (e.g. 'Growth Stalwarts', 'Rapid Growth' etc.), which we believe is a relatively unique and attractive proposition. The team makes use of non-financial research to gain industry insights, and stock ideas are debated amongst the Portfolio Review Group where all members are required to submit views in order to generate discussion.

Performance

Baillie Gifford Global Alpha outperformed its benchmark again in Q2 2017; the strategy is now well ahead of its benchmark year to date, having more than recovered the ground lost in the latter part of 2016.

The portfolio's exposure to higher growth technology and internet 'disruptors' was particularly beneficial over the period. Leading individual stock contributors were Alibaba (Chinese e-commerce), and NVIDIA (US based graphics processing).

Detractors from performance over Q2 tended to be one-off situations such as Seattle Genetics (discontinuing trials of a Leukaemia drug), CH Robinson (logistics business with short term margin pressure).

Positioning and Transactions

Global Alpha remains overweight in the Technology, Consumer Discretionary and Industrial sectors and in Emerging Markets. Exposure to cyclical commodities and low growth areas such as Utilities and Telecoms remains low.

Using the manager's own categorization, it holds c.22% in 'Growth Stalwarts' (e.g. MasterCard), c.34% in 'Rapid Growth' (e.g. Amazon, Tesla), c.30% in 'Cyclical Growth' (e.g. Royal Caribbean) and c.12% in 'Latent Growth' (e.g. Carlsberg).

Adams Street - Private Equity

Qualified

Key Information:

Appointed:

January 2003

30 June 2017 Value:

£55.8 million

Vehicle:

Pooled fund ($ Share class)

Mandate:

Private Equity

Benchmark:

MSCI World Total Return Index

Target:

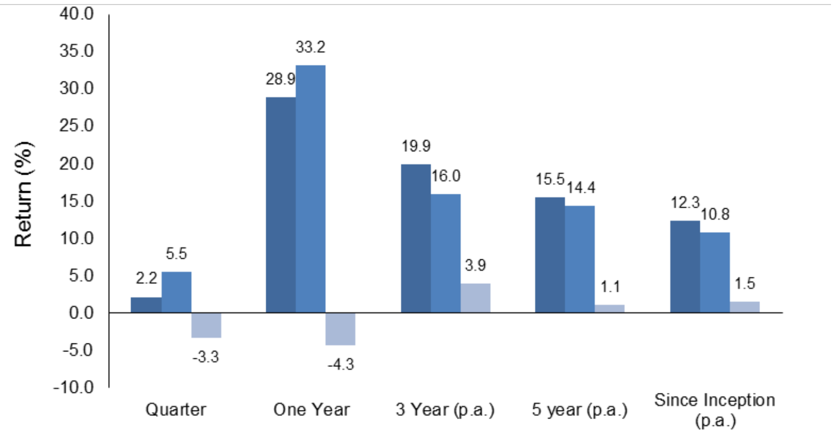
To generate an absolute return of 15% p.a. net of fees

Fee Scale:

Tiered base fee based on the AUM of 1.00% pa on the first £25.0m, 0.90% pa on the next £25.0m, 0.75% pa on the next £100.0m and 0.50% pa thereafter. No performance fee.

Our Ratings:

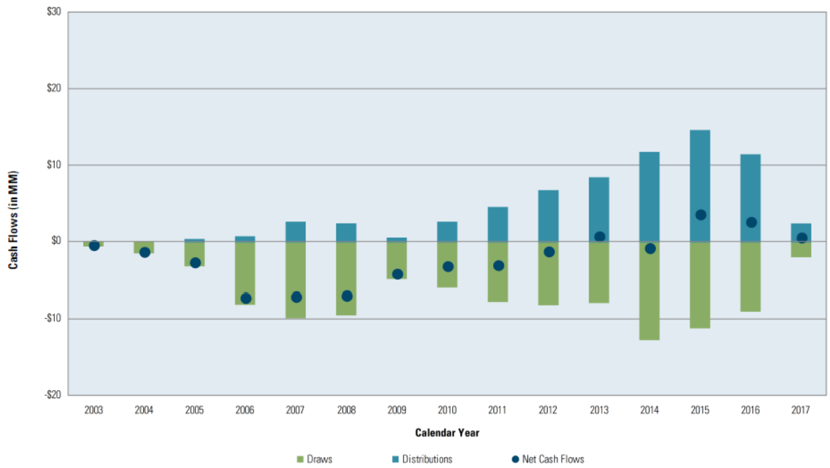
Overall	Qualified
ODD	Pass
Business	n/a
Staff	n/a
Process	n/a
Risk	n/a
Performance	n/a
Terms	n/a



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	2.2	28.9	19.9	15.5	12.3
Benchmark	5.5	33.2	16.0	14.4	10.8
Relative	-3.3	-4.3	3.9	1.1	1.5

Source: Adam Street. Internal rate of return (IRR) shown above. Returns are lagged by a quarter due to the nature of the asset class (returns are as at Q1 2017). Returns are shown net of fees.

- Performance of the underlying ASP funds has been strong over all major time periods.
- **Detailed ratings are available in Appendix D.**



- The graph above, sourced from ASP, shows the cashflow profile of the Fund's investment in ASP. As the fund has matured over time the cashflow profile has started to improve and since 2015 the fund was net cashflow positive.

Lansdowne - Developed Markets Hedge Fund

Buy (Closed)

Key Information:

Appointed:

September 2007

30 June 2017 Value:

£56.1 million

Initial Investment:

£25 million

Vehicle:

Lansdowne Developed Markets Master Fund Limited

(£ share class)

Mandate:

L/S Equity Hedge Fund

Benchmark:

N/A

Target:

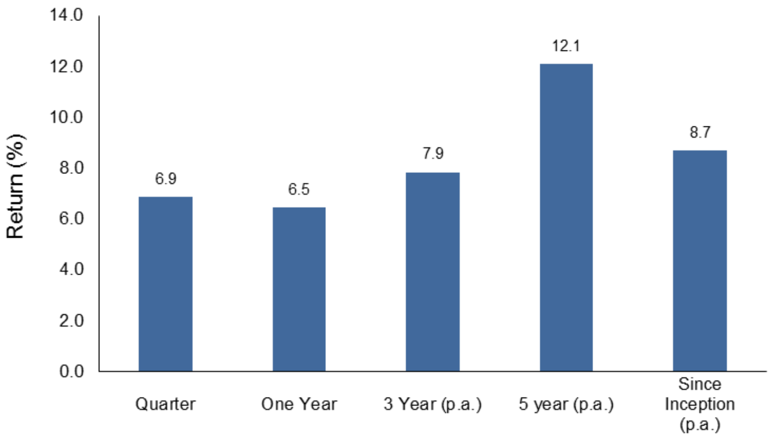
Absolute Return

Fee Scale:

Fixed based fee of 1.5% of AUM base fee plus 20% performance fee.

Our Ratings:

Overall	Buy (Closed)
ODD	A2
Business	4
Staff	4
Process	3
Risk	2
Performance	3
Terms	3



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	6.9	6.5	7.9	12.1	8.7

Source: Lansdowne. Returns are shown net of fees.

Performance

A strong second quarter saw the Strategy return +6.9% (in GBP terms) to investors, outperforming broad global equity markets. Both the long (+5.4%) and short books (+2.2%) contributed positively on an absolute basis, with particularly strong alpha generation in the short portfolio. The fund generated the bulk of its performance in the US, with large long positions in internet platform and airline dominating returns. Short positions in food retailers and the automotive sector also added value.

The largest individual contributors at the stock level were all long holdings. Long-held positions in airlines Delta (+1.3%) and International Consolidated Airlines (+1.0%) were strong performers as Lansdowne's theme around increasing capacity discipline in the industry as well as reduced competition in trans-Atlantic routes from Middle Eastern carriers continues to play out. Holdings in US technology giants Amazon and Alphabet (Google's parent) contributed +0.6% to returns each as the technology sector in general continued to rise. Elsewhere in the long book, German real estate firm, Vonovia, produced a strong quarter, adding +1.0% to returns.

Three of the largest five detractors over the quarter were short positions, with a large US aerospace firm costing -0.6% as it reported solid aircraft order numbers during the first quarter. Other notable losers on the short side included a technology firm in the travel industry (-0.6%), which Lansdowne believes is being disrupted by customers increasingly going direct to airlines, and a short in a Danish healthcare firm (-0.4%). Lansdowne is maintaining both positions. A long position in British Telecom cost -0.5% as regulatory concerns from the first quarter continued to weigh on the stock, while a holding in Barclays, the UK bank, detracted -0.4% after it reported a surprise drop in trading revenue.

Gross exposure was reduced from 221% to 214% as at the end of June, while net exposure was broadly unchanged over the period, ending the quarter at 48%. The manager remains confident in its banks and US technology long positions, while being less constructive on the UK outlook given the current political uncertainly around Brexit.

York - Distressed Securities Hedge Fund

Buy

Key Information:

Appointed:

January 2010

30 June 2017 Value:

£18.8 million

Initial Investments:

$16.0 million (£10.0 million)

Vehicle:

York Credit Opportunities Fund ($ share class)

Mandate:

Distressed debt hedge fund

Benchmark:

N/A

Target:

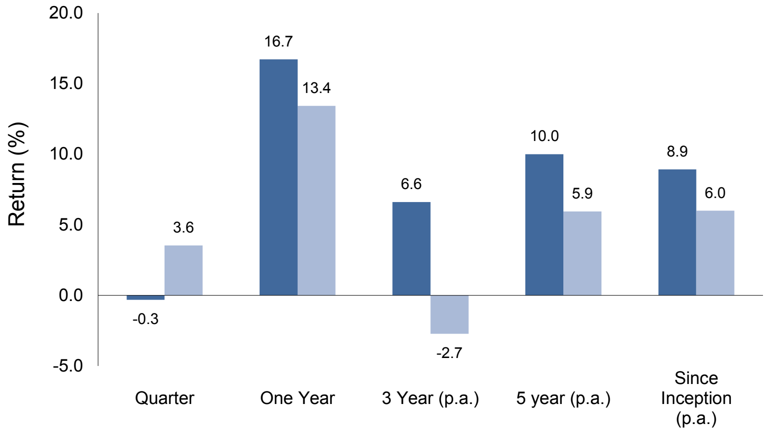
Absolute Return

Fee Scale:

Fixed based fee of 1.5% p.a on AUM + 20% performance fee.

Our Ratings:

Overall	**Buy**
ODD	**A2**
Business	3
Staff	3
Process	2
Risk	3
Performance	3
Terms	2



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
GBP	-0.3	16.7	6.6	10.0	8.9
USD	3.6	13.4	-2.7	5.9	6.0

Source: York/Aon Hewitt/Enfield. Returns shown above are Sterling and USD returns, net of fees.

Performance

The Strategy generated a net return of -0.3% (in GBP terms) over the second quarter. The second quarter saw a continuation of strong credit markets despite oil price volatility. This backdrop was supportive for monetising positons in the distressed credit portfolio which added 1.8% over the quarter. The holdings in post-reorganisation equities were the key driver of returns adding 2.6%. The portfolio hedges detracted -0.7% over the same period.

At a position level one of the key contributors over the quarter was Samson Energy which added 1.0%. This US energy exploration and production company emerged from restructuring earlier in the year and York continued to hold the post-reorg equity which traded up during the quarter. Another key contributor over the quarter was also in the energy space. Next Decade, a global Natural Gas company, added 1.0% as it was announced that Harmony would acquire the company. A number of other positions added gains of over 0.5% during the second quarter, including Greek bank debt, a long held position which York has now reduced. The largest detractor over the quarter was Bibby Line, a UK shipping and marine operations company. York expects the company to enter a restructuring and was buying the bonds as they traded down, the position detracted -0.5% over the quarter.

The current portfolio has c. 20% in cash, up from 16% at the end of 2016. York is keen to maintain this cash position, ready to be active if it sees a market dislocation. The allocation to post-reorganisation equities was broadly flat over the quarter at 23% net long. Distressed credit exposure has come down from 40% net long to 36% at the end of the quarter. York is continuing to realise some of the embedded value in the portfolio as the sale processes for a number of positions continue to move forward. Level III assets stood at 12.2%; under the internal guideline limit of 15%.

Brevan Howard - Global Macro Hedge Fund

Qualified

Key Information:

Appointed:

December 2010

30 June 2017 Value:

£4.1 million

Initial Investment:

£15 million

Vehicle:

Pooled fund (£ share class)

Mandate:

Global macro hedge fund

Benchmark:

N/A

Target:

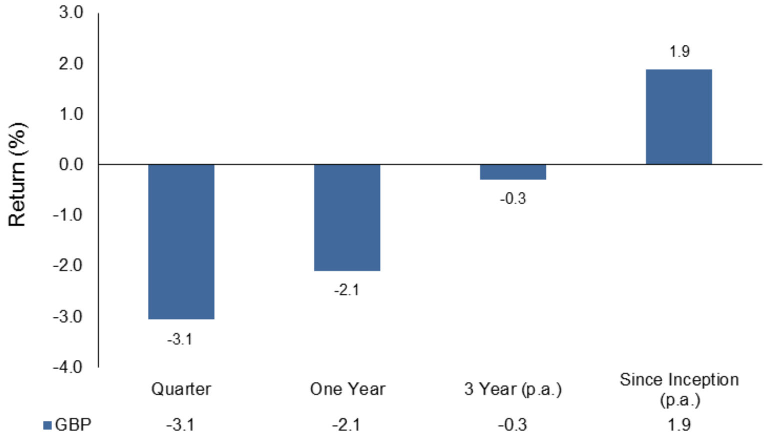
Absolute Return

Fee Scale:

Fixed base fee of 2.0% pa on AUM plus 20% performance fee.

Our Ratings:

Overall	Qualified
ODD	Pass
Business	3
Staff	3
Process	3
Risk	3
Performance	2
Terms	2



Source: Brevan Howard / Aon Hewitt. Returns are shown net of fees.

Redemption Proceeds

The final tranche of the Brevan Howard redemption proceeds (c. £17m in total) was received in July 2017. The redemption proceeds were received in 4 tranches (£4.3m each tranche), with the first three tranches of the redemption proceeds being received in October 2016, January 2017, and April 2017 respectively.

Performance

The fund declined by nearly 3% over the quarter, with performance primarily driven by negative returns in rates trading. Other asset classes also detracted but to a lesser extent.

Rates trading contributed -1.9% over the quarter, with losses mainly coming through European rates trading. Elsewhere currencies detracted 0.6%, with the main losses coming in the euro as the manager held an overall short position whilst the currency continued to rally.

Davidson Kempner - Event Driven Hedge Fund

Buy

Key Information:

Appointed:

January 2015

30 June 2017 Value:

£26.1 million

Initial Investment:

£19.2 million ($30.0 million)

Vehicle:

Davidson Kempner International Ltd ($ share class)

Mandate:

Event Driven hedge fund

Benchmark:

N/A

Target:

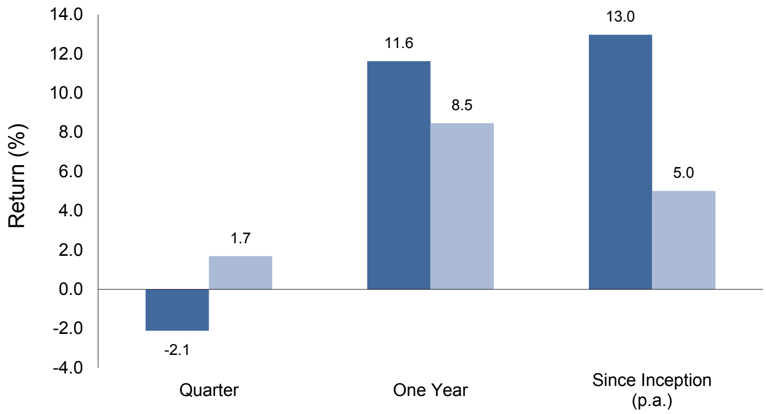
Absolute Return (7-10% p.a.)

Fee Scale:

Fixed base fee of 1.5% pa on AUM plus 20% performance fee.

Our Ratings:

Overall	**Buy**
ODD	**A2**
Business	4
Staff	4
Process	4
Risk	3
Performance	3
Terms	3



	Quarter	One Year	Since Inception (p.a.)
GBP	-2.1	11.6	13.0
USD	1.7	8.5	5.0

Source: Davidson Kempner/Aon Hewitt. Returns shown above are Sterling and USD returns, net of fees.

Performance

The fund was up 1.7% in USD terms (down 2.1% in GBP terms) for the second quarter. During the second quarter credit markets continued to grind higher, while oil price volatility re-emerged. Merger arbitrage deal activity remained elevated in the period although volume has decreased as there were less large deals announced. This proved to be a strong backdrop for the Merger Arbitrage portfolio which drove performance over the quarter, adding 1.1%, followed closely by the Distressed book which added 1.0%. Smaller allocations to Long/Short Equity, Long /Short Credit and Convertible Arbitrage all made positive contributions of 0.1% or less.

At a position level, two of the top winners for the quarter were in the Merger Arbitrage book. An investment in NXP, a Dutch semiconductor manufacturer, added 0.4% as the stock traded up on news that Qualcomm may need to increase its bid price to acquire the company. Another key merger deal which added 0.2% was Time Warner, a US cable television company, which is being acquired by AT&T, a US telecom company. The stock traded up on positive earnings results. The only material negative performer over the quarter was Noble Group, an Asian mining company that detracted 0.2% during the quarter following negative earnings results.

The second quarter was less active in the Merger Arbitrage portfolio as a number of key deals closed whilst the manager did not deploy to many new deals, bringing exposure down from 34% at the end of Q1 to 22% at end of Q2. The Distressed portfolio remained broadly flat at 40%. The fund finished the quarter with net long exposure of 73%, down from 80% at the end of the first quarter.

Gruss Global Investors - Event Driven Hedge Fund

Buy

Key Information:

Appointed:

March 2015

30 June 2017 Value:

£23.5 million

Initial Investments:

£20.2 million ($30.0 million)

Vehicle:

Pooled ($ share class)

Mandate:

Event Driven hedge fund

Benchmark:

N/A

Target:

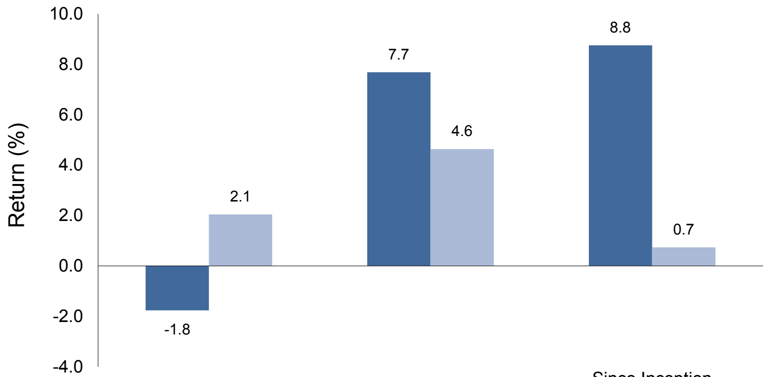
Absolute Return

Fee Scale:

1.25% of AUM base fee plus 15% performance fee.

Our Ratings:

Overall	**Buy**
ODD	**Pass**
Business	3
Staff	3
Process	3
Risk	2
Performance	3
Terms	2



	Quarter	One Year	Since Inception (p.a.)
GBP	-1.8	7.7	8.8
USD	2.1	4.6	0.7

Source: Gruss/ Aon Hewitt. Returns shown above are Sterling and USD returns, net of fees.

Performance

The Strategy was up 2.1% in USD terms (down 1.8% in GBP terms) over the second quarter. For Gruss, performance was positive across all strategies with hedges the only detractor at -0.4%. Special situations equity, which remains the largest allocation in the portfolio, added 1.3% over the quarter. The second largest allocation is the distressed credit portfolio which was the key driver of performance adding 1.1%.

At a position level, one of the positive contributions came from a holding in Interval Leisure Group, which added 0.9%. The company is a spin-off following the merger of Marriott and Starwood Hotels last year, and traded up as it is now rumoured to be an acquisition target. Kyushu Railway added 0.6%; this is a Japanese railway company that Gruss bought last year when it was taken public. It traded up when it was added to the MSCI Index during the quarter. In the distressed book the key contributor was an investment in the debt of Caesars, the US gaming company that is currently going through a restructuring. It added 0.6% over the quarter as it is expected to emerge from bankruptcy in August.

Gruss were active in deploying capital during the second quarter. Special situations equity remains the largest allocation within the portfolio at 62% net long. The distressed corporate credit exposure stands at 18%, with a smaller allocation to distressed sovereign credit of 5%. The largest positon in the portfolio is a share class arbitrage holding at 10.9%. The top 10 positions in the portfolio represent 53% of total NAV.

CFM – Stratus Hedge Fund

Buy

Key Information:

Appointed:

1 February 2016

30 June 2017 Value:

£26.0 million

Vehicle

Pooled fund (£ Share class)

Mandate:

Multi Strategy hedge fund

Benchmark:

n/a

Target:

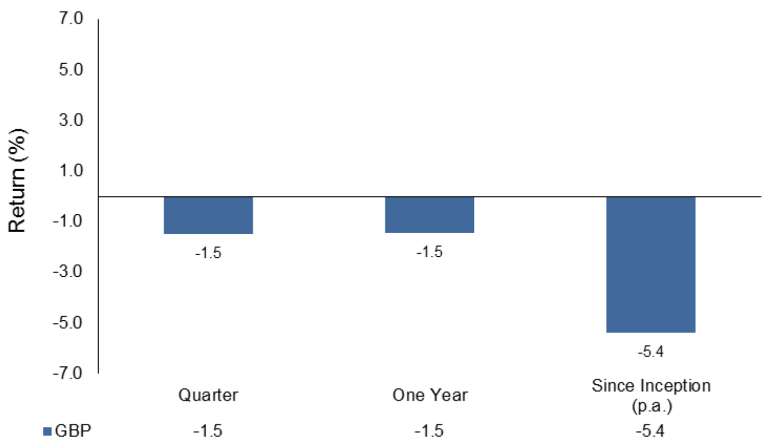
Absolute Return

Fee Scale:

Fixed base fee of 2.0% pa on AUM. 20% performance fee.

Our Ratings:

Overall	**Buy**
ODD	**A1**
Business	3
Staff	4
Process	3
Risk	3
Performance	3
Terms	2



Source: CFM. Returns shown above are net of fees.

Performance

The fund was negative for the quarter, dropping by 1.5%. The main contributor was the statistical arbitrage ("stat arb") bucket whilst other strategies were flat to positive.

Poor performance in stat arb was concentrated in Europe which after being an outperformer for several years has been a large underperformer this year. Classical model types such as trend and mean reversion performed poorly whilst the analyst models, which look at how analysts reports can affect stock prices and has analysts contributing trade ideas also performed poorly.

The directional strategy was the strongest performer, contributing +0.8% to fund performance. Stocks were the strongest performer, particularly in May and rates were also a strong performer over the quarter. Commodities struggled, with large losses in June in wheat in particular as Stratus was caught on the wrong side of a 15% rally. The intraday futures strategy also performed well over the quarter, contributing +0.4% to performance.

Of the remaining strategies the directional volatility strategy was flat and the volatility arbitrage strategy had an extremely strong quarter contributing +0.4% with an allocation of 4%. The fall in volatility over the quarter was generally a boon for this strategy.

There was a small change in allocation over the quarter as the directional book was increased from 34% to 37%, the stat arb book was reduced from 49% to 47% and the directional volatility book was reduced from 7% to 6%. The allocation to stat arb had been at the very top end of the allocation range for some time now, and the weak relative performance saw an incremental shift to the directional strategy. The directional volatility strategy currently has an increased tail risk as absolute volatility is very low, hence this was also reduced slightly.

Markham Rae – Global Macro Hedge Fund

Buy

Key Information:

Appointed:

December 2016

30 June 2017 Value:

£9.0 million

Initial Investments:

£10.0 million

Vehicle:

Alstra Markham Rae I Pooled Fund (£ share class)

Mandate:

Hedge Funds

Benchmark:

N/A

Target:

Absolute Return

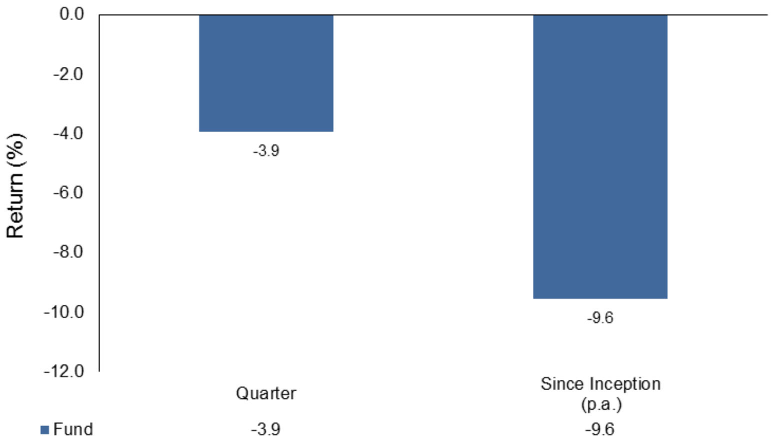
Fee Scale:

The regular fee is 1.5% p.a. of AUM base fee plus 15% performance fee. An additional platform fee of 0.5% p.a. is payable to Innocap.

A reduced fee of 1.2% p.a. will be applicable until the manager regains their high watermark.

Our Ratings:

Overall	**Buy**
ODD	**A2**
Business	2
Staff	3
Process	3
Risk	2
Performance	3
Terms	3



Source: Markham Rae. Returns shown above are net of fees.

Major Developments

During the quarter, Markham Rae asked investors for an increase in its year-to-date stop loss limit from 12% to 17% so that it can continue to take sufficient risk in an attempt to regain the losses that had been made in the first part of the year.

The increase in the stop-loss was ratified, with agreement from all investors, except for one small client which redeemed its $3 million holding. In return, investors received a fee cut of 20% for the period that the fund is below high watermark. Fund assets stood at $763 million at quarter end with firm assets at $1.2 billion.

Performance

The fund declined by 3.9% during the second quarter, with losses split equally between FX and Fixed Income.

The fund lost 1.9% in FX, with the majority of the losses in a short sterling vs. US dollar trade. The fund is positioned short on both direction and volatility in this pair, looking for a grind lower in sterling. Although volatility did fall over the quarter, the currency appreciated by around 5%, with this trade overall costing the fund 1.2%. Other losses in FX mainly related to a short Japanese yen position which was long volatility, with volatility declining over the period.

In rates the fund lost 2.1% with losses split between the yen and euro. Japanese yen rates cost -1.1% as yen rates volatility hit new all-time lows. At present the Bank of Japan is targeting the 10 year rate at between 0% and 0.1%, Markham Rae believe they will either relax this if the economy can generate sufficient momentum or if not the rate should capitulate to zero. Either scenario should cause an increase in volatility. However if the curve continues to grind lower over a period of months, if not years, then this position will not be profitable. That is the scenario that has emerged to date.

The fund was also long euro rates volatility which cost 0.8% over the quarter. 10 year rates barely moved during the first two months of the quarter after which this position was exited.

Markham Rae has endured a difficult six months for its strategy. They have always held a long volatility bias which can be costly in historically low volatility environments such as that which we are enduring at present. The losses from holding that positon have been compounded by being wrong directionally, mainly in FX.

However, the manager has continued to stick to the mandate, whilst reducing directional risk appropriately. At present, risk in the portfolio is low, profitable scenarios would include a bond market sell off, a steepening of interest rate curves or an increase in yen rates volatility from extremely low levels. A sell-off in sterling or the yen would also be profitable, although this would need to be in the 4-5% range to be meaningful.

BlackRock - UK Property

Buy

Key Information:

Appointed:

December 2012

30 June 2017 Value:

£36.9 million

Vehicle:

Pooled fund

Mandate:

UK Property

Benchmark:

IPD UK Pooled Property All Balanced Funds Total Return Index

Target:

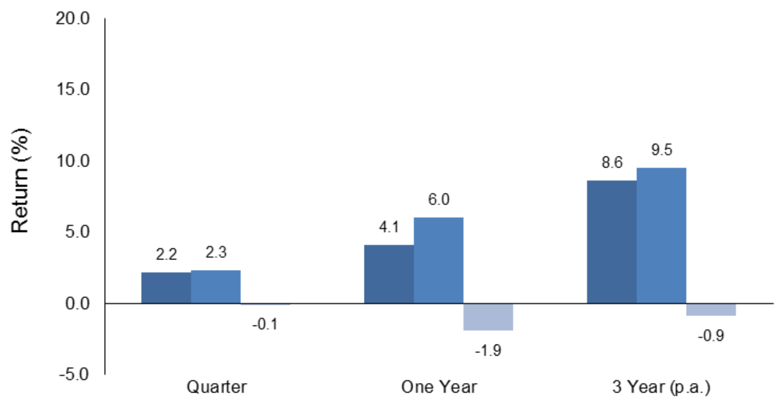
To outperform the benchmark

Fee Scale:

Fixed base fee of 1.0% pa on AUM. No performance fee.

Our Ratings:

Overall	Buy
ODD	Pass
Business	4
Staff	4
Process	3
Risk	3
Performance	3
Terms	2



	Quarter	One Year	3 Year (p.a.)
Fund	2.2	4.1	8.6
Benchmark	2.3	6.0	9.5
Relative	-0.1	-1.9	-0.9

Source: Blackrock. Returns are shown net of fees.

Performance

Performance over the quarter was 2.2% which was slightly behind the Fund's benchmark, the IPD All Balanced Property Fund Index, which returned 2.3%. 12 month and three year Fund annualised performance figures still trail the benchmark, by 1.9% p.a. and 0.9% p.a. respectively.

Transactions

During the second quarter, the Fund completed the acquisition of the Uplands Business Park, London E17 for £50.4 million. This is an industrial warehouse scheme comprising of 45 units, reflecting a net initial yield of 4.1%. The surrounding area is under significant transformation with strong road and public transport links.

The manager plans to actively manage the estate through three initiatives: refurbishment of units, letting vacant units and re-gearing leases to achieve estimated rental values. The manager also believes that the site has future potential to support higher value mixed use commercial or residential development.

During Q2, the Fund completed the sale of three non-strategic assets totaling circa £5.3m. The assets sold included a petrol filling station in Basingstoke, which was bought by the incumbent tenant for £1.3m; Crystal House in Preston, a multi-let high street retail asset, and an industrial unit in Corby were sold for £2.4m and £1.6m respectively.

Cash as at 30 June 2017 was 3.9 % of Net Asset Value. The Fund remains open to subscriptions and there is no queue to invest in the Fund at the current time.

Asset Management

During Q2 2017, the Fund agreed a ten year lease for the fourth floor of 25 Bedford Street, London with the New Scientist at a rent of £597,000 per annum. There is one floor in the property which remains vacant.

The Fund continues to consider and seek permission to convert existing properties for multi-purpose uses to add considerable upside whilst receiving income yield via its incumbent tenants.

LGIM - UK Property

Buy

Key Information:

Appointed:

February 2010

30 June 2017 Value:

£30.2 million

Initial Investment:

£14 million

Vehicle:

Pooled fund

Mandate:

UK Property

Benchmark:

IPD UK PPFI All Balanced Property Funds

Target:

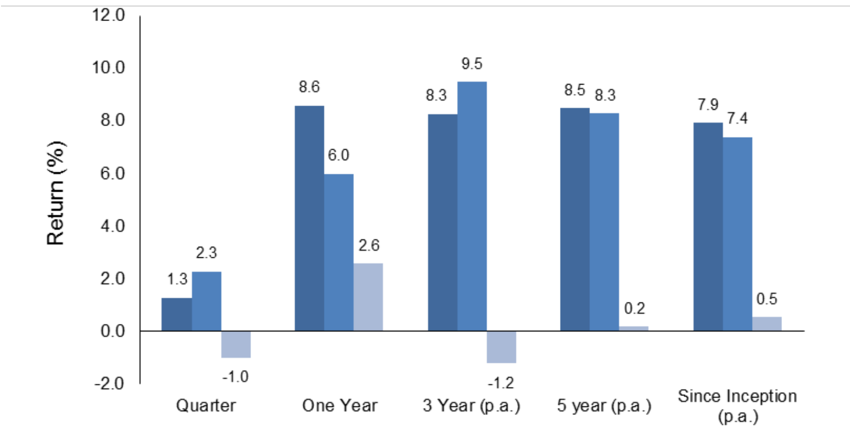
To outperform the benchmark

Fee Scale:

Tiered base fee based on the AUM of 0.70% pa on the first £2.5m, 0.65% pa on the next £2.5m, 0.60% pa on the next £7.5m and 0.55% pa thereafter. No performance fee

Our Ratings:

Overall	**Buy**
ODD	**A1**
Business	4
Staff	3
Process	4
Risk	3
Performance	3
Terms	2



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	1.3	8.6	8.3	8.5	7.9
Benchmark	2.3	6.0	9.5	8.3	7.4
Relative	-1.0	2.6	-1.2	0.2	0.5

Source: LGIM. Returns are shown net of fees.

Overall View

Annualised performance for the Fund is broadly in line with the benchmark over the last five year market cycle although there has been material underperformance through 2014 to 2016. However, we believe the Fund continues to be well diversified at a portfolio level, with good quality properties. The previous fund manager, Charlie Walker, was promoted and replaced on the team by Mark Russell in 2011. Russell had been managing the portfolio since early 2010 and he has demonstrated that he is a suitable replacement.

Major Developments

In Q1 2017, the performance sub-component rating for the Fund changed from a “4” to a “3”. This was to reflect the disappointing relative performance of the Fund over one year and three year periods. We believe the Fund holdings are of good quality and are more defensively positioned to generate stronger returns going forward albeit the cash level has been a significant drag to performance over the three year period. The Fund is making progress in reducing the cash level in the Fund with the cash level at 11.0% of Fund as at end Q2 2017, reduced from 13.4% at the end of Q1 and a high of 18% in June 2014.

The manager has struggled over the recent period in sourcing enough opportunities to deploy excess capital and as a result we have less conviction in the Fund outperforming going forward. We continue to closely monitor performance.

Performance

The Fund’s total return was 1.3% over Q2 2017 which was behind the benchmark return of 2.3%. Whilst performance attribution from IPD is not available for Q2 2017 yet, the manager believes recent underperformance can be largely attributed to the Fund’s underweight position to the industrials sector. The manager has added to the industrials portfolio post quarter end and is seeking to add further opportunities but only where favourable pricing can be achieved.

Brockton - Opportunistic Property

BUY (Closed)

Key Information:

Appointed:

August 2014

30 June 2017 Value:

£7.6 million

Total commitment:

£20.0 million

Capital drawn:

£8.0 million

Vehicle:

Pooled fund (close ended)

Mandate:

Opportunistic Property

Benchmark:

3 Month LIBOR

Target:

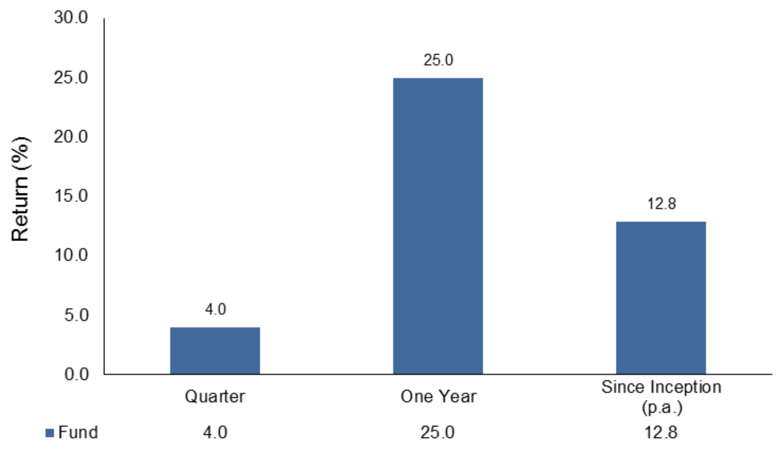
15% net IRR and 1.5x net multiple.

Fee Scale:

Management fee of 1.4% over the life if the fund. Carried interest proportion subject to IRR of the fund.

Our Ratings:

Overall	Buy (Closed)
ODD	Pass
Business	3
Staff	4
Process	4
Risk	2
Performance	4
Terms	2



Source: Brockton.

The manager began to make distributions to the Fund over the quarter, with the Fund receiving c. £3.3m in June 2017.

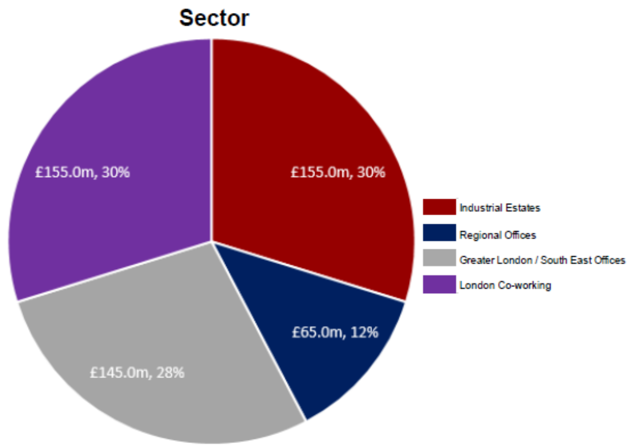
The investment period ends in August 2018 and the manager had invested £458.7m of £786.0m of commitments as at 30 June 2017. In addition to this the manager has reserved £61.3m for the completion of asset acquisition and asset management plans.

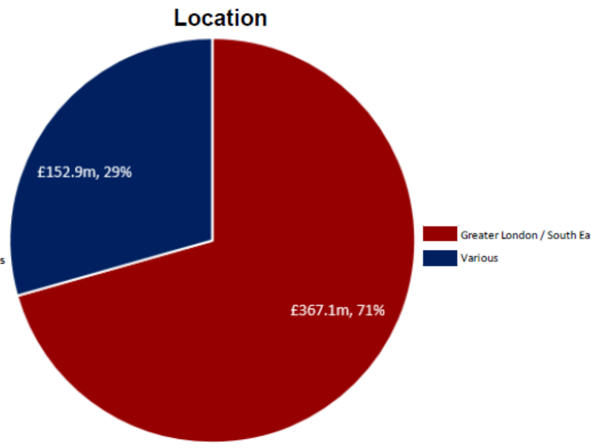
The information below has been sourced directly from Brockton.

The industrial portfolio now comprises of 8.3m sq ft across 142 estates. The original thesis for the portfolio was to purchase and exit at the same cap rate, capturing rent along the way. With the attractiveness of the sector and a lack of good quality supply, leasing activity and rents have increased since Brexit.

In the London office portfolio at Horseferry Road, Victoria the manager signed a new 15 year inflation linked lease with the Department of Transport at the end of 2016. Following this the building has been put in the market for sale, and the asset were sold for a gross sale price of £207.5m in June 2017.

The charts overleaf (sourced from Brockton) summarises the fund's current portfolio (based on equity invested and reserved) as at June 2017.





Relevant dates of the funds

First Closing Date	12 August 2014
Final Closing Date	12 February 2016
Fund Life	12 August 2022 (8 years from First Closing Date, excluding Fund Life Extension)
Fund Life Extension	Two one-year extension options at the discretion of the GP (requires Advisory Committee approval)
Investment Period	12 August 2018 (up to 4 years from First Closing Date)
Commitment Period	12 August 2022 (8 years from First Closing Date, excluding Fund Life Extension)

International Public Partnership Ltd - Listed PFI

Key Information:

Appointed:

January 2006

30 June 2017 Value:

£38.5 million

Initial Investment:

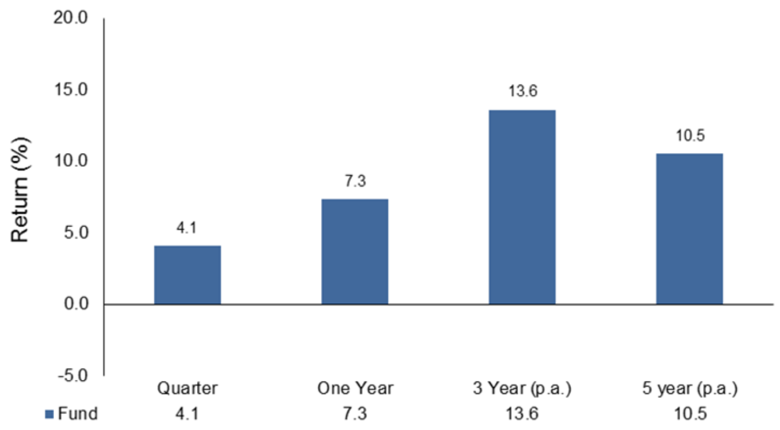
£15.0 million

Additional Investment

£4.0 million (April 2017)

Mandate:

Listed PFI



Source: Northern Trust. Returns are shown net of fees.

Rights Issue

Following the publication of INPP's full-year results for 2016, INPP indicated their intention to raise £250 million in additional capital during the second quarter of 2017. In April 2017, the Fund agreed to participate in the 1 for 8 rights offering issued by International Public Partnership Ltd (INPP). This increases the Fund's holding by a further 2.7m shares at a cost of £4m.

Major Developments

In early 2017, IPPL completed its purchase of a stake in four National Grid distribution networks across the North and East of England, North London and West Midlands. This was done as part of the Quad Gas Group consortium, which acquired a 61% stake in the networks in total. INPP expects to invest up to £275 million, with the remaining risk capital funded by consortium partners.

Annual Report Summary

IPPL provide semi-annual reports to investors. We therefore update our commentary every six months once these reports are released. The information below pertains to the latest information available. International Public Partnerships Limited announced its results for 2016 calendar year on Thursday 30 March 2017.

International Public Partnerships Limited (“IPP Ltd”) invests in 126 public infrastructure projects. As at 31 December 2016, the majority (c. 71%) of the fund is invested in the UK although the fund also has material exposure to Belgium (c.12%) and Australia (c.6%). A sector breakdown is provided below:

Sector Breakdown	**% of Fund**
Energy Transmission	26%
Education	25%
Transport	19%
Waste Water	9%
Health	6%
Courts	5%
Military Housing	4%
Police Authority	3%
Other	3%

Source: INPP.

The weighted average investment life of the portfolio is currently 31 years. As at 31 December 2016, the investment life and project stake breakdown of the portfolio was as follows:

Investment Life	% of Fund	Project Stake	% of Fund
<20 years	48%	100%	60%
20-30 years	39%	50% - 100%	9%
>30 years	13%	<50%	31%

The portfolio is performing well with revenues and cash receipts in line with expectations. The fund is seeing an attractive pipeline of new opportunities across the UK, Germany and Australia, and continues to deploy its commitment in the Thames Tideway Tunnel. Considerable progress is being made on pipeline opportunities with c. £210 million of investments made or committed during 2016, including in the Westermost Rough offshore transmission project, the Building Schools for the Future (BSF) project, the fifth batch of the Priority Schools Building Programme, drawdowns as part of its investment in the Thames Tideway Tunnel, as well as a further debt investment in the P3 U.S. Military Housing sector.

Antin – Infrastructure Fund III

Buy

Key Information:

Appointed:

January 2017

Total Commitment

€25.0m

30 June 2017 value

£0.1m

Mandate:

European Infrastructure

Benchmark:

Burgiss iQ European Infrastructure (EUR)

Target:

15% Gross IRR with a gross yield target of 5% p.a.

Fee Scale:

1.5% p.a. of total commitments during investment period

Our Ratings:

Overall	Buy
ODD	Pass
Business	3
Staff	3
Process	3
Risk	2
Performance	3
Terms	2

Major Development

In July 2017, Antin agreed a deal to take over Kisimul Group, a Lincolnshire based provider of specialist education and care services, for over £200m. Kisimul runs four boarding schools for children and young adults with autism, complex learning difficulties and challenging behaviour.

Overall View

Antin is one of the strongest European infrastructure managers with a large team with deep knowledge of the infrastructure sector. While Fund I's performance will be difficult to replicate, we believe Antin is capable of achieving its 15% gross IRR target for Fund III.

Drawdown

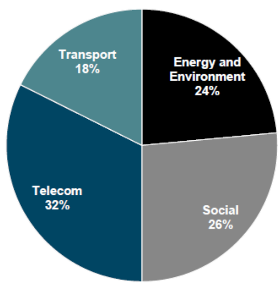
The Fund has committed €25m EUR (c. £21.2m GBP) to the fund and the manager will call down capital gradually over time. The first drawdown of €0.25m was made into the Fund on 23 January 2017.

Pipeline

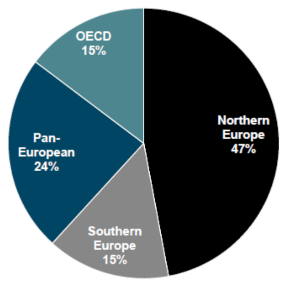
There are currently over 30 deals at an advanced or developing stage. The pipeline is split broadly equally across Fund III's target sectors (Transport, Energy and Environment, Telecom and Social), and the majority of attractive opportunities are located in developed European jurisdiction.

The charts below, sourced from Antin, summarises the Fund's current pipeline as at May 2017.

Sector



Geography



Relevant dates of the funds

First and Final Closing Date	9 December 2016
Fund Term	9 December 2026 (10 years from First Closing Date, excluding Fund Life Extension)
Fund Life Extension	Two one-year extension options at the discretion of the GP following consultation with the Investors' Committee
Investment Period	9 December 2021 (up to 5 years from First Closing Date)
Commitment Period	12 August 2022 (8 years from First Closing Date, excluding Fund Life Extension)

BlackRock - Passive Index-Linked Gilts

Buy

Key Information:

Appointed:

October 2005

30 June 2017 Value:

£85.6 million

Vehicle:

Pooled

Mandate:

Index-Linked Gilts

Benchmark:

Composite benchmark of Aquila Life Up To 5 Years UK Gilt Index Fund and the Aquila Life All Stocks UK Index-Linked Gilt Index

Target:

N/A

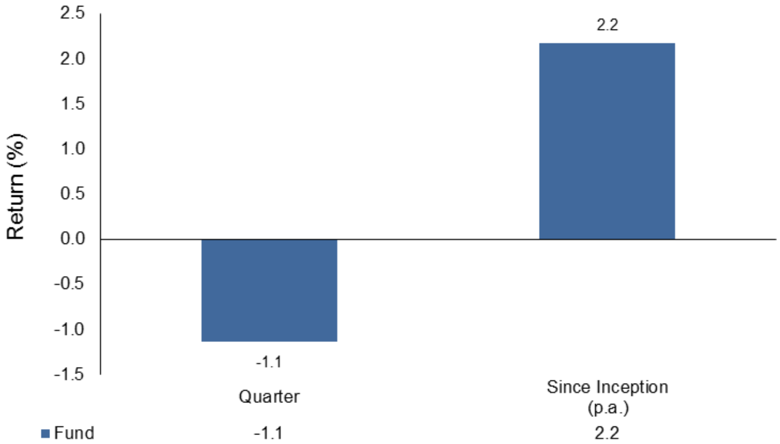
Fee Scale:

Fees following transition of units to London CIV:

0.005% p.a.

Our Ratings:

Overall	**Buy**
ODD	**Pass**
Business	4
Staff	3
Process	4
Risk	4
Performance	4
Terms	2



Source: Blackrock. Returns are shown net of fees. Since inception figures shown reflect performance since the inception of the restructured mandate in July 2016.

The Fund invests in a blend of the Aquila Life Up To 5 Years UK Gilt Index Fund and the Aquila Life All Stocks UK Index-Linked Gilt Index Fund to create a portfolio with duration of c. 10 years. At the outset of the portfolio's construction, the split was set to approximately 60/40 between the two funds, although this has, and will change, over time as market conditions dictate.

The table below shows the pooled funds held in the portfolio and their value as at quarter end (provided by BlackRock):

Security	Value (£)	Allocation	Nominal yield	Duration
Aquila Life Up To 5 Years UK Gilt Index Fund	50,951,361	59.53%	0.39%	2.36
Aquila Life All Stocks UK Index-Linked Gilt Index Fund	34,638,098	40.47%	1.54%	22.17
Total	**85,589,459**	**100.00%**	**0.86%**	**10.38**

Major Developments

BlackRock have advised that stock lending counterparties are increasingly looking for term lending as opposed to overnight lending. BlackRock's passive range of government debt funds including the Aquila Gilt funds can only engage in loans that can be terminated without notice. This is to ensure the daily liquidity of the funds. Therefore, stock lending returns are expected to drop significantly for their range of government debt funds over the short term. The impact on corporate bond funds will be less meaningful as stock lending revenues are lower for these strategies. BlackRock are determining whether there would be interest from clients for government debt funds with 95 days' notice.

Western – Active Investment Grade Credit

Not Rated

Key Information:

Appointed:

April 2003

30 June 2017 Value:

£86.1 million

Vehicle:

Segregated

Mandate:

IG Credit

Benchmark:

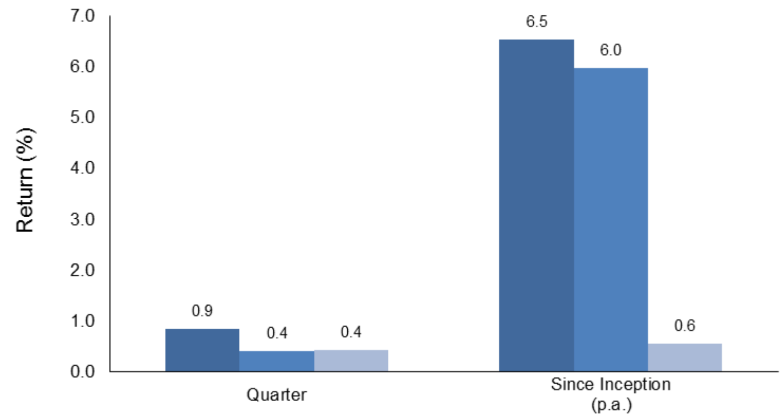
BofA Merrill Lynch Sterling Non-Gilt 10+ Index

Target:

To outperform the benchmark by 0.75% pa over a rolling 5 year period

Fee Scale:

Fixed base fee of 0.15% pa thereafter. No performance fee.



	Quarter	Since Inception (p.a.)
Fund	0.9	6.5
Benchmark	0.4	6.0
Relative	0.4	0.6

Source: Western, net of fees

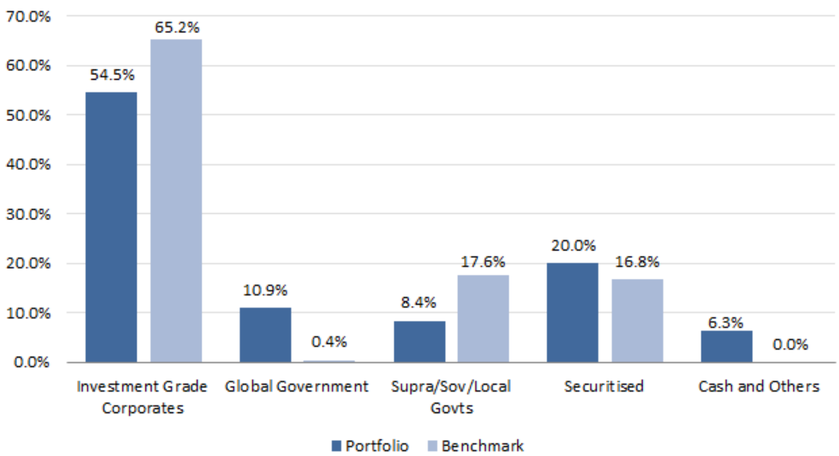
Performance

The Western mandate delivered a return of 0.9% over the quarter. Since the inception of the restructured mandate on 30 November 2016, the fund has also returned ahead of its benchmark, returning 6.5%. Note that the performance measurements have been restarted due to the restructure and going forward performance will relate to the new mandate.

The chart below shows the portfolio and benchmark allocations as at June 2017.

Our Ratings:

Overall	**Not Rated**
ODD	-
Business	✓
Staff	-
Process	✓
Risk	
Performance	
Terms	✓



Source: Western, Merrill Lynch

M&G - Inflation Opportunities

BUY

Key Information:

Appointed:

May 2013

30 June 2017 Value:

£40.8 million

Total Strategy Assets:

£1.4 billion (March 2015)

Vehicle:

Pooled fund

Mandate:

Inflation Opportunities

Benchmark:

RPI

Target:

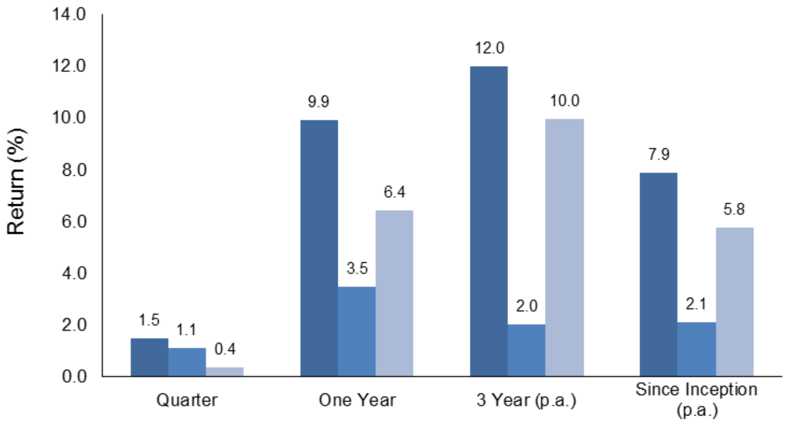
Benchmark + 2.5% pa

Fee Scale:

Fixed base fee of 0.20%- 0.50% pa on AUM. No performance fee.

Our Ratings:

Overall	**Buy**
ODD	**Pass**
Business	3
Staff	3
Process	3
Risk	3
Performance	3
Terms	3



	Quarter	One Year	3 Year (p.a.)	Since Inception (p.a.)
Fund	1.5	9.9	12.0	7.9
Benchmark	1.1	3.5	2.0	2.1
Relative	0.4	6.4	10.0	5.8

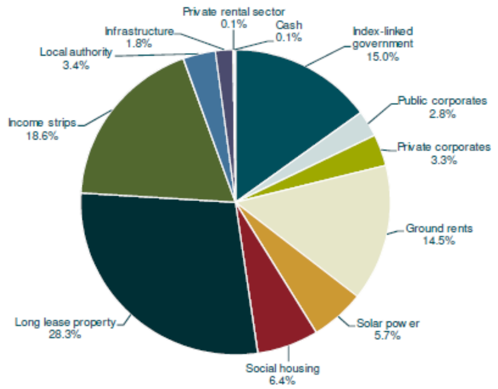
Source: M&G/Aon Hewitt. Returns are shown net of fees.

Performance

Over the quarter the fund returned 1.5%, outperforming the benchmark by 0.4% but underperforming the target (RPI +2.5% p.a.) by 0.3%. Longer term performance remains strong, with the fund outperforming the target by 3.9% over the past 12 months and by 3.3% since inception.

Long lease property provided both stable capital and income returns during the quarter. Income strips, whose performance is driven by a holding in a sub-fund, had particularly strong performance from rising capital values on underlying property assets.

Index-linked gilts detracted from returns over the quarter as real yields increased. The Fund has a 15.0% allocation to index linked gilts, a slight increase from the previous quarter, and as previously reported the manager is likely to keep a proportion of the Fund in index linked gilts to access future opportunities. The chart below shows the allocation as at June 2017.



Insight - Absolute Return Bond Funds

Buy

Key Information:

Appointed:

December 2013

30 June 2017 Value:

£32.5 million

Initial Investments:

£10.0 million

Additional Investments:

£10.0 million (January 2014)
£10.0 million (March 2014)

Vehicle:

Insight Bonds Plus 400 Fund

Mandate:

Absolute Return Bonds

Benchmark:

3 Month LIBOR (UK) Total Return Index

Target:

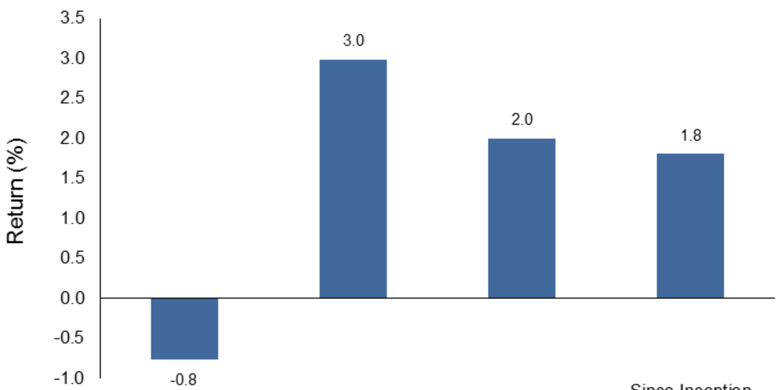
Benchmark + 4.0% pa over rolling 3 year periods net of fees.

Fee Scale:

Fixed base fee of 0.75% per annum.

Our Ratings:

Overall	**Buy**
ODD	**A1**
Business	4
Staff	4
Process	4
Risk	3
Performance	3
Terms	4



	Quarter	One Year	3 Year (p.a.)	Since Inception (p.a.)
Fund	-0.8	3.0	2.0	1.8

Source: Insight. Returns are shown net of fees.

Major Developments

Insight have confirmed that they have now had final sign-off to move Insight Bonds Plus and Bonds Plus 400 to daily pricing and dealing from twice monthly. Currently this is expected to be operational in Q3 2017.

Settlement and notice periods remain unchanged i.e.:

- Dealing cut off is 5pm on trade date (T)
- Settlement period: T+3

Whilst the Funds do (potentially) have some small allocations to Loans and EMD vehicles which are not daily dealt, the Fund Manager, Andrew Wickham, is comfortable that the temporary impact of flows on these allocations will be easily manageable.

GIM is happy with these changes and sees that it brings the range more in-line with its peers.

Performance

Insight Bonds Plus underperformed its LIBOR benchmark over the quarter.

Insight’s market allocation was the largest detractor, driven by an overweight to interest rates in Australia and Germany (both versus the U.S.) as well as long exposure to U.S. inflation. The strategy’s long duration position in Germany added to returns.

Exposure to investment grade credit and ABS was the main positive contributor, with both asset classes benefitting from a continued tightening of spreads.

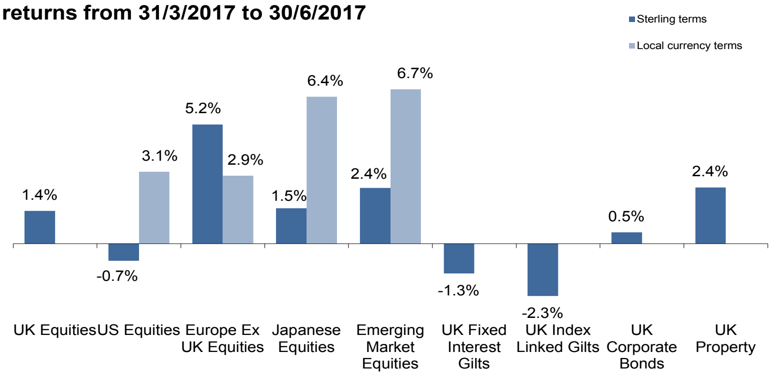
Currency was a small detractor for the Fund, driven by long USD versus JPY and EUR positions, partly offset by exposure to emerging market currencies.

During the quarter Insight increased its risk allocation to emerging market debt, reflecting the manager’s more positive view on local EMD.

Appendix A - Market Background: Q2 2017

Summary: Q2 2017

Index returns from 31/3/2017 to 30/6/2017



Source: Datastream/IPD

Market Background

- The global equity market rally remained intact in the second quarter, supported by good corporate earnings and a pro-EU result in the French election, while resilient to hawkish central bank comments towards the end of the quarter. In the UK, an inconclusive UK general election result increased UK political and Brexit uncertainty. The MSCI AC World Index returned 3.3% with all regions posting positive returns. However, divergent political and economic fortunes led to more varied regional and sector returns.
- The US Federal Reserve (Fed) raised the federal fund rate target for a third successive quarter to 1.00-1.25% while re-iterating its expectations of a further rate hike in 2017. Markets were surprised by hawkish comments emanating from both the Bank of England (BoE) and the European Central Bank (ECB) which sent respective government bond yields higher over the quarter.
- Gilt yields moved higher after senior BoE officials indicated that UK rates may need to be hiked despite a weakening economy. UK fixed interest gilts returned -1.3% whilst UK index linked gilts fell by 2.3%.
- Sterling appreciated slightly on a trade-weighted basis but lost momentum in the second half of the quarter as the Conservative party lost their parliamentary majority following the general election. Global equities rose by just 0.4% in sterling terms due to sterling appreciation against the US dollar. The US dollar moved lower despite the Fed's rate hike. The pro-EU result in the French election and hawkish rhetoric from the ECB sent the euro higher.
- The narrowing of UK investment grade credit spreads by 13bps offset the increase in government bond yields and resulted in a small positive quarterly return.
- UK property returned 2.4% with capital values continuing to recover.

UK Equities

- UK equities oscillated over the quarter amid an escalation in political and economic uncertainties, with most of the strong gains made in May undone in June. UK equities underperformed relative to other regions as a resilient pound also weighed on the market.
- The best performing sector was financials (5.0%) while basic materials (-4.2%) and utilities (-4.1%) underperformed.
- UK large cap equities (1.0%) underperformed both small (3.8%) and mid cap (4.9%) equities. The greater exposure to the energy sector led to some of the underperformance as the price of Brent crude oil

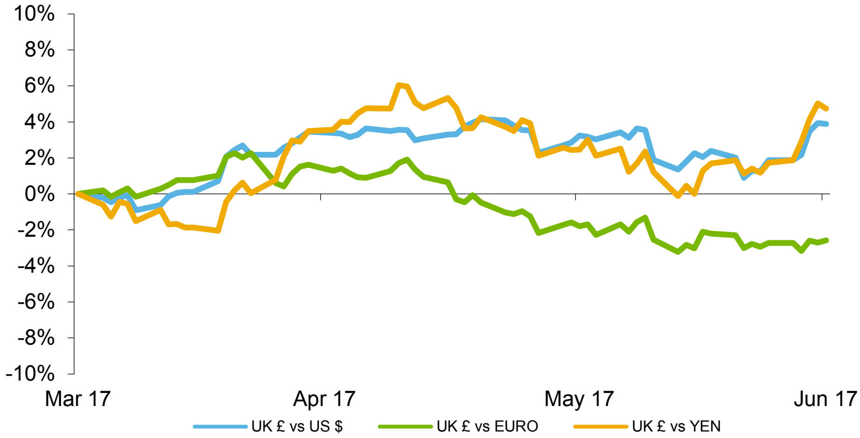
tumbled over the quarter following a strong supply response from US shale producers.

Overseas Equities

- Disappointing economic releases weighed on the US equity market initially as the pace of economic expansion slipped to just 0.7% (quarter-on-quarter, annualised real GDP) in Q1 2017 (subsequently revised to 1.4%) which was not only below forecasts but also markedly lower than the previous quarter's growth of over 2%. The keenly watched ISM manufacturing index fell back 2.8 points to 54.8 while consumer confidence fell from a 16-year peak set in March. However, strong earnings growth, particularly in the technology sector, supported positive returns. A rotation occurred later in the quarter as technology stocks sold-off while financials benefitted as US banks passed the Fed's stress tests which will enable greater dividend payouts in the future. US equities returned 3.1% in local currency terms and -0.7% in sterling terms.
- A confluence of factors including lower political uncertainty, a strengthening economy and corporate earnings recovery led to European equities' strong performance over the last quarter. GDP growth picked up slightly to 1.9% over the first quarter of 2017. There was also an improvement in forward-looking indicators with the manufacturing Purchasing Managers' Index (PMI) increasing to a six-year high of 56.8; up from 54.9 at the end of the first quarter. Eurozone unemployment continued on a downward trend, reaching 9.5% in March.
- For the second consecutive quarter, emerging market equities were the strongest performers in local currency terms, returning 6.7%. This was despite corruption allegations and lower energy prices weighing on Brazil and Russia respectively. Lower Eurozone political uncertainty was supportive. China and South Korea outperformed with the latter benefiting from the election of President Moon Jae-In and prospects of greater fiscal spending. Fears of a China hard-landing partially abated as official PMI figures for the manufacturing sector remain in expansionary territory and have outperformed expectations after falling short of forecasts early in the quarter. A weaker US dollar also acted as a tailwind for the region.
- A softening of the yen over the quarter improves the prospects of the export-oriented economy and provided a boost to equity market returns. Better than expected corporate profits also drove positive equity returns and the Bank of Japan's (BoJ) Tankan survey reflected growing confidence amongst Japanese companies. A weak yen, however, eroded much of the returns in sterling terms.
- In the FTSE All World ex UK Index, the healthcare sector (3.3%) outperformed all other sectors whilst the oil & gas sector (-9.1%) underperformed on the back of oil price weakness.

Currencies and Interest Rates

Sterling Exchange Rates

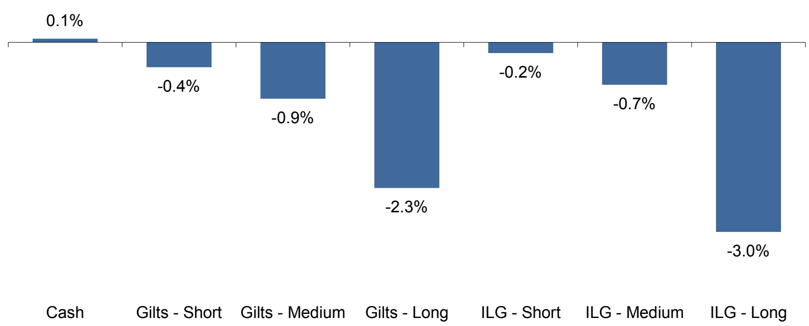


Source: Datastream

- Sterling continued to be shunted by Brexit newsflow but it was unchanged on a trade-weighted basis over the quarter, as US dollar and yen weakness offset euro appreciation.
- The US dollar continued on a downward trend and below pre-US election levels, as the 'greenback' depreciated by a further 2.9% on a trade-weighted basis over the quarter. This was despite the Fed hiking the target range for the federal funds rate to 1.00%-1.25%, as concerns over the implementation of pro-growth fiscal policies grew.
- The euro rose by 4.1% on a trade-weighted basis and also appreciated by 2.7% against sterling. Contrasting election fortunes drove the euro vs sterling appreciation, as waning populism in European politics was a big positive for the region while the Conservative party lost its parliamentary majority in June's general election.
- The yen depreciated by 3.3% on a trade-weighted basis and by 4.5% against sterling. After recent BoE comments, central bank policy in the two countries is looking a little more divergent as the BoJ remains entrenched in their very accommodative monetary policies in a bid to drive away deflationary pressures.

Gilt Returns

Index returns from 31/3/2017 to 30/6/2017



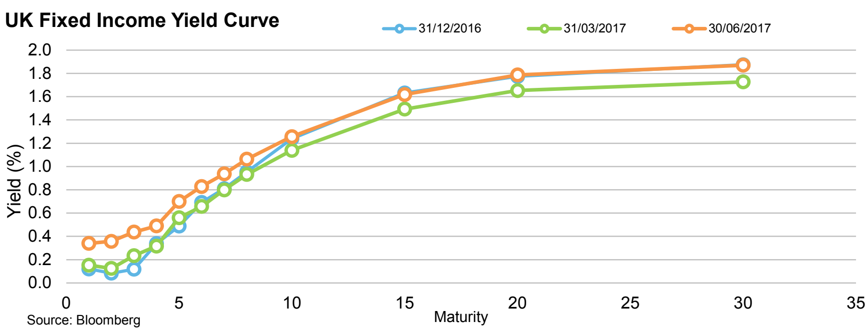
Source: Datastream

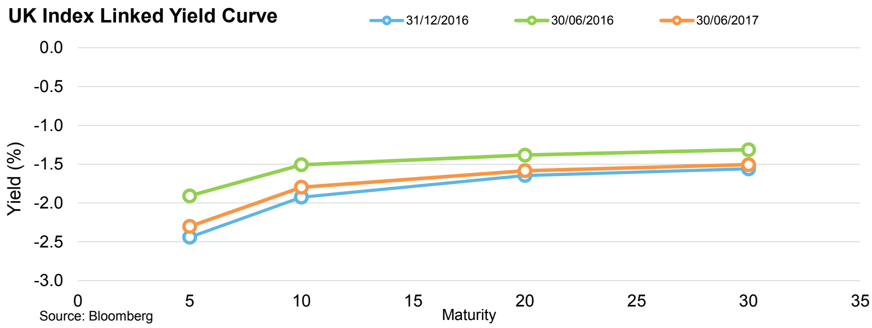
- Higher gilt yields resulted in negative quarterly UK bond returns. Despite larger yield movements at shorter maturities, the higher interest rate sensitivity of longer maturity government bonds led to their underperformance over the quarter. The return on the FTSE All

Gilts Index was -1.3% for the second quarter of 2017.

- Index-linked yields also rose over the quarter. Long index-linked bonds underperformed their fixed counterparts despite minimal changes in breakeven inflation. The higher duration of the index-linked gilt index led to the underperformance relative to the fixed rate gilt index (-2.3% vs -1.3%).

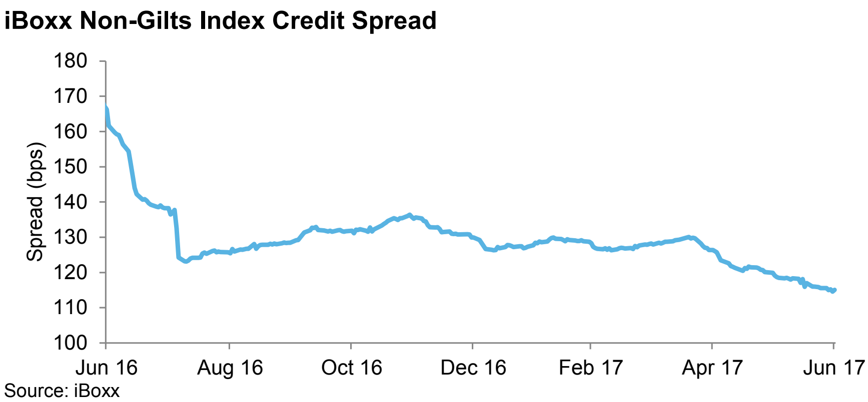
Fixed Interest and Index-Linked Yield Curves





- Fixed interest gilt yields rose across all maturities. Long term yields retraced the previous quarter's move whilst short term yields jumped up which led to a flattening of the yield curve. The policy-sensitive two-year yield rose by 23bps to 0.36%, marking the first time since October 2016 that the yield has been above the BoE's base rate.
- Index-linked gilts moved similarly with increased yields across all maturities with a more pronounced rise at shorter maturities. Breakeven inflation, the difference between nominal and real yields, fell by 19bps at 5-year maturities as inflation expectations decreased amid a falling oil price. In contrast, long term breakevens were relatively unchanged.

UK Investment Grade Credit

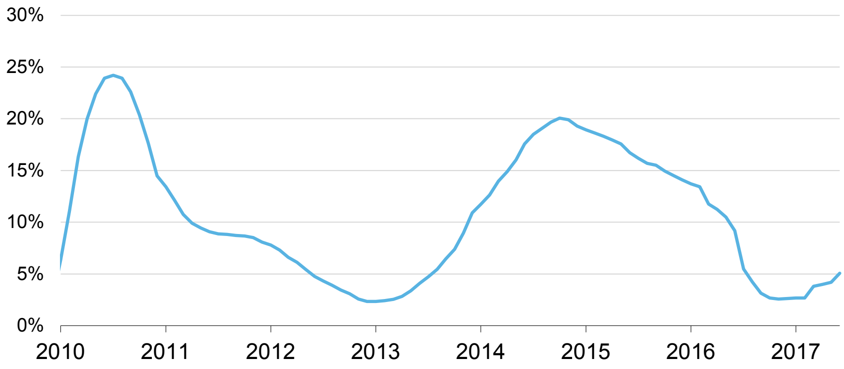


- UK credit spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) trended lower over the quarter. The iBoxx Non-Gilts All-Stocks index outperformed the fixed gilt index, returning 0.5% despite the increase in government bond yields.

- Credit spreads compressed despite the ending of support from the BoE's corporate bond purchase programme in April. A benign global credit backdrop and an increase in appetite for risk assets over sovereign debt supported UK corporate bonds. BBB-rated non-gilts saw the largest change in credit spreads, narrowing by 39bps to 168bps. AAA-rated credit spreads were more restrained, falling by only 7bps over the quarter.

UK Property

12 Months Rolling Returns
IPD UK Monthly Property Index



Source: IPD Index

- The IPD UK Monthly Index returned 2.4% over the quarter, taking the 12-month return to 5.0%.
- Commercial property prices continue to recover but still remain below pre-Brexit levels with much of the return over the last quarter has been derived from the income return which was unchanged at 1.3%. Rental value growth was 0.4%. After creeping above 8.0% in late 2016, vacancy rates have trended slightly lower to 7.4%.

Accounting Deficit (FTSE 350)

- The aggregate accounting deficit of final salary schemes sponsored by FTSE 350 companies narrowed over Q2 2017. The aggregate deficit at the end of June 2017 was £30bn, compared to £36bn at the end of March 2017. Over the quarter, the deficit ranged from £23bn to £54bn.
- Discount rates which are typically based on estimates of corporate bond yields at longer terms, ended the quarter slightly higher as the narrowing of credit spreads was not enough to offset the increase in government bond yields. The long-dated corporate bond yield, based on the iBoxx Non-Gilts Over 10 Year index, rose from 2.80% to 2.84%. As a result, there was a decrease in pension liabilities over the period.
- Fairly strong performance from equities and, to a lesser extent, other risk assets, meant that assets generally rose over the period.

Funding Levels (Typical Pension Scheme)

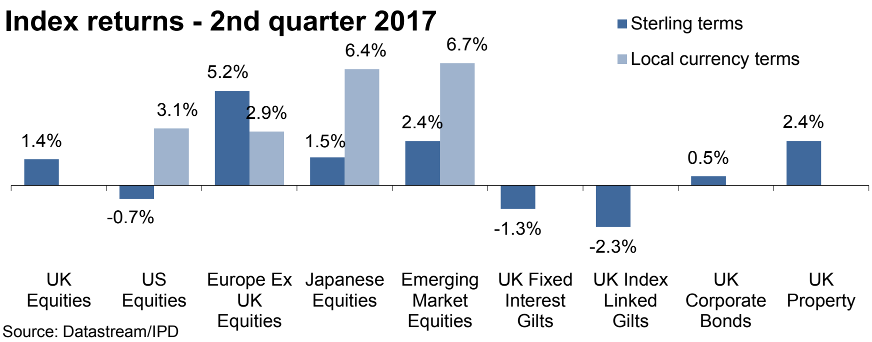
- Liabilities fell on a gilts basis over the quarter as yields increased over the quarter. Resilient equity returns, amid a rise in yields, led to improvements in funding levels over the three months to June 2017.
- Long-dated fixed gilt yields (20 year duration) increased by

approximately 13 bps to 1.8% over the quarter. The price of inflation was relatively unchanged at long maturities and as such a similar increase was seen in long-dated index-linked gilt yields (20 year duration) which rose by 15bps to -1.58%. Pension schemes with a significant proportion of inflation-linked liabilities would have also seen funding level improvements over the quarter, especially those with significant proportions invested in equity or other risk assets.

Appendix B - Quarterly Investment Outlook

Summary

- Central banks' anxiety over the slow pace of monetary normalisation is palpable, but we still expect only baby steps on their long journey.
- Divisions over UK interest rates show the dilemma, but the gilt market reaction has brought benefits in opening the hedging window again.
- Sterling corporate bonds are structurally challenged by less depth and weaker liquidity, an added incentive to widen credit exposure globally.
- After a weak half decade, emerging currencies are doing better. This should continue to be a modest tailwind to emerging market assets.
- Equity markets are offering another chance to look at protective gain-locking measures or pursue more non-correlated sources of return. A style and regional value tilt looks reasonable.
- Market conditions are hurting systematic macro and helping event-driven hedge fund strategies, but a flipping over could happen quickly.
- Illiquid assets are somewhat overcrowded but opportunities remain.
- Brexit still refuses to give up its potency as a portfolio impact driver.



Source: Datastream/IPD

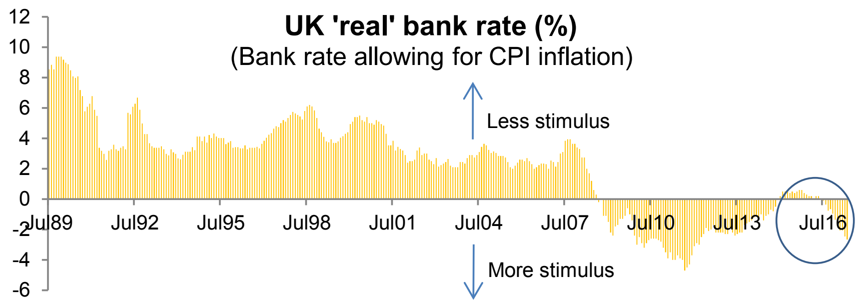
Resilient equities … but gilts wobble

The resilience of global equities remained impressive through to the middle of the year. Some risks abated – a European 'Brexit domino effect' looked less likely, but other risks surfaced and were ignored. Market poise survived sharper central bank rhetoric on tighter money, softer commodity prices and another push-back to the US administration's planned fiscal stimulus. Europe and emerging markets outperformed. The sitting UK government's plans for a stronger mandate to lead Brexit negotiations failed given an inconclusive general election result. Gilts struggled as the market's confidence that the Bank of England would not raise interest rates wavered. Long-dated index-linked gilt yields rose, a rare event.

Why are central banks getting twitchy?

We see it as more coincidence than coordination. Nonetheless, markets took notice late in the quarter when senior officials at the Federal Reserve, the European Central Bank (ECB) and the Bank of England, in seeming unison, warned of a need to roll back monetary ease. Given the odd timing, these utterances unnerved bond markets. After all, US growth has been mediocre with inflation still well below target. European growth has picked up but with little sign of inflationary pressure. Oddest of all was the UK. Faced with more evidence of a Brexit-related economic slowdown, a rate rise discussion came as a big surprise.

The reasons for central bank nervousness are complex but have a clear internal logic. There is growing discomfort about a near decade of monetary policy at maximum throttle. There is particular uneasiness at how financial markets now see ultra-low rates as an almost permanent state, a factor that is seen to have driven up asset prices significantly. The concern must be that if stimulus is not rolled back soon, it will be harder and more disruptive to change course. The US has made a beginning (policy rates now at just over 1%) but in Europe and the UK, policy is still just about as loose as it can be. The UK has recently appeared even more stimulatory given the way real interest rates fell with the pick-up in inflation (see chart). Even allowing for Brexit, does the UK need still more stimulus? Seen this way, a bank rate rise discussion seems less odd.



Source: Datastream

Discomfort does not guarantee much action

All that said, the discomfort which central banks are airing (arguably more acute for the Bank of England) is unlikely to lead to much monetary tightening at this stage. There are at least two reasons for this. First, there is concern about how economies will react to monetary tightening. Rates have not been at this level, let alone for this long, before, and high private and public sector debts and associated servicing could become an issue if rates rise very much or quickly. Balance sheet moves through quantitative easing are also largely an unknown quantity. With so many unknowns, monetary improvisation will be the motto – a small move and then a 'wait and see' - rather than quicker or larger moves. Second, the imperative for tightening given mediocre growth and limited inflation pressure (outside of the weak pound impact in the UK) is still not strong. Wages are not rising much anywhere despite unemployment that is already low or falling.

Bonds will now gradually lose support from central banks

The bout of nerves in the global bond market is settling down at the time of writing. Markets believe, as we do, that it will be difficult for central banks to match their rhetoric with action. That said, it is still true that the maximum point of central bank support for global bonds from near zero interest rates and quantitative easing is behind us. It seems reasonable to expect that the baby steps taken by the US central bank away from ultra-easy money in the past few years are likely to continue with a balance sheet reduction commencing too. A phasing out of bond purchases in Europe should follow. The UK will lag these moves given Brexit, but we should expect UK bank rate to start to move up next year. Of course, policy may have to revert to its earlier stance in the event of a recession but this is a scenario rather than our central view.

….and the hedging window opens again

The Bank of England rates debate has shaken out some complacency from gilts. Yes, demand is strong, particularly in index-linked gilt markets, thanks to pension funds, but the biggest yield driver is the Bank of England's policy rate path. Prior to the Bank's recent utterances, rates markets showed minimal expected rises for several years, an extreme view. Conveniently, though, these gilt yield moves are now opening up a window for those still significantly under-hedged on interest rates.

Credit – fade large sterling corporate

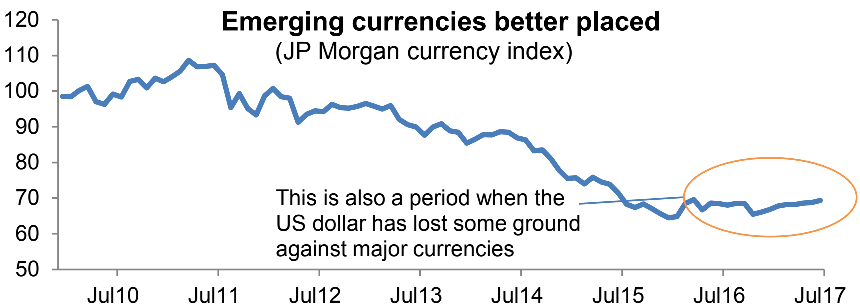
The sterling corporate bond market has struggled to compete with the deeper euro and dollar credit markets for many years. Issuance has been

bond allocations

weak. Though Bank of England corporate bond buying, completed recently, provided a reprieve, the longer-term issuance and liquidity trend is now re-establishing itself. Challenges will increase after Brexit. We see the lower liquidity of the sterling market (noted by the FCA this year) and increased sector concentration in Utilities and Financials as inadequately compensated for. The diversification argument for credit exposure has, of course, been good for some time, but these market challenges raise the incentive for those yet to do so. One popular single solution option is an unconstrained credit fund pursuing a range of global credit opportunities.

The currency tailwind for emerging market assets….a bit more to go

Emerging market assets have had a good run lately. Fundamental economic improvement in emerging economies helps, but the other factor here is a partial give-back of earlier strong US dollar gains against major currencies. This has taken pressure off emerging currencies, supporting an asset mix whose high volatility owes largely to exchange rate swings. Further US dollar weakness cannot be counted on looking ahead, but overall, we do see emerging currencies as reasonably well-placed. With a few exceptions, the recovery is small to date (see chart). Currencies were overvalued when declines began in 2011 and it goes without saying that high volatility will continue. Even so, there is room for some modest gains underneath all the noise, a modest tailwind for emerging market assets.



Source: JP Morgan

Equities: Staying grounded

With equities having seen off so much trouble – a near global recession in 2015/16, large commodity price falls, the upsurge in populist politics, and a prolonged period of high valuations, it is tempting to believe that markets are on very solid ground. We should take a reality check. Shrugging off these setbacks has had much to do with the search for yield. Valuations that are now typically at the outer edge of historic experience (particularly in the US) can only be explained by ultra-low interest rates. As support for bonds weakens, however, so valuation support for equities falls. It is true that equities are no more expensive than other liquid or illiquid asset classes; however, equities' behavioural trait as the riskiest portfolio growth asset has to be allowed for.

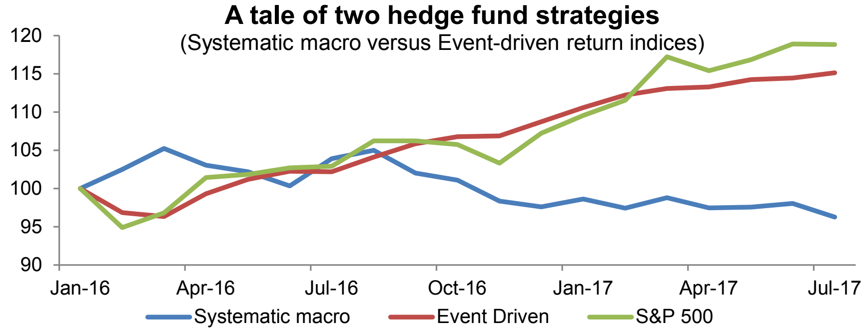
…good timing for portfolio protection and more focus on non-correlated returns

All in all, it is important at this time to be grounded and not ignore the fraying fundamentals for equities. High points in markets amidst low volatility suggest good timing for putting portfolio protection on the radar or giving more emphasis on non-correlated return sources. Equity portfolios should show a modest tilt to value and to non-US markets, though we acknowledge that neither guarantee quick or easy pay-offs.

Why hedge fund strategy relative fortunes could turn…and quickly

Market conditions have hurt one hedge fund strategy and helped another recently. Central bank-driven markets are hostile to systematic macro strategies, whereas robust mergers and acquisitions (M&A) activity has tail-winded event-driven strategies (see chart). However, such relative fortunes can turn quickly. The cyclicality of M&A gives event-driven strategies high equity market dependence and we expect far less buoyancy ahead. Equally, the weakening hold of central banks on most asset classes should make conditions easier for systematic macro. Recall that in the two recent bear markets of 2000-2003 and 2007-9, this type of hedge fund strategy delivered significant positive returns against a backdrop of large equity market falls. Event-driven strategies did do better than stocks, but systematic macro strongly outperformed.

A tale of two hedge fund strategies
(Systematic macro versus Event-driven return indices)



Source: DataStream and HFRI

Illiquid asset opportunities exist even amidst overcrowding

Investing in illiquid assets has been popular globally in recent years. Booming allocations to private markets have outstripped the opportunity set, indicated by 'dry powder' (committed but not yet invested allocations) volume in private markets, now estimated at over $1.5 trillion. Rewards for illiquidity are down, in the same way expected returns in liquid markets have also fallen, though a little faster. Though the 'illiquidity premium' is something of a will-o'-the-wisp concept and almost impossible to measure with confidence, everybody agrees that it has declined significantly. This is unsurprising given the broader search for yield and resultant overcrowding. For those investing genuinely on a longer term horizon, the opportunity set remains varied, though schemes need to invest some time and governance to ensure good strategy and sector selection.

Brexit sensitivities refuse to go away

The Brexit path chosen will make a big difference to portfolios. A year on from the referendum, and with no clarity on the ultimate path, a scenario approach is best to test portfolio sensitivity. A poor case Brexit is the most problematic. Sterling and gilt impacts are obvious, but a disruptive Brexit could still spill-over into global equities, at least for a time.

Appendix C - Explanation of Manager Ratings

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Our manager research process assesses each component using both our qualitative and Aon InForm criteria. With the exception of Operational Due Diligence ("ODD"), each component is assessed as follows:

Qualitative Outcome	Aon InForm Outcome	
1 = Weak	✓	**Pass**: This component in isolation meets or exceed our desired criteria
2 = Average	⚐	**Alert**: This component in isolation does not meet our desired criteria, or the lack of data on this component means that we are not able to judge whether it meets our desired criteria
3 = Above Average	-	**Not assessed**: There is a lack of data, which means that we are not able to assess this component, however we do not consider this in isolation to justify an Alert
4 = Strong	↗	Component has improved over the quarter
	=	Component remains broadly unchanged over the quarter
	↘	Component has worsened over the quarter

The ODD factor is assigned a rating and can be interpreted as follows:

Overall ODD Rating	What does this mean?
A1	No material operational concerns – the firm's operations largely align with a well-controlled operating environment.
A2	The firm's operations largely align with a well-controlled operating environment, with limited exceptions – managers may be rated within this category due to resource limitations or where isolated areas do not align with best practice.
Conditional Pass ("CP")	Specific operational concerns noted that the firm has agreed to address in a reasonable timeframe; upon resolution, we will review the firm's rating.
F	Material operational concerns that introduce the potential for economic or reputational exposure exist – we recommend investors do not invest and/or divest current holdings.

Aon Hewitt previously assigned ODD ratings of pass, conditional pass, or fail for the ODD factor. We are in the process of refreshing all ODD ratings to the new terminology. During the transition period, the prior ratings, as follows, may persist in some deliverables until the ODD factor rating is converted to the above noted letter ratings.

- **Pass** – Our research indicates that the manager has acceptable operational controls and procedures in place.
- **Conditional Pass** – We have specific concerns that the manager needs to address within a reasonable established timeframe.
- **Fail** – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

▪

An overall rating is then derived taking into account both the above outcomes for the product. The overall rating can be interpreted as follows:

Overall Rating	What does this mean?
Buy	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
Buy (Closed)	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
Qualified	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
Sell	We recommend termination of client investments in this product
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

Appendix D - Adams Street Ratings Breakdown

	Performance Ratings	
	31/12/2014	31/12/2015
Adams Street Partnership Fund - 2003 Non-U.S. Fund	Performing	Performing
Adams Street Partnership Fund - 2003 U.S. Fund	Below Expectations	Below Expectations
Adams Street Partnership Fund - 2004 Non-U.S. Fund	Below Expectations	Below Expectations
Adams Street Partnership Fund - 2004 U.S. Fund	Below Expectations	Below Expectations
Adams Street Partnership Fund - 2005 Non-U.S. Fund	Below Expectations	Below Expectations
Adams Street Partnership Fund - 2005 U.S. Fund	Below Expectations	Below Expectations
Adams Street 2006 Direct Fund	Performing	Performing
Adams Street Partnership Fund - 2006 Non-U.S. Fund	Performing	Below Expectations
Adams Street Partnership Fund - 2006 U.S. Fund	Below Expectations	Below Expectations
Adams Street 2007 Direct Fund	Performing	Performing
Adams Street Partnership Fund - 2007 Non-U.S. Fund	Performing	Below Expectations
Adams Street Partnership Fund - 2007 U.S. Fund	Performing	Performing
Adams Street 2008 Direct Fund	Performing	Performing
Adams Street Partnership Fund - 2008 Non-U.S. Fund	Performing	Performing
Adams Street Partnership Fund - 2008 U.S. Fund	Exceeds Expectations	Exceeds Expectations
Adams Street 2009 Direct Fund	Performing	Performing
Adams Street Partnership Fund - 2009 Non-U.S. Developed Markets Fund	Performing	Below Expectations
Adams Street Partnership Fund - 2009 Non-U.S. Emerging Markets Fund	Below Expectations	Below Expectations
Adams Street Partnership Fund - 2009 U.S. Fund	Performing	Performing
Adams Street 2010 Direct Fund	Performing	Performing
Adams Street Partnership Fund - 2010 Non-U.S. Developed Markets Fund	Performing	Performing
Adams Street Partnership Fund - 2010 Non-U.S. Emerging Markets Fund	Performing	Performing
Adams Street Partnership Fund - 2010 U.S. Fund	Performing	Performing
Adams Street 2011 Direct Fund	Performing	Performing
Adams Street 2011 Emerging Markets Fund	Performing	Performing
Adams Street 2011 Non-US Developed Markets Fund	Performing	Below Expectations
Adams Street 2011 US Fund	Performing	Performing
Adams Street 2012 Global Fund	Below Expectations	Below Expectations

Note: Adams Street reports their performances with a three-month lag.

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The Managed Property Fund

Chris Lyons – Client Relationship Manager

Emma Long – Senior UK Distribution Manager, LGIM Real Assets

Ali Farrell – Senior Asset Manager, The Managed Property Fund

Legal & General INVESTMENT MANAGEMENT

Agenda

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LGIM Real Assets

Committed to delivering solutions to meet the long term needs of our clients

Real Assets

£24.9bn

£3.5bn transactions in 2016**

Team of 69 investment professionals

Real Estate

£19.4bn

+

Private Credit

£5.5bn*

£1.05bn transactions in H1 2017

Team of 15 investment professionals

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LGIM Real Assets has made substantial Real Estate investments and continues to grow its Private Credit portfolio

Source: LGIM as at 30June 2017.
* Includes Real Estate Lending, Infrastructure Debt and Corporate Debt
**Total purchases and sales for Real Estate Equity and Private Credit

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LGIM Real Assets

Developments during Q2 2017

Denotes development ✓

Denotes no change –

	Real Assets	
Philosophy	–	
Process	–	
People	✓	**Joiners** Matt Lilley, Asset Manager, Industrial Property Investment Fund Sam Farquharson, Asset Manager, Alternatives, UK Property Fund (PAIF) Purna Bhudia, Senior Credit Analyst, Direct Investments Jake Harper, Investment Associate, Private Corporate Credit **Leavers** Matt Bird, Senior Transactions Manager **Movers** Rob Codling, Senior Asset Manager, Managed Property Fund
Products	–	Private Credit Fund under development

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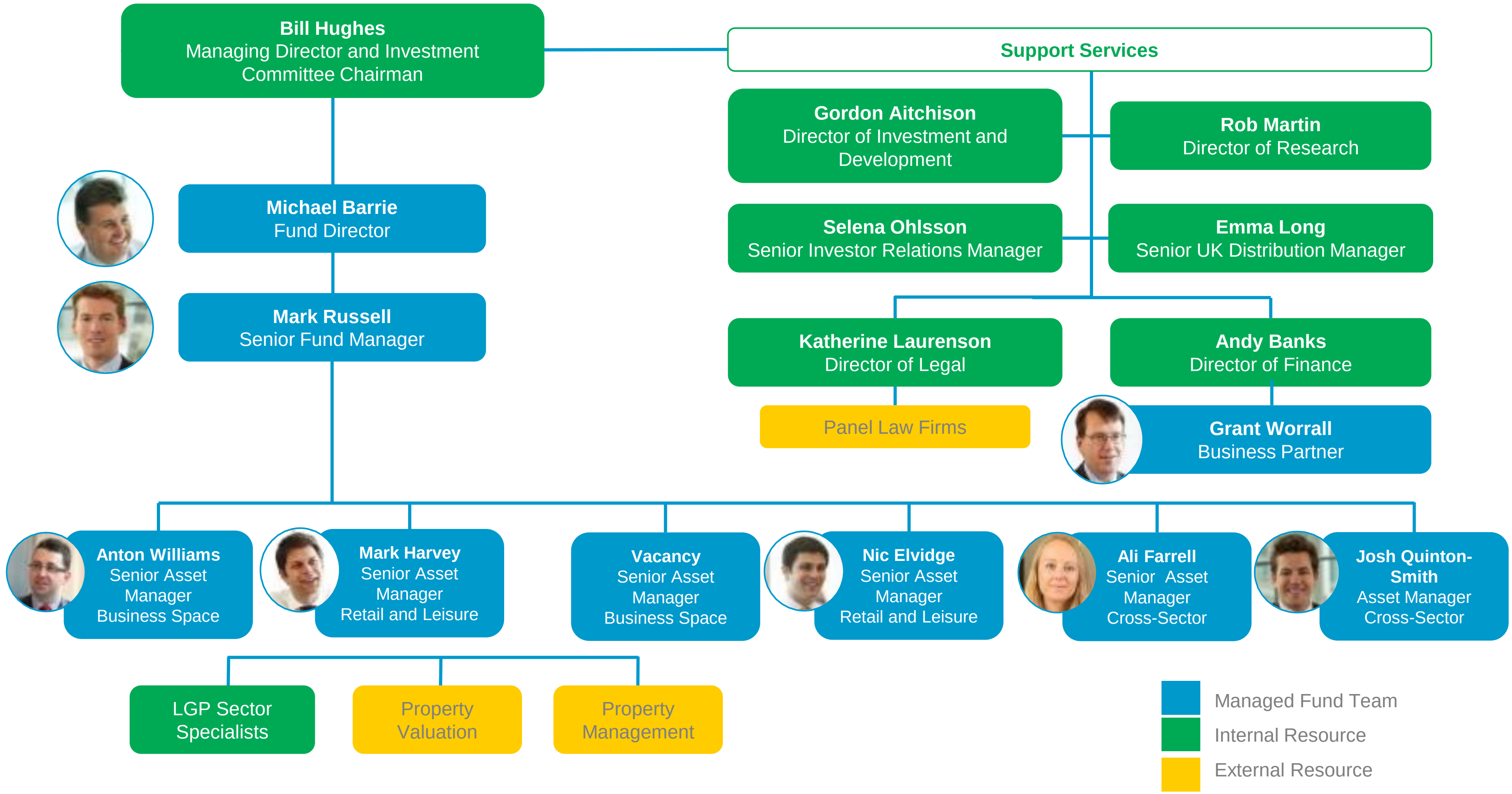
Team structure and resource



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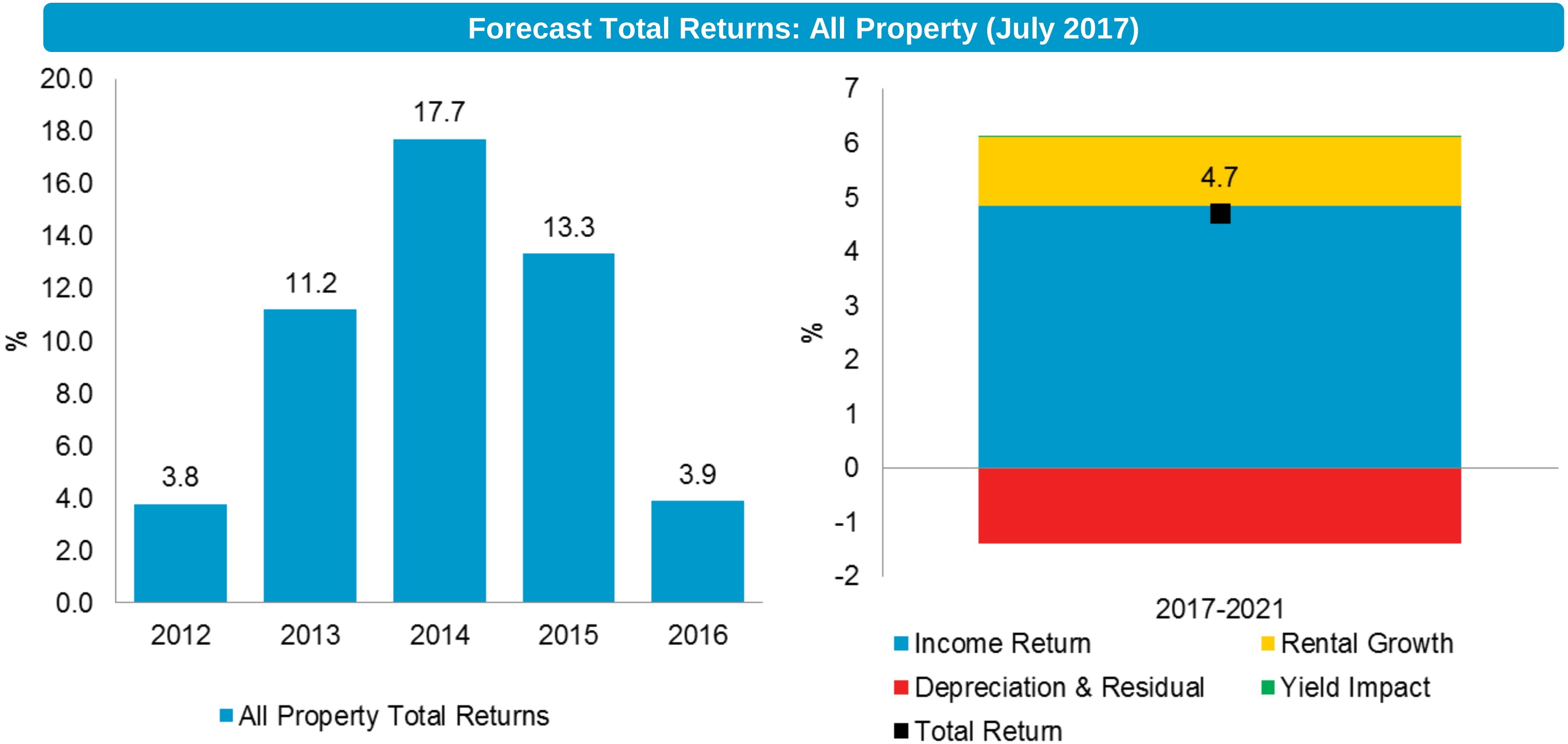
Market View

All Property Total Returns
Expectations 2017-2021



Income return with depreciation off-setting capital growth

NB: These forecasts are prepared by LGIM Real Asset Research using an internally developed proprietary model as at 6/01/2017. These forecasts should not be relied upon as an indicator of future performance.
Source: LGIM Real Assets

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Market View

Outlook

- H1 2017 surprises to the upside as values largely recover post-referendum losses
- Real estate expectations clouded by political uncertainty and range of potential Brexit outcomes
- Expected total returns of <5% p.a. (2017-2021) still seems reasonable in this context
- Long income, alternatives and industrial most in demand….
- ….creating a congested market and frustrating buying opportunities
- Stock selection to protect and grow income is key in a flat return, higher risk environment

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Cambridge Science Park

The Managed Property Fund

Fund Dashboard

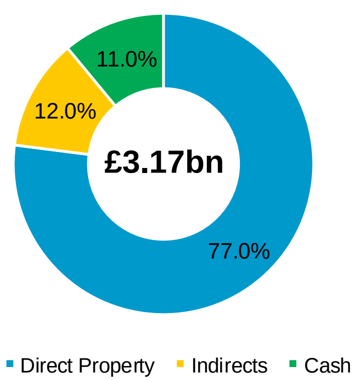
Portfolio Allocations – End Q2 2017

Net Asset Value **£3.17bn**

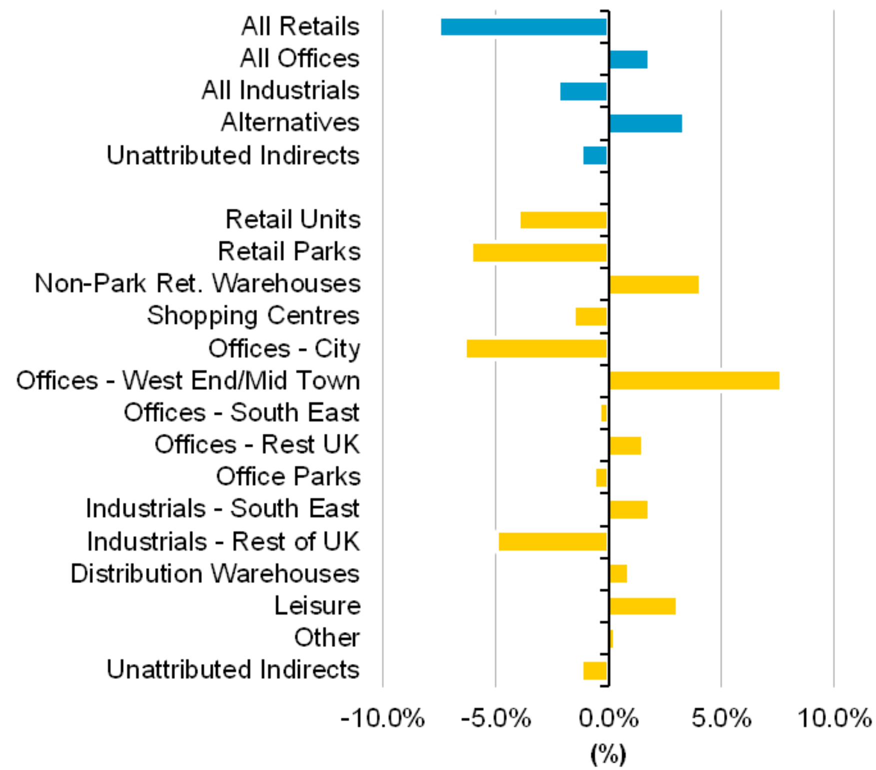
72 Direct Properties

Average Direct Lot Size **£33.9m**

Asset Allocation



Relative Sector Weightings (End Q1)



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Lot sizes are larger than peer average

Sources: LGP / IPD Q1 2017 Benchmark Report

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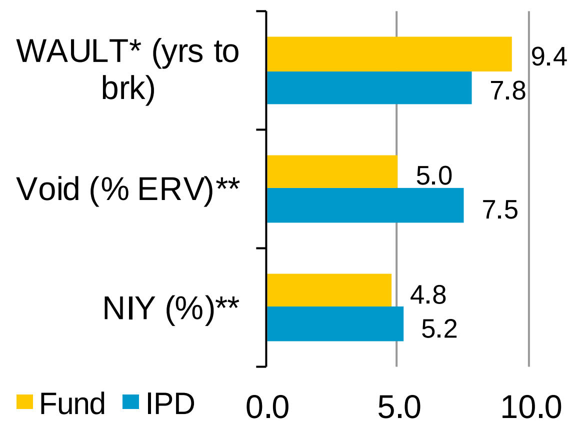
Fund Dashboard

Income Security – End Q2 2017

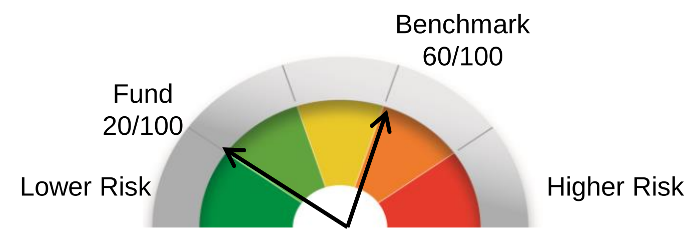
Top 10 Tenants by Passing Rent

Tenant	% of Passing Rent
Sainsburys Supermarkets Ltd	5.73%
Tesco Stores Ltd	4.85%
House of Fraser (Stores) Ltd	3.95%
Hutchison 3G UK Ltd	3.17%
Goldman Sachs International	3.12%
TJX UK	2.90%
Xerox Ltd	2.54%
INTO Newcastle University LLP	2.01%
Care UK Community Partnerships (Suffolk) Ltd	1.83%
Matalan Retail Ltd	1.56%
Total	**31.66%**

Direct Property Income Metrics (vs IPD Q1)



Tenant Risk Percentile Rank (Q1)



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Good income security

Sources: LGP Q2 2017 / IPD IRIS Q1 2017 / IPD Q1 2017 Benchmark Report
* Weighted Average Unexpired Lease Term
** Excludes developments (Hammersmith and Dover)

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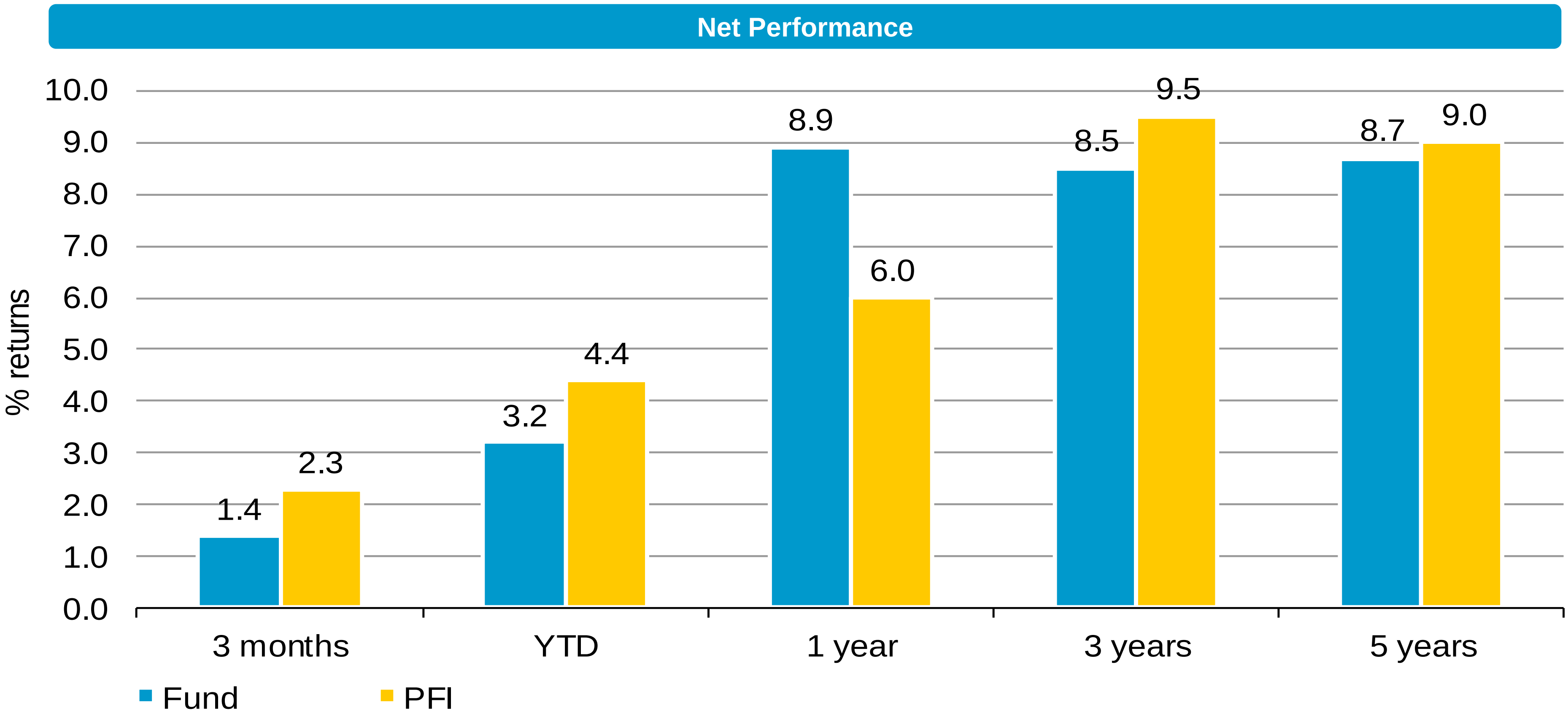
Optima Park, Crayford

Fund Performance

Fund Performance

End Q2 2017



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FVP unwinding supports 12m numbers, purchase costs drag Q2

Source: AREF/IPD UK Quarterly Property Fund Index - All Balanced Funds (30 June 2017)
Note: Prior to 1st April 2014 the Fund benchmark was the BNY Mellon CAPS Property Fund Survey NAV Median.

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2017 Strategy

West Cross, Brentford

- Reduce cash position through opportunistic purchases to boost income returns
- Increase allocations to yield (>6%) by accepting risk for illiquid assets and short term income without compromising fundamentals
- Minimise vacancies and avoid further exposures to capex-hungry assets
- Increase allocations to industrials for real rental growth and allocations to sub-annuity indexed income

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Camden High Street, London

Fund Activity

Fund Activity
2017 Transactions

Purchases	IPD Sector	Purchase Price	Date	Comment
Viking and Trafalgar Way, Bar Hill, Camb	Industrials – South East	£11.6m	Feb 2017	Acquired from LaSalle IM. Adjoins existing holdings.
Interchange Retail Park, Bedford	Retail Parks	£91.5m	April 2017	Acquired from Standard Life.
Elgar Retail Park, Worcester	Retail Parks	£27.7m	May 2017	Acquired from Hermes. Adjoins existing holdings.
City Park, Welwyn Garden City	Industrials – South East	£27.3m	July 2017	Acquired from Aviva.
Blyth Road, Doncaster	Distribution Warehouses	£26.2m	July 2017	Sale and leaseback to Eddie Stobart.

Sales	IPD Sector	Sale Price	Date	Comment
21 Great Winchester Street, London	Offices - City	£28.18m	July 2017 (exchanged)	Low income yield and limited rental growth prospects. Sold to private Hong Kong investor.
Lowfields Business Park, Elland	Business Parks	£2.7325m	July 2017 (exchanged)	Small non-core asset. Sold in two lots at auction.

Purchases of £184m, sales of £31m year to date

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Q3 2017 Transactions – Asset Purchases

City Park, Welwyn

Date Acquired	July 2017
Sector	Industrials – South East
Location	Welwyn Garden City
Purchase Price	£27.3m
Tenants	Multi-let

- Nine units providing 202,336 sq ft
- Units range from 6,900 – 61,750 sq ft
- Freehold
- WAULT of 4.3 yrs to break / 6.1 years to LEX
- Let to nine tenants
- Low average passing rent of £7.75psf
- Significant industrial stock lost to residential development in last two years – continuing trend….

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Immediate income stream with prospects for rental growth

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Fund Activity

Q3 2017 Transactions – Asset Purchases

Blyth Road, Doncaster

Date Acquired	July 2017
Sector	Distribution Warehouses
Location	Doncaster
Purchase Price	£26.2m
Tenants	Eddie Stobart Limited

- 310,000 sq ft distribution unit
- 15m eaves
- Freehold
- 26 dock level doors and 4 level access doors
- 50m yard depth plus parking for 75 trailers
- New 15yr lease to Eddie Stobart Ltd
- Low rent of £4.25psf
- RPI 1%-3% rent increases at years 5 and 10

Long lease, low rent and indexation

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Fund Activity
Q3 2017 Transactions – Asset Sales

21 Great Winchester Street, London

Date Sold	July 2017 (exchanged)
Sector	Offices – City
Location	City of London
Sale Price	£28.18m
Tenants	Multi-let

- 26,929 sq ft over lower grd, grd and 6 uppers
- Freehold
- Suites are c. 2,700 – 3,600 sq ft
- WAULT of 3 yrs
- Let to 8 tenants
- Average passing rent of >£50psf
- Small floorplates = short lease terms
- Lease churn will interrupt income streams

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High point sale of a low yielding asset with limited growth prospects

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Fund Activity

H2 2017 Asset Management Pipeline

- **Templepoint, Bristol** – let voids in advance of refurbishment PC – meaningful interest – expected Q3 added value of **£1.5m**
- **West Cross Industrial Estate, Brentford** – demonstrate rental value growth as a result of letting unit S2 – expected Q3 added value of **£1.0m**
- **1A Bedford Street, London WC2** – secure new lease to current sub-tenant at higher rent than passing – added value of **£0.8m**
- **425 Strand, London WC2** – surrender of H&M lease and regrant to new operator at higher rent – expected Q4 added value of **£2.3m**
- **Lotus Park, Staines** – let refurbished office space – if one of two floors is let expected Q4 added value of **£2.0m**
- **Piccadilly Gardens, Manchester** – seek planning consent to replace existing tired pavilion with larger enhanced destination – added value of **£1.8m**

Improving and creating income streams

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West Cross Industrial Estate, Brentford

Appendices

Appendix One
H1 2017 Transactions – Asset Purchases

Trafalgar Way and Viking Way Industrial Estate, Bar Hill

Date Acquired	Feb 2017
Sector	Industrials – South East
Location	Bar Hill, Cambridge
Purchase Price	£11.6m
Tenants	Multi-let

- 21 units providing 158,790 sq ft
- Units range from 5,400 – 44,000 sq ft
- WAULT of 3.3 yrs to break / 5.5 yrs to LEX
- Let to 13 tenants
- 8 leases are ex-1954 Act
- Low average passing rent of £4.87psf
- Adjoins existing Fund holding
- New houses and A14 junction improvements

Increased control of stock in growth location

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Appendix One

H1 2017 Transactions – Asset Purchases

Interchange Retail Park, Bedford

Date Acquired	April 2017
Sector	Retail Parks
Location	Bedford
Purchase Price	£91.5m
Tenants	Multi-let

- 178,500 sq ft retail park with a majority open A1 non-food planning consent
- 12 terraced units and two standalone pods
- Parking ratio of 1:250 sq ft
- Units range from 1,600 – 25,000 sq ft
- WAULT of 4.9 yrs to breaks / 5.5 yrs to LEX
- Let to 14 tenants
- Significant new local housing development

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Strong trading park offering an attractive initial yield

Appendix One

H1 2017 Transactions – Asset Purchases

Elgar Retail Park, Worcester

Date Acquired	May 2017
Sector	Retail Parks
Location	Worcester
Purchase Price	£27.7m
Tenants	Multi-let

- 135,000 sq ft retail park
- Bulky goods non-food planning consent
- Eight terraced units and one drive-through restaurant
- Parking ratio of 1:308 sq ft
- Low average passing rent of £15psf
- WAULT of 4.6 yrs to breaks / 4.8 yrs to LEX
- Let to nine tenants
- Adjacent to existing ownership – allows control

High yield and low rents

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Appendix One
Q3 2017 Transactions – Asset Sales

Lowfields Business Park, Elland

Date Sold	July 2017 (exchanged)
Sector	Office Parks
Location	Elland, Yorks
Sale Price	£2.735m
Tenants	Multi-let

- Seven units providing 35,569 sq ft
- WAULT of 3.8 yrs
- Let to six tenants – one of which is in liquidation
- Large persistent void (35% ERV)
- Repeating capex demands
- Sold in auction as two lots
- Sale price reflects >25% premium to valuation

Sale of a non-core asset vulnerable to an interrupted income stream

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Appendix Two
Fund Specifics

Investor constituency
Registered defined benefit and defined contribution occupational pension schemes

Investment policy and objective
To provide corporate pension schemes with an attractive income yield and the potential for income and capital growth through investment in a diversified portfolio of UK commercial property

Property benchmark
AREF/IPD UK Quarterly All Balanced Funds Index

Fund Characteristics
A mix of assets is held to reduce variation in performance and diversify against specific risk. Emphasis is placed on active management to deliver enhanced returns. The Fund varies the content of added value opportunities within the portfolio according to the market cycle phase

Investment type
Active Management

Style
Core – Core Plus

Type of fund
Unit Linked Life Insurance

Residence
United Kingdom

Launch date
June 1971

Open/closed-ended
Open-ended

Year end
31 December

Valuation
Valuations are carried out at the end of each month by CBRE

Current key operating guidelines and control
These are internal controls which can be subject to change

Lot size
Single property not to exceed 10% of Fund NAV

Prohibited assets
Non UK assets

Income
Income receivable from one tenant, or tenants within the same group, in any one financial year shall not exceed 7.5% of the total rental income

Development
Limited exposure allowed (10%)

Lease term
Average unexpired lease length should not fall to be more than one year below benchmark

Vacancy
No more than 10% of portfolio shall be non income producing (by capital value at any time)

Liquidity
Cash to remain below 25% of Fund NAV

Gearing
Direct borrowing not permitted

Dividends/income
The Fund does not distribute income, however, investors have a facility to take income through encashment of units at mid value (NDIP)

Indirect investment
Not to exceed 15% by value including joint interests. FSA gearing limit of 10% on Fund assets

Property derivatives
The Fund is permitted to trade Property Total Return swaps and futures up to 12.5% NAV for the purpose of efficient portfolio management

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Appendix Three
Top Ten Direct Property Assets – end Q2 2017

Asset	IPD Sector	Value
London – Strand Island	West End Offices	£140m-£150m
Brentford – West Cross Industrial Park	South East Industrials	£110m-£120m
Manchester – One Piccadilly Gardens	Rest UK Offices	£90m-£100m
Birmingham – Rackhams Dept. Store	Standard Retails	£90m-£100m
London – Wardour Street	West End Offices	£90m-£100m
Bedford – Interchange Retail Park	Retail Parks	£90m-£100m
Reading – Apex Plaza	South East Offices	£90m-£100m
Maidenhead – Grenfell Island	South East Offices	£80m-£90m
London – Procession House	City Offices	£70m-£80m
Bishops Stortford – Jackson Square	Shopping Centres	£60m-£70m

Top 10 assets = 30% NAV (average lot size of top 10 assets = £95.5m)

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Appendix Four
Fund team biographies

Michael Barrie is Director of Fund Management at LGIM Real Assets. He joined LGIM as a Director in November 2005 with responsibility for the Linked Pensions, BMW, Managed and Leisure Funds. Michael, who is a Chartered Surveyor, was previously a Director with Foreign & Colonial Property Asset Management. Michael has a degree in Urban Land Economics from Sheffield Hallam University and a post graduate Diploma in Property Investment from Reading University.

Mark Russell is Senior Fund Manager for the Managed Fund. He joined LGIM in 2000 from Jones Lang LaSalle to work on the BMW (UK) Trustees Ltd segregated mandate and later on the Linked Life Fund. From 2006 Mark spent four years at Prestbury Investment Holdings Ltd where he was responsible for several property portfolios before re-joining LGIM in 2010. Mark is a Chartered Surveyor and holds the Investment Management Certificate and the IPF Diploma.

Anton Williams joined LGIM in November 2005 as a Senior Asset Manager for the Managed Fund. His focus is on the Business Space assets held within the Fund. Anton previously worked for Lambert Smith Hampton specialising in asset management, following 4 years of central London office agency. Anton is a Chartered Surveyor.

Mark Harvey joined LGIM in September 2011 to focus on the Retail and Leisure assets held within the Managed Fund. Mark joined from Jones Lang LaSalle where he was Director of Retail Agency and acted for both landlords and tenants. Previously Mark worked at Cushman & Wakefield and Churston Heard. Mark is a Chartered Surveyor.

Nic Elvidge is Senior Asset Manager to the Fund with a focus on the Retail and Leisure sectors. He is a Chartered Surveyor and joined LGIM in March 2010 from Knight Frank's investment team.

Ali Farrell is Senior Asset Manager to the Fund. Ali joined in October 2015 from Jones Lang LaSalle where she was a Senior Surveyor in the National Investment team. Ali is a Chartered Surveyor.

Josh Quinton-Smith joined LGIM in June 2016 from the Retail Client Services team at Savills. Josh is a Chartered Surveyor and Asset Manager to the Fund.

Grant Worrall is a the Fund's Finance Business Partner overseeing finance aspects of transactions, regulation and reporting. Grant works closely with LGIM Real Asset's Finance Director and the Fund accounting team. Grant joined LGP in 2010 having previously worked for KPMG in their audit function since September 2000. Prior to joining KPMG, Grant qualified as a Chartered Accountant in South Africa.

Emma Long joined LGIM in September 2010 as Business Development Analyst. Emma was formerly with the Foreign and Commonwealth Office at the UK Mission to the UN and British Consulate-General in New York. Emma holds an AMBA accredited MSC in Management from the University of Warwick. She also holds the Investment Management Certificate and passed the CFA Level I in 2011.

Selena Ohlsson joined LGIM in March 2014 as Investor Relations Manager. She joined from Gruss Capital Management – an event-driven hedge fund – where she was responsible for Marketing and Investor Relations across the Asia Pacific region. Prior to that, she was at Sandelman Partners, Capital International Group and ICAP plc. Selena holds a BA from the University of New South Wales in Sydney, Australia.

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