Allenbridge

REPORT PREPARED FOR

London Borough of Islington Pension Fund

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1. Fund Manager Overview

Table 1 provides an overview of the external managers, in accordance with the Committee's terms of reference for monitoring managers.

Table 1

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
London CIV - Allianz	Monitored by London CIV – no changes reported.	A good quarter to start 2017, with the sub fund outperforming the Index by +1.5%. Underperforming by -0.5% p.a. over 3 years to end March 2017 and behind the target of +2.0% p.a.	London CIV sub fund had £667 million of assets under management as at end March 2017, an increase of £42 million since end December 2016.		
Newton	Rob Stewart appointed Head of Responsible and Charity Investing. Ian Clark appointed co-manager of the Global Income strategy.	Underperformed the Index by -1.5% in the quarter and by -9.4% over one year. Trailing the benchmark over three years by -1.1% per annum.	£54.5 billion as at 31st March 2017, down £1.3 billion on the previous quarter.		Sub-fund available on the London CIV from 22nd May.
Standard Life	12 joiners and 10 leavers of whom one was in fixed income.	Over three years the Fund is +0.3% p.a. ahead of the benchmark return of 7.5% p.a. but behind the performance target of +0.8% p.a.	Underlying fund value fell by £54.7 million in Q1 2017. Islington's holding rose to 6.0% of the Fund's value.		Standard Life announced a merger with Aberdeen Asset Management on 4th March. This will bring global AUM to £581 bn.

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	No changes to the team responsible for the Lime Fund. 6 leavers from the real estate team, and 6 joiners.	Underperformed the gilt benchmark by -3.0% p.a. over three years.	Fund was valued at £1.84 billion as at end Q1 2017. London Borough of Islington owns 3.2% of the Fund. Aviva's AUM grew by 19% in 2016 to £345 billion.		Queue of new money waiting to be invested means new allocations are taking 15-18 months to be drawn down.
Columbia Thread-needle	Michelle Scrimgeour joined as Chief Executive of Europe, Middle East and Africa.	Ahead of the benchmark return by +0.8% per annum over three years (source Columbia Threadneedle). Slightly behind the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.73 billion. London Borough of Islington owns 4.4% of the fund.		
Legal and General	Not reported.	Funds are all tracking as expected. Emerging markets RAFI fund has outperformed market cap fund by 17% in past 12 months.	Assets under management of £902 billion at end December 2016.		
Franklin Templeton	Glen Uren, Managing Director of real estate, retiring. Michel Lim appointed as investment manager in UK.	Portfolio return over three years was +32.8% p.a., well ahead of the target of 10% p.a.			Leverage continues to be on the high side, between 45-50%

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Jeff Pulsford, Chairman, has left the firm. David Gibbins, fund manager, has retired.	Outperformed the benchmark by +3.0% p.a. over three years to end March 2017.	Fund was valued at £52.7 m at end Q1 2017.		
Schroders	49 joiners and 17 leavers in the UK business but no changes to the DGF team.	Fund returned +2.5% during the quarter and +10.6% over 12 months, +2.4% ahead of the target return.	Total AUM of £416.3 billion as at 31st March 2017.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

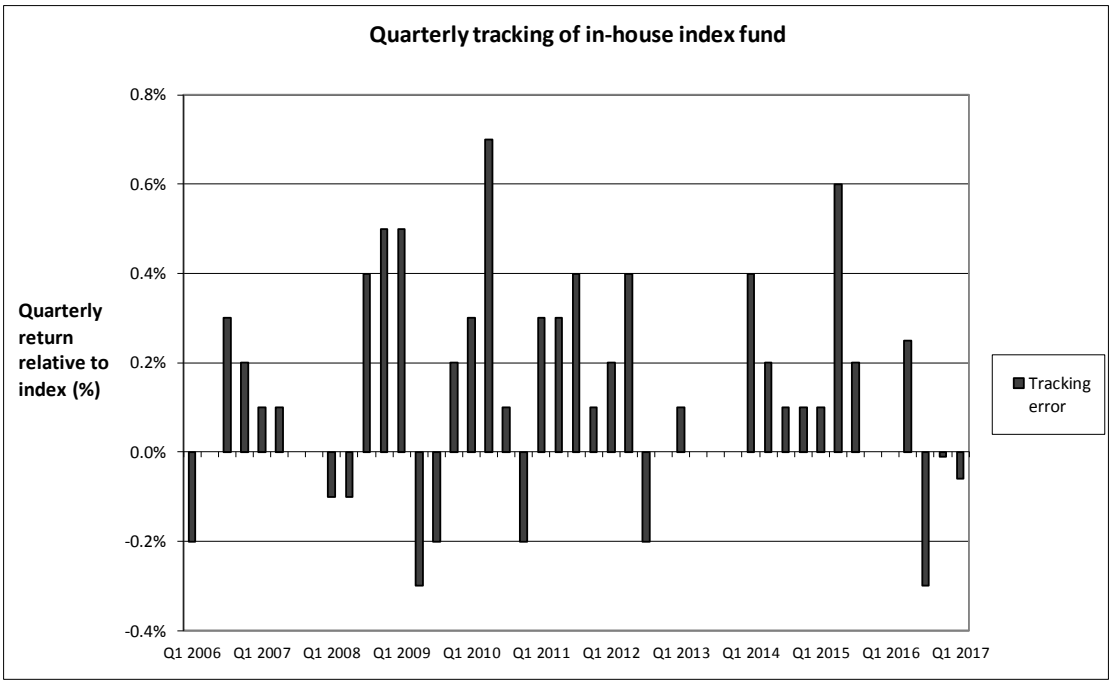
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

***Headline comments*:** The portfolio continues to meet its objectives. The fund delivered a quarterly return of +3.96%, which was slightly behind the index benchmark return of +4.02%. Over three years the fund has outperformed the index by +0.46% p.a. and delivered a return of +8.2% per annum.

***Mandate summary*:** A UK equity index fund designed to match the total return on the UK FTSE All Share Index. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the index.

Performance attribution: Chart 1 shows the tracking error of the in-house index fund against the FTSE All Share Index since Q1 2006. **There are no performance issues.** Over three years, the small quarterly positive relative returns (shown in Chart 1) have accumulated, and thus the portfolio has outperformed its three-year benchmark by +0.46% per annum.

Chart 1



Source: Allenbridge based on BNY Mellon performance calculations

Portfolio risk: The tracking error on the portfolio at the end of March 2017 was 0.37% per annum. This is slightly higher than has been experienced historically, but the manager is now operating the portfolio on a care and maintenance basis as the strategy switches to a low carbon fund. In terms of sector bets, relative to the Index, at the end of March the largest underweight sector position relative to the index was Investment Trusts
(-1.27%). The fund was most overweight in Industrials (+1.07%). This compares with sector bets of around 5-10% for the active managers.

Portfolio characteristics: The total number of holdings in the portfolio stood at 296 securities at the end of Q1 2017.

2.2. London CIV – Global Equity Alpha Fund – Allianz

Headline comments: After a disappointing Q4 2016, the London CIV – Allianz sub fund delivered a better return in Q1 2017. The fund delivered a return of +6.8% against the benchmark return of +5.3% in Q1. This helped the three-year numbers, but the fund is still trailing the benchmark by -0.5% per annum and is behind the performance target of +2% per annum over benchmark.

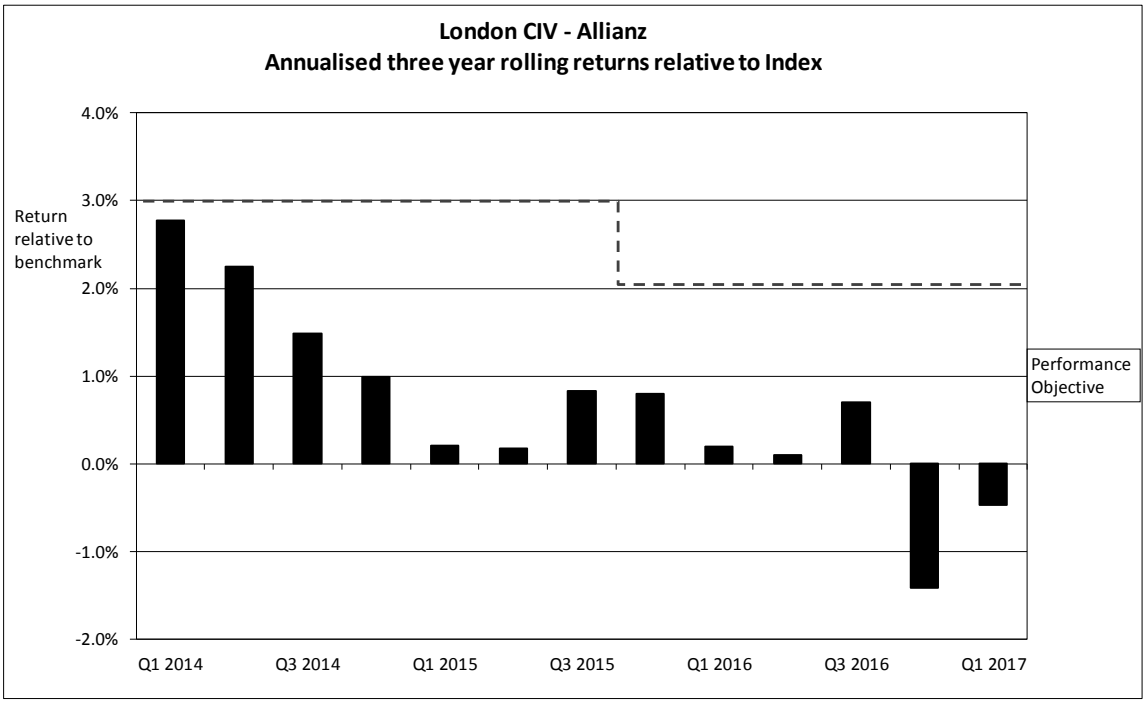
Mandate summary: An active global equity portfolio, with a bottom-up global stock selection approach. A team of research analysts identifies undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. The objective of the fund is to outperform the MSCI World Index by 2.0% per annum over rolling 3 year periods net of fees.

Performance attribution: For the three years to March 2017, the AllianzGI portfolio is behind its benchmark by -0.5% per annum, so is **trailing the performance target of 2% per annum**, shown by the dotted line in Chart 2. Note that the dotted line drops in Q4 2015 when the mandate transferred to the London CIV sub fund, which has a lower

performance objective than when Allianz ran a bespoke mandate for London Borough of Islington.

The portfolio's outperformance in Q1 was attributed by the London CIV to an overweight allocation to Information Technology which added +0.7% and an underweight allocation to Energy which added +0.6% to the relative return. Holdings in Priceline and Facebook also added +0.7%.

Chart 2



Source: Allenbridge based on BNY Mellon performance data

Portfolio Risk: The largest overweight regional allocation was in European Equities (+7.2% overweight). The most underweight allocation was Japan Equities (-4.9% underweight). In terms of sector bets, the most overweight allocation was in Information Technology (+11.9% overweight). Energy was the most underweight sector (-5.1%). Both these positions have now been in place since Q1 2016, a year ago.

Portfolio Characteristics: as at end Q1 2017, the portfolio held 50 stocks, no change from last quarter. The portfolio has a beta of 0.99 so is broadly neutral relative to the market.

2.3. Newton – Global Active Equities

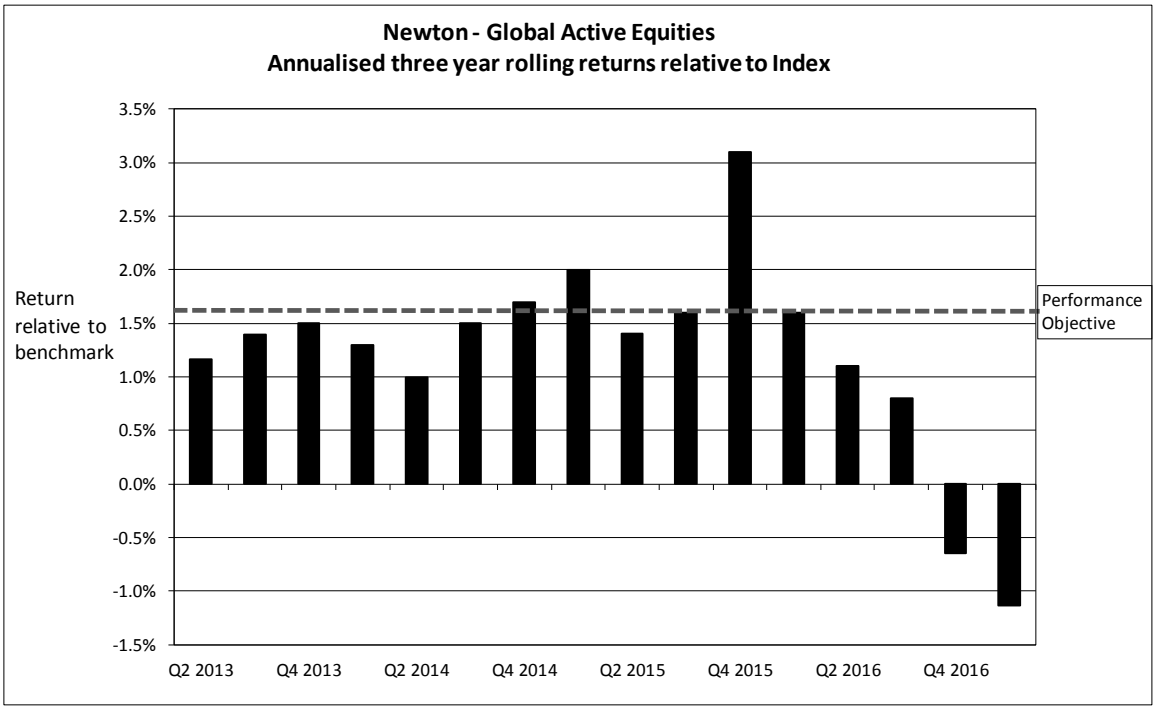
Headline comments: Newton were behind their benchmark by -1.5% during Q1 2017, bringing the one-year underperformance to -9.4%. Over three years the portfolio has underperformed the benchmark by -1.1% per annum, which puts it well behind the target of +2% p.a. This underperformance can be attributed mostly to poor stock selection
(-1.1% p.a.).

Mandate summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that impact the economy and industry. Some are broad themes that apply over the longer term; others are cyclical. Stock selection is based on the industry analysts' thematic recommendations. The objective of the fund is

to outperform the FTSE All World Index by 2.0% per annum over rolling 3 year periods, net of fees.

Performance attribution: Chart 3 shows the three year rolling returns of the portfolio relative to the Index (the black bars) and compares this with the performance target, shown by the dotted line.

Chart 3



Source: Allenbridge based on BNY Mellon performance numbers

For the three-year period to the end of Q1 2017, the fund (shown by the right hand black bar) has trailed the benchmark by -1.1% per annum. This also means it is trailing the performance objective (the performance objective is shown by the dotted line). Much of the three-year track record has been impacted by very poor one year numbers. The portfolio has underperformed the benchmark by -9.4% for the 12 months to March 2017. However, that should, to some extent, be put in the context of a strong absolute portfolio return of +23.7%.

The underperformance over three years was mostly attributed by Newton to poor stock selection which detracted -1.1% p.a.

Since the inception of Newton's portfolio in November 2008, the fund is now trailing its benchmark by -0.38% per annum, before taking fees into account. Newton's 'since inception' return is +14.3% per annum, compared to the benchmark return at 14.8% per annum *(source: Newton, gross of fees performance)*.

Newton attributed the poor relative performance primarily to poor stock selection in Consumer Services. Stock selection in this sector detracted -0.7%. Healthcare stock selection also detracted a further -0.5% from the relative return, with a number of holdings, including Teva Pharmaceutical and Gilead Sciences reducing their profit forecasts by more than the markets expected. Poor stock selection in Healthcare stocks has detracted more than 2.5% from returns over the past three years.

Portfolio Risk: The largest overweight regional allocation was in UK Equities (+3.9% overweight). The most underweight allocation was Other Equities (-6.2%), both regional bets being consistent with last quarter. The cash holding stood at 4.8% as at end Q1, at the upper end of Newton's normal range.

In terms of sector bets, Newton remained most overweight in Consumer Services (+9.3% relative to benchmark.) The most underweight sector remained in Financials (-11.1%). This underweight position has been in place since Q2 2009.

The level of active risk in the portfolio (i.e. the relative risk of the active bets being taken by Newton, or the tracking error) stood at 3.4%, as at end March 2016. This is within Newton's normal range of 2% and 6%.

Portfolio characteristics: At the end of Q1 2017, the portfolio held 62 securities (61 as at the end of Q4 2016). Turnover over the past 12 months was 30%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Staff turnover: Rob Stewart was appointed Head of Responsible and Charity Investing following Sandra Carlisle's departure from the firm. Ian Clark was appointed co-manager of the Global Income strategy including the Newton Global Income Fund. Terry Coles, who was previously alternate manager on the strategy will now focus on core global responsibilities.

2.4. Standard Life – Fixed Income

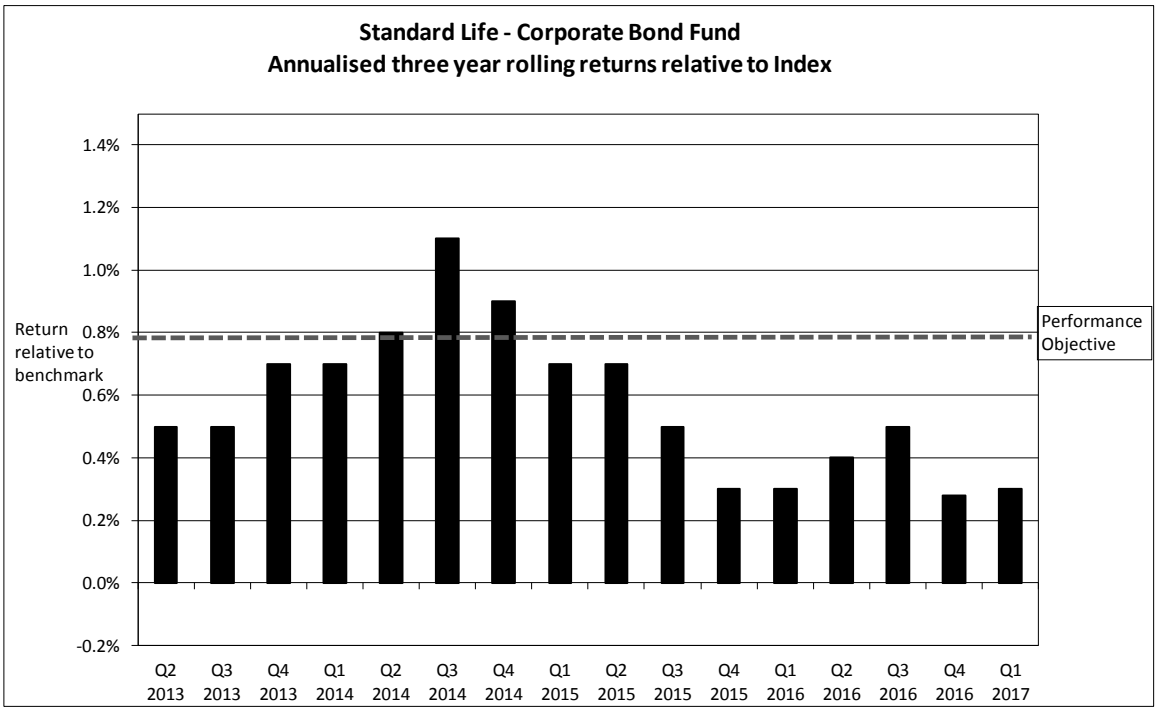
Headline comments: The portfolio was ahead of the benchmark by +0.3% during the quarter, delivering a positive absolute return of +2.05%. Over three years, Standard Life's return was +0.3% p.a. ahead of the benchmark return of +7.5% p.a., but behind the performance target of +0.8% per annum.

Mandate summary: An actively managed bond portfolio, invested in Standard Life's Corporate Bond Fund. The objective of the fund is to outperform the Merrill Lynch UK Non Gilt All Stocks Index by 0.8% per annum over rolling 3 year periods.

Performance attribution:

Chart 4 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past three years. This shows the fund ahead of the benchmark over three years (right hand bar), but trailing the performance objective (shown by the dotted line in Chart 4).

Chart 4



Source: Allenbridge based on BNY Mellon performance data

Over three years, the portfolio has returned +7.8% p.a. compared to the benchmark return of +7.5% p.a. Over the past three years, stock selection has added 0.3% value, followed by asset allocation (+0.1%). This has been offset slightly by a negative contribution to performance from curve plays.

Portfolio Risk: The largest holding in the portfolio at quarter end was UK Government 4.5% 2034 (1.4% of the portfolio). The largest overweight sector position remained Financials (+7.6%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.2%).

The fund holds 4.1% of the portfolio in non-investment grade bonds.

Portfolio characteristics: The value of Standard Life's total pooled fund at end March 2017 was £4,047.2 million, £54.7 million lower than at the end of Q4 2016. As a consequence of this, London Borough of Islington's holding of £244.3 million rose to 6.0% of the total fund value (compared to 5.8% last quarter). Standard Life have reported that clients in Germany and the Netherlands reduced allocations to the fund in Q1.

Staff turnover: there were 12 joiners and 10 leavers during the quarter. One leaver was a member of the fixed income team (Anthony Cameron, an analyst).

Organisation: On 4th March 2017, Standard Life plc and Aberdeen Asset Management plc announced a potential merger between the two firms, bringing their total assets under management to £581 billion. Most of the areas of specialisation are complementary, but there is an overlap in assets managed in real estate (this is split 50/50 between the two firms), and in developed market credit (one third managed by Aberdeen, two-thirds by Standard Life). This includes the Corporate Bond Fund managed by Standard Life for London Borough of Islington.

It was announced that Sir Gerry Grimstone (Standard Life) would become Chairman of the Board of the Combined Group, with Aberdeen's Chairman Simon Troughton becoming Deputy Chairman. Keith Skeoch, Chief Executive of Standard Life and Martin Gilbert, Chief Executive of Aberdeen, would become co-CEOs of the Combined Group. Rod Paris (Standard Life) would become the Chief Investment Officer of the new combined company.

As with any corporate merger of this type, a closer level of due diligence monitoring is recommended during the transitionary period of the merger. It is likely that there will be some staff departures, and these are already beginning to be seen. These are most likely to be seen where there is an overlap of business between the two firms, and that could potentially impact the Corporate Bond Fund.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: After last quarter's negative return, gilts bounced back in Q1 2017, delivering a return of +2.1%, compared with the Lime Fund which returned a more muted +1.2%. Over three years, the fund is trailing the gilt benchmark by -3.0% p.a. Note that it is now taking new investors 15-18 months to become invested in the Lime Fund.

Mandate summary: An actively managed UK pooled property portfolio, the Lime Fund invests in a range of property assets including healthcare, education, libraries, offices and retail. The objective of the fund is to outperform a UK gilt benchmark, constructed of an equally weighted combination of the FTSE 5-15 Years Gilt Index and the FTSE 15 Years+ Gilt Index, by +1.5% per annum, over three year rolling periods.

Performance attribution: The Fund's Q1 2017 return of +1.2% was attributed by Aviva to 1.1% from income, with the balance from capital gains.

Over three years, the fund has returned +7.3% p.a. compared to the gilt benchmark of +10.3% p.a., an underperformance of -3.0% per annum. The **portfolio is trailing its performance objective of +1.5% per annum outperformance over three years**. However, the property fund itself continues to deliver a steady three-year absolute return of around 7-8% and compares well against other Funds in the IPD universe of property funds, on a risk-adjusted return basis.

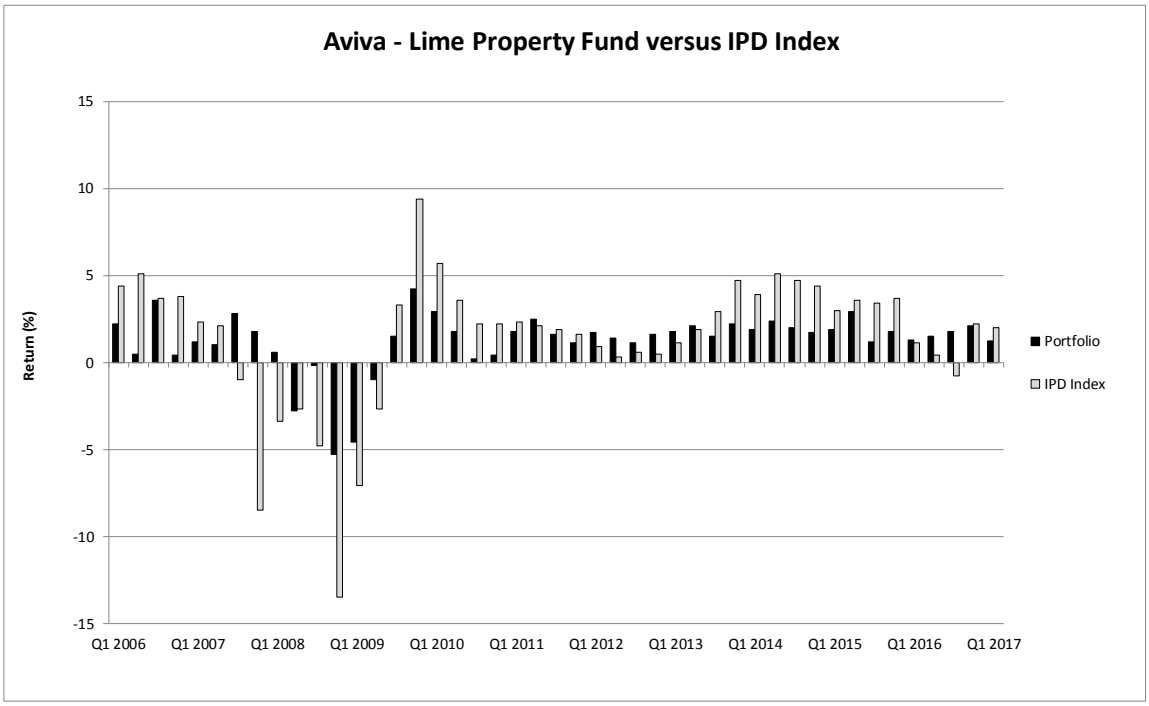
Of the +7.3% p.a. fund return over three years, 4.8% p.a. came from income, with the balance from capital gain.

Portfolio risk: There was one purchase in Q1 2017 which completed. This was a purpose-built student village of 414 beds in High Wycombe, Buckinghamshire, leased to Buckinghamshire New University for 30 years.

The average unexpired lease term was 19.6 years. 10% of the portfolio's lease exposure in properties is in 30-35 year leases, the largest sector exposure remains offices at 29.3%, and the number of assets in the portfolio stood at 72 as at quarter end. The weighted average unsecured credit rating of the Lime Fund was A- as at end March 2017.

The fund continues to see a flow of new capital joining the investment queue for the Fund. This has led to a queue of money into the fund, with the result that allocations being made to the Lime fund today could take 15 to 19 months to be drawn down. This has implications for the new investment strategy for the pension fund. The fund remains attractive because of its less volatile return stream, shown in Chart 5 which compares the absolute performance of the Fund each quarter with the return on the IPD Index. The chart shows the return stream of the portfolio (in black) following a more muted profile (in both up and down markets) than the IPD Index as a whole.

Chart 5



Source: Allenbridge based on WM and BNY Mellon performance data

Portfolio characteristics: As at end March 2017, the Lime Fund was valued at £1.846 billion, an increase of £13.1 million from the previous quarter end. London Borough of Islington's investment represents 3.2% of the total fund.

The Fund had 68.4% allocated to inflation-linked rental uplifts as at end March 2017.

Staff turnover/organisation: There were six leavers from the real estate team and 6 joiners during Q1, most of whom were investment professionals. However, the Lime Property Fund was not affected by this turnover.

Group-wide, Aviva Investor's assets under management grew by 19% in 2016, to £345 billion.

2.6. Columbia Threadneedle - Pooled Property Fund

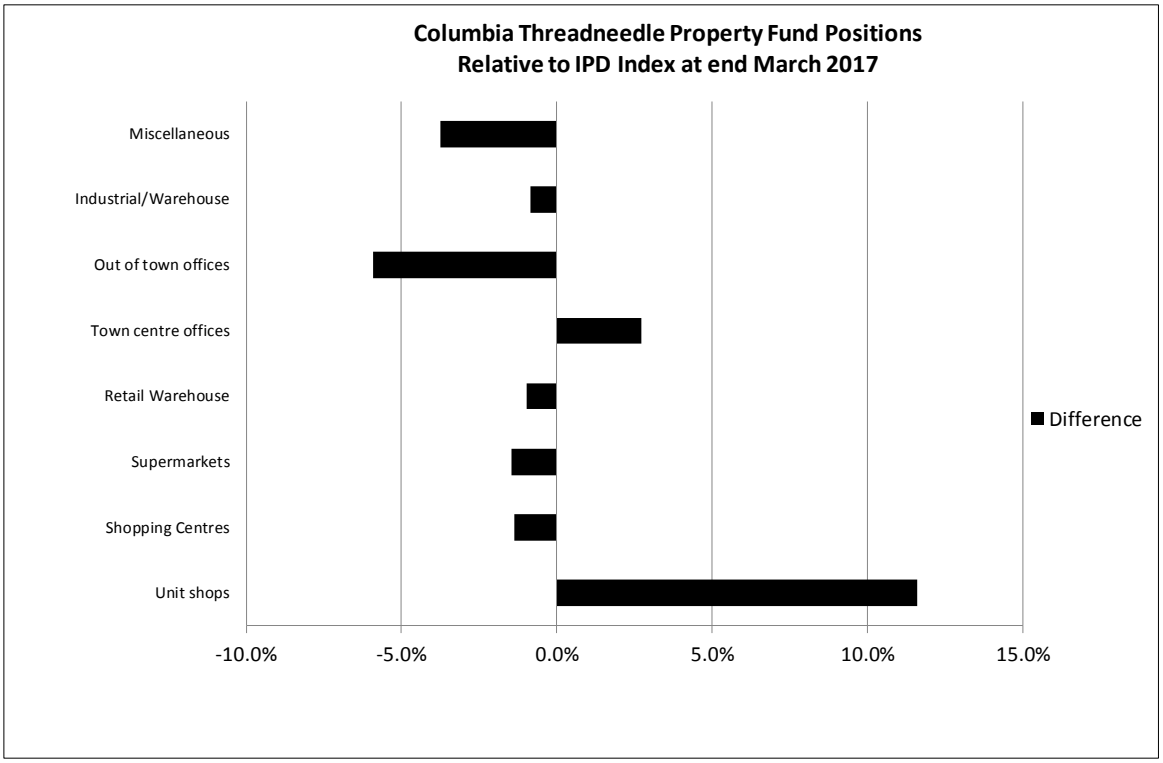
Headline comments: The Fund delivered a return of +2.0% in Q1 2017 (source: Columbia Threadneedle), in line with the benchmark return. Over three years, the Fund has outperformed the benchmark by +0.8% per annum, slightly behind the performance target of 1% p.a. above benchmark.

Mandate summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1% p.a., net of fees, on a rolling three-year basis.

Performance attribution: The portfolio was in line with the benchmark in Q1 2017, delivering a return of +2.0%. In terms of the three-year performance, the Fund is ahead of its benchmark by +0.8% per annum but is slightly trailing the performance target of +1% per annum. The absolute return over three years continues to decline. A year ago, the three-year return was +13.7% per annum. By the end of Q1 2017, this had dropped to +11.0% per annum.

Portfolio Risk: Chart 6 shows the relative positioning of the Fund compared with the benchmark. The Fund has a significant overweight allocation to unit shops.

Chart 6



Source: Allenbridge based on Columbia Threadneedle data.

The overweight allocation to unit shops is skewed because IPD (against which the portfolio is measured) classifies two of the largest properties in Threadneedle's portfolio as retail. These are the Heals building and the South Molton Street property. In fact, based on square footage, these assets are significantly more office than retail. Threadneedle's view is that they both represent excellent value, and they do not anticipate selling them, for strategic reasons, in the short term.

Portfolio characteristics: As at 31st March 2017, the Threadneedle Property Fund was valued at £1.728 billion, an increase of £29.8 million compared with December 2016. London Borough of Islington's investment represented 4.4% of the Fund as at end March 2017.

Staff turnover: in April, as previously announced, Michelle Scrimgeour joined the firm as Chief Executive Officer (CEO), Europe, Middle East & Africa and CEO of Threadneedle Asset Management Limited. She joined from M&G Investments, where she was Chief Risk Officer of M&G Group Limited.

2.7. Legal and General Investment Management (LGIM) – Overseas Equity Index Funds

Headline comments: All the index funds were within the expected tracking range when compared with their respective benchmarks and there are no issues. The fundamental FTSE-RAFI Emerging Markets index fund underperformed its market capitalisation-weighted counterpart in Q1 by -1.5%, but for the 12 months to Q1 2017 it has outperformed by +17.0%.

Mandate summary: Four regional overseas equity index funds, in Europe, Japan, Asia Pacific ex Japan, and emerging markets, designed to match the total return on the FTSE All World Regional Indices. One additional index fund is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index. The FTSE All World Indices are based on capitalisation weights whereas the FTSE-RAFI Index is based on fundamental factors.

Performance attribution: **The regional portfolios are all tracking their benchmarks**, as shown in Table 2.

Table 2

Q4 2016	Fund	Index	Tracking
Europe	7.3%	7.4%	0.0%
Asia Pacific ex Japan	11.8%	11.7%	0.1%
FTSE emerging markets	8.9%	8.9%	0.0%
RAFI emerging markets	7.5%	7.4%	0.1%

Source: LGIM

The RAFI emerging markets index fund underperformed the market capitalisation index by -1.5% in Q1. For the 12-month period, however, the RAFI index fund outperformed the market capitalisation weighted fund by +17.0%. Since the inception of the RAFI fund, it has outperformed by +1.5% per annum.

Portfolio Risk: The percentage allocation to each regional fund is based on pre-agreed band widths, which also take into account the global equity managers' allocations. The largest deviation from the benchmark allocation is North America which is 3.1% overweight.

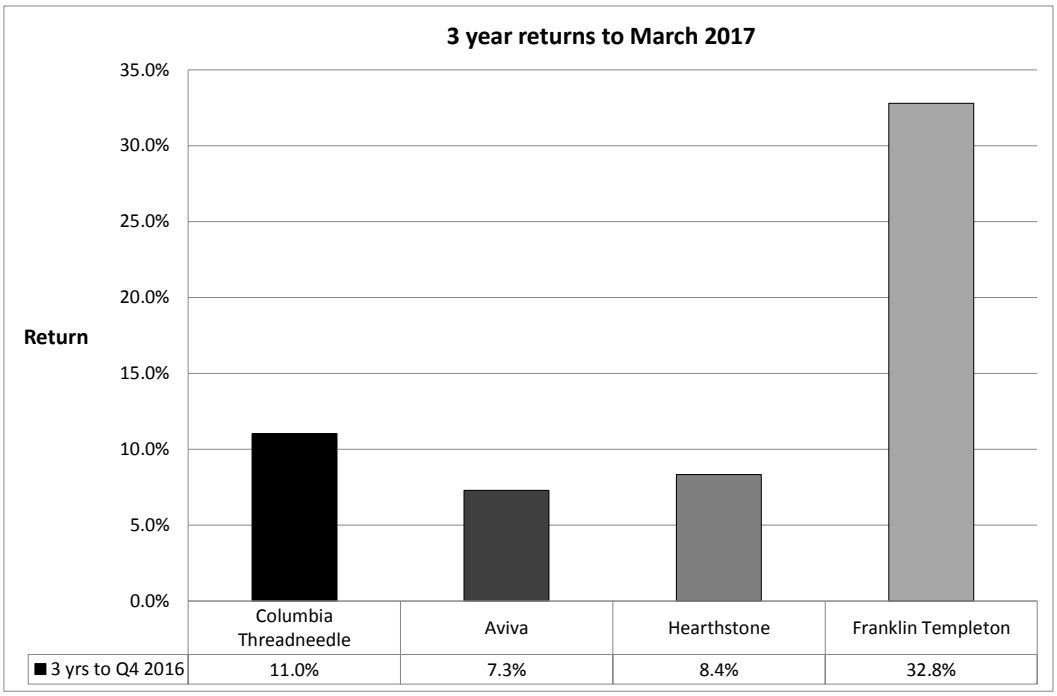
2.8. Franklin Templeton – Global Property Fund

Headline comments: This is a long term investment and as such a longer term assessment of performance is recommended. There are two funds in which London Borough of Islington invests. Both funds are on track. The portfolio in aggregate delivered a return of +32.8% per annum over the three years to end March 2017, outperforming the absolute return benchmark by +22.8% per annum.

Mandate summary: Two global private real estate fund of funds investing in sub funds. The performance objective is an absolute return benchmark over the long term of 10% per annum.

Performance attribution: Over the three years to March 2017, Franklin Templeton continues to be the best performing fund across all four property managers. Chart 7 compares the three-year performance of the other three property managers.

Chart 7



Source: BNY Mellon, Columbia Threadneedle

Portfolio risk: Leverage on Fund 1 was 50% as at end March (down from 52% since end December 2016), with all funds showing leverage below 70%. Leverage on Fund 2 was 45% as at end March 2017, no change on the previous quarter.

Fund 1 is now beginning its distribution phase, in Fund 1, with 11 of the 14 investments making distributions in Q1. Three of the Fund's holdings are now fully or substantially realised.

Within Fund 1, three funds are substantially above target, four are above target, five are on target and two are below target.

Of the below-target funds, Sveafastigheter II sold the last asset in the Fund but the price was only 60% of the purchase price. Lotus Co-investment has now been realised and the manager is liquidating the holding entity.

Of the funds that are substantially above target, Project Redfish is a co-investment with Greenoak that will be dissolved in Q2. Greenoak real estate is fully invested and has already realised 14 assets. Secured Capital Japan V is still calling capital to buy an asset in Japan in the office sector, but most assets will be exited by the end of the year.

Of the five investments in Fund 2, one is above target, two are on target and two are too early to assess. Fund 2 is targeting investment in the three regions (US/Europe/Asia) equally distributed. There is a cap of 20% to Emerging Markets. Fund 2 held its final close on 10th March 2017, with two new Limited Partners (LPs) committing funds, and an existing investor increasing their commitment.

Staff turnover/organisation: during the quarter, Franklin Templeton announced that Glen Uren, Managing Director of real estate, would be retiring in May, after 20 years at Franklin Templeton Real Asset Advisors. His responsibilities will be shared between Managing Directors Raymond Jacobs and Marc Weidner. Mat Gulley was appointed Head of Alternative Assets just after the quarter end. The real estate team will report into him.

Michel Lim was also appointed as investment manager in the real estate team in the UK. He will assist the European team in sourcing, underwriting, and monitoring of private real estate investments.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +0.5% compared to the benchmark return of +2.3% for the quarter ending March 2017. Over three years, the Fund delivered a return of +8.4% p.a. compared to the benchmark return of +5.4% p.a., an outperformance of +3.0% p.a.

Mandate summary: The Fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return.

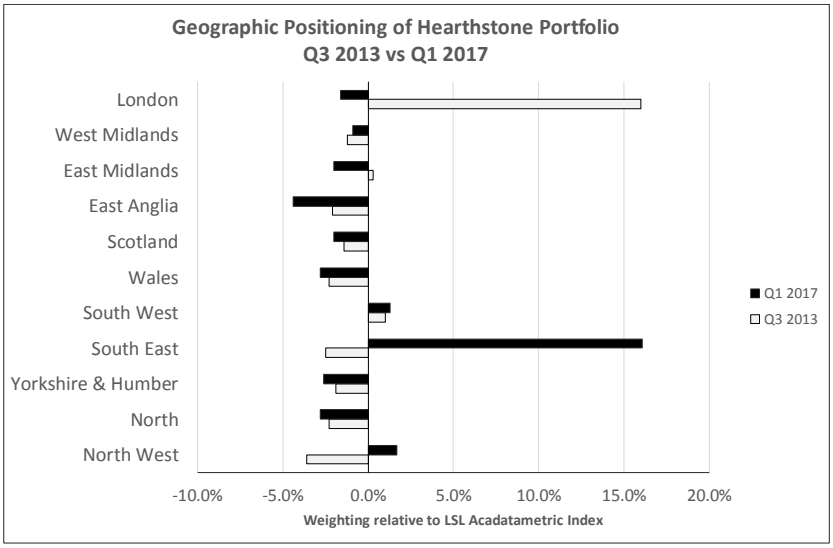
Performance attribution: The Fund returned +8.4% p.a. compared to the return on the index of +5.4% p.a. over the three years to March 2017, an outperformance of +3.0% p.a. The gross yield on the portfolio as at 31st March 2017 was 5.2%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.9%.

Portfolio risk: The cash and liquid instruments on the fund stood at 18.4% as at end March 2017, slightly higher than the target level of 15%.

The regional allocation, shown in Chart 7 relative to the benchmark Index, continues to have a heavy overweighting to the South East. It remains Hearthstone's intention to run the portfolio on a region-neutral basis.

Chart 7 compares the regional bets in the portfolio in Q1 2017 with the regional bets at the start of the mandate, in Q3 2013. The overweight allocation to the South East is shown by the large black bar.

Chart 7



Source: Hearthstone

Portfolio characteristics: The Fund has a 15% allocation to detached houses, 51% allocated to flats, 22% in terraced accommodation and 12% in semi-detached. The allocation to flats remains a significant overweight position relative to the Index (51% for the Fund compared to 17% for the Index).

As at end March 2017, the Fund stood at £52.7 million. London Borough of Islington's investment now represents 50% of the Fund. This compares with 72% at the start of this mandate in 2013.

Organisation and staff turnover: During the quarter, the Chairman, Jeff Pulsford, left the firm. He was replaced by Alan Collett. Alan is a past President of the Royal Institution of Chartered Surveyors, Deputy Chairman and Chairman of the Investment Committee at Hyde Housing Group, a member of the NHBC Council, and an Honorary Fellow of the University College of Estate Management.

David Gibbins, the Fund Manager, retired in Q1 2017. His role is being jointly covered by Alan Collett and by Mark Drysdale, who joined Hearthstone in Q1. Mark was a senior surveyor at DTZ, and an Investment Associate at RPS Capital Partners.

2.10. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of +2.5% in Q1 2017. This compared with the RPI plus 5% p.a. target return of +2.0% for Q1. Over one year, the Fund's return was +10.6%, compared to the target return of +8.1%, so it is ahead of the target over one year by +2.4%.

Mandate summary: The Fund invests in a broad mix of growth assets and uses dynamic asset allocation over the full market cycle, with underlying investments in active, passive and external investment, as appropriate. Schroders aim to outperform RPI plus 5% per annum over a full market cycle, with two-thirds the volatility of equities.

Performance attribution: In Q1 2017, Schroders' exposure to global equities again made the largest contribution to the portfolio return (+0.9%). This was followed by North American equities, European ex UK equities and Absolute return strategies (all contributing +0.4% each). The only negative contribution came from commodities (-0.1%).

Over 12 months, the largest contributor was again global equities (+4.0%) followed by North American equities (+1.5%). The negative detractors were Pacific ex Japan equities (-0.1%) and commodities (-0.5%).

The return on global equities was +16.1% for the 12-month period, compared with +10.6% for the Fund (a 66% capture of the equity return). Over a full 3-5 year market cycle the portfolio is expected to deliver equity-like returns.

Portfolio risk: The portfolio is expected to exhibit two-thirds the volatility of equities over a full 3-5 year market cycle. Over the past 12 months, the volatility of the Fund was 4.3% compared to a 12-month volatility of 9.5% in equities (i.e. 45% of the volatility of the Index).

Portfolio characteristics: The Fund had 39% in internally managed funds (up from 15% last quarter), 27% in internal bespoke solutions (down from 39% last quarter), 15% in externally managed funds, 7% in passive funds (down from 25%) and 11% in cash, as at end March 2017. In terms of asset class exposure, 46.5% was in equities, 29.0% was in alternatives and 13.0% in credit and government debt, with the balance in cash.

Alternative assets include absolute return funds, infrastructure, property, insurance-linked securities, private equity and commodities.

Organisation: during the quarter, there were 57 joiners and 27 leavers globally, with 49 joiners and 17 leavers in the UK business. There were no changes to the team responsible for the Diversified Growth Fund.

Karen Shackleton
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