Allenbridge

REPORT PREPARED FOR

London Borough of Islington Pension Fund

17th March 2016

Karen Shackleton
AllenbridgeEpic Investment Advisers Limited (Allenbridge)

karen.shackleton@allenbridge.com
www.allenbridge.com

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
AllianzGI	Chief executive and co-head of Allianz Global Investors Elizabeth Corley is stepping down. Andreas Utermann will replace her.	Outperformed the Index for the quarter by +0.5% and by +0.8% p.a. over three years to end December. Behind the target of +3.0% p.a. over three years.	£290 billion AUM as at 31st December 2014 (more recent figures not available).		
Newton	No joiners and one leaver this quarter. Terry Coles (Islington's portfolio manager) is taking on am additional role as alternate manager on Newton's Global Income Fund.	Outperformed the Index by +1.3% in the quarter. Also outperforming over three years by +3.1% per annum, and by +6.0% over 12 months.	£47 billion as at 31st December 2015, down from £48.3 billion as at 30th June 2015.		

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Standard Life	10 joiners (of whom two were in fixed income), and five leavers (none from fixed income) during the quarter.	Over three years the Fund has outperformed by +0.3% p.a., behind the performance target of +0.8% p.a.	Underlying fund fell in value by £54m in Q4. London Borough of Islington's holding is 6.1% of the value of the total pooled fund.	Holding 6.5% in high yield non-benchmark bonds.	
Aviva	49 leavers and 74 joiners. Eight joiners in the Real Estate team and four leavers.	Outperformed the gilt benchmark by +3.5% p.a. over three years and ahead of the performance target.	Fund was valued at £1.6 billion as at end Q4 2015. Firm-wide assets under management of £267 billion as at end June 2015.		Awarded "Long Income Property Manager of the Year" by Professional Pensions, in November 2015
Columbia Thread-needle	Six joiners and three leavers during the quarter, none of whom were in the real estate division.	Outperformed the benchmark by +1.2% per annum over three years – ahead of their performance target.	Combined assets of new firm £320 billion as at 31st December 2015. Pooled fund has assets of £1.68 billion of which Islington holds 4.3%.		
Legal and General	Not reported.	Regional funds are all tracking the indices.	Assets under management of £728 billion at end September.		

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Franklin Templeton	No leavers or joiners during the quarter within the private real estate team, although Witsard Schaper left the firm just after the quarter end.	Outperforming their benchmark by +15.1% per annum over three years and by +22.4% over one year.			
Hearth-stone	No changes to the team of six in Q4 2015.	Behind the benchmark during the quarter by -0.2%. Outperformed over one year by +8.8%.	Fund was valued at £41.9 m at end Q4 2015. Islington's holding represents approximately 61% of the Fund.		
Schroders	55 leavers and 60 joiners within the UK business as a whole. No changes in the multi-asset team.	Fund returned +2.6% during the quarter, ahead of the benchmark return of +1.0%	Total AUM of £313.5 billion as at 31st December 2015, across both institutional and retail clients.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

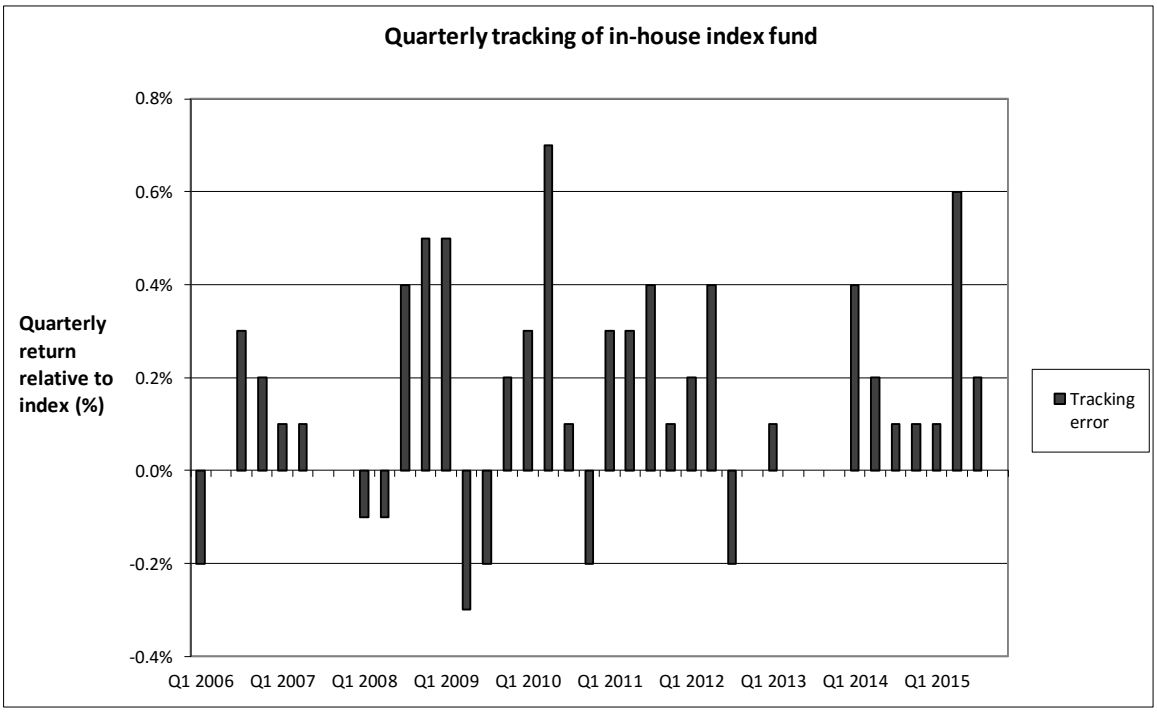
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

***Headline comments*:** The portfolio continues to meet its objectives. The fund delivered a quarterly return very slightly behind the index benchmark (+3.9% versus +4.0%). Over three years the fund has outperformed the index by +0.7% p.a. and delivered a return of +8.0% 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 as a result the portfolio has outperformed its three-year benchmark by +0.7% per annum.

Chart 1



Source: Allenbridge based on WM figures

Portfolio risk: The tracking error on the portfolio at the end of December was 0.31% per annum. In terms of sector bets, relative to the Index, the largest underweight sector position relative to the index was Financials (-1.7%). The fund was most overweight in Utilities (+0.4%) and General Industries (+0.4%). 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 293 securities at the end of Q4 2015. Other than corporate actions and cash transfers into and out of the fund, the manager made £6.0 million of purchases and £0.9 million of sales in Q4.

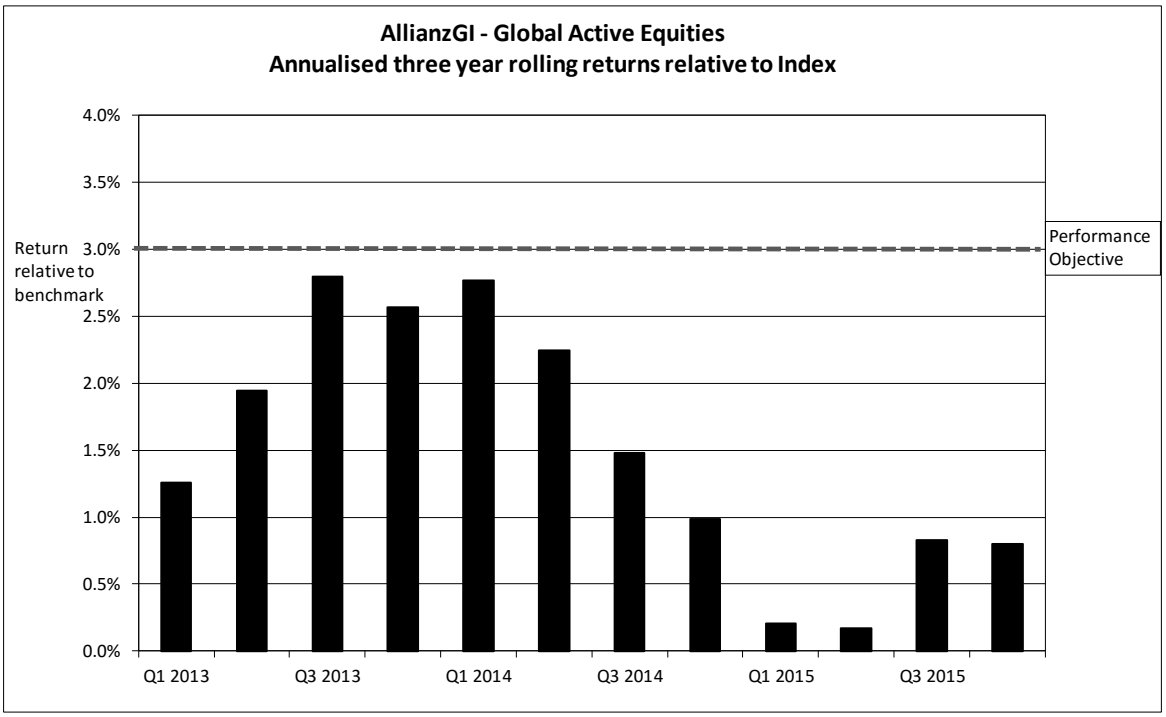
2.2. AllianzGI (RCM) – Global Active Equities

Headline comments: In terms of relative performance, the fund was ahead of the benchmark return of +8.1% for Q4 2015, delivering an absolute return of +8.6%. Over three years the fund is ahead of the benchmark by 0.8% per annum: however, this is behind the target of 3% per annum.

Mandate summary: An active global equity portfolio. AllianzGI operates a bottom-up global stock selection approach. They employ a team of research analysts to identify 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 FTSE All World Index by 3.0% per annum over rolling 3 year periods gross of fees.

Performance attribution: For the three years to December 2015, AllianzGI is ahead of its benchmark by +0.8% per annum, although **they are still trailing their performance target of 3% per annum**, shown by the dotted line in Chart 2.

Chart 2



Source: Allenbridge based on AllianzGI figures

Staff turnover: In October, the Chief Executive of AllianzGI, Elizabeth Corley, announced her intention to step down on 1st March 2016. She will remain on the Board as the non-executive Vice Chair. Global chief investment officer Andreas Utermann will assume the role of Chief Executive Officer from 1st March.

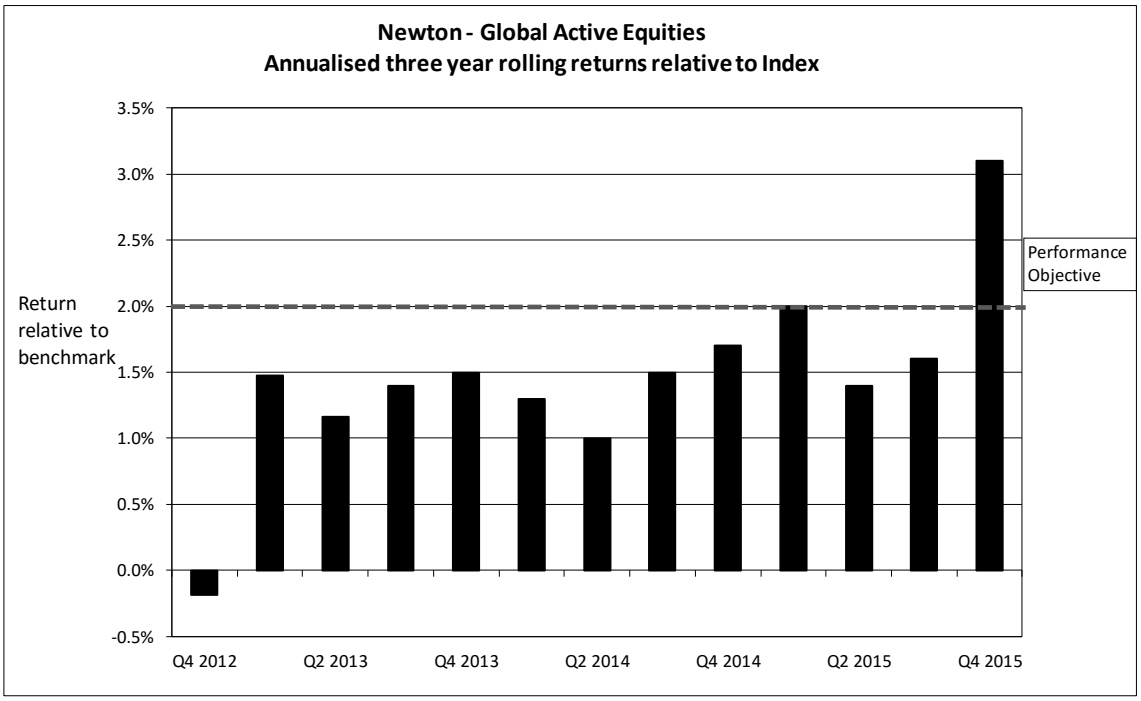
2.3. Newton – Global Active Equities

Headline comments: Newton were ahead by +1.3% during Q4 2015 bringing their one-year relative performance to +6.0%, an impressive level of outperformance. Over three years the portfolio outperformed by +3.1% per annum, well ahead of the target of 2% p.a. The outperformance of +3.1% per annum over three years can be attributed to both successful stock selection (+2.5%) and successful asset allocation (+0.9%).

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 data from Newton and WM

Chart 3 shows the excellent progress being made by the manager, relative to the performance objective. For the three-year period to the end of 2015, the fund (shown by the right hand black bar) is +1.1% per annum ahead of the performance objective (shown by the dotted line). Note that this will mean the manager earns a performance fee in Q4 2015.

Over the three years to December 2015, Newton's return was +15.4% p.a. compared to the index return of +11.9% p.a., an outperformance of +3.1% p.a. Stock selection accounted for +2.5% of the outperformance with the balance from asset allocation.

Since the inception of Newton's portfolio in November 2008, the pension fund is better off than it would have been with a passive mandate. Newton's 'since inception' return is +13.4% per annum, compared to the benchmark return at 12.5% per annum, an outperformance of +0.9% p.a. *(source: Newton, gross of fees performance shown)*.

During the quarter the most successful sector was Technology (+0.75% contribution to relative performance) where Newton had successful stock positions and was overweight the sector, both of which helped performance. The least successful sector was Basic

Materials (-0.15% from relative performance). This was due to poorly performing companies in that sector.

Portfolio Risk: The largest overweight regional allocation was in European Equities (+2.6% overweight). This has been a long-standing position that has been in place since Q3 2011 although the current positioning is significantly lower than in Q3 2013 when the overweight position stood at 9.8%. This overweight position detracted slightly from relative performance in Q4. The most underweight allocation was Pacific ex Japan (-4.9%). This underweight allocation detracted slightly from performance although that was more than offset by good stock selection in this region.

In terms of sector bets, Newton remained overweight in Consumer Services (+9.6% relative to benchmark.) The most underweight sector remained in Financials (-10.4%). This underweight position has been in place since Q2 2009 although during that time the position has made a broadly neutral contribution to relative performance.

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) returned to its more typical level of 2.4%, as at end December 2015, having risen to 2.8% at the end of September. This is within Newton's normal range of 2% and 6%.

Portfolio characteristics: At the end of Q4 2015, the portfolio held 67 securities (69 as at the end of Q3 2015). There has been a steady drop in the number of stocks in the portfolio, which is worth noting. At the end of 2009, Newton held 138 stocks. Even three years ago, the number still stood at 99 holdings. Turnover over the past 12 months was 22%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Investment process: At their annual conference, in November 2015, Newton announced that they were introducing two new themes to their thematic approach:

- Energy Economy: this theme is changing to "Abundance". The original theme was based around demand and supply in energy - supply has been increasing which has led to pricing pressure. Abundance goes beyond that to say that cheap money has resulted in an explosion of capacity in many sectors, with the result that pricing patterns are changing;
- Global realignment: this theme is changing to "Mind the gaps". Over the last few years the markets have been supported by central bank intervention. Now investors need to "mind the gap" between the winners and the losers, making selective stock selection increasingly important.

Newton holds the view that Healthcare will continue to do well, as a sector. The investment case is that between 2013 and 2050 the world population is expected to grow by 140% in the 60-80 age bracket and by 227% in the over 80's. This will lead to increasing demand for healthcare.

London CIV update: Newton has remained in discussion with the London Common Investment Vehicle (London CIV) and, whilst they were not in Phase 1 to transfer onto the CIV (with AllianzGI), they are hoping to transfer in Phase 2. They have proposed both an ad valorem fee and a performance fee. Newton have indicated that if the CIV adopts the performance fee (which is the arrangement currently in place for Islington), it should result in a small fee saving for the pension fund, assuming the manager outperforms by around 2%, in line with the performance target.

Staff turnover: during the quarter there were no new joiners and one leaver (James Harries). James was a portfolio manager within the Global Equity Income and Real Returns team. Nick Clay, another portfolio manager in the team, has taken over as lead manager of the Global Income Fund with Terry Coles as the alternate manager. This is worth noting because Terry is the lead portfolio manager for the London Borough of Islington. Newton have confirmed that there are no plans to switch Terry from the lead manager role on Islington's portfolio.

2.4. Standard Life – Fixed Income

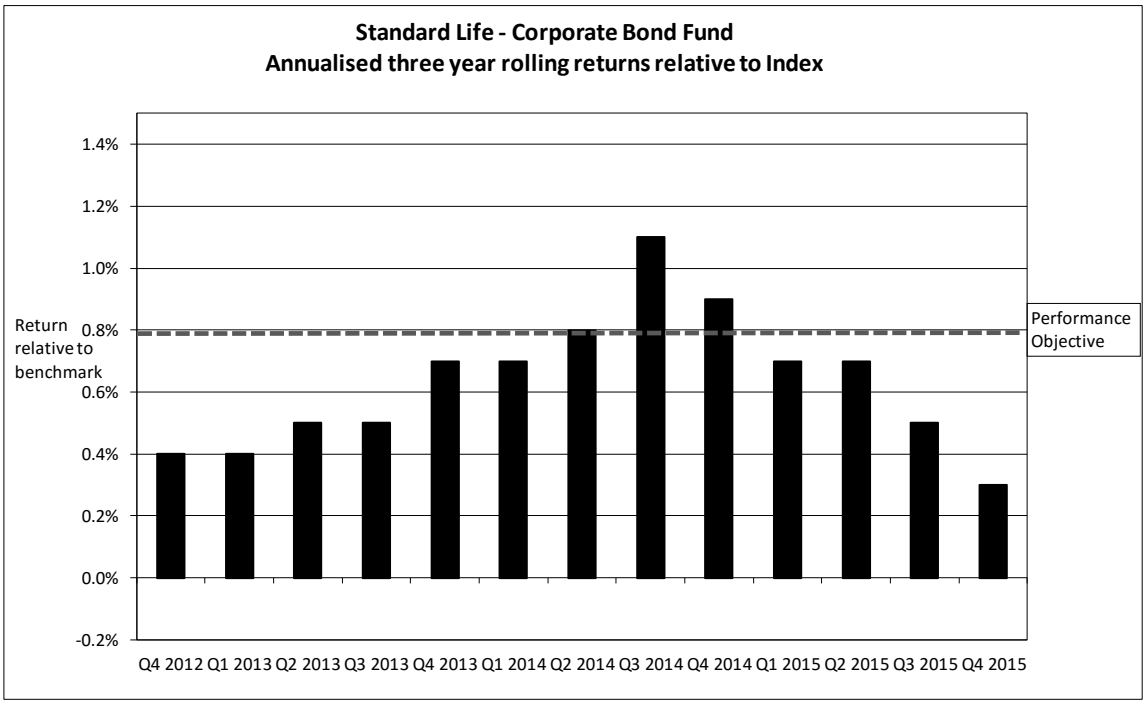
Headline comments: The portfolio was slightly behind the benchmark during the quarter with a return of +0.4% versus +0.5% for the Index. Over three years, Standard Life's outperformance was +0.3% per annum. This is slightly trailing their performance target of +0.8% per annum.

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 performance the Corporate Bond Fund versus its benchmark and performance target.

Chart 4



Source: Allenbridge based on WM figures

Over three years, the portfolio has returned +4.8% p.a. compared to the benchmark return of +4.5% p.a., an outperformance of +0.3% p.a. The fund is behind its performance objective of outperforming the benchmark by +0.8% per annum.

Over the past three years, most of the outperformance has come from successful stock selection, followed by asset allocation. The outperformance has been partly offset by a negative contribution to performance from curve plays.

Portfolio Risk: The largest holding in the portfolio at quarter end was EIB 5.625% 2032 (1.3% of the portfolio). The largest overweight sector position remained Financials (+5.8%). The long-standing underweight position in sovereigns and sub-sovereigns remains (-17.1%).

The fund holds 6.5% of the portfolio in non-investment grade bonds (these do not form part of the benchmark).

Portfolio characteristics: The value of Standard Life's total pooled fund at end December 2015 was £3,549.6 million, £53.6 million lower than at the end of Q3 2015. London Borough of Islington's holding of £215.0 million is 6.1% of the total fund value. When Islington first invested, the percentage holding was 3.4%.

Staff turnover: there were ten joiners during the quarter, including two fixed income specialists, and five leavers, none of whom was from the fixed income division. Lara Kharratt joined the London credit team as an Assistant Portfolio Manager and Sefton Kincaid joined as a Credit Analyst in Boston.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: In a reversal of Q3, gilts performed poorly and delivered a negative return. The Lime Fund outperformed the gilt benchmark by +3.5% during the quarter. Over three years, the Fund returned +7.9% compared to the gilt benchmark return of +4.2% per annum - well ahead of the performance target of +1.5% per annum outperformance.

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 was ahead of the gilt benchmark this quarter by +3.5%, as bond markets fell. The fund rose +1.8% whilst the benchmark fell by -1.7%. The portfolio trailed the IPD Index in Q4 2015 by -1.9%.

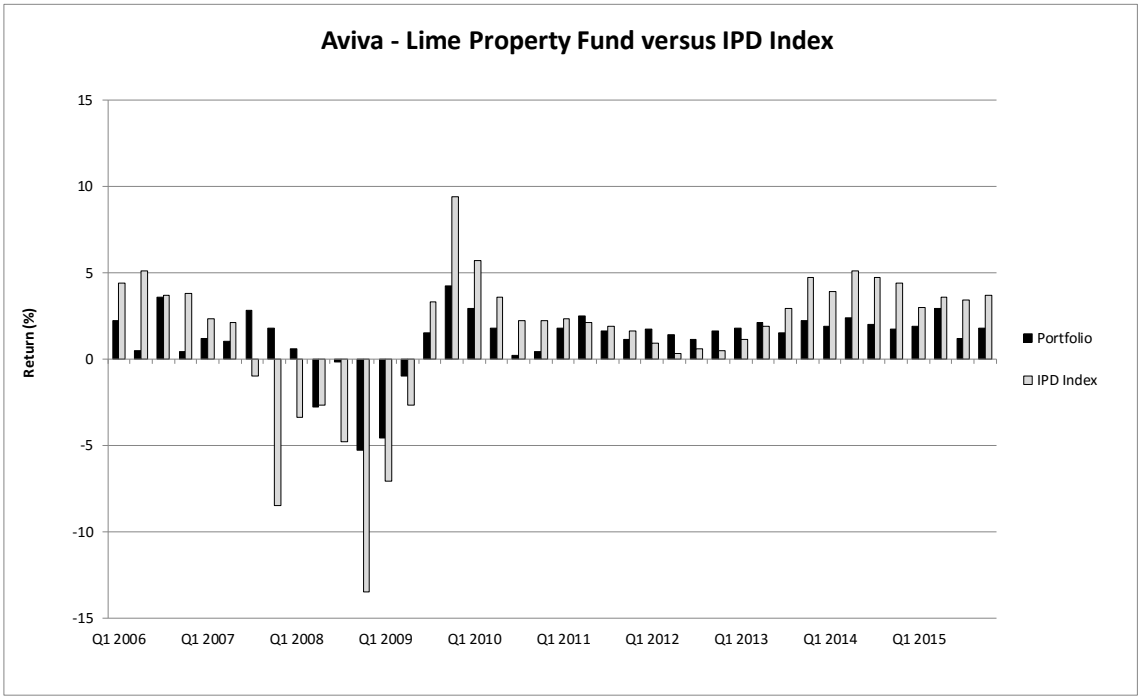
Over three years, the fund has returned +7.9% p.a. compared to the gilt benchmark of +4.2% p.a., an outperformance of +3.5% per annum. The **portfolio is ahead of its performance objective of +1.5% per annum outperformance over three years**. Of the +7.9% fund return over three years, 5.2% came from income, with the balance from capital gain.

Portfolio risk: There were several deals during the quarter including a purchase of Premier Inn in Portsmouth, a letting of an industrial asset to Royal Mail, in Northampton, and a restructuring of a lease to Compass, in Birmingham. The average unexpired lease term is 20.0 years, with 9.4% of the portfolio's lease exposure in properties in 30-35 year

leases, and 1.9% in over-35-year leases. The largest sector exposure remains offices at 28.2%. The cash allocation stood at 5.9% as at quarter end.

The Lime Fund is a low risk property portfolio and this is shown clearly in Chart 5 which shows the absolute performance of the Fund each quarter compared to the IPD Index. This 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 figures

Portfolio characteristics: As at end December 2015 the Lime Fund was valued at £1.631 billion, an increase of £19 million from the previous quarter end. London Borough of Islington's holding represents approximately 3.4% of the total Fund's value.

Staff turnover/organisation: 49 leavers and 74 joiners in Q4 2015. Of these, eight joined the real estate team, whilst three left the team. Aviva were awarded "Long Income Property Manager of the Year" by Professional Pensions, in November 2015.

2.6. Columbia Threadneedle - Pooled Property Fund

Headline comments: The Fund's performance was ahead of its benchmark in Q4 2015 by +0.2% (source: Columbia Threadneedle). Over three years, the Fund has outperformed by +1.2% per annum, ahead of the performance target of 1% p.a. above benchmark over three years.

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. The benchmark changed at the end of Q4 2013. Prior to this, the benchmark was the CAPS pooled property median fund.

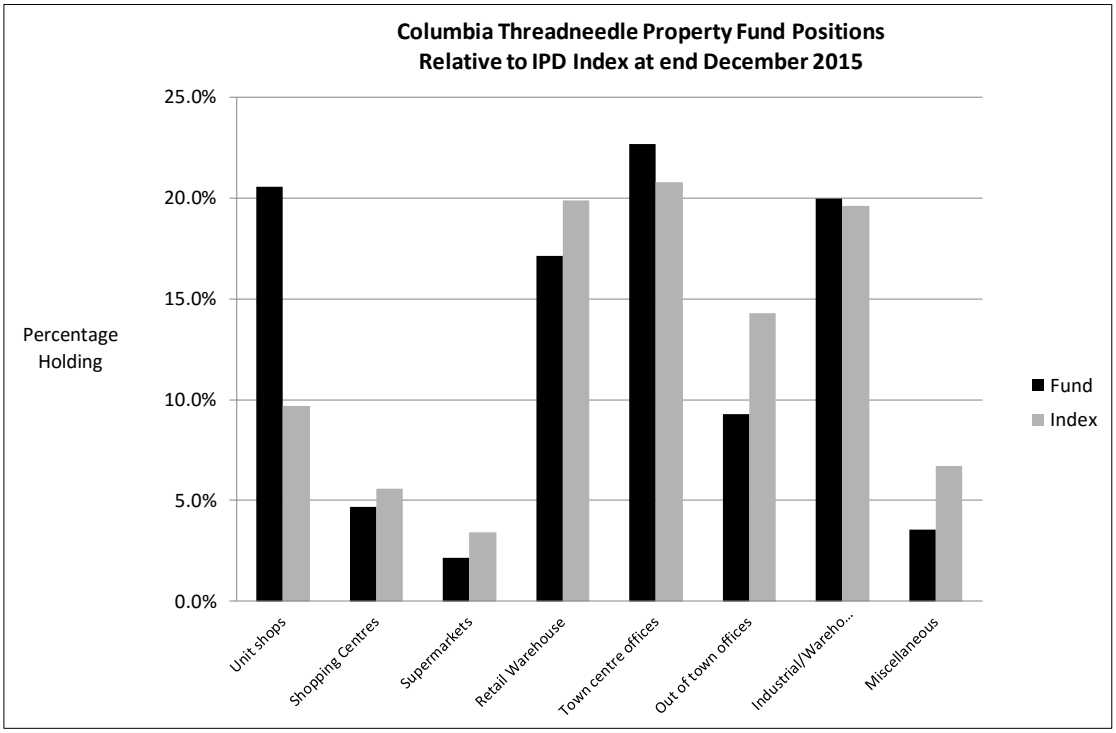
Performance attribution: The portfolio was ahead of the benchmark in Q4 2015, by +0.2% (source: Columbia Threadneedle), delivering a return of +3.1%. Of this, +1.7% was from capital growth and the balance from income. In terms of the three-year performance, **the Fund is ahead of its benchmark by +1.2% per annum so ahead of the performance target of +1% per annum.** The absolute return over three years remains strong. The portfolio returned +13.4% p.a. over three years compared to the benchmark return of +12.0% p.a.

Portfolio Risk: As at quarter end, the Fund held 260 properties with an average size of £5.8 million. This makes the portfolio highly diversified. The top ten tenants make up 20% of the portfolio. In contrast, in the IPD Index the top ten tenants account for 45%, so Threadneedle's portfolio is more diversified than many of their peers. Chart 6 shows the current breakdown of the portfolio relative to its benchmark.

Threadneedle's market view is that the economy has become quite strong in certain areas. Occupiers are in good corporate health so the office and industrial warehouse sectors are robust. There is more competition for space than two years ago so rental growth is growing. Threadneedle perceives that retail (high street) stores still have problems. The distribution sector is performing well but the high street is struggling.

Overall, Threadneedle's views are that property returns will begin to slow, but they are not intending to change the shape of their portfolio in light of these lower expectations. They continue to operate a "buy and hold" approach with an emphasis on income.

Chart 6



Source: Allenbridge based on Columbia Threadneedle data.

Portfolio characteristics: As at 31st December 2015, the Threadneedle Property Fund was valued at £1.68 billion, an increase of £228.5 million compared with September 2015. London Borough of Islington's holding represents 4.3% of the Fund. The Fund had been operating a queue for new investors. This has now all been fully invested within the fund so they are no longer operating a queue.

The net initial yield on the portfolio was 6.1% at the end of December compared to 5% for the IPD Index. The vacancy rate stands at 6.7% which is below the market average rate of 7.3%.

Staff turnover: There were six joiners and three leavers during the quarter; however, none of these were in the real estate division.

London CIV update: Columbia Threadneedle are hoping to transfer their property fund onto the London CIV and are currently exploring ways in which they might convert the existing fund into an ACS fund structure in a tax efficient manner. They are also bringing London Borough clients onto a common fee scale in anticipation of that, and this should result in a fee discount for London Borough of Islington.

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 Q4 by -7.2%. For the 12 months to Q4 2015 the underperformance was -6.6%.

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 2015	Fund	Index	Tracking
Europe	6.3%	6.3%	0.0%
Japan	12.6%	12.5%	0.1%
Asia Pacific ex Japan	10.3%	10.3%	0.0%
FTSE emerging markets	3.1%	3.0%	0.1%
RAFI emerging markets	1.2%	1.2%	0.0%

Source: LGIM

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 4.8% overweight.

Organisation: Assets under management stood at £728 billion as at end December.

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 now two funds in which London Borough of Islington invests. The portfolio in aggregate delivered a return of +26.6% per annum over

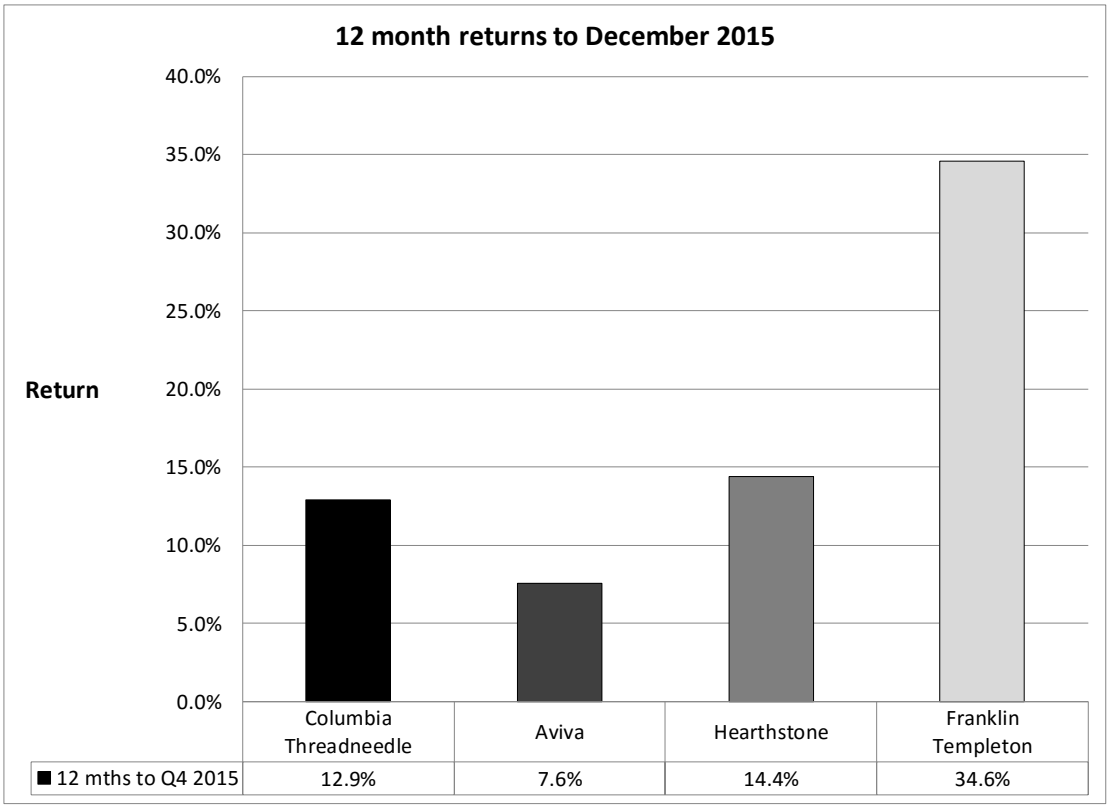
the three years to end December 2015, outperforming the absolute return benchmark by +15.1% per annum.

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 past twelve months, **Franklin Templeton is the best performing fund across all four property managers**, by some way, as shown in Chart 7. Fund 1 is now fully committed and entering its distribution phase. Distributions in Q4 2015 amounted to 5.7% of the total equity commitments. Fund 2 received its first distribution from an underlying investment, in Q4. It also closed its third investment, an office building in Seattle, Washington, in the US.

The strong 12 month returns have fed through to the three year numbers and the Fund is now comfortably ahead of its target absolute return of 10% per annum, with the three years to December 2015 delivering a return of +26.6% per annum.

Chart 7



Portfolio risk: Leverage on Fund 1 was 53% as at end December, with three funds showing leverage of 70% as at end December (GreenOak Japan, Project Redfish and Valla Park Co-Investment 70%). Leverage on Fund 2 was 54% as at end December.

Of the 14 investments in Fund 1, three are on target (10%-15% projected net internal rate of return (IRR)), seven are above target (15-25% projected net IRR) and three are substantially above target (more than 25% projected net IRR). One fund is still too early to assess at this stage. The three funds which are substantially above target are: GreenOak, Project Redfish (a Toyko fund managed by Green Oak) and Secured Capital Japan V.

Of the three investments in Fund 2, one is on target and two are too early to assess.

Staff turnover: there were no joiners to or leavers from Franklin Templeton Real Asset Advisers during Q4 2015.

Just after the quarter end, however, Franklin Templeton announced that Witsard Schaper was leaving the firm in January. Witsard has presented to the Pensions Committee in the past. He has been offered a job with a Sovereign Wealth Fund.

In terms of a replacement for Witsard, Franklin Templeton plan to appoint a new senior member of the team, although this may take some time to find the right person. Raymond Jacobs in the US, Caroline Demol in Switzerland and David Germer in London remain heavily involved in the fund and all three cover Europe which was Witsard's specific area of expertise. Until a replacement is found, Raymond Jacobs will attend any meetings. Mark Weidner remains the lead fund manager for London Borough of Islington.`

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +1.6% compared to the benchmark return of +1.9% for the quarter ending December 2015. Over one year, the Fund delivered a return of +14.4%, compared to the benchmark return of +5.2%, an outperformance of +8.8%.

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.

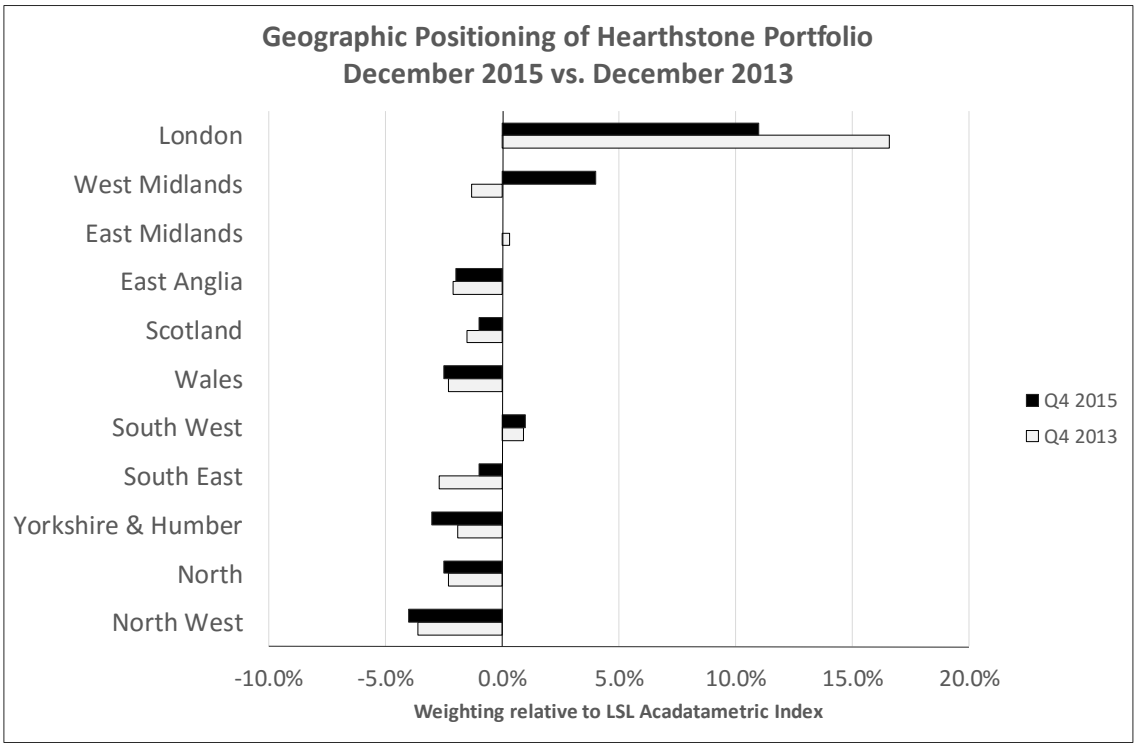
Performance attribution: The Fund returned +14.4% compared to the return on the index of +5.2% over the past 12 months, an outperformance of +8.8%. However, it is worth noting that the LSL Acadata House Price Index only takes price appreciation into account.

The gross yield on the portfolio was 5.4% at the end of December. This compares with LDL's average gross yield for properties in England and Wales (as calculated for their Buy to Let Index) of 5.0%.

Portfolio risk: The overweight position in London, primarily a result of the Wembley investment opportunity, is gradually decreasing as the Fund attracts new money which is being invested in other regions (in particular the North West, North and South East). Hearthstone's long term strategy is to maintain broadly neutral regional bets in the portfolio. At the end of 2013, the Fund was 16.6% overweight to London. At the end of 2015, that had dropped to an 11% overweight position.

Chart 7 compares the regional bets in the portfolio in Q4 2013 with the bets in Q4 2105. The reduced London overweight is shown by the top black bar (2015), compared with the top grey bar (2013).

Chart 7



Source: Allenbridge based on Hearthstone figures

Portfolio characteristics: The Fund has a 20% allocation to detached houses, 49% allocated to flats, 26% in terraced accommodation and 5% in semi-detached. The allocation to flats remains a significant overweight position relative to the Index (49% for the Fund compared to 17% for the Index). This is offset by an underweight position in semi-detached houses (5% for the Fund compared to 24% for the Index).

Organisation and staff turnover: There were no changes in personnel in Q4 2015. The firm still has just six employees and this remains a concern.

2.10. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of +2.6% in Q4 2015.This compared with their RPI plus 5% p.a. target return of +1.6% for Q4.

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 Q4 2015, Schroders' exposure to global equities made the largest contribution to the portfolio return (+1.0%), with smaller contributions from additional regional equity allocations (ranging from +0.1% to +0.3%). Alternative assets such as absolute return, infrastructure, property and private equity each contributed a further 0.1%. This was offset by negative contributions from government bonds (-0.2%), investment grade bonds (-0.1%), and currency (-0.1%).

Portfolio risk: The portfolio is expected to deliver equity-like returns with two-thirds the volatility of equities. However, this is over a full 3-5 year market cycle. Over the past 12

months, the volatility of the Fund was 8.2% compared to a 12-month volatility of 13.4% in equities.

Portfolio characteristics: The Fund had 9% in internally managed funds, 40% in bespoke solutions, 14% in externally managed funds, 31% in passive funds and 6% in cash, as at end December 2015. In terms of asset class exposure, 46% was in equities, 26% in alternatives and 22% 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 and staff turnover: there were no changes in staff within the Multi-Asset investment team (i.e. the team running the Diversified Growth Fund). Firm-wide, globally there were 101 leavers and 106 joiners. Of these 55 leavers and 60 joiners were for the UK business. After the quarter end, Schroders announced that Michael Dobson will step down as chief executive after 14 years in the role, to become non-executive chairman. He will be replaced by Peter Harrison, the head of investment.

Karen Shackleton
Senior Adviser, Allenbridge
17th March 2016