Item 6

Pensions CIV Sectoral Joint Committee

Fund Performance Report

Report by:	Julian Pendock	**Job title:**	Chief Investment Officer
Date:	13th September 2017		
Contact Officer:	Freddie Fuller		
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Summary: This report updates the Committee on the performance of the LCIV sub-funds.

1. Summary

Since the last minuted Executive committee, sub-fund compliance reporting has moved to the CARCO. Accordingly this report has been shortened to only address the performance of the LCIV sub-funds in both the short and long term as well as providing the committee with the latest Manager Review Meeting (MRM) write ups.

Sub-fund performance

The performance of all sub-funds across both asset classes remains satisfactory with regard to broader market conditions.

The performance of the Global Equity funds has been extremely strong in absolute and relative terms during on a twelve month basis.

It should be noted that the LCIV Global Equity Alpha fund continued its strong outperformance after an extended run of poor performance against its benchmark towards the end of 2016 and as of 30th August it is now outperforming its benchmark by 3.48% since inception.

Pyrford and Ruffer have both found 2017 fairly sticky in performance terms, but both managers (although very different in their portfolio construction) are very defensively positioned. Performance will be reviewed at the next round of MR meetings in October.

Incidents and points to note

There were no incidents recorded during the quarter.

Three additional delegated sub-funds have been launched since the last ExCo meeting which are the:

- LCIV NW Global Equity Fund
- LCIV MJ UK Equity Fund
- LCIV LV Global Equity Fund

The first two opened on the 22nd and the 18th May respectively and accordingly do not have long term performance figures.

2. Performance of LCIV Sub-funds

LONDON CIV – QUARTERLY PERFORMANCE STATISTICS

To 30/08/2017

FUND (Underlying Manager)	PRICE (Pence)	FUND SIZE £M	Q2	YTD	1 year	SINCE INCEPTION	INCEPTION DATE	Number of Investors
UK Equity Sub-Fund								
LCIV MJ UK Equity (Majedie)	99.86	£523	N/A	-0.20%	N/A	0.20%	18/05/17	3
Benchmark: FTSE All Share Index				*-0.35%*		*-0.35%*		
Performance Against Benchmark				**--0.14%**		**--0.14%**		
Global Equity Sub-Funds								
LCIV Global Equity Alpha (Allianz Global Investors)	137.5	£712	3.89%	15.12%	19.47%	41.05%	02/12/15	3
Benchmark: MSCI World Net GBP Index			*0.14%*	*7.83%*	*16.76%*	*37.57%*		
Performance Against Benchmark			**3.75%**	**7.29%**	**2.71%**	**3.48%**		
LCIV BG Global Alpha Growth (Baillie Gifford)	146.3	£1,748	4.62%	17.84%	26.13%	47.86%	11/04/16	9
Benchmark: MSCI All Countries World Gross Index			*0.71%*	*9.61%*	*18.15%*	*37.93%*		
Performance Against Benchmark			**3.91%**	**8.24%**	**7.98%**	**9.92%**		
LCIV NW Global Equity (Newton)	102.4	£670	N/A	2.61%	N/A	2.61%	22/05/17	3
Benchmark: MSCI All Countries World Gross Index				*4.38%*		*4.38%*		
Performance Against Benchmark				**-1.77%**		**-1.77%**		
DGF/Total Return Sub-Funds								
LCIV PY Total Return (Pyrford)	109.3	£224	0.18%	1.86%	2.82%	9.30%	17/06/16	3
LCIV Diversified Growth (Baillie Gifford)	115.3	£429	1.75%	5.13%	7.54%	17.32%	15/02/16	5
LCIV RF Absolute Return (Ruffer)	109.7	£539	-0.45%	-0.80%	8.61%	10.61%	21/06/16	5
LCIV NW Real Return (Newton)	103.5	£342	1.16%	3.07%	N/A	4.51%	16/12/16	3
Total LCIV Assets Under Management		**£5,565**						**18**

Data taken from Bloomberg as at 30/08/2017
All performance reported Net of fees and charges with dividends reinvested

3. Manager Review Meeting Write Ups

(Please Note: the meeting notes will follow in correspondence on: the LCIV MJ UK Equity sub-fund, run by Majedie, plus the LCIV Global Equity Alpha sub-fund, run by Allianz Global Investors).

LCIV Global Alpha Growth Fund (Baillie Gifford) Q2 Manager Review

25th July 2017

CIV Investment Team

LCIV Global Alpha Growth (Baillie Gifford) Fund

Inception date	11/04/2016
Fund Size	£1,674 m (as at 30/06/2017)
Number of holdings	99 (as at 30/06/2017)
Benchmark	MSCI All Country World Index

Investment objective

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

Agenda

1. Review the second quarter performance and any significant contributors since the fund's inception.
2. Discuss any portfolio activity relating to the second quarter.
3. Explain the rationale for the thematic positioning of the fund and how market developments may impact any allocations.

	Global Alpha Growth	MSCI AC World Index
Q2 2017	4.62%	0.71%
Since LCIV Inception	41.23%	33.53%

Source: Bloomberg, as at 30/06/2017. Net of fees with dividends re-invested.

Executive summary

In the second quarter of 2017 the fund posted a positive return of 4.62%, outperforming the benchmark by 3.91%. Strong selection effect (especially in the technology and consumer discretionary sectors) helped the fund to continue its good performance throughout the first half of the year (now 12.56% since 31/12/2016.)

After relatively few changes to the portfolio in the first quarter, the manager took the opportunity to make a number of new purchases and additions as well as taking some profit from both Amazon and First Republic Bank.

The Baillie Gifford team remain of the view that there is an expanding universe of global opportunities, which can be seen in the increased portfolio activity. The team view the tailwind of improved 1st quarter earnings reports as encouraging but will be keeping a watchful eye on whether this can be continued during the second half of the year.

Q2 Performance review

Since the inception of the fund in April of 2016, the Global Alpha Growth strategy (GAG) has achieved a positive return of 41.23%. The current AUM has now grown to £1,674 million. The fund delivered another strong return of 4.62%, outperforming the benchmark by 3.91% as equity markets continued their positive start in Q1.

The strongest contributors to return were Ryanair (+0.4%) and Alibaba (+0.4%) which between them make up 3.5% of the total portfolio. Detractors included Seattle Genetics (-0.2%) which announced that it had decided to discontinue a late stage trial of one of its new drugs. BG retain their confidence in the expansion of the current patient base of its existing treatment however.

Portfolio activity:

In the recent quarter the Baillie Gifford ('BG') team made a number of changes to the portfolio following stronger reported earnings for Q1 and wider equity markets continued their rise.

Significant transactions:

Purchases:

- **Advanced Micro Devices (AMD) –** the BG team are looking to exploit the long-term structural growth possibilities across the gaming and auto industries by initiating a position in this graphics processing semi-conductor firm. As the company begins to benefit by increasing scale, BG believe that further growth can be achieved through margin expansion.
- **AP Moller Maersk B –** the largest container-shipping business in the world, BG are looking to exploit what they view as a consolidation led turn around in the sector as well as strong capital allocation discipline within the companies energy division. With the energy division likely to be disposed of in the medium term, they believe this result will result a far stronger balance sheet.

Sales

- **Ferrari** – Whilst BG continue to view the company as high-quality, they believe that the current valuation is close to their internal view of fair value and that growth from here may be limited. For that reason, they have completely sold out of the position.

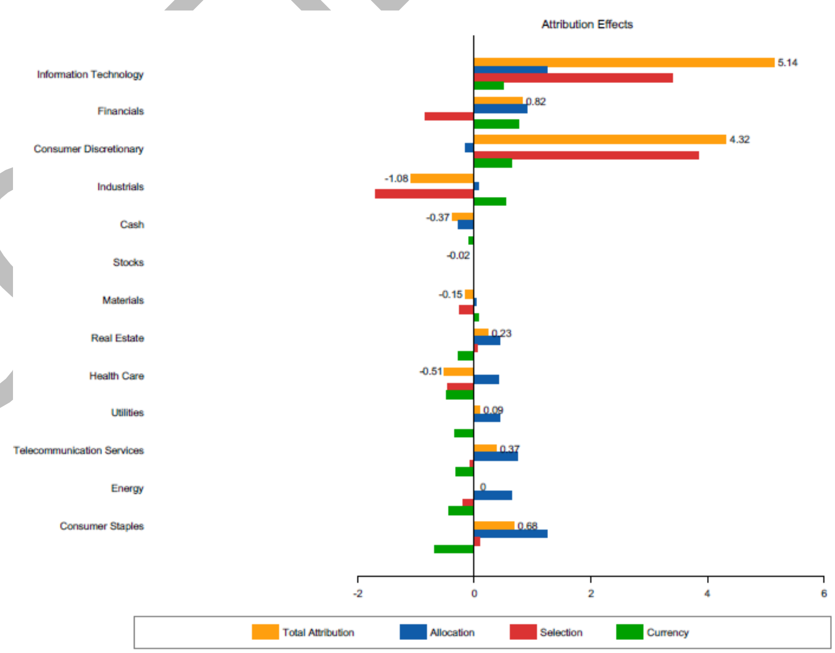
- **Monsanto** – After the acceptance by shareholders of a takeover bid by Bayer, shares have continued to trade at a discount to the offer price. Now that this spread has narrowed, BG's view that there is a reduced chance for growth in its core business has led to an exiting of the position.

Reductions

- **Amazon** – After an extraordinarily strong performance (not just for Amazon but for many tech stocks) BG have decided to reduce the position in order to fund other ideas in the portfolio. It remains however, one of the largest holdings and the team remain of the view that there is still growth opportunity in the stock.

Portfolio discussion:

The portfolio's performance has been extremely strong both in the short term and since inception, in absolute terms and relative to the wider market. It is interesting to note that attribution analysis undertaken by the LCIV investment team shows that of an active return of 9.53, the two greatest contributors (IT and Consumer discretionary) add up to 9.46 (the two greatest detractors being Health Care and Industrials at -0.51 and -1.08.)[1]



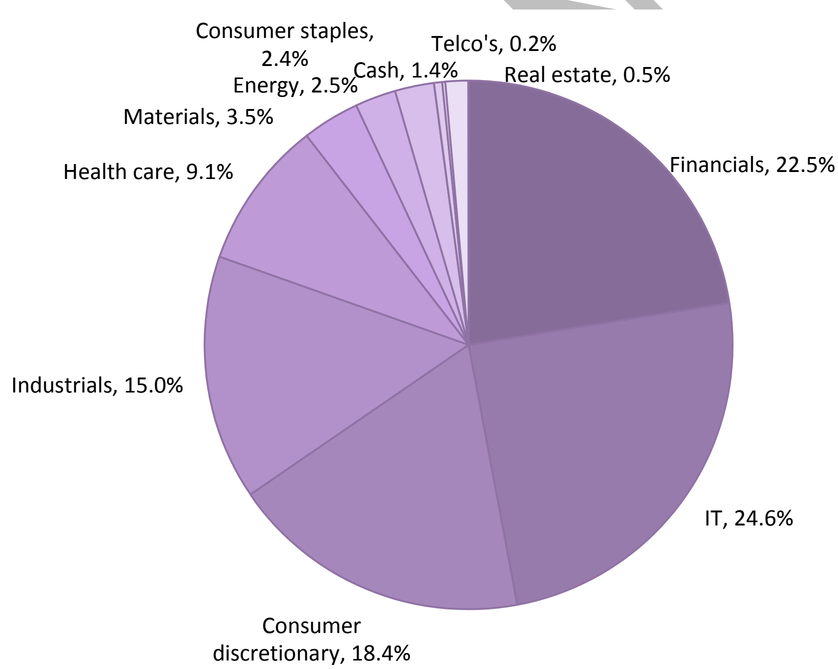
[1] Data - performance attribution sourced from Bloomberg, gross of all fees and expenses.

The impact of technology stocks on the positive returns generated on numerous stock markets (but especially the S&P 500) has been noticed by the markets (leading to a short dip during June that has since reversed.) As at 30th June, 30% of the year's gains by the S&P 500 had come from Apple, Facebook, Amazon and Alphabet.

BG were questioned on this, and whilst agreeing that the share prices of the aforementioned had grown at an extraordinary rate, analysis suggests that they had simply reached these heady heights too soon, rather than being inherently overinflated.

In response, the portfolio's holding in Amazon was reduced, but still remains a significant holding. BG (like a number of other managers) view these companies on their innovation just as much as their current cashflow.

The best companies are those that are always searching for new profit pools (Amazon's mantra that it is 'the best company in the world to fail at' sheds some light on how they go about searching for these pools) and BG remain of the view that companies such as Amazon, Facebook and Alphabet are succeeding in this.



BG are also focussing more on culture when performing analysis on companies. Uber remains one of the 'odd ones out' when compared with other well-touted tech stocks and BG stated that aside from the difficult investment case considering that although valued at $68bn after its last funding round, its underlying pre-tax losses were over $3bn last year, they had spotted the now well publicised culture issues that lead to the resignation of Travis Kalanick.

The fund's increased holding in Alibaba now brings it into the top ten positions in the portfolio. Queries were raised with the manager about social and governance concerns that are inherent in investing in China.

The manager agreed that there are a number of issues prevalent at the moment (the treatment of minority shareholders by management at Alibaba being one of them) but that there is nothing within the culture of the company that would suggest its extremely strong fundamentals should be ignored (the manipulation and use of data in such areas as AliPay potentially opening up new avenues of revenue to the company.)

The fine levied on Alphabet by the EU Commission was raised by the LCIV CIO as an example of the increasing scrutiny and power that is being more openly wielded by authorities across the developed world and may well be most concerning when investors are looking at how companies pay their taxes.

The BG team acknowledged the potential contingent liabilities that multinationals may suffer once domicility and tax arrangements finally come to the fore, may well hurt investors and that they continue to encourage companies to look very carefully at whether they could (and should) be paying more tax in certain jurisdictions.

CIO conclusion:

The Global Alpha Growth strategy continues to deliver good returns, outperforming the benchmark over the medium term. The BG team are confident that there are opportunities within the available universe and that even considering the (at times) unnerving valuations across some developed equity markets, there remains value in certain companies to be unearthed. LCIV officers will continue to monitor the strategy to ensure that alpha is delivered with sufficient risk analysis to accompany it and that returns do not become too concentrated in certain sectors or industries.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO

Baillie Gifford:
Chris Davies; Investment Analyst
Tom Wright; Client RM

LCIV NW Global Equity Fund Q2 Manager Review

July 20th 2017

CIV Investment Team

Newton Global Equity Fund

Inception date	22/5/2017
Fund Size	£658m (as at 30/6/2017)
Number of holdings	64
Benchmark	MSCI All Country World Index Total Return

Investment objective

The Sub-fund's objective is to achieve capital growth by outperforming the MSCI All Country World Index Total Return (Gross) by at least 1.5% per annum net of fees over rolling three year periods.

Investment policy

The ACS Manager aims to achieve the investment objective by investing primarily in global equities.

Agenda

1. Review the second quarter performance of the fund.
2. Explain any portfolio activity relating to the quarter.
3. Introduce the market views of the Newton Global equity team.

	LCIV Newton Global Equity	MSCI AC World TR Index
Q2 2017	N/A*	N/A*
Since LCIV Inception	0.7%	1.1%

Source: Bloomberg, as at 30/6/2017. Net of fees with dividends re-invested. *The fund was introduced in May and does not therefore offer a full Q2 track reocrd.

Executive summary

In the brief performance period since the May inception the Sub-fund has delivered a 0.7% return, 0.4% less than the benchmark MSC AC World Index. The marginal underperformance of the Sub-fund should not be taken out of context given the extremely short time frame in question. Positions in healthcare and financials were some of the largest contributors. Allocations to industrials proved disappointing.

The team made several changes to the portfolio, but perhaps most noteworthy were the purchase of Allied Irish Bank and Newell Brands. Newton also sold their stake in Bayer.

This quarter's discussion was focused around three main areas: macro views, China, and developments in the music industry.

Q2 performance review[1]:

In the brief performance period since the May inception the fund has delivered a 0.7% return, marginally short of the 1.1% return delivered by the MSCI AC World Index. Pleasing performance at the stock level in healthcare and financials was offset by disappointing contributions from a number of sectors, particularly industrials.

Rising bond yields have been a strong tailwind for financials, and central bank rhetoric suggesting the withdrawal of monetary stimulus, or tapering, has started to remove part of the downward pressure on bond yields. Despite a significant underweight to financials the fund's stock selection to names such as Citigroup, Allied Irish Banks, and Intact Financial helped to contribute positively.

Additionally, stock selection in health care boosted fund returns; with regards to Teva Pharmaceutical (the second best performing relative stock this quarter), positive news emerged as Mylan's CEO indicated that approval for its generic Copaxone may be delayed in the US. Given Copaxone generates around $800m a quarter for Teva, investors welcomed the announcement.

A number of industrial stocks weighed on the portfolio's performance. Wolseley, the building materials distributor, experienced a disappointing quarter amid investor concern of a slowing growth rate in the company's core market, the US. Similarly, Wolters Kluwer also trended downwards over the reporting period.

Within consumer discretionary, TripAdvisor has frustrated due to a lack of consistent progress with its business transition. In spite of this, Newton still believe in the relevance of its Instant Book product, although it is costing more and taking longer to gain traction than initially expected.

Portfolio activity[2]:

Significant transactions:

Purchases:

- **Allied Irish Banks (AIB):** AIB continues to benefit from Ireland's macroeconomic tailwinds, and, following eight years of balance-sheet reduction under state ownership,

[1] Source: Newton Global equity quarterly investment report Q2 2017.
[2] Commentary relates to the views of the Newton Global Equity team, not the London CIV. Some transactions may relate to investments made prior to the inception of the London CIV fund.

looks set to return to growth by the end of this year. AIB is a straightforward retail and commercial bank and is the market leader in a concentrated industry structure that should allow for attractive margins. Capital return also formed part of the investment case, given AIB's excess capital position.

- **Informa:** Newton also initiated a position in Informa, the provider of business intelligence and academic publishing services, at an undemanding valuation. The stock could achieve a rerating given its ability to grow, cash conversion and attractive reinvestment possibilities, while carrying an attractive dividend yield of around 3%.

- **Newell Brands:** Newton purchased Newell Brands, a diversified consumer products group. The global equity team are confident that the company can reapply the successful strategy implemented in its legacy business to the acquired Jarden portfolio of brands. Newton think cost savings can drive significant earnings growth and, as the largest player in fragmented product categories, there is scope for market-share gains which should be enough to sustain a strong cash flow growth profile in the medium term, leaving the shares attractively valued.

Additions:

- **CitiGroup:** Having lagged year to date, and with the valuation still attractive, Newton increased the holding in Citigroup. They believe the market continues to underappreciate the progress that management has made in improving operational performance and de-risking the bank.

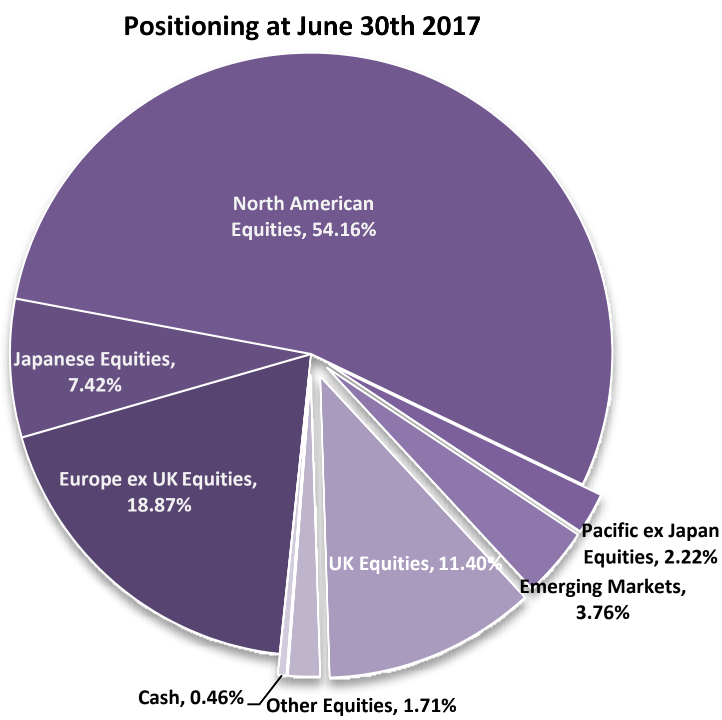
Sales:

- **Bayer:** Newton opted to sell the holding in chemical and pharmaceutical company Bayer after a strong run. The stock had recovered well after its approach to Monsanto, with the proposed merger being viewed negatively by the market owing to the changing composition of the group and the level of financing required. As these fears subsided, aided by recovering agricultural end markets, the stock rose**.**

Reductions:

- **Microsoft:** Although not outright sales, Newton made numerous reductions in the technology sector. Given the strength of Microsoft's performance, the team decided to reduce the holding. The long-term opportunity, as the business moves towards more recurring revenues, remains attractive. The company retains its strong competitive position and can capitalise on the migration to hybrid cloud models

- **Alphabet.** Having performed similarly well (to Microsoft) over the first part of the year Newton chose to reduce the holding. The Global equity team continue to believe that the company has strong operational momentum and a clear competitive advantage in both scale and technology. In addition, there is potentially significant optionality from investment assets outside of (the core) Google.



Portfolio discussion

The discussion between the Newton Global equity team and the London CIV was focused around three main areas; macro views, China, and developments in the music industry.

From a macroeconomic standpoint the views of the global equity team closely resemble those of the Newton real return team, a fund the LCIV recently put onto the platform. Newton's teams work closely together to develop opinions on the general market climate and investment themes; a fountain of ideas from which each fund can cherry pick according to their mandate.

On the macroeconomic front the global equity team are concerned by the financial distortions that central banks have cast over markets as a result of nearly a decade of experimental monetary policy. They believe that the encouragement (and crystallization) of leverage by central banks through financial repression has lead the global economy back down the unsustainable path that gave rise to the recent global financial crisis. In the team's own words: ''It hardly seems credible that we can solve a problem of too much debt by encouraging a further giant credit expansion. Indeed, in tandem with some of the world's stock markets, global debt levels continue to make new highs, recently reaching $217 trillion or 327% of GDP. This was largely owing to an increase of $3 trillion (to $56 trillion) in debt levels across the developing world over the last year[3].'' Given the leveraged instability that raising interest rates could create the team do not expect rates to be raised to previous 'normal' levels. Demographic woes, including rapidly growing dependency ratios in developed economies may also weigh down on (longer term) rates across global yield curves assuming the negative impact on growth outweighs that on inflation.

The Newton team were explicit about the lack of interesting investment opportunities relative to previous points in the economic cycle. They're increasingly finding that companies that exhibit organic growth are trading at significant premium to market. Global equities are not immune from the yield compression experienced across the asset classes and income stocks are have also been bid up as a result.

Taking the above into context, the Sub- fund has a quality tilt, with a far higher return on equity, and lower levels of debt-to-equity than the MSCI AC world Index. The team are happy to pay up for quality, but only in cases here valuations can be warranted. This more cautious stance is also evident in the sector allocations; the portfolio is predominantly overweight consumer staples, IT and health care, and is underweight the more value centric areas of the market such as financials, materials and energy.

On the topic of China, the global equity team, alike their internal (real return) counterparts, are cautious in the region given the 12+% domestic annual credit growth, which is around 6% above that of nominal GDP growth. If history is anything to go by the global equity team are right to be concerned by the rapid build up of leverage across the Chinese economy given the experience of other developing economies at this point in their industrialization. That said, the global equity team do not necessarily expect a Minsky style credit collapse, but do anticipate some sort of

[3] Source: Newton Global equity quarterly investment report Q2 2017.

correction (or reset) as growth slows, at the very least. Newton will be willing to look at Chinese assets more seriously over time should such an event take place.

The global equity team are aware that China will become the dominant economic force in years ahead so it would be foolish to ignore the region in its entirety. Instead Newton keep in mind companies and sectors that they may look to invest in as particular events fall into place, be it macroeconomic, or idiosyncratic in nature. A good example would be the regular conversations that the team have with global pharmaceutical companies that are trying to penetrate the Chinese healthcare market. Newton appreciate the potential in this sector given the tailwinds from demographics and the emergence of the middle class but await the increased protection rights over intellectual property before they can feel comfortable investing.

Newton are growing increasingly excited by developments in the music industry. The global equity team see increasing evidence of people moving away from online pirating to the subscription model. The prices of the large music producers have fallen to the extent that consumers are now far more likely to pay for services such as Spotify or Soundcloud than was the case just a decade ago.

Moreover, the quality and simplicity of these subscriptions, as well as many of the value-add services make such a decision relatively easy for the purchaser. To take advantage of this theme Newton own the European multinational media conglomerate, Vivendi. Newton feel that there is a huge opportunity for media creators to take advantage of content production in Europe and believe that Vivendi are best place to do so, and expect the company to cement their strength through acquisition, as they have done in recent years.

Newton also discussed their holding of Sony, a position that was entered earlier this year. The rationale behind the holding is two fold. Firstly, Sony own an 8% stake in Spotify, allowing the group to take advantage of the music subscription theme already discussed. Secondly, Sony, through it's ownership of the PlayStation brand, are extremely well placed through their (joint) market leading position to take advantage of the emerging virtual reality (VR) theme. Whilst 'VR' is still in its infancy game developers are beginning to invest heavily into the next generation of gaming.

Though Newton are not typically fond of investing in Japanese stocks, Sony, given their strong brand, ample resource, extensive relationship with game developers, and the quality of their previous consoles, are expected to do well in this space. The team have also noticed that Sony's management have started to focus on shareholder returns through a steady 300-400 basis point expansion in operating margins. They believe that further value can be created if Sony disaggregate and strip out weaker areas of the business such as the telecommunication electronics.

CIO conclusion:

The Newton global equity team's nervousness around the general macroeconomic backdrop has resulted in a significant tilt towards quality. In risk-on environments this may somewhat hold the portfolio back relative to the benchmark, but the London CIV feel this degree of prudence is appropriate given the startling valuations in many of the major global equity markets. Newton are working hard to find interesting idiosyncratic opportunities such as Vivendi where new themes are emerging that markets are starting to re-price. In future meetings the London CIV would like to build a greater understanding of the team's views relating to Europe and Emerging markets given that these regions offer some of the best opportunities on a relative basis.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO
Ryan Smart; Investment analyst

Newton:
Jeff Munroe; Portfolio manager
Terry Coles; Portfolio manager
James Mitchell; Client RM

LCIV Diversified Growth Fund (Baillie Gifford) Q2 Manager Review
25th July 2017

CIV Investment Team

LCIV Diversified Growth Fund (Baillie Gifford)

Inception date	15/2/2016
Fund Size	£361m (as at 30/06/2017)
Number of holdings	505
Benchmark	N/A

Investment objective

The objective is to achieve long term capital growth at lower risk than equity markets.

Agenda

1. Review the second quarter performance and the significant contributors across the various sub-asset classes.
2. Discuss any portfolio activity relating to the quarter.
3. Explain the general macroeconomic views of the team and how positioning aligns to such.

	LCIV BG Diversified Growth
Q2 2017	1.75%
Since Inception	16.77 %

Source: Bloomberg, as at 30/06/2017. Net of fees with dividends re-invested.

Executive summary

The fund delivered a 1.6% return against a backdrop of benign financial markets in the second quarter. Risk assets continued to trend higher with equity markets reaching new highs. The fund also benefitted from solid returns in investment grade, high yield, emerging market and government bonds, private equity, property and hedge funds. The only loss making asset class was commodities. This was driven from a holding in platinum which has since been exited.

The Baillie Gifford ('BG') team have become slightly more risk-on in Q2. The main asset allocation move is out of traditional investment grade and high yield bonds and into emerging market debt although they have also increased allocations to equity. The team retain a 10% allocation to cash which has been around their average liquid holding over the past 3 years for opportunistic investing.

Q2 performance review:

Since the inception of the fund in February of 2016 the BG Diversified Growth strategy has delivered 16.77%, helping AUM to grow to £361m.

The fund delivered a 1.75% return ahead of global equity markets which were up 0.32% and the UK market which was up 1.42%. Global Corporate and Development Market government bonds generally were also lower over the quarter given increases in yields. The BG Diversified Growth fund returns came mainly from corporate credit and listed equities which delivered 3.4% and 3.2% respectively although all asset classes positively contributed to performance with the lone exception of commodities.

Macro discussion:

In the second quarter of 2017 Baillie Gifford made some changes to holdings as markets returned to more buoyant conditions post French elections. BG seems to be moving against the swathe of scepticism and defensiveness that the LCIV team has increasingly seen embraced global investment managers and analysts over the last 12 months. BG is optimistic that growth will continue to rise according to recent trends. They stated that “robust global growth (was) an improving picture and strengthening earnings trends are helping to offer good prospective returns”. As such they have positioned their portfolio in growth asset classes which will perform well should their thesis play out but it does leave them very over exposed to a market sell-off. LCIV team concedes that both Q1 and Q2 earnings have been positive but in an environment of softening economic technical factors, debt at pre-crisis highs (in autos and credit cards) as well as a declining savings rate and no wage inflation, it is difficult to believe that the growth that BG says will continue has any support behind it. Whilst it is clear that Q1 and Q2 earnings were upward trending, it is also worth noting that the market is seeing the most rapid cuts to outlooks and downward revisions to future earnings for the third quarter than observed for many years. When challenged on this BG responded that their positioning had taken on a more barbell approach where they were investing in both more aggressive risk-on positions as well as more defensive positions. There was however very little to indicate much movement into defensive positions.

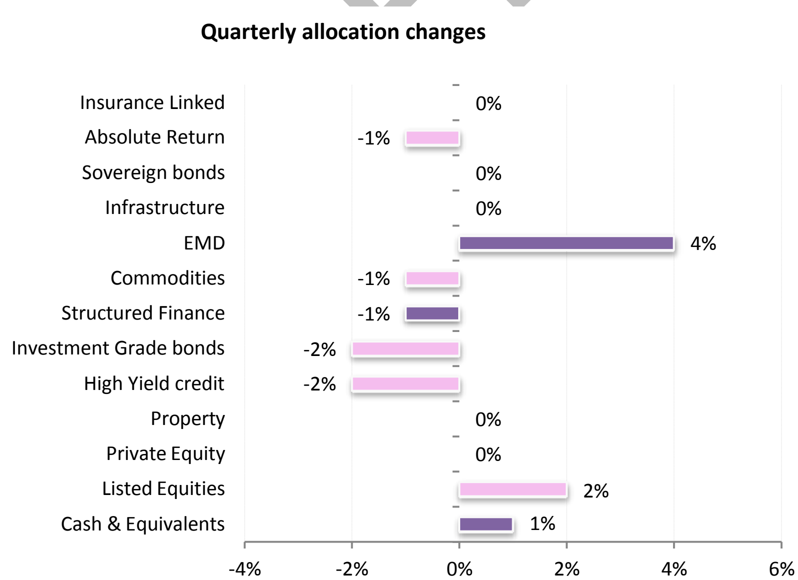
BG outlined that their global growth expectation is 3%. They believe that there are sufficient structural balances to sustain this level of growth. They discussed that Chinese consumption had picked up and this would help global growth. BG stated that they were hedging some of these growth positions through a short on South Korean won. They discussed if they were wrong about inflation the US Breakeven holdings should provide protection for this and with respect their long equity holdings they could also engage in index futures to protect against downside moves. BG conceded that this was certainly more momentum reactive trading rather than trying to position ahead of a market event.

Portfolio activity:

Significant transactions:

- Government Bonds:

The team maintains positions in US inflation linked government bonds (TIPs) after originally adding these to the portfolio 12 months ago. BGs view on increasing inflation leads them believe that TIPs provide a better rate of interest than cash and conventional treasuries particularly in short duration issues. BG also continues to believe that using Euro-Bobl futures in order to short European interest rates, is offsetting some of the credit risk inherent in the portfolio. Whilst BG discussed these holdings as providing protection to the portfolio the overall sizing of the holdings (circa 7.6%) would appear to be a little too small to adequately protect the portfolio in any material way.



- Emerging Market Bonds:

As discussed earlier BG became more optimistic during Q2 subsequently moving into more risk-on assets including emerging market bonds. The team believes that the attractive yields are supportive of a returning growth environment. Whilst LCIV agree that this is optimism is supported by the structural reforms sweeping governments and central banks in EM nations that the growth underpinning this is still vulnerable particularly in commodity driven economies. BM is particularly supportive EM debt in Argentina, India and Indonesia and has topped up allocations to these geographies above and beyond the limitations of their internally managed EM Bond Fund holding within the fund. In line with this risk-on view the BG team have also switched out of hard currency EM debt preferring the higher risk local currency debt believing that the latter offer more attractive return prospects.

- Corporate Credit:

The investment grade bond and high yield allocation of the fund **currently** sits at 3% and 8% respectively at the lower end of average holdings for these asset types. BG believes that spreads have tightened to the extent that relative returns look better elsewhere in the portfolio. During the quarter they trimmed back the both exposures by another 2% although they did comment that in the event of further dislocations potentially driven by softening oil price again that they would buy back in to the market although they would be likely to avoid oil and gas holdings and just seek to capitalise on broader market sell-offs. They discussed that US auto in High Yield was a particular concern for them.

Of the 8% in High Yield they discussed that actually 7% of that exposure was in loans rather than bonds given lower expected default rates. A reasonable proportion of the loans were in closed loan funds which offers a premium but does limit liquidity.

- Listed equities:

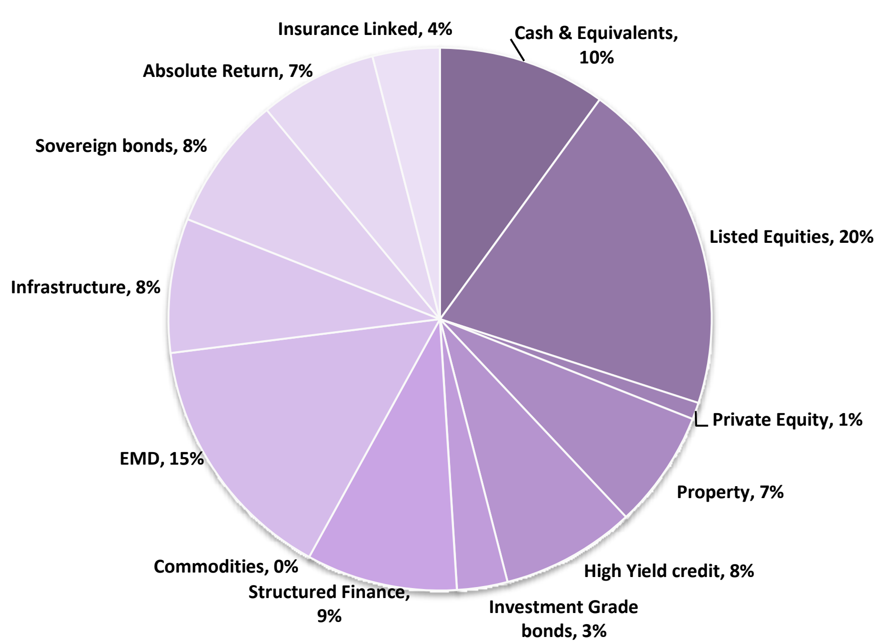
The team increased equity allocations by 2% over the quarter as part of their risk-on move into growth assets. BG discussed that US equity exposure was fully hedged given their view that the US dollar was currently overvalued but they discussed that they were more optimistic on European equities after the French elections and that they believed that EU stock valuations looked reasonable.

- Commodities:

As discussed earlier BG outlined that they were now completely liquidated from commodity holdings having sold their final position (which was loss making) in platinum over the quarter. The LCIV team queried BG about their outlook for gold given the defensive qualities which are frequently attributed to the asset class. BG discussed that whilst holding gold was a topic debated in-house, ultimately it was determined that US real yield positions (in TIPs) provided greater protection for the portfolio.

- Hedge Funds:

BG outlined how they are using cheap momentum funds to help gain protection to markets through trend following strategies. These funds have been performing exceedingly well and whilst we agree that they do provide some defensive protection to the BG fund overall it is probably also worth noting that imbedded in these funds is considerable (synthetic) leverage which does increase the volatility and risk of the holdings relative to their size.



CIO Conclusion:

The fund continues to materially outperform other DGFs in the market. It would however be naïve to believe that these returns were not being achieved through taking relatively more risk than their competitors, particularly at what appear to be an inflection point in the market. The momentum strategy which they are currently adopting to position for growth markets may be working well in the current environment but with 10% of the fund in non-daily traded funds (and further underlying holdings in the daily traded funds having less liquid holdings) their liquidity may challenge how dynamically BG will be able to rotate the portfolio into defensive positioning should a downturn occur. Further to this, there is clearly imbedded leverage in some of these underlying sub funds such as private equity and CLOs which again are likely to underperform in a sell off. In short BG should continue to perform well if markets muddle through in flat or upward trending markets but investors should be cautious that the fund may face headwinds in more challenging downward markets.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Freddie Fuller; Head of IO
Larissa Benbow; Head of Fixed Income

Baillie Gifford:
David McIntyre; Investment Manager
Tom Wright; Client RM

LCIV NW Real Return Fund
Q2 Manager Review
July 20th 2017

CIV Investment Team

Newton Real Return Fund

Inception date	16/12/2016
Fund Size	£346m (as at 30/06/2017)
Number of holdings	N/A
Benchmark	1month Libor +3% per annum over 5 years (Net)

Investment objective

The sub-fund's objective is to achieve real rates of return in Sterling terms. The Sub-fund seeks a minimum return of cash (1 month GBP LIBOR) +3% per annum over 5 years net of fees.

Investment Policy

The sub-fund invests 100% in the Newton Real Return Fund to achieve its objective. Reference to Newton or the portfolio refers to the Newton Real Return fund.

Agenda

1. Review the second quarter performance of the fund and any significant drivers of returns.
2. Discuss any portfolio activity relating to the quarter.
3. Offer an overview of the macroeconomic views of the real return team.

	LCIV Newton Real Return	1month Libor +3% (annualised)
Q2 2017	1.16%	1.00%
Since LCIV Inception	4.60%	1.88%

Source: Bloomberg, as at 30/06/2017. Net of fees with dividends re-invested. Libor is shown on an annualised basis since inception.

Executive summary

The LCIV NW Real Return Fund delivered a 1.16% net return for the second quarter, and a 4.60% return since its December 2016 inception.

The Newton strategy comprises a return seeking core with a layer of stabilizing assets and hedging positions. The quarter resulted in little fundamental change to the portfolio as a whole, with the manager tweaking elements of the equity and credit allocations, with some profit taking across a select few equity names.

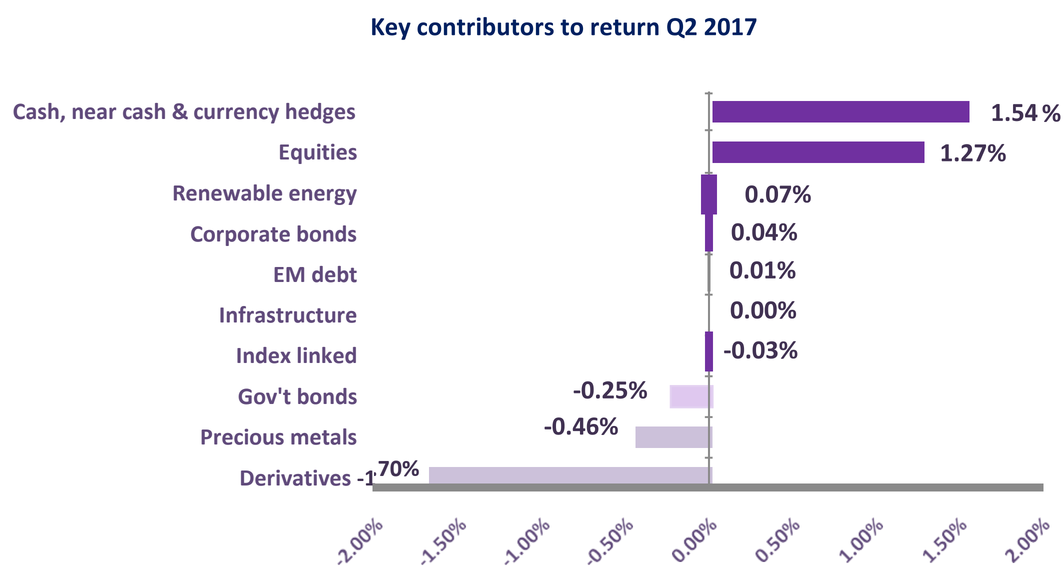
The manager's fundamental outlook on the markets has not shifted, resulting in a further reduction in portfolio duration and an increased cash level for the quarter, although overall the return seeking core of the portfolio increased to 33.2% and equity protection was reduced by 2.9%.

Q2 performance review[1]:

The LCIV NW Real Return Fund delivered a 1.16% net return during the second quarter, a 0.16% outperformance relative to the benchmark, 1 month Libor+3%. Since the inception of the fund in December this outperformance has grown to 2.72% helping AUM of the fund to reach £346m.

Continuing the trend of 2017, equity holdings drove much of the quarter's performance at 1.27% with the rest being drawn from currency hedging, corporate bonds and renewable energy. Much like the previous quarter, this resulted in the derivative protection costing the fund 98 basis points in performance.

Infrastructure and Emerging Market Debt were largely flat during the quarter whilst precious metals dipped, costing the fund 46 basis points.



Portfolio activity[2]:

Although the net equity exposure of the fund did not radically shift, there was some activity in this part of the portfolio, primarily driven by some profit taking as well as the introduction of some new holdings which have increased the beta of the fund.

Two purchases of note were Allied Irish Banks (AIB) and Newell Brands. Newton have been increasingly encouraged by the tailwinds prevalent at the moment as well as the result of AIB's

[1] Source: Newton Investment Management & Pace. Data relates to Newton's direct fund holdings which does not perfectly correlate with the returns received by local London authorities but serves as a reasonable approximation.
[2] Source: Newton investment management Q2 2017 investment report.

aggressive balance sheet reduction since 2009. Due to its market leader status in a concentrated market, Newton purchased shares in its partial relisting. Newell Brands (a consumer-facing product owner) presents itself as a strong market consolidation and cost reduction play to the manager as well as strong credentials in its experienced management team.

Proctor and Gamble reached Newton's estimate of intrinsic value and therefore was sold in its entirety. Profits were also taken in Wolters Kluwer and Vivendi. Newton (like a number of others in the market) are bullish on the wider music publishing industry (Universal Music being owned by Vivendi) and view further profit growth as achievable, hence leaving some exposure within the portfolio.

Newton are still hedging equity risk on valuation grounds which has been increased since the beta in the equity portion of the fund has increased. The equity protection implemented within the portfolio is done so taking a geographically diversified approach. The large majority of this protection is written against the S&P 500, through short futures, with short futures also written against the Eurostoxx 50 index, as well as the FTSE 100. This protection is implemented to hedge a proportion of the equity beta within the portfolio, bringing the gross equity exposure down from 46%, to a net figure of 22%. These short futures are rolled on a quarterly basis.

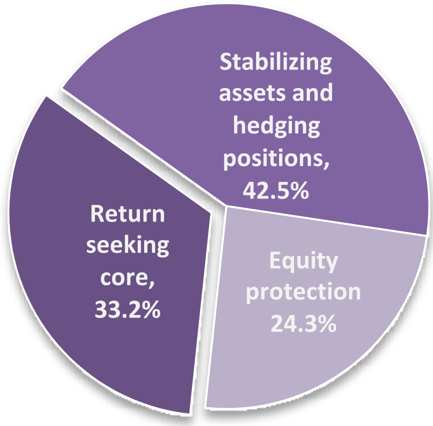
Duration sensitivity was reduced further during the quarter (through a reduction in US Treasury exposure) as the manager remains wary of the risk of a rise in yields in the short term. There have been some detailed discussions with the manager concerning the mechanisms for duration management within the portfolio. Further detail is shown below:

Bond derivative protection summary (% portfolio)			**Total protection**	
	US long bond future	Euro-Bund future	**Delta adj.**	**Notional**
Futures	-	-	**-**	**-**
Options	-3.0%	-2.8%	**-5.8%**	**-16.8%**
Total	-3.0%	-2.8%	**-5.8%**	**-16.8%**

Bond protection has been tactically implemented throughout the year, using put options with varying expiration dates. Typically this protection is implemented using one month options, with the decision to roll the protection taken at the time of expiration. Newton view this form of protection as a cost effective one and as tail protection against a spike in bond yields.

Finally, the manager has marginally increased the exposure to listed infrastructure, predominately as a diversification play for income streams (important when considering the rising cash exposure of the fund.)

Positioning at 30 June 2017

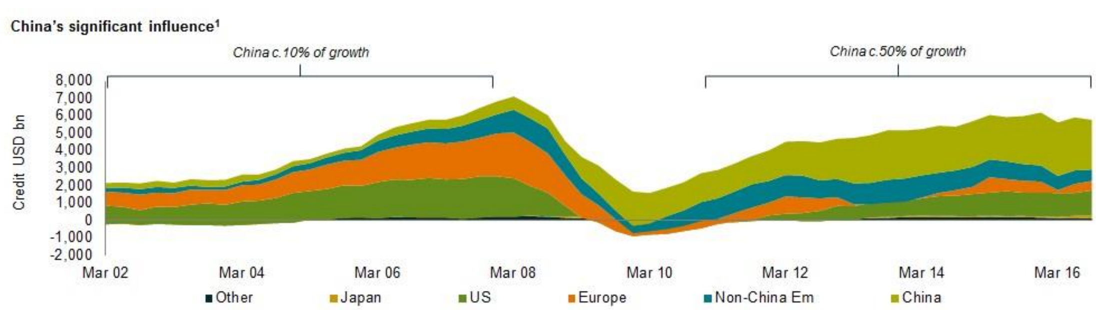


Macro discussion

Unlike previous meetings with the manager, focus had finally shifted away from frustration with the overly accommodating monetary policy across the developed world. Instead the normalisation narrative has come to the fore again (although it has arguably been lurking in the corners of global economic discussion over the last few years.) The Fed seems to be confident that the market's ability to absorb the two rate hikes in March and June of this year indicates that the time is right to begin setting out its plans for balance sheet reduction.

However Newton note that the question has arguably always been more about balance sheet reduction than interest rate rises, not just because of the lethargy and scantiness of these so far, but because of the impact on investor sentiment across the globe and the inherent issues with recalcitrant growth in part predicated on abnormally accommodative monetary policy.

Questions remain on how growth will be financed. As discussed in the last report China has been a worry for Newton for a while now. Beyond the PBoC's intervention in the Chinese economy and the vast sums pumped into the shadow banking system in recent years, of the $3 trillion in debt levels across the developing world over the last year, $2 trillion of this was attributable to China (a significant shift from the previous decade as shown below, including developed markets):



That being said, Newton remain of the view that if the 'China bubble' does eventually burst, it is unlikely to be the beginning of a global crash, but will certainly be heavily deflationary.

Policy makers and investors are now at a potential divergence. Whether or not central banks will begin to roll back the last decade of QE may well define whether the mix of heady valuations and nervous sentiment will end painfully or not at this stage of the cycle. Newton, like many managers across the spectrum, remain extremely wary of the impact on asset pricing as any changes in central bank policy come through during the next year or so. The fund remains defensively positioned and the manager remains of the view that there is the potential for a catalyst to spark a significant market event (discussions on both the US retail and autos sectors appear to be good examples of prospective pains to come, not helped by the increasing realisation that unemployment measured at 4.3% today would actually imply an 8% rate at 2009's participation rate.)

The performance of the fund on a one year basis has been disappointing in absolute terms. The manager is adamant however that there is no stone left unturned in the search for yield across asset classes and that their reticence to take on risk remains based upon the idea that as central bank policy forces investors further and further up the risk curve, so there is a requirement for careful and considered positioning across asset classes for when any misallocation of capital becomes apparent and an unwinding occurs. The fund's performance during the last six months is more encouraging however.

CIO conclusion:

The fund remains defensively positioned with the return seeking core at historic lows. The manager's view that the global backdrop remains deflationary is predicated on well thought through arguments and therefore the fact that the manager has delivered a return above their target during the first half of 2017 is encouraging. LCIV officers will continue to monitor the fund's trade-off between defending its absolute return mandate and short term performance closely during the second half of the year.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO

Newton:
Iain Stewart; Portfolio manager
James Mitchell; Client RM

LCIV PY Global Total Return Fund
Q2 Manager Review
July 24th 2017

CIV Investment Team

LCIV PY Global Total Return Fund

Inception date	21/6/2016
Fund Size	£224m (as at 30/6/2017)
Number of holdings	N/A
Benchmark	N/A

Investment objective

The Sub-fund's objective is to provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection.

Investment Policy

The ACS Manager aims to achieve the objective by investing solely in the Pyrford Global Total Return (Sterling) Fund, a sub-fund of BMO Investments.

Agenda

1. Review the Q2 2017 performance of the fund.
2. Understand any changes made to the portfolio during the quarter
3. Discuss macroeconomic & political developments and how they relate to the portfolio.

	LCIV PY Global Total Return
Q2 2017	0.18%
Since LCIV Inception	9.30%

Source: Bloomberg, as at 30/6/2017. Net return with dividends re-invested.

Executive summary

In the second quarter of 2017 the fund delivered a 0.18% net return. In terms of contribution of returns, the fund's 30% allocation to equities contributed most to the total return with the overseas equities up 0.90%.

There were no asset allocation changes made to the portfolio, but the team did alter equity holdings by selling Sky, Syngenta and SCA and adding SGS, Imperial Brands, Essity and Taiwan Semiconductor Manufacturing.

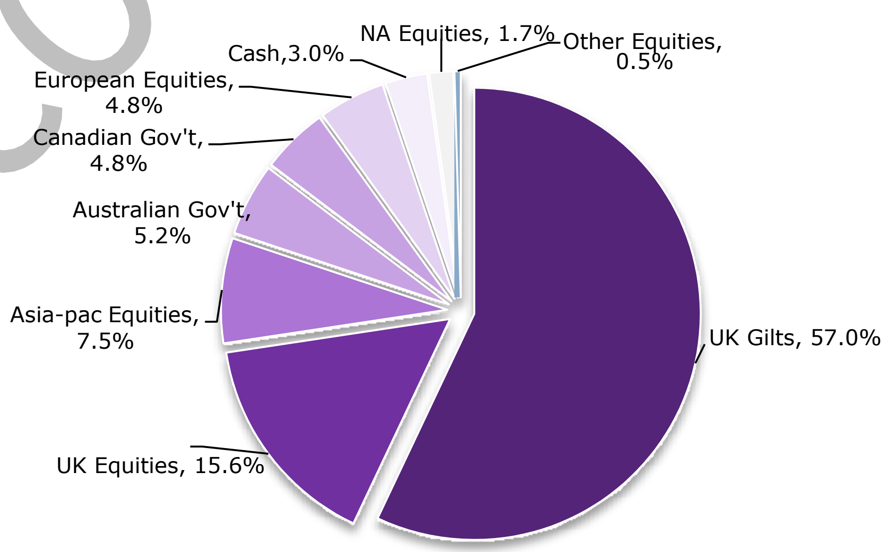
Macroeconomic views have not changed since the previous quarter. Pyrford remains as defensively positioned as it has been since inception, given concerns over the current valuation of global asset prices.

Q2 performance review:

Since the inception of the sub-fund in June of 2016 the Pyrford Global Total Return strategy has delivered 9.3%, helping AUM to reach £362m. In the second quarter of 2017 the fund delivered a 0.18% net return. The overseas equities book was up 0.90% for the quarter led by VTech Holdings and Nestle. VTech who acquired educational technology company Leapfrog last year has continued to return strongly as it capitalises on its strong market position. Holdings in Nestle took a material jump late in the quarter when Third Point an activist hedge fund took a sizable stake in the company. This move was on the back of talks that Nestle will again be the subject of takeover attempts from rival consumer staple companies. The largest negative detractor to the book was Australian petroleum company Woodside. This decline was driven by two factors; part was driven from a weaker Aussie dollar but also providing a headwind to performance was a decline in the oil price. The UK equity book was down -0.15% for the quarter whilst bond positions also detracted from the portfolio performance with rising yields leading prices lower.

Portfolio activity:

In the first quarter of 2017 there were no asset allocation changes made to the portfolio. The current portfolio allocation amounts to: 30% equities, 67% bonds (largely short-dated), and 3% cash. Pyrford continues to be concerned about both interest rate rises and the overvalued equity market. They believe that there is very little fundamental value left in markets and portfolio positioning should be in defensive positions which hold robust cash flows capable of holding up in challenging market conditions. This is expressed through key sector concentrations in oil, technology, tobacco and utilities.



Significant transactions[1]:

Purchases:

Equity:

- **Essity**- Svenska Cellulosa (SCA), an existing Pyrford position undertook a stock split into two separate entities which effectively spun Essity out of SCA. Pyrford felt that the value of the company was in the Essity side of the business and subsequently sold out of the SCA holdings and topped up the Essity holdings with the proceeds of this sale. The new company created focuses on hygiene products with one of their main brands being Tena, the world's leading brand for incontinence products. Brand power such as these gives Essity influence and bargaining power with retailers which should help to push earnings higher.

- **Imperial Brands**- This name was purchase as part of an extension on the tobacco theme in the portfolio. Pyrford believe that tobacco companies such as these have pricing power and cash flow margins in excess of 50% leaving them as "money machines" with robust and stable profits. The stock also has a historic attractive dividend yield which should continue as well as being quite resilient in market drawdowns.

- **SGS** – SGS is involved in a rather fragmented service market which tests, inspects and certifies goods and services across a range of industries. The industry is growing with regulation and control and has many opportunities to engage in further acquisitions to build and scale-up the size of operations. The balance sheet is strong, allowing for these transactions to occur should market opportunities present themselves. The business is defensive in nature given the services provided will be required even in low or no growth market environments.

- **Taiwan Semiconductor Manufacturing**- This company is a market leader in a broad range of technologies and services within the semiconductor industry. It has continued to invest in new technologies to maintain their position and command pricing power over their market, whilst working toward achieving greater efficiencies to cut operating costs. The company is consistently delivering steady profits and growth which has led to Pyrford adopting a 30bps holding within the portfolio.

[1] Transaction commentary sourced from Pyrford directly.

Sales:

Equity:

- **Sky**- The Pay TV provider, which has historically had a sizable market share in the UK, Italy and Germany, has come under pressure from new entrants such as Netflix and Amazon Prime. Such pressures challenge their traditional model format and, in particular, their pricing points. These internet based TV distributors are not only achieving traction with millennials, thus putting pressure on new subscriptions, the decreased pricing and original content now being generated by these platforms is attracting traditional Sky users, which in turn challenges their bottom line. The decision to sell Sky following the share price increase follows the takeover approach from 21st Century Fox.

- **Syngenta**- The agricultural chemicals company that provides crop protection solutions and seeds was the subject of a takeover by China National Chemical Corporation. Upon the deal being accepted by shareholders, Pyrford took profits and exited the position.

Macro discussion & portfolio positioning:

They feel that whilst the political uncertainty, particularly in Europe has begun to settle down following the French elections, there will continue to be uncertainty in the UK. Teresa May's position has been weakened post-election and a leadership challenge is likely imminent. This is also on the background of Brexit, which post-election, provides no greater clarity given the new coalition government.

Central bank policy was discussed, particularly in light of the US Fed advising that another two rate increases could occur this year, whilst also announcing an increase in its GDP growth forecast. No other central bank appears to be following this lead, although it was noted that 3 members of the UK Monetary Policy Committee indicated they would be in favour of an increase in rates. Pyrford however highlighted that this was on the back of weakening economic factors in the UK, and pointed to inflection points in the technical indicators that were beginning to come through in the US as a demonstration that growth is insufficient to justify current ratios in equity markets. Dividend payout ratios were still too high, whilst reinvestment ratios were too low and all this on a background of declining productivity and an aging population. Pyrford believe this demographic shift is already starting to come through, and to weigh on growth and the prospect of future growth.

In the Eurozone, it was discussed that Mario Draghi tested the markets by suggesting that future asset purchases may not be maintained. The volatility which immediately followed his speech in the market led to almost retracting messages coming out of the ECB to help calm markets.

Given the heavy weighting to oil, Pyrford discussed the improvements in the breakeven points of shale producers being able to extract oil for cheaper as impacting on an increase in supply in oil markets, thus leading to a lower cost. Since the selloff first started two years ago, Pyrford noted that there has been no capital expenditure from these producers and that future reserves would run out. This means that whilst supply had not fallen from shale yet, it was likely to in the future. The dividends are sustainable on current cash flows, however given the depleting oil fields this was only expected to last for a further 3-4 years. They discussed the strategic selling of assets to buyers who were accumulating scale.

The utility theme in the portfolio was also discussed as an example of Pyrford's defensive portfolio positioning to be invested in holdings with market resilient cash flows. They use National Grid and United Utilities as examples of where they felt that investors were "being paid to invest". They believe that the UK utilities model, which is based on very tight capacity utilisation, will continue to generate return over the market cycle.

The LCIV challenge to Pyrford was on those holdings most impacted by increasing regulations such as Zurich Insurance Group and Legal & General. On Zurich, Pyrford believe that the yields being achieved in the US insurance and reinsurance market were now delivering good value, particularly given how much work had been done to adjust the cost base and lower operational expenses. They also pointed out to being able to hold up margin despite reducing the leverage in the group. On Legal and General, Pyrford believes the conservatism that had been adopted in the mortality table, for their giant annuities book, was starting to be rewarded through their experienced payouts, and that this trend would likely continue. Whilst the argument here on the surface seems robust, the LCIV team were conscious that when asking about the regulatory cost and impact on the balance sheet of these organisations, today and in the future, these responses do not sufficiently answer these questions. Subsequently there was some concern that Pyrford may be underestimating the future cost of these regulations, and that this may weigh on the profit margins of these organisations in an already competitive market environment.

Pyrford continues to invest in short dated UK, Canadian and Australia bonds. The short gilt holdings are collectively the largest portfolio positioning at over 57%. Over the quarter, these detracted from performance by returning -0.27%. This is a defensive position, which will protect capital in a market sell off. The duration of the bond portfolio is 1.54 years. There has been no change in allocations over the last quarter with Canadian and Australian bond allocations continuing to represent 5% of portfolio holdings each. These are fully hedged positions and detracted -2.14% over the quarter as a result of strengthening in sterling. It should be noted that the CAD and AUD currency forwards generated a 1.16% and 3.3% respectively, which did offset these bond losses.

CIO conclusion:

Pyrford continues to maintain defensive positioning, which will weigh on relative returns compared to more risk-on DGF funds. In low growth markets their dividend focus on high quality names should help them to generate a low but positive return. In a heavy market sell off their prudence and fundamental positioning should help to better protect the portfolio.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO
Larissa Benbow; Head of Fixed Income

Pyrford:
Tony Cousins; CEO/PM
Felim Glyn; Client RM

LCIV RF Absolute Return Fund
Q2 Manager Review
July 18th 2017

CIV Investment Team

LCIV RF Absolute Return Fund

Inception date	21 June 2016
Fund Size	£473m (as at 30/06/2017)
Number of holdings	N/A
Benchmark	Not applicable

Investment objective

To achieve low volatility and positive returns in all market conditions. Capital invested in the Sub-fund is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods

Investment policy

The ACS Manager aims to achieve the objective by investing solely in the CF Ruffer Absolute Return Fund, and cash and near cash.

Agenda

1. Review the quarterly performance of the fund.
2. Explain any portfolio changes relating to the second quarter.
3. Briefly discuss the macroeconomic views of the Ruffer team.

	LCIV Ruffer Absolute Return Fund
Q2 2017	-0.45%
Since LCIV Inception	11.00%

Source: Bloomberg, as at 30/06/2017. Net of fees with dividends re-invested.

Executive summary

The Absolute Return fund produced a -0.45% loss in the second quarter, following the flat performance in the first quarter of the year. Less dovish central bank rhetoric, resulting in the increasing probability of developed market monetary tightening, unsettled bond markets and hurt the inflation linked holdings in the Absolute return portfolio.

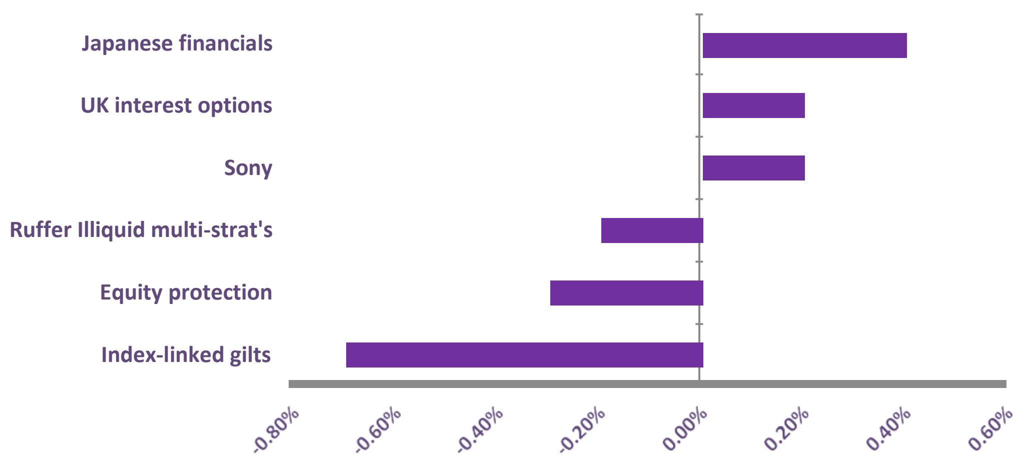
Ruffer added Vivendi to take advantage of the potential emerging power shift back towards music production at the expense of distributors.

The overarching macroeconomic views of the team have not changed but a growing confidence in a new era for fiscal policy is more evident. The strategy is designed to offset a variety of risks over different time periods whilst taking advantage of opportunities as they arise.

Q2 performance review[1]

Since the inception of the sub-fund in June of 2016 the Ruffer Absolute Return strategy has delivered an 11% return, helping, alongside subscriptions, the fund to grow to £473m. Whilst returns have been marginally negative in 2017, the fund performed extremely well in 2016 despite a host of political shocks including the UK's decision to leave the European Union, and the election of Donald Trump in the U.S. Since the beginning of 2017 it is the (equity) option protection that has cost the fund; as equity markets continue to make new highs, the Vix index, where much of the fund's equity protection resides, fell to its lowest level since 1993. Ruffer view this portfolio insurance as necessary and point to historic bouts of extreme short term volatility in the Vix, which should somewhat protect the fund in any significant market risk-off environment.

Key contributors to return - Q2 2017



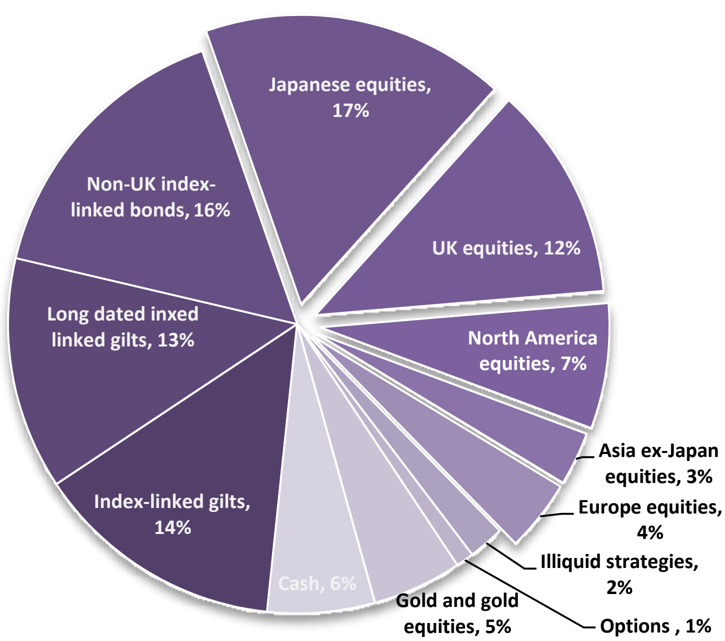
Factors that helped performance include Japanese financials, UK interest rate options and Sony. Domestic Japanese economic strength and resilient global trade helped Japan to catch-up with western markets after lagging in Q1. Sony led the way, boosted by a growing internal appreciation of shareholder value by management, and Japanese financials also made respectable gains. Ruffer, being aware of the risk of short-term concerns over higher interest rates, purchased interest rate calls that rose in value, offsetting some of the losses from the long dated index linked (I/L) gilts.

[1] Ruffer quarterly investment report. Views relate to those of Ruffer not the London CIV.

The I/L gilt holdings were by the far the greatest detractor of returns at -0.7%. According to Ruffer, despite some signs of weakness in the UK economy mixed signals over the need for higher rates unsettled bond markets. With Eurozone growth picking up and another 0.25% rate rise in the U.S., global bond yields moved higher at the end of the quarter. As inflation was little changed this caused I/L gilts to give back some of last year's gains.

Portfolio positioning

Ruffer made few changes to positioning in the second quarter, but they did explicitly discuss the addition of Vivendi in our recent meeting. Ruffer added Vivendi, the French media group, in part due to the European recovery story, but predominantly because of its universal music business. According to Ruffer ''in 2015 the music industry saw its first increase in revenues this century; for the first time in the online age it seems the content owners, like Universal, have wrested some control back from the distributors.'' The Absolute return team holds Sony which may benefit for similar reasons, alongside its ongoing re-structuring.



With equity valuations high, and the increasing likelihood of monetary tightening, particularly in the U.S., Equities remain less than 40% of the portfolio. However, according to Ruffer, the global relation remains in place, and they continue to hold exposure to banks and other companies geared into improving economic activity.

Macro discussion:

The discussion with the Absolute Return team was brief as very little had actually changed by way of long-term views. The portfolio is still unequivocally tilted towards global reflation with sizable allocations to inflation linked bonds and global equities. Ruffer did appear to have more conviction in their ‘fiscal policy to the rescue’ thesis. They believe that it is only a matter of time before a major regime shift takes place, a shift back to Keynesian/Minsky type policy. A decade of financial repression and austerity, as well as the negative externalities brought by globalisation, has only augmented the dissatisfaction of the masses, to which the recent populist outburst was the inevitable result.

The question becomes, what next? Ruffer anticipate that the burden will be shifted towards the wealthy in society. Debt monetization and inflation will be the means of redistribution amongst citizens. The absolute return team feel that the recent developed market populist movement will speed up this fiscal response, but the timing remains somewhat unclear; in the words of the team ‘’we spend our time trying to buy-time until these events play out.’’

Ruffer also explained their views on the path of Fed’ tapering. The Ruffer CIO worries about the effects that tapering could have on effects on much more illiquid markets, such as corporate bonds. The scale of the Fed’s balance sheet and their associated selling (likely roll-off than outright selling) could cause severe damage to the various microstructures. That said, the team believe Janet Yellen, Federal Reserve chair, will remain relatively dovish until the likely end of her term in the first quarter in 2018, giving Ruffer time to cement their thoughts on the impact of tapering across markets.

With central banks pondering higher interest rates on both sides of the Atlantic as labour markets tighten and inflation seeps through, the last thing Ruffer want is for their equities to correlate highly with their bonds. As a result, they’re invested in short duration equities against long-term bonds. In their opinion this is an effective offset and could help the fund return positively in vastly different environments.

With the Vix being the major detractor against performance year to date the LCIV team were keen to find out if this allocation is the most efficient vehicle for portfolio protection, particularly given the distorted use of the Vix by many, including ETF speculators betting on low volatility. Ruffer claim that it is exactly these distortions that could allow for a pronounced snap back in the event of a significant equity market downturn, allowing the fund to bank multiples of its investment. Moreover, the team have decided only to use the S&P Vix index and not those offered in UK or European markets due to the highly liquid nature of the former relative to the latter two.

CIO Conclusion:

The negative performance of the fund arrived late into the quarter as both Mario Draghi and Mark Carney made unexpectedly hawkish comments about the future path of interest rates in their respective currencies. The central banks of both governors went on to play down these comments and markets have since re-priced the prospect of monetary tightening across the yield curve(s). Whilst Ruffer could not have foreseen these events, it does beg the question of the impact of policy errors on absolute return mandates that are not geared towards higher (natural) real interest rates. With global growth and inflation rebounding the London CIV is interested in how the portfolio could perform in these environments. That said, the team at Ruffer team have shown admirable speed of thought to tactically adapt the portfolio in order to buy time, whilst retaining their core view of debt monetization and fiscal redistribution; we remain confident that the team will deliver despite the increasingly uncertain market environment.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO
Ryan Smart; Investment Analyst
Larissa Benbow; Head of Fixed Income

Ruffer
Alex Lennard; Investment Director
David Balance; Investment Director

Important information

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