LONDON CIV

Pensions CIV Sectoral Joint Committee

Item no: 6

Fund Performance Report

Report by:	Julian Pendock	**Job title:**	Chief Investment Officer
Date:	11 December 2017		
Contact Officer:	Julian Pendock		
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Summary: This report updates the Committee on the performance of the LCIV sub-funds

Recommendations: The committee is recommended to note and discuss the contents of this report.

LONDON CIV – QUARTERLY PERFORMANCE STATISTICS

Q3 2017 JULY – SEPTEMBER 2017

FUND (Underlying Manager)	PRICE (Pence)	FUND SIZE £M	Q3	YTD	1 year	SINCE INCEPTION	INCEPTION DATE	Number of Investors
UK Equity Sub-Fund								
LCIV MJ UK Equity (Majedie)	99.73	£523	**2.74%**	**0.07%**	**N/A**	**0.07%**	18/05/17	3
Benchmark: FTSE All Share Index			*2.14%*	*0.83%*		*0.83%*		
Performance Against Benchmark			*0.6%*	*-0.76%*		*-0.76%*		
Global Equity Sub-Funds								
LCIV Global Equity Alpha (Allianz Global Investors)	137.8	£715	**3.98%**	**15.37%**	**17.81%**	**41.36%**	02/12/15	3
Benchmark: MSCI World Net GBP Index			*1.50%*	*6.85%*	*14.41%*	*36.32%*		
Performance Against Benchmark			2.48%	8.52%	3.40%	5.04%		
LCIV BG Global Alpha Growth (Baillie Gifford)	145.5	£1,742	**4.12%**	**17.20%**	**21.80%**	**47.05%**	11/04/16	9
Benchmark: MSCI All Countries World Gross Index			*2.27%*	*8.52%*	*15.50%*	*36.56%*		
Performance Against Benchmark			1.85%	8.68%	6.30%	10.49%		
LCIV NW Global Equity (Newton)	100.9	£661	**0.40%**	**1.11%**	**N/A**	***N/A***	22/05/17	3
Benchmark: MSCI All Countries World Gross Index			*1.96%*	*3.09%*				
Performance Against Benchmark			-1.56%	-1.98%				
Multi Asset Sub-Funds								
LCIV PY Total Return (Pyrford)	108.3	£223	**-0.91%**	**0.93%**	**1.50%**	**8.30%**	17/06/16	3
LCIV Diversified Growth (Baillie Gifford)	115.5	£434	**0.65%**	**5.31%**	**7.43%**	**17.53%**	15/02/16	5
LCIV RF Absolute Return (Ruffer)	109.3	£539	**-0.72%**	**-1.16%**	**0.83%**	**10.20%**	21/06/16	5
LCIV NW Real Return (Newton)	102.7	£343	**-0.85%**	**2.27%**	**N/A**	**3.71%**	16/12/16	3
Total LCIV Assets Under Management		£5,557						**18**

Data taken from Bloomberg as at 30/09/2017
All performance reported Net of fees and charges with dividends reinvested

LONDON CIV

LCIV NW Real Return Fund
Q3 Manager Review
October 2017

CIV Investment Team

LONDON CIV

Newton Real Return Fund

Inception date	16/12/2016
Fund Size	£343m (as at 30/09/2017)
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)
Q3 2017	-0.85%	1.00%
Since LCIV Inception	3.71%	3.20%

Source: Bloomberg, as at 30/09/2017. 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 -0.85% net return for the second quarter, and a 3.71% return since its December 2016 inception.

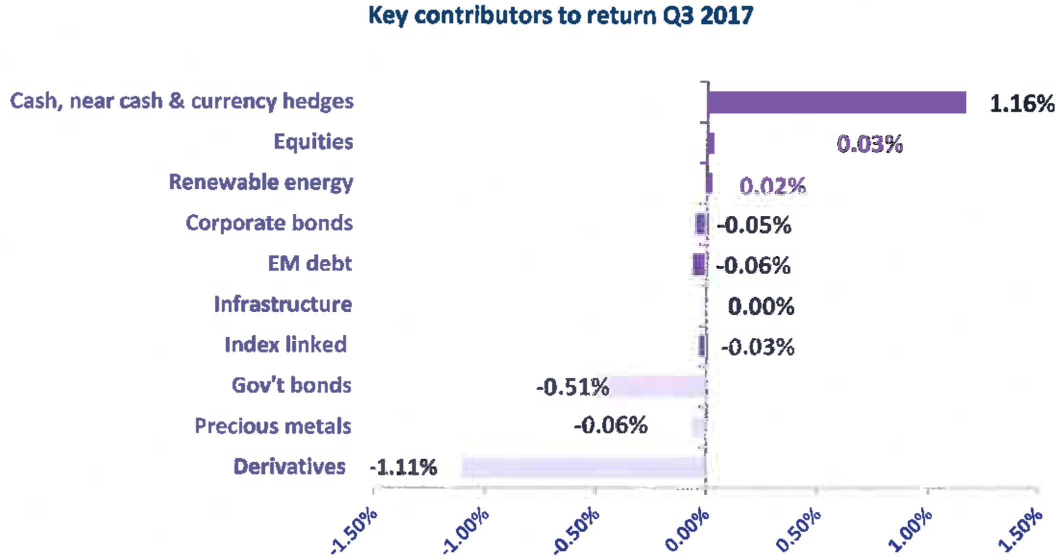
The Newton strategy comprises a return seeking core with a layer of stabilizing assets and hedging positions. The return-seeking core was mostly flat over the quarter, with the equity portfolio delivering positive gains. The appreciation of GBP detracted slightly from the fund's performance, but the largest drag on performance came from the equity derivative positions, which were deployed to protect the fund from an equity market correction.

The manager remains fundamentally cautious, given the plethora of macroeconomic, market and geopolitical risks. It should be noted that Iain Stewart, the lead PM on the strategy, will be largely stepping back from his responsibilities. A co-lead structure will be introduced, with Suzanne Hutchins and Aron Pataki stepping up.

Q3 performance review[1]:

The LCIV NW Real Return Fund delivered a -0.85% net return during the third quarter. The largest contributor to performance came from currency forward positions, with cash, cash equivalents and hedges contributing 1.16%. Equities were flat overall in the quarter. The major detractor from equity performance was Teva Pharmaceuticals, which fell by approximately 45% in the quarter.

Infrastructure and Emerging Market Debt was a marginal drag on performance. Holdings in US, Australian and New Zealand government debt were a more material drag, with a -0.51% performance impact.



Portfolio activity[2]:

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**

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[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.

Bond duration has been kept low, but this was insufficient to protect the portfolio from losses in government bonds.

The one area which warranted more investigation pertained to the hedging policy of the fund manager. The use of S&P500 index futures to protect against equity market falls was arguably inefficient, and this issue was compounded by a mismatch between the index and Newton's underlying equity holdings. The cautious stance of the manager meant that the equity holdings are reasonably defensive, and therefore on a net basis, the manager was effectively running a short position in the economically-sensitive economic constituents such as banks. The major impact is likely to have come from being short of the "FANG" stocks (Facebook, Amazon, Netflix and Google (now rebranded Alphabet)), in an environment where the vast majority of gains in the S&P500 came from the FANG grouping.

Macro discussion

Newton has maintained its cautious stance, in common with Newton's thematic approach. The concerns include stretched market valuations, the prospect of higher rates, trade disruptions, economic and political risk emanating from China, the maturity of the business cycle (especially in the US), and the withdrawal of liquidity from markets as Quantitative Easing becomes Quantitative Tightening (QT).

The below table from Newton illustrates the difference between US market valuations and macroeconomic considerations at this point in the cycle, versus 1981 (which many market participants had been using as a comparator).

End 1981	United States	Q2 2017[1]
12%	Fed funds rate	1.25%
14%	10-year bond yield	2.3%
$149 billion	Monetary base	$3.8 trillion
10.7%	Profit margins (national accounts)[2]	15.4%[4]
7.8x	S&P cycle adjusted P/E[3]	30.1x
5.8%	MSCI USA dividend yield	2.0%
27	Average age of baby boomer	62

Notes:
[1] 30 June 2017.
[2] Calculated by the Bureau of Economic Analysis in the US in calculating the national accounts.
[3] Used 10 years of earnings to remove the effect of the economic cycle from the P/E calculation.
[4] Data as at 31 March 2017.
Source: Datastream, Bloomberg, US Census Bureau, Newton.

CIO conclusion:

The cautious stance thus far has been the "pain trade", particularly being effectively net short of the FANG stocks. The use of derivatives (which cost the fund just over 5% over the last 12 months) was the key performance drag. The change in portfolio manager responsibilities for the fund also bears watching, and CIV officers will continue to monitor this closely.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Rob Hall, Head of Equities

Newton:
Iain Stewart; Portfolio manager
Philip Shucksmith; Portfolio manager

LCIV Diversified Growth Fund (Baillie Gifford) Q3 Manager Review

25th October 2017

CIV Investment Team

LCIV Diversified Growth Fund (Baillie Gifford)

Inception date	15/2/2016
Fund Size	£435.8m (as at 30/09/2017)
Number of holdings	N/A
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.

	LCIV BG Diversified Growth
Q3 2017	0.65%
Since Inception	17.5%

Executive summary

The fund delivered a 0.65% in the third Quarter. Markets remain benign and monetary policy remains accommodative. The riskier allocations in the fund (equities, corporate bonds) were the salient performance contributors as these markets continued to rise. The Central Bank rhetoric is increasingly hawkish, however, and the team are increasingly concerned that the impending tightening may derail the increases in equity and corporate bond markets. Nevertheless, the improving growth characteristics in economies should counteract this, according to the manager.

The Baillie Gifford ('BG') team have become slightly more risk-on in Q3. 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. They have also added to the Absolute Return positions to increase the embedded protection within the portfolio in case of a market shock. The team retain a 10% allocation to cash which has been around their average liquid holding over the past 3 years for opportunistic investing.

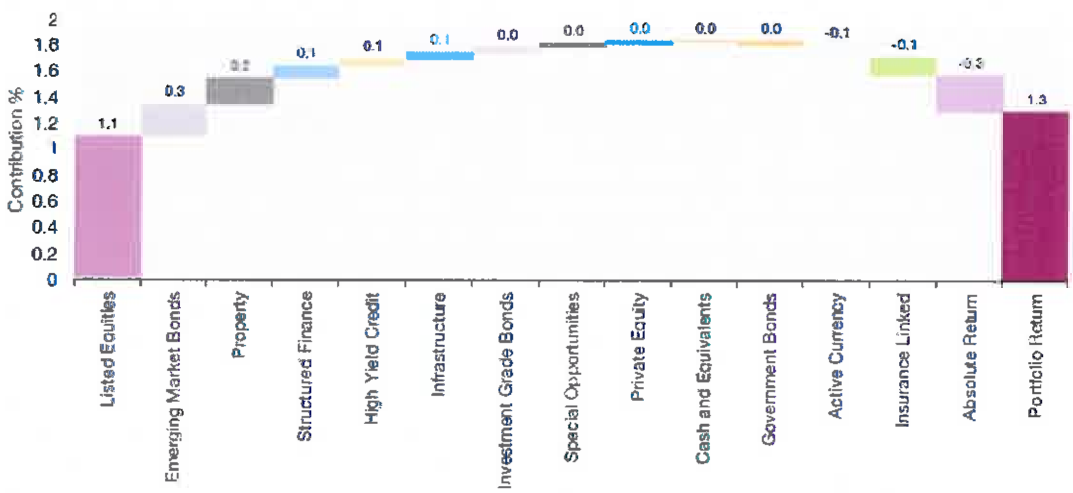
Q3 performance review:

The fund continued it's decent performance in Q3 as the risk assets performed well. This brings the 12 months performance (net of fees) to 7.6% to 30th September 2017. The majority of the performance over the quarter came from the listed equity space, as markets continued their grind to record levels. However, unlike many peers in this space, the team at Baillie Gifford can see plenty of reason for optimism. They believe that accommodative monetary policy is likely to continue, as the central banks are likely to err on the side of caution when raising rates, rather than risk triggering a market sell-off. Furthermore, inflation remains low and stable, the global economy is growing at an accelerating rate and unemployment figures are falling. It is this backdrop which has led almost all risk assets higher over the last 12 months and Q3 was no different.

The chart below (courtesy of Baillie Gifford) shows the performance attribution over the quarter. As one can see, the main driver of performance was the equity portfolio, which contributed to 1.1% out of the 1.3% (gross of fees) return. The average exposure to listed equities during this period was 21.1%, which was the largest allocation in the fund to any one asset class.

Contributions to Performance

Quarter to 30 September 2017



Given the managers' perceptions of a relatively benign market backdrop, they are happy to let this weighting increase, as it has been over the last 2 years. However, the managers are concerned that markets may be due a correction, as there is increasing trepidation over the valuations of the equity markets among participants. Therefore, the level of protection and cash employed by the portfolio has also increased.

The manager employs a scenario-based portfolio construction methodology, where numerous scenarios are modelled and then a probability assigned to each one. The team will then optimise the portfolio such that the expected return in any given scenario is as large as possible, with a higher weighting given to those which have a higher perceived probability. The team have noted that their scenarios have become increasingly wide-ranging of late, which means that a barbell strategy (buying risk assets and protection assets at the same time), is the obvious route.

This is likely, however, to increase the cost of implementation in the form of hedging cost, so care must be paid to structuring the protection.

Portfolio activity:

Significant transactions:

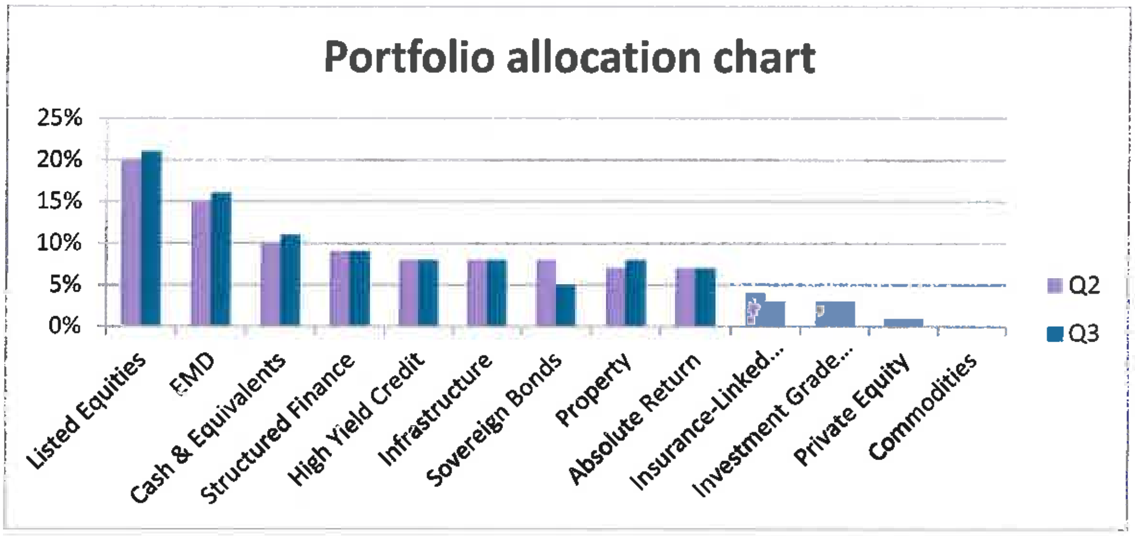
- Equities:

The team added to their equities position over the quarter, maintaining a bias towards Europe, Japan and Emerging Markets as they perceive these to be the areas which are still benefiting the most from central bank support.

- Emerging Market Bonds:

The team remain bullish on the case for Emerging Market debt and selectively added to positions in this space. Specifically, the managers added to positions in Argentinian and Indian bonds, but also added some new positions in Egyptian T-bill and a Peruvian bond. The managers believe that these offer attractive returns as well as diversification from the other risk exposures within the fund.

The chart below shows the high level changes to the portfolio over the quarter.



Source: Baillie Gifford (as at 30/09/2017)

Sovereign bonds and Insurance-Linked Securities made way for the increases in listed equities, EMD and Property. Part of this was down to market moves, but the majority was due to the reasons outlined above.

Conclusion:

The fund continues to materially outperform other DGFs in the market. It is, however, apparent that the fund does have a higher proportion of risk-weighted assets in the portfolio in order to achieve this. The manager believes that the environment remains a benign one and, while valuations are reaching high levels, with the level of stimulus and benign backdrop, they have reason to and could go further. The test of this strategy will come when growth markets do fall. Then we will see how well the protection portfolio has been structured and whether it will be enough to counteract the large positions held in the riskier markets.

There were no changes to the process or personnel during the quarter.

Meeting Attendees

Team CIV:
Robert Hall; Head of Equity

Baillie Gifford:
David McIntyre; Investment Manager
Chris Murphy; Client RM

LONDON CIV

LCIV RF Absolute Return Fund Q3 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
Q3 2017	-0.72%
Since LCIV Inception	10.20%

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

Executive summary

The Absolute Return fund continued to lose ground in Q3, as a combination of option cost, positioning in inflation-linked bonds hurt performance. Whilst equity selection was a positive the portfolio was not in the fastest moving areas of equity markets, so the returns from growth assets were not sufficient to offset protective positions.

The team are maintaining conviction in these positions, arguing that they are well-protected both if inflation rises significantly as well as if inflation stays at these levels. The large amount of monetary stimulus and the prospect of fiscal policy on the horizon means that the third scenario of inflation falling is over-priced, according to the managers.

While there was some continued options cost in the quarter, the team at Ruffer are happy to accept this as it is these positions that will protect the portfolio in the event that, as both fixed interest and equity markets have risen simultaneously over the past 7 years, they will also fall simultaneously. Historic correlation analysis and fundamental CAPM thinking will not serve to protect should this occur and the team are happy to pay for the protection. The last 30 years having been characterized by falling rates and falling inflation, which has supported asset prices, and negative correlation at times of stress. In the event that these dynamics change the protection Ruffer hold may (in their view) be the only safe haven. In the meantime the manager hopes that the growth assets (principally equities) will be able to drive positive returns.

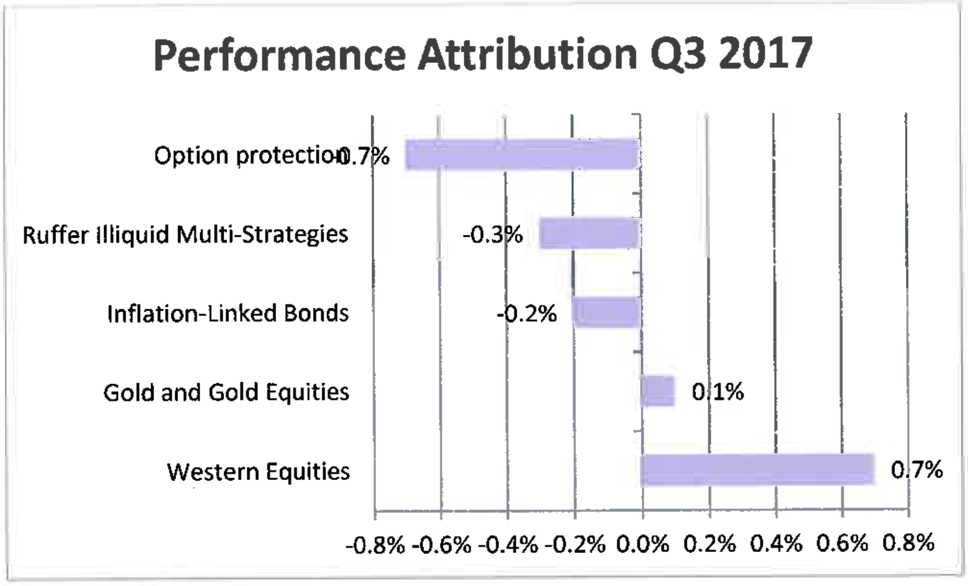
Q3 performance review

It is the philosophy at Ruffer that their portfolios should be able to make steady positive returns in all market conditions, this might give the appearance of being like "driving a tractor on a motorway", slow and steady but relentless. The last 18 months have, in the managers' own words, been "the most difficult [he] can remember" as potential risks have increased, but the asset prices still grind higher. The team at Ruffer are therefore positioning the portfolio with a defensive mindset, building in protection for as many scenarios as possible without nullifying the exposures. As volatility in these markets continues to fall, the value of this protection has, on an accounting basis, continued to fall and thus hurt the fund.

Nevertheless, the manager is adamant that this protection is worth paying for, as the historical inverse relationship between bonds and equities appears to have stalled, and both asset classes appear expensive.

Inflation-linked bonds were a detractor to performance as higher inflation readings led to more hawkish rhetoric from the Bank of England, which drove bond market yields higher. The breakeven rate, however, was broadly unchanged, which meant that Inflation-linked gilts perversely underperformed.

Stock selection helped performance in equities, with BP being the stand-out performer. Higher oil prices meant that investors flocked back into the Energy sector more broadly, and BP in particular, bringing Q3 performance to 10% for the stock.



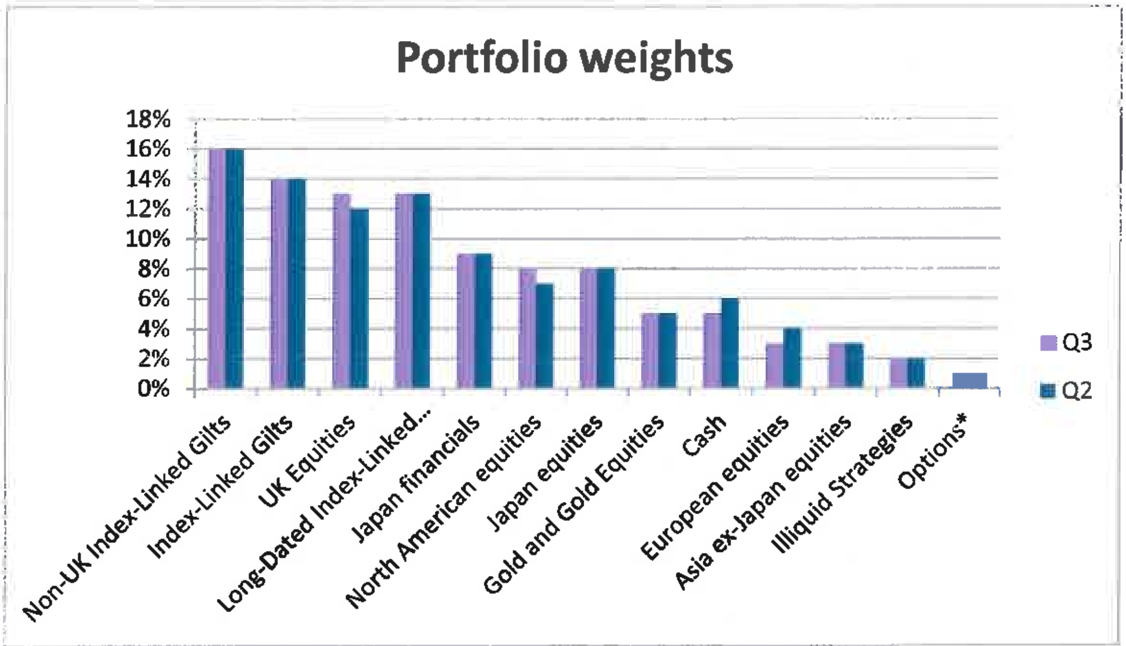
Source: Ruffer

From an asset allocation perspective, the portfolio is dominated by Index-Linked gilts (27% of portfolio), half of which is in Long-dated securities. Furthermore, there is a 16% weighting to Non-UK Index-linked bonds (US and Canadian) and 5% in Gold (and gold equities), which emphasis the expectations of negative real yields within the fund. To balance this view, the managers have opted to invest in financial equities (particularly in Japan) and tilt the equity portfolio towards more economically sensitive names. Japan is a market they believe has the highest optionality should inflation not increase from current levels.

In a departure from other multi-asset funds, the team at Ruffer believe that the markets are currently upside down. The more stable a company cash flows are, the more they are being used as bond proxies and are therefore inherently risky in a period of rising rates; this viewpoint implies that many equities seen as "quality" companies are especially vulnerable to any market correction brought about by higher interest rates. The fund is, instead, choosing to adopt a more special situations strategy for the equity portfolio, which accounts for around 40% of the fund. With the exception of a macro call on financials, which is partly hedging the Inflation-linked bond area of the portfolio, the manager is choosing to increasingly rely on the in-house analyst idea generation capabilities and less on market price-based screens to increase the diversification within the portfolio.

Portfolio positioning

Ruffer made few changes to positioning in the third quarter, as shown in the chart below.



Source: Ruffer

The manager remains cautious of the general environment, in particular the crowded nature of key trades. The portfolio is therefore adopting a barbell strategy, attempting to benefit from both inflation-benign (Bank equities) and inflation-hostile (Index-Linked Gilts) environments. While the protection is continuing to prove expensive for the fund, the highly convex nature of these instruments is, in the manager's view, worth the cost.

Conclusion:

The negative performance of the fund over the quarter was primarily due to the fall in option pricing, due to the ever-lower levels of volatility. While this has been the case for the last two quarters, the high convexity and flexibility within these instruments does, according to the manager, provide unique protection that is otherwise impossible to achieve. The manager did manage to avoid the broad-based rotation out of "defensive" sectors in the equity market, as he had predicted these to be the most overvalued areas. The manager is attempting to increase the diversification in the portfolio by any means necessary, be it from a geographical, sector, or asset class perspective. The manager believes that this is the only way to continue to protect client money in the upcoming market "hurricane".

Meeting Attendees

Team CIV:
Robert Hall; Head of Equity

Ruffer
Alex Lennard; Investment Director
David Balance; Investment Director

LCIV RF Absolute Return Fund
Q3 Manager Review
July 18th 2017

CIV Investment Team

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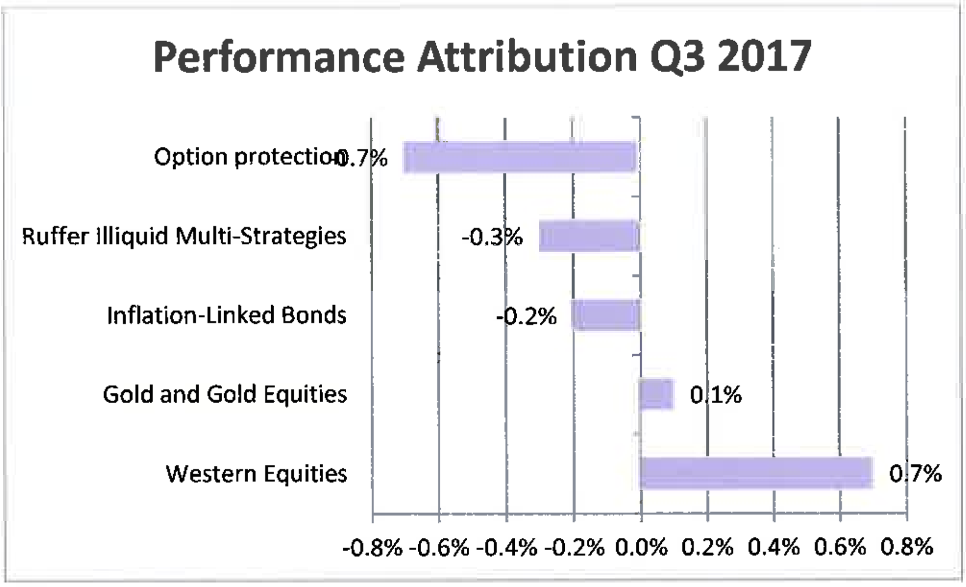

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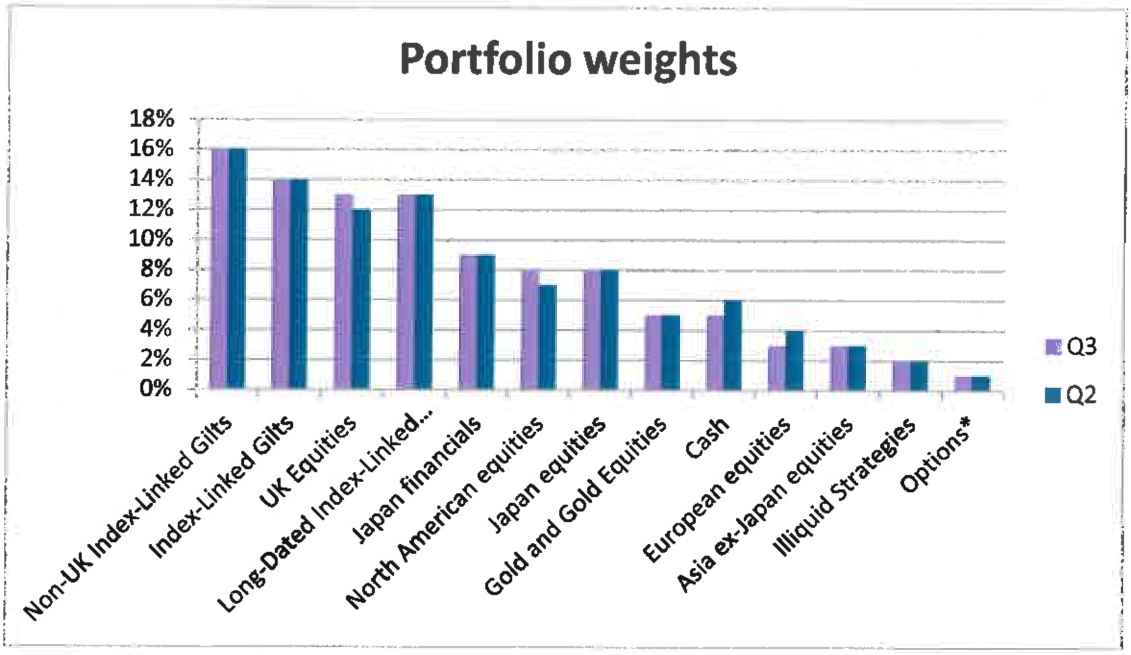

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Conclusion:

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Meeting Attendees

Team CIV:
Robert Hall; Head of Equity

Ruffer
Alex Lennard; Investment Director
David Balance; Investment Director

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LCIV Global Equity Alpha (Allianz) Q3 Manager Review

12th October 2017

CIV Investment Team

LONDON CIV

LCIV Global Equity Alpha (Allianz) Fund

Inception date	2/12/2015
Fund Size	£713m (as at 30/09/2017)
Number of holdings	49
Benchmark	MSCI World Index

Investment objective

The Sub-fund aims to achieve capital growth by outperforming the MSCI World Index Total Return (Net) GBP by 2% p.a. net of fees.

Agenda

1. Review the latest quarterly performance of the portfolio.
2. Outline any changes to portfolio holdings.

	Allianz GEA	MSCI World
Q1 2017	4.0%	1.5%
Since LCIV Inception (annualised)	20.84%	18.47%

Source: Bloomberg, as at 30/09/2017 Net of fees with dividends re-invested. Inception date = 02/12/2015

Executive summary

Performance has been strong this year, outperforming the benchmark by 8.5% to 30th September (15.4% v. 6.9%)[1]. This was largely driven by the growth bias and an overweight in IT, a sector which has performed strongly in 2017. Stock selection was has also been additive to performance both over the last Quarter and the year as a whole.

There have been no significant changes to the Global Equities business at Allianz GI, although there is a greater focus on research costs which may lead to a change in the near future. The team continues to be stable and they have added a dedicated Consumer Discretionary analyst during the Quarter. Bixuan Xu previously worked on the Graduate program and has been working closely with the team for almost a year.

[1] Source: Allianz Global Investors

As is the case with many market participants currently, the team are concerned with valuations at present. To reduce the sensitivity to a pullback, the manager has incorporated more technical analysis to ensure that the "stretched" stocks are given priority in trading. This may lead to lumpy trading in the short term.

Q3 Performance review:

The fund has had a strong year and Q3 was a continuation of this theme, outperforming the index by 2.5% net of fees. This was primarily driven by an overweight in IT, which combined with the stock selection within this sector contributed over 1% to relative performance over the Quarter. Tencent was one of the primary drivers of this, as the market continues to react positively to both the organic growth story and the swathe of acquisitions which the Chinese tech giant has effected this year. There are some concerns that this performance has meant that the stock price is now extrapolating unreasonable expectations, so the manager is paring back the overweight to the stock.

Elsewhere, Healthcare stock Abbvie had a strong Quarter, due to a combination of the FDA approving their Mavyret drug and the resolution of the long-standing patent dispute in the favour of the company. Abbvie shares reacted positively, jumping 17% in one week on the news.

Relative detractors were also on the long side, with Wabtec in particular losing the fund 38 bps over the Quarter. The stock lost 20% in 2 days following the CEO downgrade of earnings at their Q3 call. Furthermore, the possibility of recovery for earnings, while probable, was pushed out past the year end, leading many analysts to downgrade the stock. Despite the stock having been one of the poorest performers in the portfolio this year, Lucy MacDonald believes that the stock price reaction has been overdone and has added to the position on weakness.

Portfolio activity:

Significant transactions:

- Purchases
  - Albemarle 1.5% position
  - Roper Technologies 1.3% position
- Sales
  - Monsanto
  - United Technologies

CIO conclusion:

The fund continues to enjoy 2017 amid the growth-driven markets and an excellent stock selection performance, but the change in trading does indicate that there is some trepidation in the absolute levels of stock prices. The bottom-up nature of the fund does leave it open to large macro or sector reversals and although the team have begun to implement more technical analysis to counteract this on a stock-specific level, it is doubtful that it will significantly protect against a more widespread move.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Robert Hall; Head of Equity

Allianz
Lucy Macdonald; Portfolio Manager
Joanne Wheatley; Client RM

LCIV UK Equity Fund (Majedie)
Q3 Manager Review
16th October 2017

CIV Investment Team

LONDON CIV

LCIV UK Equity Fund

Inception date	18th May 2017
Fund Size	£523.3m (as at 30/09/2017)
Number of holdings	87
Benchmark	FTSE All Share Total Return Index

Investment objective

The Sub-fund aims to achieve capital growth by outperforming the FTSE All Share Total Return Index by 2% p.a. over a rolling 3 year window.

Agenda

1. Review the latest quarterly performance of the portfolio.
2. Outline any changes to portfolio holdings.

	Majedie UK Equity Fund	FTSE All Share TR
Q3 2017	2.7%	2.1%
Since LCIV Inception	0.1%	0.8%

Source: Bloomberg, as at 30/09/2017 Net of fees with dividends re-invested. Inception date = 18/05/2017

Executive summary

The fund has performed well over the Quarter, outperforming the FTSE All Share Index by 0.6%. This is perhaps slightly unexpected, given their cautious view on the markets, but strong performances from the sector positions and underlying stocks proved to outweigh the cautious tones within the portfolio.

While the fund has underperformed the index since inception, the team have managed significant outperformance over the longer term. Their apparent skill in minimizing downside capture is impressive, given that this is a long-only portfolio.

There have been no changes to the team or the process since the inception of the LCIV fund.

Q3 Performance review:

The fund performed well in Q3, outstripping a buoyant benchmark. Sector underweights in Tobacco and Biotech particularly helped, as these stocks suffered from adverse regulatory news in the US. Overweights in Mining stocks also helped as Anglo American and KAZ Minerals, in particular, performed strongly.

Detractors were mainly stock specific in companies such as Glencore, Ryanair and WM Morrisons, all of which are still held within the portfolio.

Positioning is still exhibiting a cautious tilt, with the managers pulling in their Mining exposure and adding some Gold stock positions to protect from any inflation shocks. The managers continue to focus more on those companies which are less exposed to a weaker Sterling, such as Food retailers and Telecoms. The thesis is that, while GBP has had a decent rebound over the course of the year, the trend is looking increasingly weak and there are signs that it is reversing. Import companies, such as the majority of Consumer Staples stocks, will suffer headwinds in this environment. Domestic UK stocks are better-protected from these headwinds, so one should expect the proportion of UK-based earnings to grow in the near term.

The Food Retailer position is a salient one in the portfolio and one which is not widely shared among the manager universe. The managers believe that stocks such as Tesco, WM Morrisons and Marks & Spencer are cheap, relative to their history and the optionality within. Operating margins have already risen from 0% - c.4% over the last 18 months in the case of Tesco, and any food price inflation is likely to help this grow further in the future.

Portfolio activity:

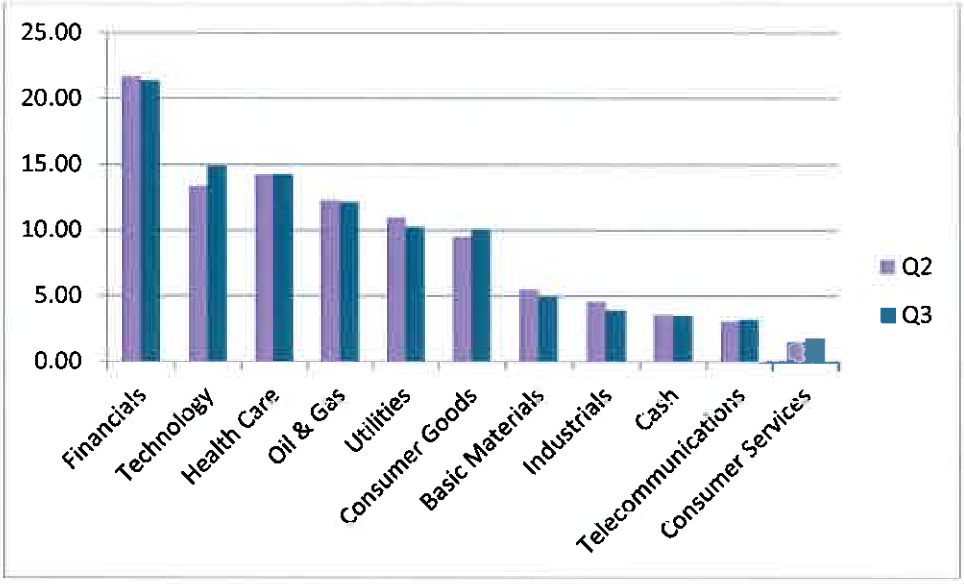
Significant transactions:

- Purchases:
    - BP
    - SSE
    - Associated British Foods
    - Rio Tinto

- Sales
    - GlaxoSmithKline
    - Anglo American
    - Card Factory

Portfolio evolution

The chart below gives the sector evolution of the portfolio over the quarter.



Source: Majedie

The largest change at a sector level has been the increase in Technology and Consumer Goods. The former was largely due to additions in Sage Group, an enterprise software group which is headquartered in Newcastle. The Consumer Goods increase reflects additions to the Food Retailers, as well as the new acquisition in Associated British Foods.

Basic Materials have decreased despite strong performance due to the manager selling positions on the strength.

CIO conclusion:

Majedie are, like many of their peers, increasingly bearish about the state of the markets given current valuations. However, positioning at the sector level helped the fund to outpace the Index during the quarter. Despite this, one should expect that the fund will exhibit lower beta over longer time periods, given the defensive stance in the portfolio. There have been no changes to the team or the process over the course of the year.

Meeting Attendees

Team CIV:
Robert Hall; Head of Equity

Allianz
James de Uphaugh, PM
James Mowat, Client Service

LONDON CIV

LCIV NW Global Equity (Newton)
Q3 Manager Review

20th October 2017

CIV Investment Team

LONDON CIV

LCIV NW Global Equity (Newton) Fund

Inception date	22/05/2017
Fund Size	£661m (as at 30/9/2017)
Number of holdings	62
Benchmark	MSCI All Countries World Index

Investment objective

The Sub-fund aims to achieve capital growth by outperforming the MSCI All Countries World Index Total Return (Gross) GBP.

Agenda

1. Review the first quarter performance of the portfolio.
2. Outline any changes to portfolio holdings.

	Newton	MSCI World
Q3 2017	0.4%	2.0%
Since LCIV Inception	1.1%	3.1%

Source: Bloomberg, as at 31/09/2017 Net of fees with dividends re-invested.

Executive summary

While the performance was lacking during the quarter, perhaps what is more disappointing is the driver of that performance. At a stock and a sector level, the fund failed to anticipate market movements over the quarter and there is evidence of regret aversion bias creeping into the process as transactions have risen on the back of this poor performance.

Nevertheless, the themes in the portfolio remain well-defined, with a particular focus on companies with low debt which are either proving to be disruptors, or at least aligned with those disruptors. The distortion from the quantitative easing and tightening processes are less likely to be a major driver to this portfolio, although the manager does believe that the strong performance in financials over the last 12 months is unlikely to continue against this backdrop.

There have been no changes to the process or the personnel for the fund.

Q3 Performance review:

During the Quarter, the fund underperformed the Index by 160bps. According to the manager's own attribution, around half of this underperformance (82bps) was down to one stock, Teva Pharmaceuticals. This was due to a debt-funded acquisition of Actavis from Allergan, which not only meant that the company became very highly leveraged, but also failed to produce the promised initial cash flow to begin paying down that debt. Without a CEO, the market perceived that the turnaround would be delayed and the stock price plummeted by 47% on the news. It would be unfair to castigate the manager based on an ill-advised M&A story. However, the fact that the stock price had peaked in mid-2015 and the debt levels were steadily increasing even before the acquisition meant that avoiding this should have been possible.

Aside from Teva, the fund was also hurt by the overweight position in the Tobacco sector, after the FDA announced that they would start the process of forcing nicotine content in cigarettes down to non-addictive levels in July. British American Tobacco, Japan Tobacco and Altria all fell by over 10% on the news.

On the positive side, the fund's overweight to IT helped performance, although the stock selection within that tempered the result somewhat. Positions in Alphabet (Google) and Apple helped, but the fact that the fund did not own Facebook and Netflix hurt, relative to the index.

In accordance with the houseview, the manager is positioning the fund more cautiously into year-end as valuations are at historic levels and there are seemingly a limited amount of stocks of sufficient quality at attractive valuations for him to purchase. Therefore, he is happy to maintain a cash weighting of c.5% from here and it is likely that this will rise further in the near future.

Portfolio activity:

Significant transactions:

Purchases:

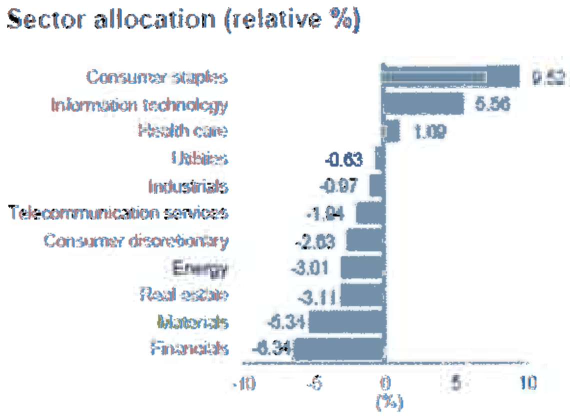
- Sony
- Blue Buffalo Pet Products
- Costco Wholesale
- Samsung

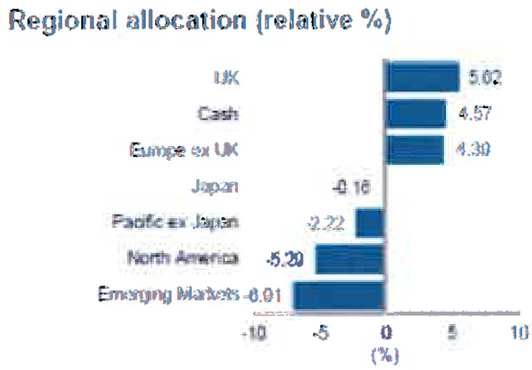
Sales:

- Teva
- Anheuser-Busch Inbev
- Walt Disney
- Express Scripts
- Dun & Bradstreet

Portfolio positioning:

The chart below shows the relative sector and regional positions within the fund, compared to the MSCI All World Country Index.





Source: Newton, 30 September 2017.

As the charts show, the fund has a large overweight to Consumer Staples, although this has been trimmed since the last Quarter. Despite holding an overweight to IT, which continued to perform relatively well over the quarter, the manager missed out on the best performers within that space (Facebook and Netflix). Nevertheless, his holdings in Amazon and Apple did help performance on both an absolute and relative basis.

The underweight in financials continues to hurt on a relative basis, as expectations of interest rate rises being favourable to net interest margins for banks has led to a re-rating within that sector. The manager believes the transmission mechanism for this to occur is opaque at best and is therefore staying clear of the bigger banks.

Personnel changes:

There were no personnel changes over the Quarter.

Conclusion:

The fund has had a difficult Q3, underperforming the Index by 160 bps. While the manager was clearly disappointed with the performance, the frustrating fact is that a significant part of this could, and perhaps should, have been avoided. Indications are that the sell discipline has been weak, as evidenced in the case of Teva, but also in the Tobacco examples. Nevertheless, the manager does have a very different portfolio to others on the platform and this is likely to continue to do so in the future due to the more thematic style of the process.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Robert Hall; Head of Equity

Allianz
Jeff Munro; PM
David Moylett; Client RM