TOWER HAMLETS

PENSIONS COMMITTEE

Wednesday, 19 November 2014 at 7.00 p.m.

Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

This meeting is open to the public to attend.

Members:
Chair: Councillor Rajib Ahmed
Vice Chair**:**

Councillor Andrew Cregan, Councillor Shafiqul Haque, Councillor Clare Harrisson, Councillor Ayas Miah, Councillor Harun Miah and Councillor Mohammed Mufti Miah

John Gray (Non-Voting Member (Admitted Body)) and Frank West (Non-voting Member Representing Trade Unions)

Deputies:
Councillor Abdul Mukit MBE, Councillor John Pierce and Councillor Amy Whitelock Gibbs

[The quorum for this body is 3 voting Members].

Contact for further enquiries:
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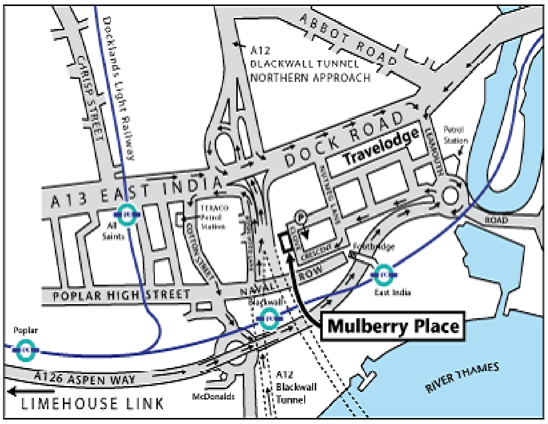

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PAGE NUMBER(S)

APOLOGIES FOR ABSENCE

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST — 1 - 4

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer.

2. MINUTES OF THE PREVIOUS MEETING(S) — 5 - 14

To confirm as a correct record the minutes of the meeting of the Committee held on 17th September 2014.

3. PETITIONS

To receive any petitions relating to matters for which the Committee is responsible.

4. REPORTS FOR CONSIDERATION

4 .1 Brief overview of roles, responsibilities & statutory documents

Members are asked to consider the presentation from the Investment and Treasury Manager.

4 .2 LGPS - The structure and Governance Arrangements of the LBTH Pension Fund **15 - 44**

Members are asked:

- To note the proposed changes in the Governance arrangements for LGPS Pension Funds with effect from 1 April 2015;
- To recommend to Full Council, the creation of Pensions Board for the Tower Hamlets Pension Fund as set out in this report;
- To delegate the creation of the proposed structure (in line with members preference) to The Corporate Director of Resources and his officers in consultation with legal and the chair/deputy chair of the PC.

4 .3 Investment Performance Review for Quarter End 30 September 2014 **45 - 204**

Members are recommended to note the contents of this report.

4 .4 Presentation & Training on Fixed Interest by Fund Manager - Legal & General (James Sparshott)

Members are asked to receive the presentation and training from Legal and General.

4 .5 Hymans - Overview of actuarial valuation by Barry McKay (Actuary)

Members are asked to receive the presentation from Hymans.

4 .6 2013/14 Local Government Pension Fund Annual Report **205 - 308**

Members are recommended to:

- Approve the Pension Fund Annual Report;
- Approve the Pension Fund Statement of Accounts;
- Note the Funding Strategy Statement;
- Approve the Statement of Investment Principles;
- Note the Governance Compliance Statement.

5. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Next Meeting of the Committee:
Tuesday, 24 February 2015 at 7.00 p.m. to be held in Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

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DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

John Williams, Service Head, Democratic Services, 020 7364 4204

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vacation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.00 P.M. ON WEDNESDAY, 17 SEPTEMBER 2014

ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON E14 2BG

Members Present:

Councillor Rajib Ahmed (Chair)	
Councillor Andrew Cregan	
Councillor Clare Harrisson	
Councillor Ayas Miah	
Councillor Harun Miah	
John Gray	Non-Voting Member (Admitted Body)
Frank West	Non-voting Member Representing Trade Unions

Admitted Bodies, Non-Voting Members Present:

John Gray	–	Non-Voting Member (Admitted Body)
Frank West	–	Non-voting Member Representing Trade Unions

Others Present:

Lynn Coventry		WM Representative
Anthony Dixon		Baillie Gifford
Fiona Macleod		Baillie Gifford
Robert Haynes	–	

Officers Present:

Ngozi Adedeji	–	(Team Leader Housing Services, Legal Services, Law Probity & Governance)
Anant Dodia	–	(Pensions Manager)
Chris Holme	–	(Acting Corporate Director - Resources)
Kevin Miles	–	(Chief Accountant, Resources)
Bola Tobun	–	(Investments and Treasury Manager, Resources)
Nishaat Ismail	–	(Committee Officer, Democratic Services, Directorate Law Probity and Governance)
Antonella Burgio	–	(Democratic Services)

Apologies:

Councillor Abdul Asad and Councillor Shafiqul Haque

1. APPOINTMENT OF VICE CHAIR

Councillor Claire Harrisson self- nominated and was seconded by Councillors Ayas Miah and Harun Miah. There being no other nominations it was

RESOLVED

That Councillor Claire Harrisson appointed Vice-Chair of Pensions Committee for the duration of the municipal year.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

3. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meetings held on 25th February 2014 and 16th of July 2014 were presented for approval.

RESOLVED:

1. That the minutes of 25th February 2014 be approved as a correct record of proceedings.
2. That minutes of the meeting held on 16th July 2014 be approved subject to the following two amendments:
   - that the attendance at the meeting of Simon Kilby service head of human resources and workforce development be recorded.
   - that the following sentence at Minute 5 "it was noted that discretion is applied to voluntary retirements but not to employees made redundant" be revised to the following "it was noted that there were actuarial reductions which applied to
   - voluntary redundancies but not to compulsory redundancies."

4. PETITIONS

No requests to present petitions were received.

5. REPORTS FOR CONSIDERATION

5.1 Disbandment of Pension Fund Investment Panel

The Investment and Treasury Manager Resources, presented the report, recommending that investment advice is provided direct to the Pensions Committee without the need for a separate investment panel. The reasons stated for this recommendation were;

- There is duplicity of functions of the Pensions Committee and the Investment Panel, there would only be one meeting instead of two.

- the previous structure had been to enable focused investment debate to be undertaken by an investment panel but this had not proved that practical to pursue because of additional demands on Members' time.
- The proposed new committee structure would fit in well with the arrangements that would come about once the pensions boards, proposed in recent Local Government Pension Scheme (LGPS) legislation, had been established.

The Committee also noted that the authority had responded to the recent LGPS consultation

Councillor Harrisson requested that a copy of guidance issued by Council of Independent Financial Advisors (CIPFA) supplementing regulations on best practice in response to the Myners report be provided.

RESOLVED

1. That the Investment Panel be disbanded.
2. That the task of providing quarterly updates on performance and key issues arising out of the quarterly review in a written briefing to Members of the Pensions Committee be delegated to the Acting Corporate Director of Resources.

5.2 WM Annual Review of Pension Fund Performance 2013/14

Lyn Coventry of World Markets (WM) presented the Performance Review of Tower Hamlets and informed the Committee about the work of World Markets. The purpose of the report was to give the Committee an insight into;

- economic and market environments
- in comparison to other local authorities funds which are monitored through this company

The key points covered in the report were;

- The national picture- in respect of performances of equities, bonds, alternatives and property markets in the short and medium terms.
- Average returns between 2013-14 (Section 1 pages 26-30 of agenda pack)
- Total Fund performance against Strategic Benchmark (Section 2 pages 31-34 of agenda pack)
- Performance of Fund Managers (Section 3 pages 34-35 of agenda pack)

- The Committee were informed that the pacific and emerging markets generated negative returns. The global financial crisis had made an impact with nine percent of returns over the past 5 years.

- The representative from World Markets informed the Committee that volatility rates are lower with bonds as they more consistent and provide greater returns- Only in 3 years had there been negative returns from bonds.

Asset Allocation

- With regards to Asset Allocation the Committee were told from end of March 2014, corporate pension funds were closed to new members, but local government fund is different to this.
- The UK was down thirty six percent on equity allocation.
- There has been no major change with regard to bonds. Government bonds were main asset class but corporate bonds stand for 2/3 of investments
- More money has been put into diversified funds
- The Committee were made aware that long term risk investments generated greater returns. An example of this was equities, although it has higher volatility rates, it gave higher returns than low risk investments.

Tower Hamlets Pension Fund

- The Committee were informed that there has been 1.6% return-more than last year, surpassing the benchmark.
- The fund outperformed the benchmark over the latest year for the first time in 8 years and only the second time in the last decade.
- longer term stock selection has been unfavourable. This was due mainly to below benchmark returns in the UK equities.
- Relative risk is low compared to other Funds within the local authority universe- The World Markets representative informed the Committee that over the course of five years LBTH has not performed in accordance with the benchmark

In response to Members' questions, the following information was provided:

- Concerning long term Manager performance and low percentile, the Committee were informed by the World Market's representative that the low percentile was due to having a UK equity Manager which was not performing well, which explained the low returns.

- Concerning investment in the Pacific region and whether it was possible to invest elsewhere, where the authority would get higher returns, the Committee were informed that it is important to have a long term strategy in place and ensure that it is at a level of risk that the authority is comfortable with as this has proven to be beneficial. The Investment and Treasury Manager informed the Committee that the Fund is running on low risk due to the current set up. The Committee were also told that the way in which the authority has exposure to oversee markets is in line with global equity markets.

- Concerning whether some comparative figures of targets and performance achieved, could be provided/made available to the committee, Members were informed that this kind of figure should be the actuarial target. They were also advised that the ‘performance aimed for’ constitutes the ‘target’ and could be either in-line with the market or relative to it this. This ‘target’ therefore becomes the benchmark. The committee was informed that, while there was no established comparative reporting against other London authorities, the Fund had performed better than average in relation to other London boroughs monitored by WM Company.

- The Committee was recommended to establish a benchmark strategy and that this should be set at a level of risk that the Council was prepared to accept.

- Concerning whether there were any possible effects arising from the forthcoming referendum on Scottish independence, the committee was informed that financial markets dislike uncertainty and therefore a short term impact could be expected; especially in relation to equities markets. However it was harder to anticipate what the effect would be on bond markets.

In managing and directing investment of the Fund, members were asked not only to consider investment returns but at the same time also to consider the effects of liabilities on returns since pension funds were compromised of two aspects ‘returns and liabilities’. Mr Haynes noted that the Fund strategy for the longer term had been to keep as low as a risk as possible that enabled returns to be achieved. Additionally members were recommended to consider the potential consequences of poor returns and what would be the Council's role/duty in such an event.

Councillor Harrisson asked that paper be brought to the next meeting to discuss how the investment strategy could be changed or influenced by the Committee.

RESOLVED
That the report be noted.

Action by:
C Holmes- Acting Corporate Director of Resources

VARY ORDER OF BUSINESS

At the request of the Investment and Treasury Manager, the Chair moved and the Committee agreed that the order of business be varied to enable Managers Baillie Gifford to be interviewed. Accordingly, agenda item 5.5 was considered following item 5.2 and consideration of the agenda as published was resumed from item 5.3.

5.3 Investment Performance Review and LGPS Updates for Quarter Ended 30 June 2014

The Investment and Treasury Manager reported performance of each of the mandates in the fund's investment portfolio, as reported at agenda item 5.3, and highlighted in particular the outperformance of Baillie Gifford Global Equity Mandate, GMO Global Equity mandate and Legal and General Index Linked Gilts mandate.

The committee was informed that

- the Fund’s overall value in the period 31st of March 2013 to 30th of June 2014 had increased by £18.8 million.

Resolved

that the report to be noted

5.4 Fund Managers Update

The external Investment Consultant presented the report on the Review of Investment Manager’s Performance for Second Quarter of 2014.

The key findings presented from the report were;

- That the UK equity markets were up 6.4%
- Since June, UK and USA equity markets had increased and gilts markets had returned 2.8% in the quarter.
- The manager performance summary, including the rating health check attributed to each of the investment manager’s in the fund portfolio
- GMO- The Committee were told that GMO had outperformed in the recent quarter and had retained all underperformance back. The Committee were made aware that GMO were asked one year ago to make a contribution on the scale of underperformance and were asked to reduce to their fees, however they since returned all the performance they had previously lost.
- Investec- were a bond manager dealing in absolute returns and the fund had underachieved since inception. However it was not recommended that this manager be replaced at this time as it was anticipated that performance would improve once rising interest rates returned.
- Schroder- a property manager, and had been placed on ‘close watch’. By way of background he advised that five years ago this manager had diversified its portfolio into the European market and its investments were seven-year horizons. Therefore it was necessary that these be completely concluded. He noted that although there had been underperformance, this manager had been giving good returns explaining that property portfolios operated differently to equities and were good income generators over the longer term. Additionally the Tower Hamlets pension fund had higher exposure in this area than

other local authorities; hence the effects witnessed on the fund's overall performance.

Mr Haynes reported that:

- two weeks previously he had met with GMO and had agreed to move from the custom benchmark that had been agreed and place GMO on the same benchmark basis as Baillie Gifford (i.e. MSCIAC world index).
- 1% had been removed from the GMO portfolio and 1% from the Legal and General money portfolios which would be redeployed to cash for an interim term pending other investment opportunities.
- Baillie Gifford's diversified growth fund was closed to new investors, however Tower Hamlets was an investor at the inception of the mandate and as such were able to retain access to further investment in this mandate.

Resolved

that the update to be noted

5.5 Presentation by Fund Managers - Baillie Gifford

The committee welcomed Anthony Dixon and Fiona McLeod of Baillie Gifford and noted that the Fund held the following two mandates with this manager.

- Equities- 'Global Alpha'
- Diversified growth fund

The Committee were informed of Baillie Gifford's primary aims, which was to endeavour to get greater returns with low risks but to have less volatility.

Members were informed of the volatility targets which were less than 10% per annum and they were also told that the Fund was able to make broad investments as long as the management was suitable.

Baillie Gifford representatives informed the Committee of LBTH's current approach:

- After the financial crisis most assets have been better valued, this could be seen as an opportunity to have allocation of riskier assets. However assets were expensive and geopolitical risks needed be taken into consideration, for example China's financial growth.

A Member noted that the firm incorporated environmental and ethical governance into its activities but it had not signed up to the London Association of pensions fund authorities (LAPFA) statement of investment principles approved by the LAPFA Board in December 2013 and highlighted the reputational risk that public sector bodies could incur where investment ethics were not well monitored. In response to this query, Mr Dixon advised that Baillie Gifford has a specialist corporate governance team who are able to advise on ethical matters and the firm has subscribed to the U N principles of ethical investments. He agreed that the firm's statement on ethical investment would be provided to the committee and advised also that, in relation to the Diversified Growth Fund, it was not possible to monitor all activity as closely as equity investments since very many investments made up this portfolio. Additionally investments that comprised this fund crossed a number of stocks and therefore exposure to individual investments was diluted.

The committee also requested the following information be provided to all Council Members:

- An outline of the general approach to ethical investments
- A copy of the annual governance review providing this information

Concerning the selection of appropriate investments for the Global Alpha portfolio members were informed that these were on the basis of projected investment returns. If returns were not achieved, the investments would be reviewed and where necessary terminated

RESOLVED

that the presentation be noted

Action by:
Mr Dixon – Baillie Gifford

Members requested report on ethical call for future agendas

5.6 LGPS Governance Updates

Mr John Raison Independent Investment Adviser, Pensions Fund Adviser provided an update on the LGPS framework outlining the changes and responsibilities arising from the regulations of the Public Services Pension Act 2013

In particular he highlighted:

- The identity of the responsible authority
- The this role and powers of the scheme advisory board
- Role and powers of the scheme manager (i.e. the Pensions Committee)
- The role and powers of the pensions board
- The role and powers of the pensions regulator.

Members noted the presentation made and requested that the CIPFA code of practice been made available/circulated to members of the committee.

Action by:
B. Tobun, Investment and Treasury Manager, Resources

5.7 Training Events

This item was incorporated into item 5.6.

5.8 2013/14 Pension Fund Annual Report

The chief accountant presented the draft annual report 2013-14 and requested that members note the draft presented. In particular he highlighted:

- The statement of accounts audit was almost complete
- The statement of investment principles required updating
- The governance compliance statement

The committee requested information on the following matters:

The following requested were made:
- a report on the impacts, possible impact on the pension fund of the forthcoming financial savings achieved through voluntary redundancies was requested by the Committee.

Concerning what accessibility issues would be caused by the recent legislation that prevented member participation in local government pension schemes, the chair was informed that some research had been done into this matter and the and officers were investigating whether any alternatives were available.

Resolved

That the following be noted:

1. Pension fund annual report 2013-14
2. Pension fund statement of accounts
3. Funding strategy statement
4. Statement of investment principles
5. Governance compliance statement.

6. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items

The meeting ended at 9.30 p.m.

Chair, Councillor Rajib Ahmed
Pensions Committee

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COMMITTEE:	DATE:	CLASSIFICATI	REPORT NO.	AGENDA NO.
Pensions Committee	**19November 2014**	**Unrestrict**		

REPORT OF:	TITLE:
Acting Corporate Director of Resources ORIGINATING OFFICER(S): John Jones – Pensions Consultant Bola Tobun - Investment & Treasury Manager	**LGPS - The structure and Governance Arrangements of the LBTH Pension Fund** Ward(s) affected: N/A

Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

This report outlines the proposed changes to the structure and governance arrangements of Local Government Pension Schemes (LGPS) brought about by the Public Service Pensions Act 2013 and associated Regulations. Members are provided with options from which to determine their preference for the future governance structure of the LBTH Pension Fund to comply with the new regulations.

The report also recommends that powers be delegated to the Acting Corporate Director of Resourcesand his officers to develop a structure (in consultation with relevant parties including the chair and deputy chair of the Pensions Committee (PC)) to facilitate the new governance arrangements of the Fund. The outline structure will be brought back to a future PC meeting for approval.

2. RECOMMENDATIONS

Members of the Pensions Committee are asked to:

- To note the proposed changes in the Governance arrangements for LGPS Pension Funds with effect from 1 April 2015;
- To recommend to Full Council, the creation of Pensions Board for the Tower Hamlets Pension Fund as set out in this report;
- To delegate the creation of the proposed structure (in line with members preference) to The Corporate Director of Resources and his officers in consultation with legal and the chair/deputy chair of the PC.

3. REASON FOR DECISIONS

3.1 Following the Independent Public Service Pensions Committee report of 2011, the PublicService Pensions Act 2013 gave powers to the Secretary of State to introduce a numberof far reaching changes to the administration of the LGPS.

3.2 A new local government pension scheme has been effective since 1 April 2014 and theLBTH Pension Fund has implemented the changes.

3.3 Aside from reform to the administration of the pension scheme, the 2013 Act also givesthe Secretary of State power to implement changes to the governance arrangementsintroducing additional requirements alongside increased flexibility to the structure of thedecision making bodies.

4. BACKGROUND

4.1 Over the past few years there have been major changes proposed by Government to the way Local Authority Pensions Funds are to be managed and pensions delivered to beneficiaries. This has been set against the background of rising costs associated with increasing longevity and a concern about the balance of cost sharing between taxpayer and beneficiaries. Major reforms have already been implemented in the administration of pensions and the introduction of a career average earnings scheme, and proposals to improve investment performance arecurrently the subject of a separate consultation process. Further proposals to improve scheme governance have also been issued and are the subject of this report.

4.2 The genesis of these changes was the "Hutton Report". Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013 ("the 2013 Act").

4.3 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

4.4 The Public Service Pensions Act 2013 included two main provisions to achieve this policy objective. Firstly, a requirement for responsible authorities such as DCLG to establish at national level a Scheme Advisory Board with responsibility to provide advice to the Department on the desirability of changes to the Scheme. And secondly, in cases where schemes like the Local Government Pension Scheme are subject to local administration, for scheme regulations to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the scheme.

4.5 This report sets out how these changes will impact on the arrangements for managing the London Borough of Tower Hamlets Pension Fund.

5. CURRENT ARRANGEMENTS

5.1 The current arrangements for the management of the LBTH Fund have been in place for a considerable period of time and in line with the practice across most London Boroughs. LBTH is the administering authority for the Pension Fund, for the Council itself and a number of scheduled and admitted bodies. The Fund itself has now grown to c£1billion and is one of the largest in London with 18,667 members.

5.2 The Council has delegated the management of the Fund to the Pensions Committee comprising seven Councillors (representing the political balance of the authority) one admitted body and one trade union representatives. Pensions Committee members operate in a quasi-trustee capacity. In line with current best practice the Fund is advised by actuarial, investment consultant and independent adviser.

5.3 The Pensions Committee have in turn delegated responsibility as well as the implementation of its decision to the Acting Corporate Director of Resourcesand his officers who monitor activity, performance and oversee the administration and investment management duties of the Fund.

6. FUTURE PROPOSALS

6.1 The proposals issued by Central Government in the form of two sets of draft regulations significantly change this arrangement and introduce new duties and responsibilities on local authorities as well as new bodies at a national level. The proposals are designed to improve and strengthen fund governance and decision making and reflect the arrangements in place for large corporate schemes. Whilst concerns have been raised about some aspects of the new arrangements, the deadline for implementation of 1 April 2015 means that LBTH now needs to put in place new arrangements to meet the new requirements.

6.2 At national level a Scheme Advisory Board will be established to advise the Secretary of State on the desirability of making changes to the LGPS, and to administering authorities (i.e. such as LBTH) on the administration and management of the LGPS and funds locally. The Chair will be appointed by the Secretary of State and there will be further 2-12 members of this board.

6.3 At local level local pensions boards must be established to “assist” the local administering authority to secure compliance with LGPS regulations, and generally to ensure the efficient and effective governance of the LGPS.

6.4 The new arrangements also introduce a role for the Pensions Regulator for the explicit regulatory oversight of pension schemes whose role will be to issue Codes of Practice on the governance, standards of conduct and general practices expected of local government pension schemes. To date the Regulator has said that their role will be to educate and enable and will only enforce action in extreme cases when authorities may disregard statutory requirements. Nonetheless, this does introduce a fresh regulatory dimension for local authorities to take into account in future.

6.5 The new arrangements as they impact directly on LBTH are set out below.

7. THE SCHEME MANAGER

7.1 The 2013 Act requires local authority funds to have a scheme manager to be the administering authority for the Fund. This will be Tower Hamlets Council and continues with the current arrangement. The Council will still have overall responsibility for the management of the Pension Fund and scheme, but this will in future be subject to a new Governance framework.

7.2 The scheme manager has ultimate responsibility for the administration and management of the scheme locally. The role of the scheme manager can be delegated by the Council to a Committee such as the Pensions Committee and it is recommend that this continues to be the case in future.

8. THE PENSIONS BOARD

8.1 The requirement to establish a local Pensions Board represents a major change to the governance arrangements locally for Pension Fund management and administration. Section 5 of the Act requires that each Scheme Manager is advised and assisted by a pension board whose role will be to help ensure compliance with the legislation in the governance and administration of the scheme, together with any role or function the fund chooses to grant to the board.

8.2 The Pension Board must consist of an equal number of employer and member representatives with the draft regulations requiring that there be a minimum number of four in total. The draft regulations also propose that in addition to any member and employer representatives, pension boards can also appoint "others" to sit provided the number of these "others" does not exceed the total number of employer and member representatives. The draft regulations have been amended in respect of elected members sitting on the pension's board. The original proposal was that elected councillors could not sit as an employer or a member representative. However, the latest draft regulations permit elected members to sit on the Pensions Board providing they are not Members of the Pensions Committee itself. Elected councillors can also sit on the Board as "others" as part of the overall Board membership.

8.3 The Scheme Manager is responsible for ensuring that there is no conflict of interest arising from the appointment of Board members, and individual members have a duty to declare any interests to enable the Scheme Manager to identify such conflicts should they arise. At this stage further guidance is awaited on what this means in practice.

8.4 Board members must also meet the knowledge and understanding requirement through relevant training and education to be able to effectively discharge their duties, and the scheme manager will be responsible for ensuring this. This is a sensible and welcome requirement given the complexities in managing Pension Funds and will help strengthen scheme governance.

8.5 Officers have given consideration to how best to take forward these draft proposals given the short time available between now the effective implementation date of 1st April 2015. At the time of writing the final regulations and any accompanying guidance has not yet been issued, although it is expected that there will be no fundamental changes to the consultation documents.

8.6 It is suggested that at this stage the new Pensions Board is made up of 5 members to include 2 each of employer and employee representatives and an independent Chair. Such a group would meet the regulatory requirements of a minimum of 4 and provide for the appointment of someone of experience with knowledge and expertise of the LGPS and investment issues. A smaller group will be easier to set up and be up and running in the short time available before the implementation date next April 2015.

8.7 Both the employer and member representatives must have relevant experience and the capacity to represent employers/members on the Pensions Board. This is important to ensure that members of the new Pensions Board have the background and capacity to undertake their new duties. The process to identify and recruit these representatives should commence soon in order to have the new Board in place by April 2015.

9. JOINT SCHEME MANAGER AND PENSIONS BOARD

9.1 The draft regulations do provide for the creation of a joint scheme manager and pensions board through one committee, which in practice could be the Pensions Committee. On the face of it this has some attractions not east building on the existing Committee. However, any such arrangement must be approved in writing by the Secretary of State and could be subject to conditions. The Secretary of State can withdraw approval if such conditions are not met or if in his opinion such an arrangement is no longer appropriate. In practice, a combined body would be subject to two separate legal codes under both the Local Government Act 1972 and associated legislation, and the Public Service Pensions Act 2013.

9.2 A combined body might also have difficulty in ensuring that all members had both knowledge and understanding that is currently expected of elected members and the experience and capacity required of local pension board members. There could also be difficult and different issues about conferring voting rights and compliance with local government law on the political composition of committees.

9.3 Moreover, to promote good governance, two bodies should be established as each has a separate and distinct role to discharge. There could be a particular difficulty with conflicts of interest arising from self –regulation i.e. a Committee cannot effectively scrutinise and review itself. For all these reasons it is recommended that a separate Pensions Board be established.

10. COSTS

10.1 The expenses associated with the setting up and running of the new Pensions Board and the contribution to the National Scheme Advisory Board will be met from the Pension Fund as part of the costs of administering the scheme. The Committee will need to consider whether members of the Board and the Board Chair will be remunerated and if so the basis of this. The Fund already employs an independent investment adviser and actuary and investment consultant and this may provide a reference point and context to consider this issue.

11. TERMS OF REFERENCE

11.1 On the basis that the Committee agrees to establish a separate Pensions Board as recommended in this report detailed terms of reference will need to be drafted and agreed. It is proposed that work now commence on this and be the subject of a report to the next Committee meeting.

11.2 For clarification, the implementation date of 1 April 2015 means the date by which the new Pensions Board must be formally established under the Council's constitution and not when it must first meet. The latest consultation document proposes that the local pension board's constitution (around voting rights, sub-committees, payment of expenses etc.) will be left to local discretion as opposed to having to comply with the 1972 Local Government Act.

11.3 The framework for the future governance of the Tower Hamlets Fund would therefore include the main Pensions Committee and the new Pensions Board. The report to the next meeting would consider in more detail the range and responsibilities of these two bodies together with the frequency of meetings and reporting arrangements.

11.4 Issues to be considered would include whether the Pensions Board should meet on the same day as the Pensions Committee; whether the Board Chair and Members attend the Pensions Committee; and how strengthening overall governance and the monitoring of pensions administration fits into this overall framework.

11.5 A key issue to be addressed will be the working relationship between the new Pensions Board and the existing Pensions Committee. There will need to be a shared understanding of respective roles and responsibilities and how the groups involved can best work constructively for the benefit of the Fund overall and minimising the potential for any conflict.

12. FINANACIAL IMPLICATIONS

12.1 The Fund will be required to facilitate the operation of the new board and this will require additional resources. The cost will be met from the Fund's own resources and it is not proposed at this time to increase the staffing of the Fund but for the work to be absorbed within available resources.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

13.1. The comments of the Acting Corporate Director of Resources are incorporated inthe report.

14. LEGAL COMMENTS

14.1 As stated in the body of the report, the government has introduced wide-ranging changes to the administration and governance of the Local Government Pension Scheme. The changes were introduced by the Public Service Pensions Act 2013. There are currently draft regulations out for consultation – The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. The intention of the draft regulations is to ensure that the Local Government Pension Scheme is well managed at both national and local levels. The regulations also set out proposals for how the future costs of the scheme to employers and taxpayer will be controlled. The consultation period ends on the 21st November 2014.

14.2 Regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to its pension scheme. A local authority that discharges its pension functions through a committee, can with the approval of the Secretary of State appoint the existing committee to be the local pension board. The regulations require the local pension board to be established by the 1st April 2015.

14.3 The effect of the proposed new regulations is set out within the body of the report. The substantive provisions for the purposes of making appointments to the local pension boards and the Scheme Advisory Board commence on the 1st January 2015, whilst all the provisions will come fully into force from the 1st April 2015. The proposed changes are brought about by legislative reform and so compliance with the new regulations is mandatory. Sanctions or other possible government intervention can be imposed on non-complying administrative authorities.

14.4 The Constitution does not provide the Pensions Committee with the power to create a Pensions Board. Full Council will need to make the decision on the recommendation of the Pensions Committee.

14.5 When deciding whether or not to proceed with the project, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector duty). Some form of equality analysis will be required which is proportionate to proposed projects and their potential impacts.

15. ONE TOWER HAMLETS CONSIDERATIONS

15.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

15.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

16. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

16.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

17. RISK MANAGEMENT IMPLICATIONS

17.1 There are no major risks foreseen from the implementation of these regulations. The main challenges would be sourcing and training individuals to sit on the new Pension Board.

17.2 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

18. CRIME AND DISORDER REDUCTION IMPLICATIONS

18.1 There are no crime and disorder reduction implications arising from this report.

19. EFFICIENCY STATEMENT

19.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***
Hymans Robertson's Briefing notes, Hymans Robertson's quarterly reports and WM Quarterly Performance Review	*Bola Tobun Investment&Treasury Manager x4733*

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Department for Communities and Local Government

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

Better Governance and Improved Accountability in the Local Government Pension Scheme

Consultation

October 2014
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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Fry Building
2 Marsham Street
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October 2014

ISBN: 978-1-4098-4304-7

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. 1. The intention of these draft regulations is to ensure that the Local Government Pension Scheme in England and Wales is managed well at both national and local levels. They also set out proposals for how the future costs of the scheme to employers and taxpayers will be controlled. Similar arrangements are being introduced for all major public service pension schemes. 2. A national scheme advisory board would advise the Department on changes to the scheme's regulations, for example to reflect changes in costs. In addition, each of the 89 administering authorities in England and Wales would establish a local pension board to assist them in managing the Scheme at a local level. 3. The Department would need to ensure that any increases or decreases in the cost of the scheme of two percentage points or more would be offset, for example, by varying the rate at which scheme members' benefits build up. This would protect employers and taxpayers against unexpected increases in pension costs. 4. In addition, the proposed national scheme advisory board would aim to ensure that the total pension contributions paid by employers and employees were within one percentage point of 19.5% of pensionable pay and that employee contributions were one third of the overall costs. The national board could make recommendations to the Department on changes to the scheme to achieve these targets. 5. A more detailed explanation of the arrangements described at paragraphs 3 and 4 above can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf
Scope of this consultation:	This consultation seeks responses from interested parties on a new Part 3 (Governance) of the Local Government Pension Scheme Regulations 2013 ("the Principal 2013 Regulations") which came into force on 1 April 2014. In addition to the proposed provisions on cost control, the draft regulations at **Annex A** also includes regulations on Scheme governance that were the subject of a consultation earlier in June at

	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322356/consultation_letter_on_June_2014_governance_regulations_final_version-23_june_-with_ISBN.pdf . The closing date for comments on those draft regulations was 15 August, but this consultation now provides a second opportunity to comment on those provisions alongside what is now being proposed on cost control. However, it should be noted that in the light of discussions with the shadow scheme advisory board and comments from other scheme interested parties, the draft regulations relating to the local pension boards and the Scheme Advisory Board consulted on earlier have been revised. Comments are therefore invited on the complete set of draft regulations at **Annex A** The comments received in response to the June consultation will be taken into account with those received in response to this consultation.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted .
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	The consultation period will be 6 weeks ending on 21 November 2014. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with "Principles of Consultation":	This consultation complies with the "Principles of Consultation" . The consultation will be for 6 weeks. This reflects the extensive discussions already held with key interested parties on the development of policy in this area and the extent to which the regulations need to comply with Treasury directions and regulations that have already been subject to consultation.

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Since 1996, the cost of the Local Government Pension Scheme to employers and taxpayers has increased from £1.3 billion to £5.9 billion in 2010/11. The proposals in this consultation on scheme governance and cost management are a key element of the Government's reform agenda and will ensure that those who pay the Scheme's costs are fully protected against the rising costs associated with improving longevity. Fairness to the taxpayer is at the heart of the agenda. The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013 ("the 2013 Act"). A key objective of the 2013 Act is to ensure a fair balance of risks between scheme members and the taxpayer. To achieve this, the Government has established an employer cost cap mechanism to provide backstop protection to the taxpayer and to ensure that the risks associated with pension provision are shared more fairly between employers and scheme members. Details of how the employer cost cap is to be calculated, maintained and the process to be followed when the employer cost cap is breached can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf In addition to making provision for the employer cost cap, the regulations also make provision for the agreement reached with the Government by the Local Government Association and local government trade unions to provide greater control over the contribution rates actually paid by employers and scheme members. Details of how this element of the proposed cost control arrangement is intended to work can be found at Chapter 5 of the above pdf document.

How to respond

1. You should respond to this consultation by **21 November 2014**.

2. You can respond by email to Robert.Ellis@communities.gsi.gov.uk.
When responding, please ensure you have the words "LGPS Governance Regulations 2014" in the email subject line.

Alternatively you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Workforce Pay & Pensions
2nd Floor
South East Quarter
Fry Building
2 Marsham Street
LONDON SW1P 4DF

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about any issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the principles on which this consultation is being conducted is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Department for Communities and Local Government, Fry Building, 2 Marsham Street, London SW1P 4DF.

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Chapter 2 - Proposals for consultation

Annex A - Draft regulations

Chapter 1

Introduction

1.1 This document, in accordance with section 21 of the 2013 Act, commences a period of consultation on the new governance provisions, including cost control arrangements, for the Local Government Pension Scheme. Your comments are invited on the set of draft regulations at **Annex A.**

1.2 **The closing date for responses is 21 November 2014**.

Background and context

1.3 This consultation represents another step in the process of reform that began with the Government's commitment to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to ensure a fair balance of risks between scheme members and the taxpayer. To achieve this, section 12 of the 2013 Act requires schemes to set a rate, expressed as a percentage of pensionable earnings of members of the scheme, to be used for the purposes of measuring changes in the cost of the scheme.

1.5 The 2013 Act also provides for costs to be measured via regular actuarial valuations and for the establishment of an employer cost cap mechanism to ensure that these costs remain sustainable and fair to taxpayers. Treasury Directions and Regulations specify how valuations are to be carried out and how the employer cost cap mechanism is to operate. In the case of the Local Government Pension Scheme, the employer cost cap will be calculated by a Scheme actuary appointed by the Secretary of State under these regulations based on the 2013 model fund valuation and in accordance with Treasury Directions.

1.6 Copies of the relevant Treasury Directions, regulations and accompanying policy paper can be found at https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism.

1.7 In addition to the Treasury employer cost cap process, provision is also to be made for the internal cost management process agreed between Government, the Local Government Association and local government trade unions. Unlike the Treasury's employer cost cap process which will monitor changes in the value of benefits in the new Scheme over time, the aim of the internal process is to stabilise the actual contribution rates paid by employers and members in respect of the new Scheme within the overall target cost of 19.5% of pensionable paybill with the target yield from scheme members' contributions being one third of the overall cost.

1.8 A detailed explanation of how the internal element of the proposed cost control arrangement is intended to work and the role of the Local Government Pension Scheme Advisory Board in both processes can be found at Chapter 5 of the document at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf

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Consultation responses

1.9 The consultation period is 6 weeks.

1.10. To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.11. Your comments should therefore be sent by 21 November 2014 to Department for Communities and Local Government, Workforce Pay & Pensions, 2nd Floor, Fry Building, South East Quarter, 2 Marsham Street, London SW1P 4DF and marked "LGPS Governance Regulations 2014". Electronic responses can be sent to Robert.Ellis@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the 2013 Act. Section 3(5) of the 2013 Act requires the consent of Treasury before the Regulations can be made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and for the most part will come into operation on 1 April 2015.

2.3 **Regulations 2 to 8** amend the Principal 2013 Regulations.

2.4 **Regulation 8** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112, 113, 114, 115 and 116 into the Principal 2013 Regulations. These provisions are described in detail immediately below, but in the case of regulations 105 to 113, only to the extent where they differ from the earlier consultation on Scheme governance.

Main Provisions

2.5 **New Regulation 106(6)** has been added to ensure that local pension boards are not unduly restricted in the way they choose to discharge their functions under the regulations.

2.6. To reflect concerns expressed by the Shadow Scheme Advisory Board and other scheme interested parties, **Regulation 107** has been amended to allow elected members to become members of a local pension board. However, **Regulation 107(3)** qualifies this provision by not allowing elected members or officers of an administering authority who are responsible for the discharge of any function under the Principal 2013 Regulations (apart from being a member of the Scheme Advisory Board or a local pension board) to become a member of that authority's local pension board.

2.7. **Regulation 110(3)** now extends the responsibility of the Scheme Advisory Board to include "connected schemes". Those elements of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations")that concern members who receive entitlement to benefits calculated in accordance with those regulations is regarded as such a connected scheme and this amendment will ensure that the Scheme Advisory Board is able to advise local pension boards on both the Principal 2013 Regulations and the Transitional Regulations

2.8. **New Regulation 110(5)** confers the same wider power described at paragraph 2.5 above on the Scheme Advisory Board.

2.9. In addition to being responsible for appointing the Chairman of the Scheme Advisory Board, **Regulation 111(1)** has now been amended to make the Secretary of State responsible for appointing members of the Board. Previously, members of the Board were to be appointed by the Chairman and approved by the Secretary of State.

2.10. **New Regulation 111(4)** allows the Chairman of the Scheme Advisory Board ,with the agreement of the Board, to appoint a maximum of three non-voting advisory members to sit on the Board. **Regulation 111(5)** confers a power for the terms and conditions of such advisory members to be determined.

2.11. **Regulation 111(6)** has been amended to the effect that the Chairman's decision to appoint non-Board members as members of any sub-committee is now subject to the agreement of the Board.

Scheme actuary (Regulation 114)

2.12 **New Regulation 114** confers power on the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme in accordance with Treasury Directions. The Scheme actuary must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme. **Regulation 114(4)** requires administering authorities to provide the Scheme actuary with any data that is reasonably required where this is in accordance with directions made by Treasury under section 11 of the 2013 Act.

2.13. Having considered the role of the scheme actuary under **Regulations 115** and **116** and, in particular, the need for data collection and analysis at national scheme level, the Department proposes to appoint the Government Actuary's Department as the Scheme actuary under Regulation **114.** Subject to the outcome of the consultation, the appointment would be confirmed in a letter from the Secretary of State to the Government Actuary's Department.

Employer cost cap (Regulation 115)

2.14 **New Regulation 115(1)** will set the Scheme's employer cost cap. At this stage, the employer cost cap has not been finalised but during the period of this consultation, a draft valuation report prepared by the Government Actuary's Department in accordance with the Treasury's Public Service Pensions (Valuations and Employer Cost cap) Direction 2014 will be issued to you for information. The draft report will include the proposed employer cost cap figure.

2.15. The number of assumptions underlying the calculation of the proposed employer cost cap are set out in the Treasury Direction and cannot be varied. But where appropriate, other scheme specific assumptions must be determined by the Secretary of State after consultation with such persons as he considers appropriate. In this case, consultation on the scheme specific assumptions with the shadow scheme advisory board is considered to be appropriate.

2.16. Subject to any comments on the proposed employer cost cap included in the draft valuation report and the views of the shadow board on the scheme specific assumptions, the final figure will be introduced into **Regulation 115(1)** when the regulations are made.

2.17.**Regulation 115(2)** provides that where the cost of the Scheme following a Scheme valuation under Treasury Directions exceeds the margins specified in Treasury regulations, the Secretary of State must follow the procedure set out in **Regulation 115(3)** for reaching agreement on the steps to be taken to bring costs back to the employer cost cap. At present, the margins specified in Treasury regulations are 2% either side of the Scheme's employer cost cap.

2.18.**Regulation 115(3)** sets out the procedure for reaching agreement under **Regulation 115(2).** This requires the Secretary of State to consult the Local Government Pension Scheme Advisory Board on proposals to bring the Scheme's costs back to the employer cost cap and for all members of the Board to reach an agreed position. The period of consultation is at the Secretary of State's discretion.

2.19**. Regulation 115(4)** provides that if the agreement required by **Regulation 115(3)** is not reached within 3 months of the end of the consultation period, the Secretary of State must take steps to achieve the target cost by adjusting the rate at which benefits accrue under Regulations 23(4) or (5) of the Principal 2013 Regulations.

Scheme advisory board – additional functions (Regulation 116)

2.20. **Regulation 116(1)** requires the Local Government Pension Scheme Advisory Board to obtain a Scheme cost assessment from the Scheme actuary. The assessment must include the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members as at the date of each actuarial valuation under Regulation 62(1)(a) of the Principal 2013 Regulations.

2.21 Except where either **Regulation 115(5) and (6)** applies, **Regulation 116(2)** enables the Local Government Pension Scheme Advisory Board following a Scheme cost assessment, to make recommendations to the Secretary of State to bring the overall cost of the Scheme back to the target overall cost.

2.22. **Regulation 116(3)** provides that where the Scheme cost assessment shows that the proportion of the overall cost of the Scheme is above or below the target proportion defined at **Regulation 116(7)**, the Local Government Pension Scheme Advisory Board may make recommendations to the Secretary of State to bring that proportion back to the target proportion.

2.23. Prior to any Scheme cost assessment, **Regulation 116(4)** requires the Local Government Pension Scheme Advisory Board to publish its policy on the recommendations it may make to the Secretary of State under **Regulation 116(2) and (3)**. It is envisaged that the policy statement could include a set of trigger points as well as the circumstances when recommendations must or may be made.

2.24. **Regulation 116(5)** switches off the internal Local Government Pension Scheme Advisory Board process during any period when the employer cost cap under **Regulation 115** has been breached. This reflects Government policy that the employer cost cap process will always take precedence over any internal cost management process. **(see Chapter 3 for connected policy question)**

2.25**. Regulation 116(6)** provides that the Local Government Pension Scheme Advisory Board must make recommendations to the Secretary of State where the overall cost of the Scheme exceeds the target overall cost by 2% or more.

2.26**. Regulation 116)7)** defines certain terms used in this regulation including :-

"the overall cost of the Scheme" the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment based on assumptions and a methodology determined by the Local Government Pension Scheme Advisory Board.

"the target overall cost" set at 19.5% of the pensionable earnings of members of the Scheme, and

"the target proportion" set at Scheme employers meeting two thirds and members meeting one third of the overall cost of the Scheme.

2.27**. Regulation 116(8)** requires each administering authority to provide the Scheme actuary with any data required to carry out valuations and produce reports for the purposes of this Regulation in accordance with directions from the Local Government Pension Scheme Advisory Board.

2.28**. Regulation 116(9)** requires the Local Government Pension Scheme Advisory Board to publish a report, including the items listed at **Regulation 116(9)(a) to (d)**, within 23 months of obtaining a Scheme cost assessment unless the Board is prevented from making recommendations to the Secretary of State by the provisions in **Regulation 116(5).**

2.29. **Regulation 116(10)** requires a copy of the report published under **Regulation 116(9)** to be sent to the Secretary of State and Scheme actuary by the Local Government Pension Scheme Advisory Board.

2.30**. Regulation 116(11)** has been amended to extend the period required for the Secretary of State to publish his response to the report published by the Local Government Pension Scheme Advisory Board from 3 to 6 months of receiving the Scheme Advisory Board's report. We believe that this represents a more appropriate timescale.

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1, 3, 5(7), 7(2), 12(6) and 12(7) of, and Schedule 3 to, the Public Service Pensions Act 2013([1]).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, interpretation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013([2]).

(3) These Regulations come in to force as follows—

(a) on 1st January 2015, this regulation and regulations 2, 7 and 8—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

([1]) 2013 c. 25
([2]) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 110 (scheme advisory board: membership) and 111 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st April 2015—

(i) this regulation and regulations 2, 7 and 8 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations are amended in accordance with regulations 3 to 8.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. Omit regulation 63 (aggregate Scheme costs).

5. Omit regulation 65 (aggregate Scheme costs: revised certificates).

6. In regulation 66 (supply of copies of valuations, certificates etc) for "regulations 62 (actuarial valuations of pension funds), 64 (special circumstances where revised actuarial valuations and certificates must be obtained) or 65 (aggregate Scheme costs: revised certificates)" substitute "regulations 62 (actuarial valuation of pension funds) or 64 (special circumstances where revised actuarial valuations and certificates must be obtained)".

7. In Schedule 1 (interpretation)—

(a) after the entry for "local government service" insert—

""Local Government Pension Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);" and

(b) after the entry for "the Scheme" insert—

""Scheme actuary" means the actuary appointed under regulation 114 (Scheme actuary);".

8. After regulation 104([3]) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

([3]) Regulation 104 was inserted by S.I. 2014/1146.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme, and

(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses.

(6) A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

(7) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives([4]) and for these purposes the administering authority must be satisfied that—

(a) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(b) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) No officer or elected member of an administering authority who is responsible for the discharge of any function under these regulations (apart from any function relating to local pension boards or the Local Government Pension Scheme Advisory Board) may be a member of a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest([5]).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

([4]) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
([5]) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and any connected scheme and their pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

(5) The Local Government Pension Scheme Advisory Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of a Chairman and at least 2, and no more than 12 members appointed by the Secretary of State.

(2) When deciding whether to make appointments under paragraph (1), the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint a maximum of 3 persons to be non-voting advisory members of the Board.

(5) An advisory member of the Local Government Pension Scheme Advisory Board is to hold and vacate that position in accordance with the terms of that member's appointment.

(6) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(7) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest([6]).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.

Scheme actuary

114.—(1) The Secretary of State must appoint an actuary as Scheme actuary to carry out valuations of the Scheme in accordance with Treasury directions made under section 11 of the Public Service Pensions Act 2013([7]) ("the Treasury directions").

(2) The person appointed as Scheme actuary under paragraph (1) must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme.

(3) The Secretary of State must secure that the Scheme actuary carries out actuarial valuations of the assets and liabilities of the Scheme on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds) and prepare valuation reports in accordance with the Treasury directions, within a time-frame which enables the requirements in those directions to be met.

(4) Administering authorities must provide the Scheme actuary with any data that the Scheme actuary reasonably requires, in accordance with the Treasury directions, in order to carry out a valuation and prepare a report on the valuation.

Employer cost cap

115.—(1) The employer cost cap for the Scheme is []% of pensionable earnings of members of the Scheme.

(2) Where the cost of the Scheme, calculated following a valuation in accordance with Treasury directions under section 11 of the Public Service Pensions Act 2013 is more than the margins specified in regulations made under section 12(5) of the Public Service Pensions Act 2013([8]) ("the Cost Cap

([6]) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".
([7]) 2013 c. 25.
([8]) 2013 c. 25; see regulation 3 of S.I. 2014/575.

Regulations") above or below the employer cost cap, the Secretary of State must follow the procedure specified in paragraph (3) for reaching agreement with administering authorities, employers and members (or representatives of employers and members) as to the steps required to achieve the target cost specified in the Cost Cap Regulations.

(3) The procedure specified for the purposes of section 12(6)(a) of the Public Service Pensions Act 2013 is consultation for such period as the Secretary of State considers appropriate with the Local Government Pension Scheme Advisory Board with a view to reaching an agreement endorsed by all members of that Board.

(4) If, following such consultation, agreement is not reached within 3 months of the end of the consultation period, the Secretary of State must take steps to adjust the rate at which benefits accrue under regulation 23(4) or (5) (active member's pension accounts) so that the target cost for the Scheme is achieved.

Scheme advisory board: additional functions

116.—(1) The Local Government Pension Scheme Advisory Board ("the Board") must obtain a Scheme cost assessment from the Scheme actuary detailing the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds).

(2) Subject to paragraphs (5) and (6), where the overall cost of the Scheme is above or below the target overall cost, the Board may make recommendations to the Secretary of State as to the steps to take to bring the overall cost of the Scheme back to the target overall cost.

(3) Where the proportion of the overall cost of the Scheme which is met by contributions by employers is above or below the target proportion, the Board may make recommendations to the Secretary of State as to the steps to take to bring the proportion of the overall cost of the Scheme which is met by contributions by employers and members back to the target proportion.

(4) The Board must, before obtaining a Scheme cost assessment under paragraph (1), prepare and publish a statement setting out its policy concerning recommendations to the Secretary of State about he steps to be taken to bring the overall cost of the Scheme back to the target overall cost and the proportions of that cost met by Scheme employers and members, back to the target proportion.

(5) The Board must not make recommendations under paragraph (2) if steps are required to be taken under regulation 115 (employer cost cap).

(6) Subject to paragraph (5) the Board must make recommendations under paragraph (2) if the overall cost of the Scheme is above or below the target overall cost by 2% or more of pensionable earnings of members.

(7) In this regulation—

"the overall cost of the Scheme" means the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment making use of the data provided under regulation 114(4) (Scheme actuary) according to such methodology and assumptions as are determined by the Board;

"the target overall cost" is 19.5% of the pensionable earnings of members of the Scheme;

"the target proportion" means Scheme employers meeting two-thirds and members meeting one-third of the overall cost of the Scheme.

(8) Each administering authority must provide the Scheme actuary with any data that the Scheme actuary requires in order to carry out any valuations and produce reports in accordance with directions from the Board for the purposes of this regulation.

(9) Unless the Board is prevented by paragraph (5) from making recommendations under this regulation, it must, within 23 months of the date on which a Scheme cost assessment is obtained under paragraph (1), publish a report setting out—

(a) the overall cost of the Scheme;

(b) the proportions of the overall costs of the Scheme met by employers and members;

(c) the assumptions and methodology used by the Scheme actuary; and

(d) any recommendations made to the Secretary of State under this regulation.

(10) The Board must send a copy of a report published under paragraph (9) to the Secretary of State and the Scheme actuary.

(11) The Secretary of State must publish a response to a report received under paragraph (10) within six months of receipt of that report.

We consent to the making of these Regulations

Names
Date Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name
Parliamentary Under Secretary of State
Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 to 7 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pension board. Local pension boards must have equal representation of employer representatives and member representatives who must not be officers or councillors of the administering authority responsible for the discharge of local government pension functions.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Regulation 114 requires the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme.

Regulation 115 sets the employer cost cap and requires the Secretary of State to seek agreement from those affected as to the changes to the design of the Scheme necessary to bring costs back to that level if valuation reports indicate that costs have varied by more than a margin specified in regulations made by the Treasury. If agreement can not be reached the Secretary of State must make amendments to the Scheme to vary the rate of accrual of benefits to bring the costs of the Scheme back to the employer cost cap level.

Regulation 116 confers additional functions on the Local Government Pension Scheme Advisory Board to monitor the overall costs of the Scheme and the proportion of those costs met by employers and members respectively and to make recommendations to the Secretary of State for changes to the Scheme where overall costs or respective proportions met by employer or member contributions vary from the initial costs.

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**19 November 2014**	**Unrestricted**		

REPORT OF:	TITLE:
Acting Corporate Director of Resources ORIGINATING OFFICER(S): Bola Tobun - Investment & Treasury Manager	**Investment Performance Review for Quarter End 30 September 2014** Ward(s) affected: N/A

Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 This report informs Members of the performance of the Fund and its investment managers for the quarter ending 30th September 2014.

1.2 For the quarter, the Fund performance lagged behind the benchmark by 0.3%, delivering a positive absolute return of 1.2% against benchmark return of 1.5%.

1.3 The Fund is ahead its benchmark for the last twelve months to end of September 2014, the Fund returned 8.6%, and this exceeds the benchmark by 0.4%.

1.4 For longer term performance the Fund posted three year returns of 11.2% ahead the benchmark return of 10.9% and posted five year returns of 8.2% against benchmark return of 8.4%.

1.5 For this quarter end, five out of the eight mandates matched or achieved returns above the benchmark. The Fund performance was below the benchmark over the quarter, this was mainly due to poor relative returns from Baillie Gifford Global Equities, GMO and Schroder's property portfolio.

1.6 The Fund is still in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight.

2. DECISIONS REQUIRED

2.1 Members are recommended to note the contents of this report.

3. REASONS FOR DECISIONS

3.1 There are no decisions to be made as a result of this report. The report is written to inform committee members of the performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

4. ALTERNATIVE OPTIONS

4.1 The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Pension Fund.

5. BACKGROUND

5.1 The Pension Fund Regulations require that the Council establish arrangements for monitoring the investments of the Fund. It considers the activities of the investment managers and ensures that proper advice is obtained on investment issues.

5.2 Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and may recommend that investment managers are invited to explain further to the Pensions Committee.

5.3 This report informs Members of the performance of the Fund and its investment managers for the quarter 30 September 2014.

Legal & General Investment Management

5.4 Legal & General was appointed (2 August 2010) to manage passively UK Equity and UK Index-Linked Mandates, which at 30 September 2014 had a market value of £214.8m. The value of the assets taken on at the commencement of the contract was £204.7m.

5.5 The performance target is to track the FTSE All Share index for the UK Equity mandate and FTSE A Gov Index-Linked > 5 years benchmark for the UK Index-Linked Mandates.

Baillie Gifford & Co

5.6 Baillie Gifford manage two distinct mandates; global equity mandate and diversified growth fund mandate. The global equity fund had a value of £118.9m at the start of the mandate in July 2007. The value of assets under management as of 30 September 2014 was £187.3m. The performance target for this mandate is +2% to 3% above the benchmark MSCI AC World Index gross of fees over a rolling 3-5 year periods.

5.7 The diversified growth fund mandate was opened in February 2011 with contract value of £40m. The value of assets under management as at 30 September 2014 was £48.8m. The performance target for this mandate is to outperform the benchmark (UK base rate) net of fees over rolling 5 years with annual volatility of less than 10%.

GMO

5.8 GMO manages a Global Equity Mandate which at 30 September 2014 had a market value of £267.8m. The initial value of the assets taken on at the commencement (29 April 2005) of the contract was £201.8m.

5.9 The performance target is to outperform a balanced global equity benchmark by 1.5% per annum net of fees over a rolling three year period.

Investec Asset Management

5.10 Investec manages a Global Bond Mandate which at 30 September 2014 had a market value of £98.7m. The initial value of the assets taken on at the commencement (26 April 2010) of the contract was £97m.

5.11 The performance target is to outperform the benchmark (3 Month LIBOR) by 2.0% per annum net of fees over a rolling three year period.

Ruffer Investment Management

5.12 Ruffer manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. The value of assets under management as of

30 September 2014 was £46.3m.

5.13 Their overall objective is firstly to preserve the capital over rolling 12 month periods and secondly to grow portfolio at a higher rate after fees than could reasonably be expected from the alternative of depositing the cash value of the portfolio in a reputable UK bank.

Schroder Investment Management

5.14 Schroder manage a property mandate. The value of this mandate on 20 September 2004 was £90m. The value of assets under management at 30 September 2014 was £114.3m.

5.15 The performance target for this mandate is to outperform the IPD UK Pooled Property Fund Indices All Balanced Funds Median by 0.75% net of fees over a rolling three year period.

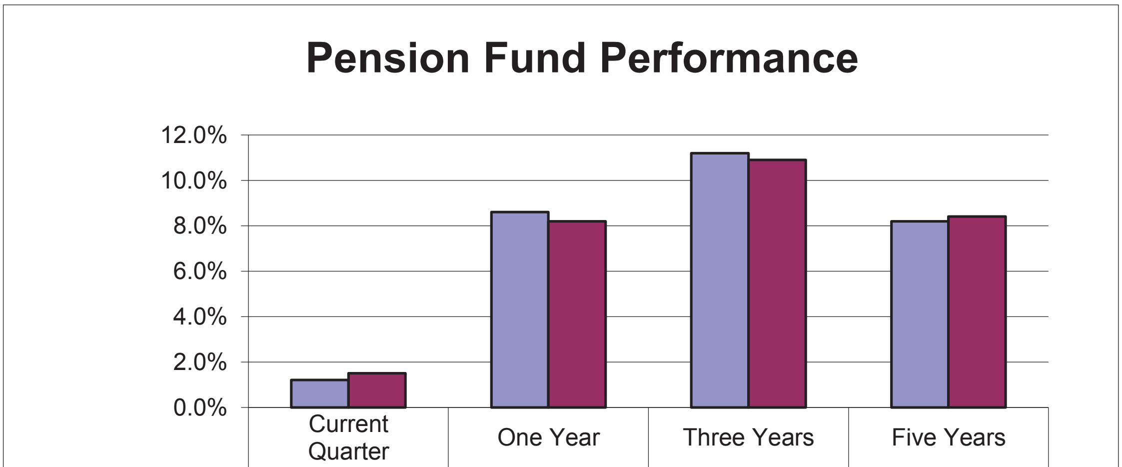
6. INVESTMENT PERFORMANCE

6.1 The Fund's overall value has increased by £14.64m from £1,035.06m as of 30 June 2014 to £1,049.7m as of 30 September 2014.

6.2 The fund underperformed the benchmark this quarter with a return of 1.2% compared to the benchmark return of 1.5%. The twelve month period sees the fund outperforming the benchmark by 0.4%.

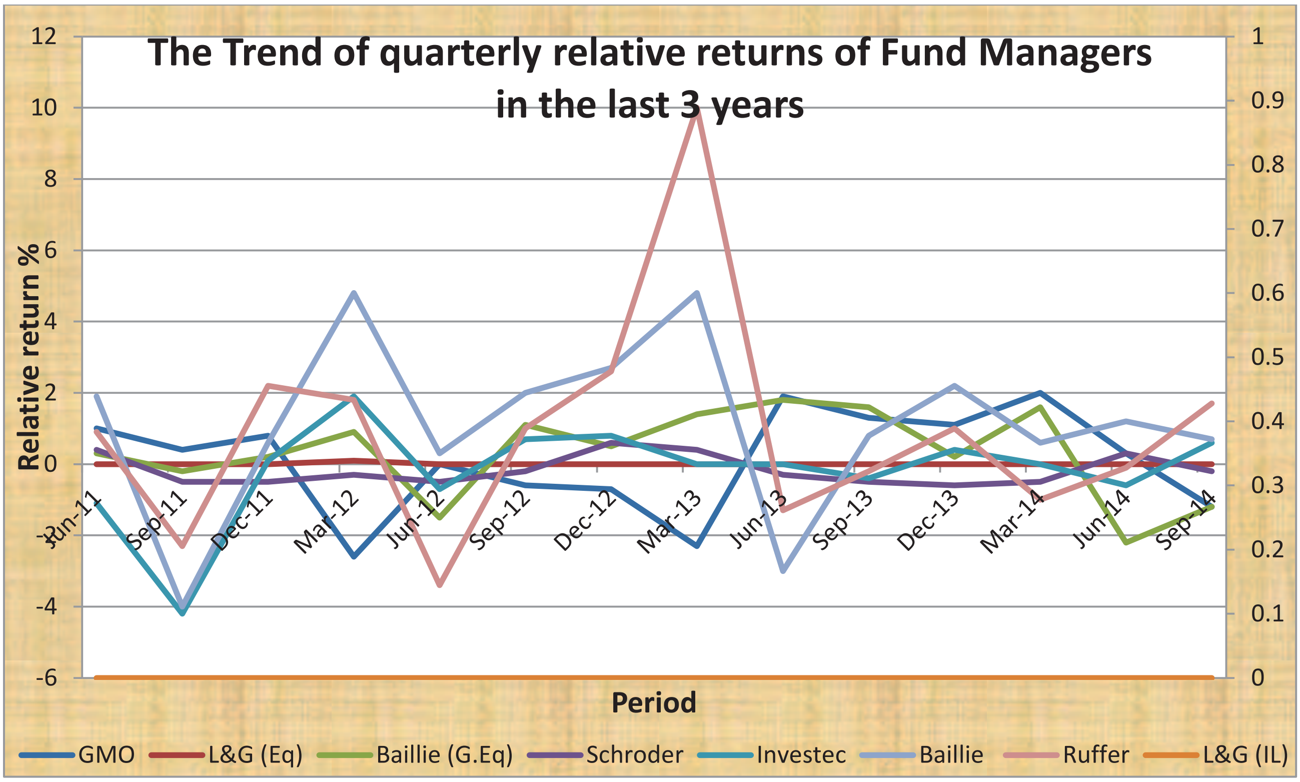
6.3 The performance of the fund over the longer term is as set out in table 1.

Table 1 – Pension Fund Performance



	Current Quarter	One Year	Three Years	Five Years
Fund	1.2%	8.6%	11.2%	8.2%
Bench Mark	1.5%	8.2%	10.9%	8.4%

6.4 The graph below demonstrates the volatility and cyclical nature of financial markets, but the outcomes are within the range of expectations used by the Fund actuary in assessing the funding position. The Fund can take a long term perspective on investment issues principally because a high proportion of its pension liabilities are up to sixty years in the future. Consequently it an effectively ride out short term volatility in markets.



7. MANAGERS

7.1 The Fund currently employs six specialist managers with eight mandates. The managers, mandate and funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value September 2014 £M	Benchmark Weight % of Fund Managers	Actual Weight % of Fund Managers	Difference %	Value June 2014 £M	Date Appointed
GMO	Global Equity	**267.83**	25.0%	25.5%	0.5%	**267.0**	29 Apr 2005
Baillie Gifford	Global Equity	**187.28**	16.0%	17.9%	1.9%	**183.6**	5 Jul 2007
L & G UK Equity	UK Equity	**214.80**	20.0%	20.5%	0.5%	**216.9**	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	**48.77**	5.0%	4.6%	-0.4%	**48.0**	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	**46.34**	5.0%	4.4%	-0.6%	**45.3**	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	**52.68**	3.0%	5.0%	2.0%	**49.7**	2 Aug 2010
Investec Bonds	Bonds	**98.69**	14.0%	9.4%	-4.6%	**97.5**	26 Apr 2010
Schroder	Property	**114.27**	12.0%	10.9%	-1.1%	**110.1**	30 Sep 2004
Cash	Currency	**19.03**	0.0%	1.8%	1.8%	**17.0**	
Total		**1,049.69**	**100.0%**	**100.0%**	**0.0%**	**1,035.1**	

7.2 The Fund was valued at £1,049.7million as at 30 September 2014. This includes cash held and being managed internally (LBTH Treasury Management), this has increased to 1.8% of the total assets value.

7.3 The performance, gross of fees of the individual managers relative to the appropriate benchmarks over the past five years is as set out in table 3.

Table 3: Manager Investment Performance relative to benchmark

Manager	Current Quarter	One Year	Three Years	Five Years
GMO Global Equities	-1.2%	2.2%	-0.1%	0.2%
Baillie Gifford Global Equities	-1.2%	-2.0%	1.3%	1.9%
L & G UK Equity	0.0%	0.1%	0.1%	N/A
Baillie Gifford Diversified Growth	0.7%	3.0%	3.0%	N/A
Ruffer Total Return Fund	1.7%	0.6%	3.0%	N/A
L & G Index Linked-Gilts	0.0%	0.1%	0.1%	N/A
Investec Bonds	0.6%	-0.7%	-0.7%	N/A
Schroder	-0.2%	-1.0%	-0.8%	-1.4%
Total Variance (Relative)	**-0.3%**	**0.4%**	**0.3%**	**-0.2%**

7.4 **GMO** made absolute return of 0.4% in the quarter, underperforming the benchmark of 1.6% by 1.2%. The portfolio value has increased by £0.8m since 30 June 2014. If the portfolio was managed in line with the benchmark index, the portfolio would have increased by £4.27m.

7.5 The global equity market made a modest return over this quarter. GMO, European value position (c.40% of total portfolio weight) detracted, as European stocks lagged the broader market. GMO Emerging markets position also underperformed the index.

7.6 GMO stock selection impact has been negative this quarter Sector wise, the major contributor to performance was China Telecommunications while Russia Energy and Brazil Utilities are the two major country-sector detractors for the quarter.

7.7 Strong performance over the past 12 months means that the portfolio's performance since inception is now marginally above the benchmark, despite the poor relative performance exhibited during 2012 and Q1 2013.

7.8 **Baillie Gifford –** the portfolio underperformed the benchmark of 3.3% over the quarter, delivering a return of 1.9% resulting in relative underperformance of -1.2%. The portfolio is relatively concentrated and seeks to generate strong absolute returns over the long-term through the use of an unconstrained bottom-up approach. The portfolio has delivered on this over the longer term, as performance remains ahead of the benchmark over 3 years and 5 years.

7.9 For this quarter, the portfolio increased by £3.65m. Assuming the portfolio posted the benchmark return of 3.3% for the quarter, the portfolio would have increased by £5.88m, but unfortunately the manager strategic positioning did not beat the index return for the quarter.

7.10 The fund one year performance was also under the benchmark return. Although the fund has delivered on its objective over the longer term, as performance remains ahead of the benchmark over 3 years, 5 years and since inception.

7.11 The relative underperformance against the benchmark for the quarter came from North America and UK stocks.

7.12 **L & G (UK Equity)** – The portfolio returned -1.0% matching the index return over the quarter. At the quarterly review sixteen companies were added.

7.13 **L & G Index Linked Gilts** – The portfolio returned 5.9% matching the index return over the quarter.

7.14 During the quarter there were four bond auctions, with maturities of 2019, 2024, 2040 and 2052.

7.15 The portfolio held all 22 stocks contained within the benchmark index. The portfolio and index both had a modified duration of 21.66 years at the end of the quarter and the real yield was -0.35% (yield curve basis)

7.16 **Investec (Bonds)** – The portfolio posted a return of 1.2% against a performance comparison index return of 0.12% over the quarter. The outperformance here was predominantly driven by the currency exposure where a number of positions contributed to relative returns.

7.17 The portfolio's currency positions were a significant contributor to positive performance. This was a particularly favourable outcome given the limited risk exposure with which these gains were achieved. The currency performance came from a wide range of strategic and tactical positions adopted across the broader developed and emerging market universe. Long exposure to the US dollar and short positions in the euro, Australian and New Zealand dollars were particularly beneficial.

7.18 The portfolio's interest rate positioning posted favourable returns for the quarter, despite relatively contained moves across most major bond markets through the quarter. Interest rate performance emanated from the range of various exposure types. Specifically, outright duration, country selection, as well as yield curve trades.

7.19 Global corporate credit markets experienced weakness over the quarter with spreads widening fairly consistently, with a couple of major, temporary pull-backs. The portfolio had already been defensively positioned within its corporate credit allocation and adjustments were largely made on the basis of individual asset opportunities, rather than significant allocation changes. The manager also continued to hold reasonably sized broad-market hedges over the quarter – this helped reduce the weakness brought about by spreads widening.

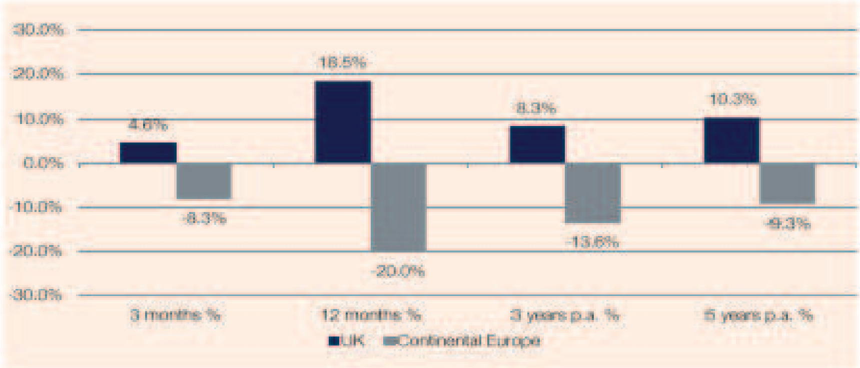
7.20 Longer term performance remains below the benchmark for 12 months, 3 years and since inception. 12 months to reporting period the benchmark returned 2.5% and the portfolio has delivered 1.9%.

7.21 **Schroder (Property)** returned 3.8% in the quarter against a benchmark of 4.0% resulting in marginal underperformance of the benchmark by 0.2%.

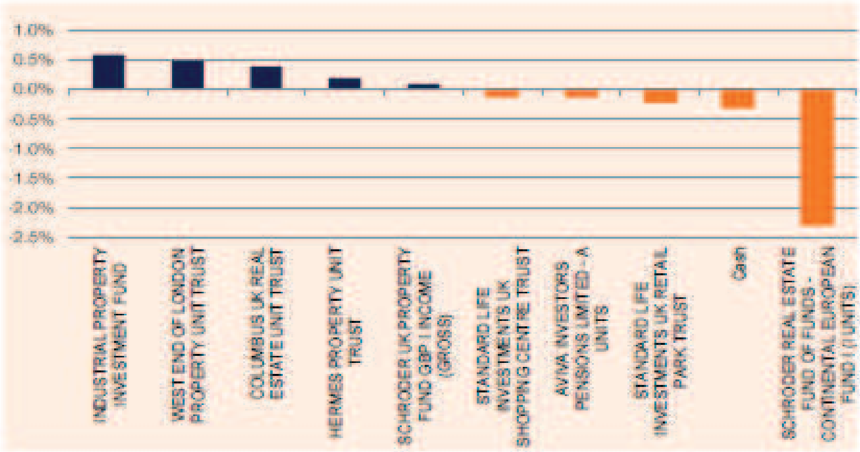
7.22 Longer term performance continues to lag the benchmark; with an underperformance 1.0% p.a. over the 5 years to 30 September 2014.

7.23 Please see below charts which illustrate the key drivers of performance in detail.

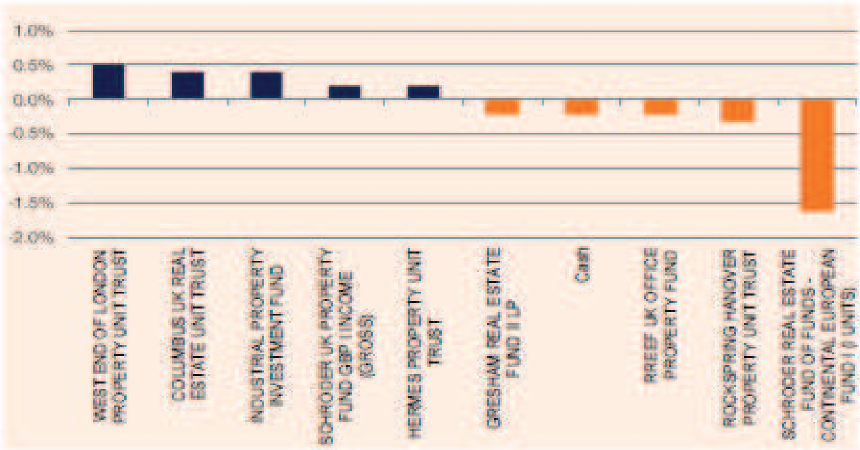
Total return by region
Periods to end 30 Sep 2014



Total return attribution relative to benchmark top & bottom five contributors
12 months to 30 Sep 2014



Total return attribution relative to benchmark top & bottom five contributors
3 years to 30 Sep 2014



7.24 The portfolio's UK assets (95% of the portfolio’s value) outperformed by +1.7% over the past twelve months and returns have now exceeded the benchmark over the quarter, one three and five year periods. However, negative returns from continental Europe (5% of portfolio) have held overall portfolio returns below the benchmark.

7.25 Sector specialist UK funds have been key positive drivers of returns over recent quarters. Industrial funds such as industrial Property Investment Fund (IPIF) have benefitted from increasing occupier demand for business space across the UK and more competitive pricing from investors.

7.26 Central London office funds such as West End of London PUT (WELPUT) remain positive contributors to return.

7.27 The Continental European Fund produced a total return of -4.7% (Euros) this quarter. The negative return has been driven by three main factors: a substantial fail in the valuation of CG Mails Europe, a decline in the valuation of Corestate German Residential and weakness in equity markets which particularly affected Immobiliare Grande Distribuzione.

7.28 **Baillie Gifford Diversified Growth Fund** generated a return of 1.7% return for the quarter, outperformed the benchmark of 1.0% by 0.7%.

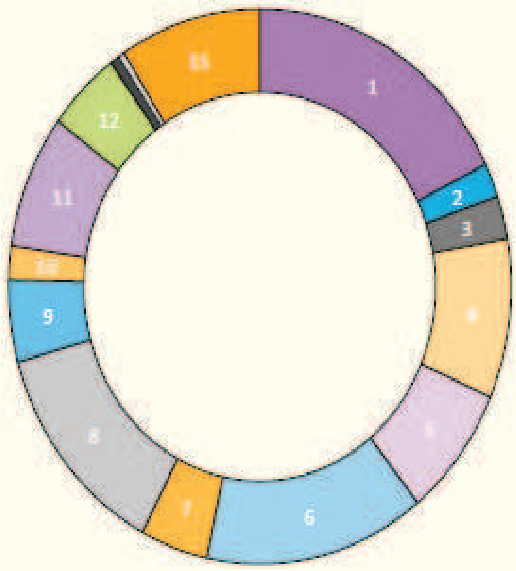
7.29 Across the past three months, the largest contributors to performance have been the active currency positions, in particular the short Australian dollar hedge position, which added 0.4% alone to performance as the currency fell 7.3% on Chinese growth concerns, as well as Insurance Linked Securities and Property.

7.30 The long term performances are ahead of the benchmark. The last 12 months are ahead by 3.0% and the last 3 years by 3.0% above benchmark returns.

7.31 Please see below charts which illustrate the strategic asset allocation of the portfolio at the quarter end.

Asset Allocation at Quarter End

		(%)
1	Listed Equities**	17.7
2	Private Equity	2.0
3	Property	2.5
4	High Yield Credit	9.3
5	Investment Grade Bonds	7.7
6	Structured Finance	14.2
7	Commodities	4.3
8	Emerging Market Bonds	12.9
9	Infrastructure	4.8
10	Government Bonds	2.0
11	Absolute Return	7.8
12	Insurance Linked	4.7
13	Special Opportunities	0.6
14	Active Currency	0.4
15	Cash and Equivalents	9.1
	Total	100.0



7.32 The fund returns have exceeded the performance target over all periods as shown on table 3, page 5. Active currency management drove returns over the quarter. The fund's short position in the Australian dollar had detracted from performance in the first half of the year; however it had a significant positive contribution to returns as the currency depreciated over 7% during the third quarter.

7.33 Insurance linked securities, property, emerging market bonds and Japanese equities also enhanced returns over the quarter while exposure to high yield bonds and European equities detracted.

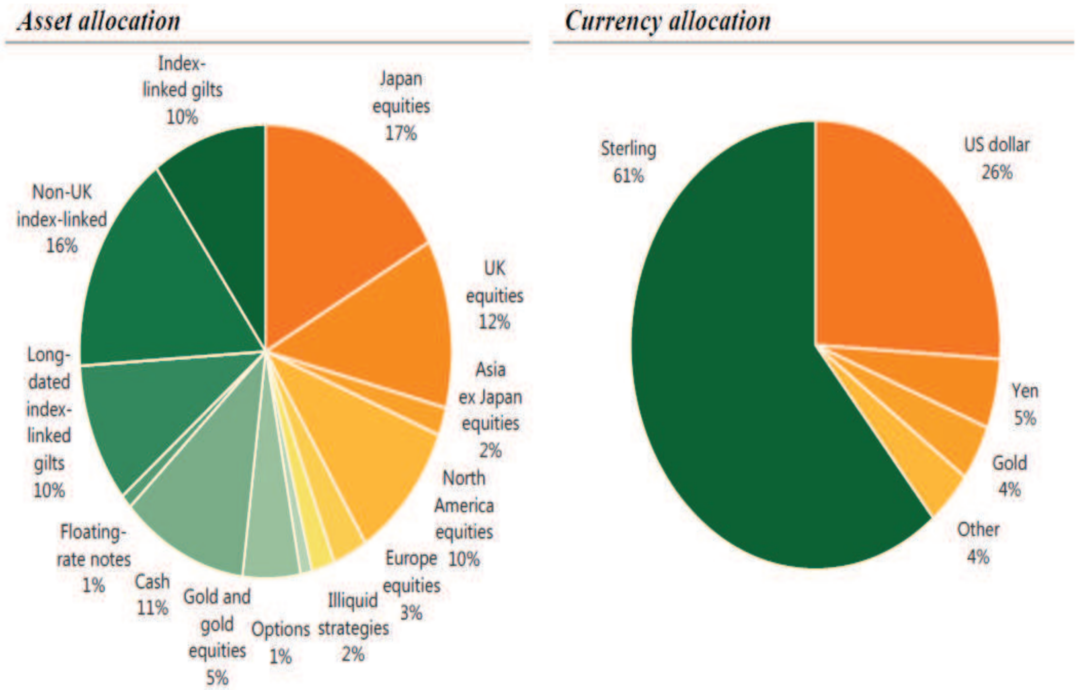
7.34 **Ruffer Total Return Fund (Absolute Return)** – The portfolio delivered a positive absolute return of 2.4% over the quarter.

7.35 The portfolio had a good quarter, as its benefited from a turnaround in the US dollar, more than reversed its losses from earlier this year, and from further gains from the long-dated index-linked bonds, especially in the UK.

7.36 Other major contributors to positive returns were Japanese equities and key individual stock selections such as Microsoft, Lockheed Martin and ITV. This performance was set against a mixed background for risk assets as equity markets ran out of steam and commodity prices fell sharply, meanwhile bond yields hit new lows reflecting continued growth concerns, especially in the Eurozone.

7.37 This improvement in portfolio performance was somewhat overdue and brings the portfolio back into positive territory for the year. In the first half of 2014, the portfolio performance suffered from the cost of protection assets (US dollar and options) and the lack of progress from our largest equity position, namely Japan.

7.38 Please see below charts which illustrate the strategic asset and currency allocations of the portfolio.



Cash Management

7.39 Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

7.40 The Pension Fund invests in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2014, which is delegated to the Acting Corporate Director of Resources to manage on a day to day basis within set parameters.

7.41 As at 30 September 2014 the Pension Fund internal cash balance was £19m.

7.42 Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security of the Fund's cash remains the overriding priority, ahead of yield. As at 31 October 2014 the Pension Fund in house cash position stood at £19.65m.

8 ASSET ALLOCATION

The benchmark asset distribution and the fund position at 30 September 2014 are as set out below:

Table 4: Asset Allocation

Mandate	Benchmark	Fund Position as at 30 Sept 2014	Variance as at 30 Sept 2014
UK Equities	24.0%	24.7%	0.7%
Global Equities	37.0%	39.7%	2.7%
Total Equities	**61.0%**	**64.4%**	**3.4%**
Property	12.0%	10.6%	-1.4%
Bonds	14.0%	9.4%	-4.6%
UK Index Linked	3.0%	4.8%	1.8%
Alternatives	10.0%	9.0%	-1.0%
Cash	0.0%	1.8%	1.8%
Currency	0.0%	0.0%	0.0%
Total Equities	**100.0%**	**100.0%**	

8.1 The original allocation of investments between the different asset classes was determined in conjunction with the Council's professional advisors in 2004 and is subject to periodic review by the Investment Panel – the latest review was carried out in January 2011.

Asset allocation is determined by a number of factors including:-

8.1.1 The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.

8.1.2 The age profile of the Fund. The younger the members of the Fund, the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.

8.1.3 The deficit recovery term. All Council funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a twenty year deficit recovery term for this Council which enables a longer term investment perspective to be taken.

8.2 Allocations are therefore considered to be broadly in line with the benchmark. Individual managers have discretion within defined limits to vary the asset distribution. The overweight position in equities has helped the fund's performance in recent months.

9. COMMENTS OF THE CHIEF FINANCIAL OFFICER

9.1. The comments of the Acting Corporate Director Resources are incorporated in the report.

10. LEGAL COMMENTS

10.1 Regulation 11(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires the Council, as an administering authority, to invest fund money that is not needed immediately to make payments from the Pensions Fund. Regulation 11(1) requires the Council to have a policy in relation to its investments. The investment policy should cover the following matters:

(a) the advisability of investing money in a wide variety of investments; and

(b) the suitability of particular investments and types of investments. The Council is also required to have a Statement of Investment Principles in accordance with regulation 12 (1) which cover the following matters:

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

10.2 The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.

10.3 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

11. ONE TOWER HAMLETS CONSIDERATIONS

11.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

11.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

12.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

13. RISK MANAGEMENT IMPLICATIONS

13.1 Any form of investment inevitably involves a degree of risk.

13.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

14. CRIME AND DISORDER REDUCTION IMPLICATIONS

14.1 There are no crime and disorder reduction implications arising from this report.

15. EFFICIENCY STATEMENT

15.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***
Quarterly reports (Investec, Schroders, Baillie Gifford, Ruffer and WM Quarterly Performance Review	*Bola Tobun Investment &Treasury Manager x4733*

WM PERFORMANCE SERVICES
A State Street Business

Quarterly Performance Service

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED

QUARTERLY PERFORMANCE REVIEW

PERIODS TO END SEPTEMBER 2014

Produced 24 October 2014

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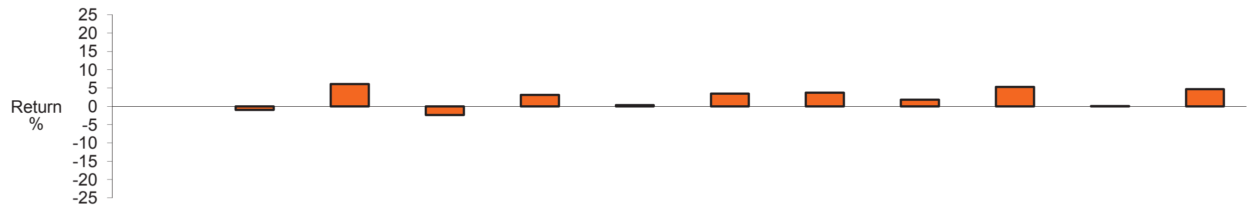
Market Background

Periods to end September 2014
Pound Sterling

This page details the performance of the major markets.

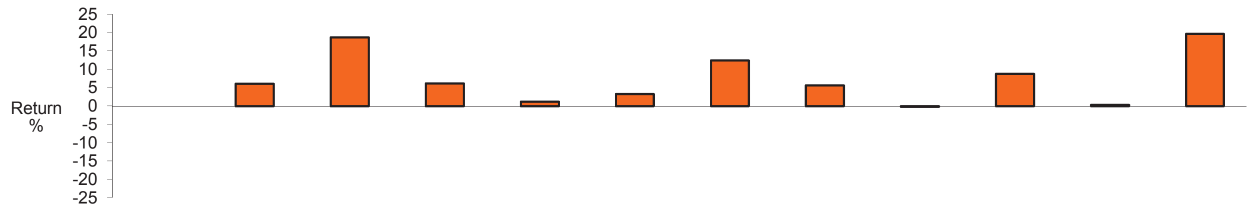
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property

Latest Quarter



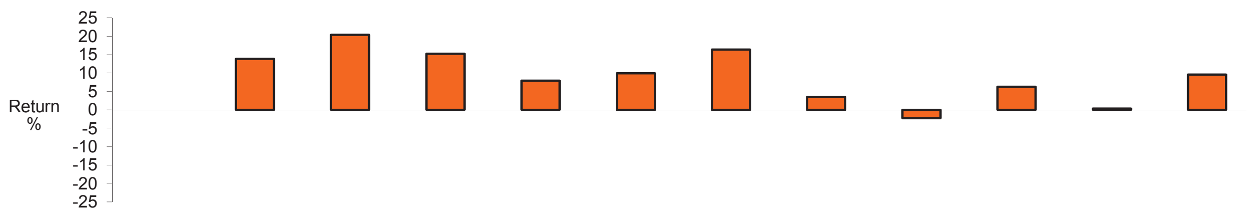
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	-1.0	6.1	-2.4	3.1	0.4	3.5	3.7	1.9	5.3	0.1	4.7

Last 12 Months



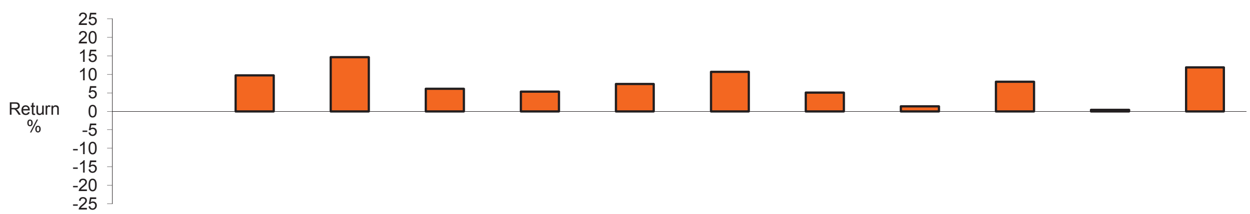
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	6.1	18.7	6.2	1.2	3.3	12.5	5.6	-0.2	8.8	0.3	19.7

Last Three Years



	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return % pa	13.9	20.4	15.3	8.0	10.0	16.4	3.5	-2.2	6.4	0.4	9.6

Last Five Years



	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return % pa	9.7	14.7	6.1	5.4	7.4	10.7	5.1	1.4	8.0	0.4	11.9

Index Used	FT All Share	FTSE WORLD N	FTSE WORLD E	FT Japan	FT Pac x Jap	FT Wld x UK	UK Gilts AS	JPM Glb x UK	I/L Gilts AS	7 Day LIBID	IPD Monthly

Fund Structure and Benchmarks

Structure

The Fund is managed on a specialist basis with GMO and Baillie Gifford managing the Global Equities on an active basis. UK equities and UK Index-Linked are passively managed by L&G. Investec manage an absolute return pooled bond fund and Schroders are the property manager. During February 2011, Baillie Gifford and Ruffer were appointed to manage Diversified Growth Funds.

Benchmark

The Fund's performance is analysed relative to customised benchmarks, the weighting and relevant indices are shown below.
On a quarterly basis the Fund will be measured against its Customised Benchmark. On an annual basis there is secondary analysis undertaken relative to the WM Local Authority Universe.
The fund structure and benchmarks are noted below.

	L&G	GMO	Baillie Gifford	Benchmark Indices
Global Equities			100.0	MSCI AC World GDR
UK Equities	100.0	10.0		FTSE All Share
Overseas Equities		90.0		
North America		*30.0*		*FTSE AW North America*
Europe		*30.0*		*FTSE AW Dev Europe ex UK*
Japan		*17.0*		*FTSE AW Japan*
Pacific ex Japan		*8.5*		*FTSE AW Dev Asia Pacific ex Japan ex S. Korea*
Emerging Markets		*4.5*		*MSCI EM*
UK Gilts				
Overseas Bonds				
UK Index Linked				
Cash				
Property				
	20.0	25.0	16.0	

	L&G	Investec	Schroders	Baillie Gifford	Ruffer	Total Combined	Benchmark Indices
Global Equities						16.0	MSCI AC World GDR
UK Equities						22.5	FTSE All Share
North America						*7.4*	FTSE AW North America
Europe						*7.4*	FTSE AW Europe ex UK
Japan						*4.3*	FTSE AW Japan
Pacific ex Japan						*2.4*	FTSE AW Dev Asia Pacific ex Japan ex S. Korea
Emerging Markets						*1.0*	MSCI EM
Pooled Bonds		100.0				14.0	LIBOR 3 Month 2%
UK Index Linked	100.0					3.0	FTSE A Gov Index-Linked > 5 yrs
Cash							
Property			100.0			12.00	HSBC/IPD Pooled All Balanced Funds Average
Diversified Growth				100.0	100.0	10.0	50% Base Rate 3.5%/ 50% 3 Month LIBOR +2%
	3.0	14.0	12.0	5.0	5.0	100.0	

Targets

GMO: +1.5% p.a. net of fees over a rolling 3 year period.
Baillie Gifford Global Equity: + 2 - 3 % p.a. gross of fees over a rolling 3 year period.
Schroders: +0.75% p.a. net of fees over a rolling 3 year period.
Baillie Gifford Diversified Growth: 3.5% p.a. above the UK Base Rate (after fees).
Investec: 3 Month LIBOR +2% p.a.
Ruffer: Overall objective is firstly to preserve the capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable UK bank.

WM Contact: Lynn Coventry
Direct Telephone: (0131) 315 5258 Fax Number: (0131) 315 2999 E-mail: lynn.coventry@statestreet.com

Performance Summary

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | Periods to end September 2014

Benchmark - LB TOWER HAMLETS TOTAL B/MARK | Pound Sterling

Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

Fund Value

Values (GBP)'000	Mandate	Value at 30/06/2014	Transactions	Capital Gain / loss	Income	Value at 30/09/2014	*% Fund*
GMO	Eq Glbl	267,004	1,192	-367	1,369	267,830	26
L & G	Eq UK	216,872	0	-2,070	0	214,802	20
BAILLIE GIFF	Eq Glbl	183,631	102	3,542	0	187,276	18
SCHRODERS	Prop UK	110,088	978	3,207	979	114,273	11
INVESTEC	Bd Glbl	97,531	0	1,163	0	98,694	9
L & G	Bd UK I/L	49,733	0	2,950	0	52,683	5
BAILLIE GIFF	Structured	47,945	18	805	0	48,768	5
RUFFER	Absolute	45,268	0	1,075	0	46,342	4
INT MGD	Cash	16,990	2,041	0	37	19,031	2
Total Fund		1,035,062	4,331	10,305	2,385	1,049,698	100

The table shows the value of each Portfolio at the start and end of the period.
The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of the investments.

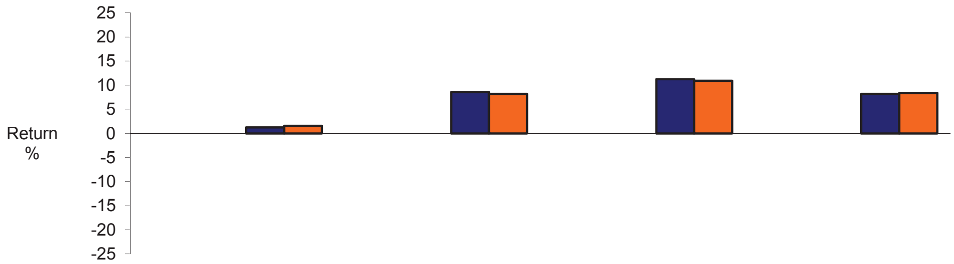
Performance Summary

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end September 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	1.2	8.6	11.2	8.2
Benchmark	1.5	8.2	10.9	8.4
Relative Return	-0.3	0.4	0.3	-0.2

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

= Data not available for the full period

Detailed Analysis of the Latest Quarter Performance

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end September 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

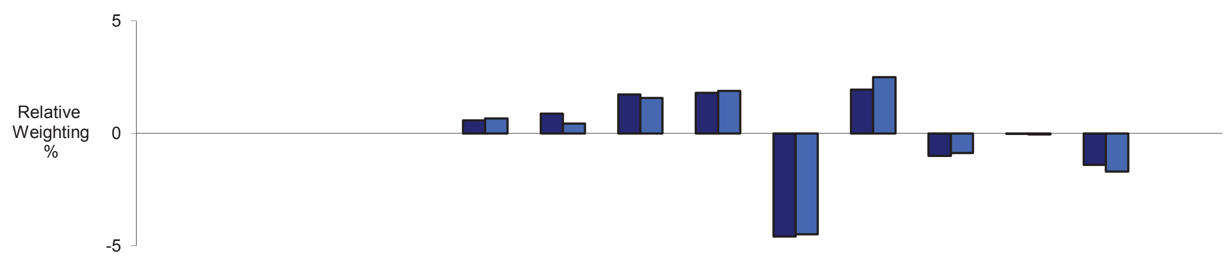
This page analyses in detail the Fund performance over the latest period.

Summary

Fund Return		1.2
Benchmark Return		1.5
Relative Performance		-0.3
	attributable to:	
	Asset Allocation	-
	Stock Selection	-0.3

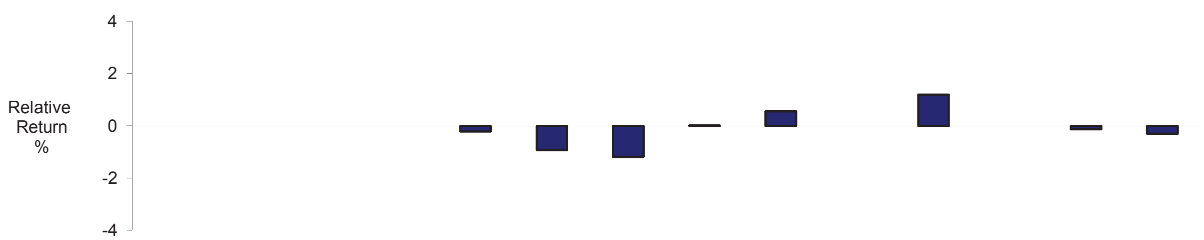
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

Asset Allocation



	UK Equities	O/S Equities	Global Eq	UK IL	Pooled Bonds	Cash	Alternatives	Curr Instr	Property	Total Fund
Fund Start	23.1	23.4	17.7	4.8	9.4	2.0	9.0	-0.0	10.6	100.0
Fund End	22.6	23.0	17.8	5.0	9.4	2.5	9.1	-0.0	10.6	100.0
BM Start	22.5	22.5	16.0	3.0	14.0		10.0		12.0	100.0
BM End	21.9	22.6	16.3	3.1	13.9		9.9		12.3	100.0
Impact	-	-	-	0.1	-	-	-	-	-	-

Stock Selection



	UK Equities	O/S Equities	Global Eq	UK IL	Pooled Bonds	Cash	Alternatives	Curr Instr	Property	Total Fund
Fund	-1.2	0.9	1.9	5.9	1.2	0.8	2.0	n/a	3.9	1.2
Benchmark	-1.0	1.8	3.2	5.9	0.6		0.8		4.0	1.5
Impact	-	-0.2	-0.2	-	0.1		0.1		-	-0.3

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

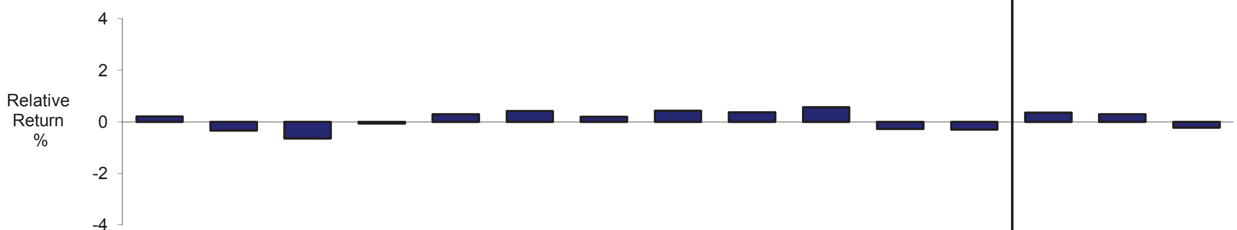
Long Term Performance Analysis

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end September 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Category - TOTAL ASSETS

This page looks in more detail at the long term performance, plotting it relative to the Benchmark.

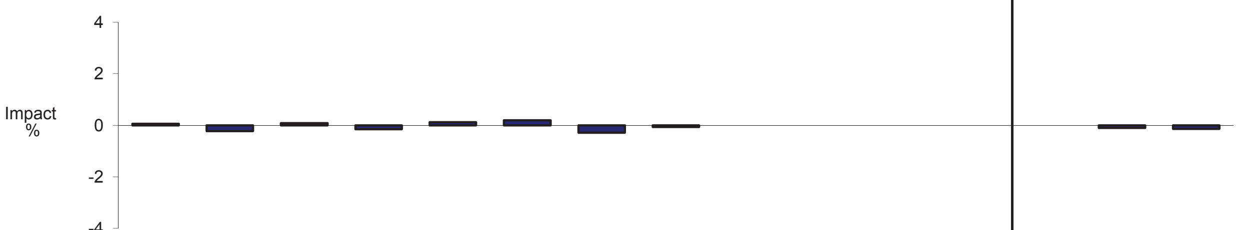
Fund Returns



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	5.1	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	8.6	11.2	8.2
Benchmark	4.9	5.1	-1.9	2.6	2.4	8.4	-0.2	2.5	3.6	0.7	2.1	1.5	8.2	10.9	8.4
Relative	0.2	-0.3	-0.6	-0.1	0.3	0.4	0.2	0.4	0.4	0.6	-0.3	-0.3	0.4	0.3	-0.2

The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:

Asset Allocation



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Impact	0.1	-0.2	0.1	-0.1	0.1	0.2	-0.3	-0.1	-	-	-	-	-	-0.1	-0.1

Stock Selection

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Impact	0.1	-0.1	-0.7	0.1	0.2	0.2	0.5	0.5	0.4	0.6	-0.3	-0.3	0.4	0.4	-0.1

An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.

Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Long Term Asset Allocation

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end September 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

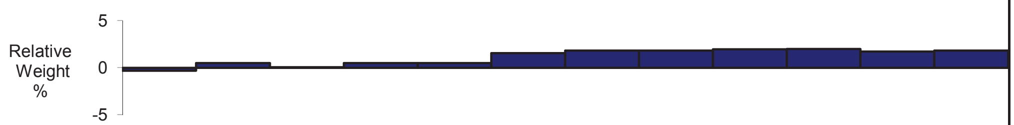
U.K. EQUITIES

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	22.2	22.6	22.7	23.0	22.9	22.9	22.8	23.4	23.9	23.0	23.1	22.6			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

OVERSEAS EQUITIES

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	20.9	21.1	20.5	20.8	21.3	22.1	22.4	22.7	22.8	23.1	23.4	23.0			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5			
Impact	-	-0.1	-	-	-	-0.1	-	-	-	-	-	-	-	-	-

GLOBAL POOLED INC UK

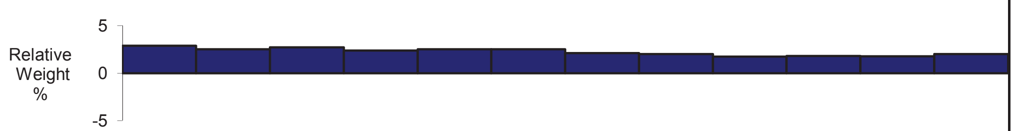


	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	15.7	16.5	16.1	16.5	16.5	17.5	17.8	17.8	18.0	18.0	17.7	17.8			
Benchmark	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-

TOTAL BONDS PLUS INDEX-LINKED

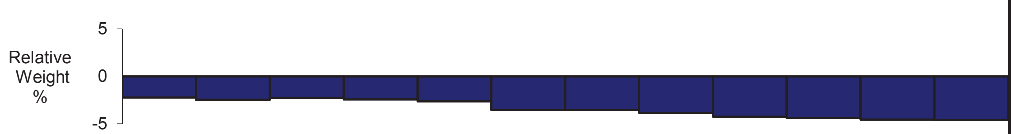
	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	17.7	17.1	17.5	17.0	16.9	16.0	15.6	15.1	14.5	14.4	14.2	14.4			
Benchmark	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0			
Impact	0.2	-0.1	-	-0.1	0.1	0.2	-0.2	-	-	0.1	-	0.1	0.2	0.1	0.1

U.K. INDEX - LINKED



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	5.9	5.5	5.7	5.4	5.5	5.5	5.1	5.0	4.8	4.8	4.8	5.0			
Benchmark	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0			
Impact	0.1	-0.2	0.1	-0.2	0.1	-	-0.2	-	-0.1	-	-	0.1	-	-0.1	-

POOLED BONDS



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	11.8	11.5	11.8	11.6	11.3	10.4	10.4	10.1	9.8	9.6	9.4	9.4			
Benchmark	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0			
Impact	0.1	0.1	-0.1	-	-	0.2	-	0.1	0.1	-	0.1	-	0.2	0.2	0.1

For each area of investment the initial weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

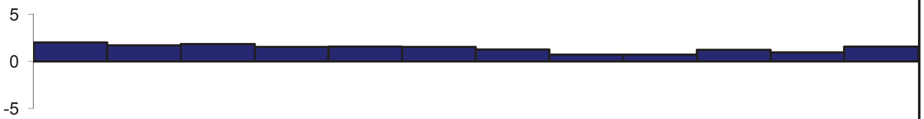
Long Term Asset Allocation

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end September 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

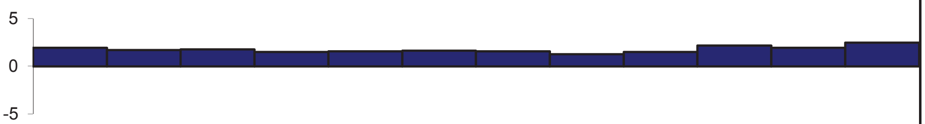
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	12.0	11.7	11.9	11.5	11.6	11.5	11.3	10.7	10.7	11.2	11.0	11.6			
Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0			
Impact	-0.1	-0.1	0.1	-0.1	-	-0.1	-	-	-	-	-	-	-0.1	-0.2	-0.1

TOTAL CASH



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	2.0	1.7	1.8	1.5	1.6	1.6	1.6	1.3	1.5	2.2	2.0	2.5			
Benchmark															
Impact	-0.1	-0.1	0.1	-	-	-0.1	-	-0.1	-	-	-0.1	-	-0.1	-0.2	-0.2

ALTERNATIVES

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	10.1	10.0	10.1	10.0	10.0	9.9	9.7	9.5	9.2	9.0	9.0	9.1			
Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

CURRENCY INSTRUMENTS

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	0.0	0.0	0.0	-0.0	0.0	0.1	0.0	0.0	-0.0	-0.0	-0.0	-0.0			
Benchmark															
Impact	-	-	-	-	-	0.1	-	-	-0.1	-	-	-	-0.1	-	0.1

TOTAL PROPERTY

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	11.5	11.0	11.4	11.2	10.9	9.9	10.1	10.2	10.2	10.2	10.6	10.6			
Benchmark	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0			
Impact	-	-	-	-	-	0.1	-	-	-	-	-	-	-0.1	-	-0.1

For each area of investment the initial weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

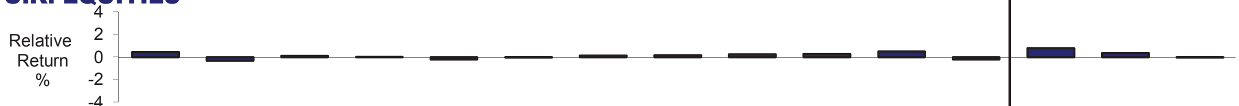
Long Term Stock Selection

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end September 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

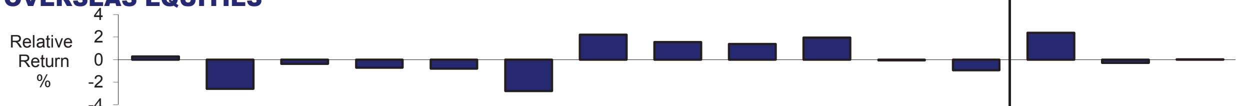
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



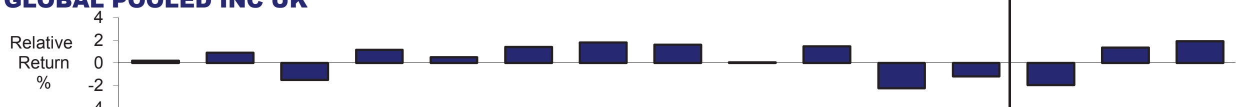
	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	8.9	5.8	-2.5	4.7	3.6	10.3	-1.5	5.8	5.7	-0.4	2.7	-1.2	6.9	14.3	9.7
Benchmark	8.4	6.1	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6	2.2	-1.0	6.1	13.9	9.7
Impact	0.1	-0.1	-	-	-	-	-	-	0.1	0.1	0.1	-	0.2	0.1	-

OVERSEAS EQUITIES



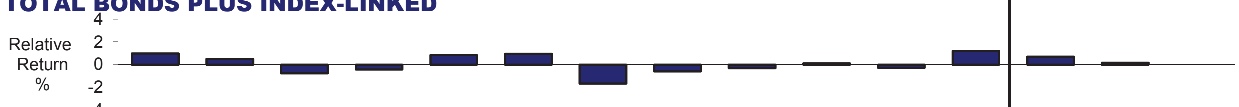
	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	5.4	6.3	-4.8	2.9	3.4	11.4	2.8	4.1	5.6	2.4	2.1	0.9	11.4	14.6	9.2
Benchmark	5.1	9.2	-4.5	3.7	4.2	14.6	0.5	2.5	4.2	0.5	2.1	1.8	8.8	14.9	9.2
Impact	0.1	-0.6	-0.1	-0.1	-0.2	-0.6	0.5	0.4	0.3	0.4	-	-0.2	0.5	-	-

GLOBAL POOLED INC UK



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	7.8	9.9	-5.0	5.1	2.8	15.8	1.7	2.8	5.1	2.0	0.3	1.9	9.6	17.2	12.5
Benchmark	7.6	9.0	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	2.6	3.2	11.8	15.7	10.3
Impact	-	0.1	-0.2	0.2	0.1	0.2	0.3	0.3	-	0.3	-0.4	-0.2	-0.4	0.2	0.3

TOTAL BONDS PLUS INDEX-LINKED

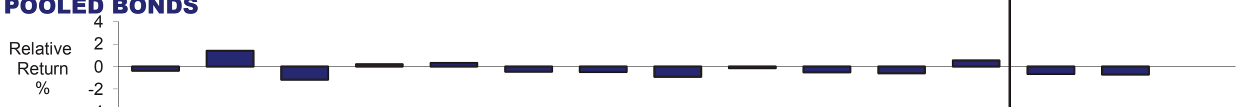


	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	3.3	0.8	-0.0	-0.4	2.3	3.1	-2.5	-0.0	0.0	1.3	0.4	2.8	4.5	3.7	3.0
Benchmark	2.3	0.3	0.7	-0.0	1.4	2.1	-0.8	0.6	0.3	1.1	0.7	1.6	3.8	3.5	
Impact	-	0.2	-0.1	-	-	-	-	-0.1	-	-	-0.1	0.1	-0.1	-0.1	-0.3

U.K. INDEX - LINKED

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	9.8	-2.0	0.8	-3.2	5.1	9.0	-7.3	0.6	-0.9	3.6	1.1	5.9	10.0	7.2	8.8
Benchmark	9.8	-2.0	0.8	-3.2	5.0	9.0	-7.3	0.5	-0.9	3.6	1.1	5.9	9.9	7.1	8.9
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

POOLED BONDS



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	0.4	2.2	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1	0.0	1.2	1.9	1.9	
Benchmark	0.7	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.5	2.7	
Impact	-	0.2	-0.1	-	-	-	-0.1	-0.1	-	-	-0.1	0.1	-0.1	-0.1	-0.3

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

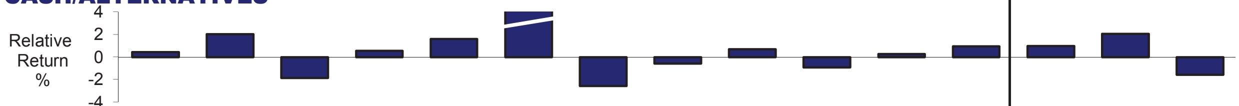
Long Term Stock Selection

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — Periods to end September 2014

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — Pound Sterling

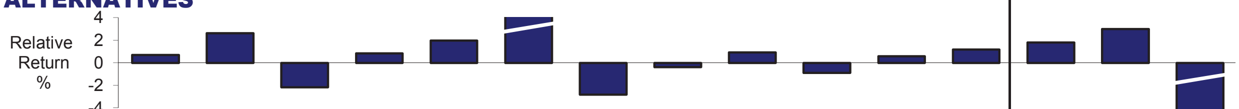
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



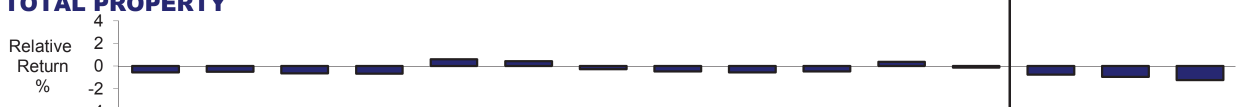
TOTAL CASH

ALTERNATIVES



CURRENCY INSTRUMENTS

TOTAL PROPERTY



	2011	2012				2013				2014			1yr	3yrs	5yrs
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		% pa	% pa
CASH/ALTERNATIVES															
Fund	1.3	2.9	-1.0	1.4	2.4	6.6	-1.8	0.2	1.5	-0.1	1.1	1.8	4.3	5.5	1.0
Benchmark	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	3.3	3.3	2.6
Impact	0.1	0.3	-0.2	0.1	0.2	0.6	-0.3	-	0.1	-0.1	0.1	0.1	0.2	0.3	-
TOTAL CASH															
Fund	0.2	-0.2	0.5	-0.4	0.1	1.5	0.2	-1.0	-0.2	-0.2	-0.2	0.8	0.3	0.3	0.3
Benchmark															
Impact															
ALTERNATIVES															
Fund	1.6	3.5	-1.3	1.7	2.8	7.4	-2.0	0.4	1.7	-0.1	1.4	2.0	5.1	6.4	-4.3
Benchmark	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	3.3	3.3	2.6
Impact	0.1	0.3	-0.2	0.1	0.2	0.6	-0.3	-	0.1	-0.1	0.1	0.1	0.2	0.3	-
CURRENCY INSTRUMENTS															
Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Benchmark															
Impact															
TOTAL PROPERTY															
Fund	0.7	0.3	-0.4	-0.3	0.2	1.2	1.2	2.0	3.7	2.8	4.7	3.9	16.0	6.7	8.5
Benchmark	1.3	0.8	0.3	0.4	-0.4	0.8	1.4	2.4	4.3	3.3	4.3	4.0	16.8	7.8	9.8
Impact	-0.1	-0.1	-0.1	-0.1	0.1	-	-	-	-0.1	-	-	-	-0.1	-0.1	-0.1

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Rolling Years with Relative Risk

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end September 2014**

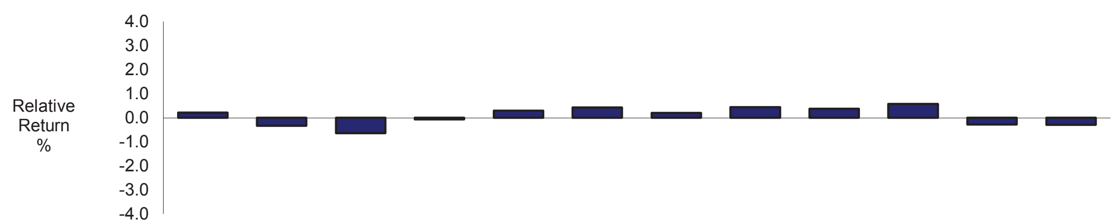
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

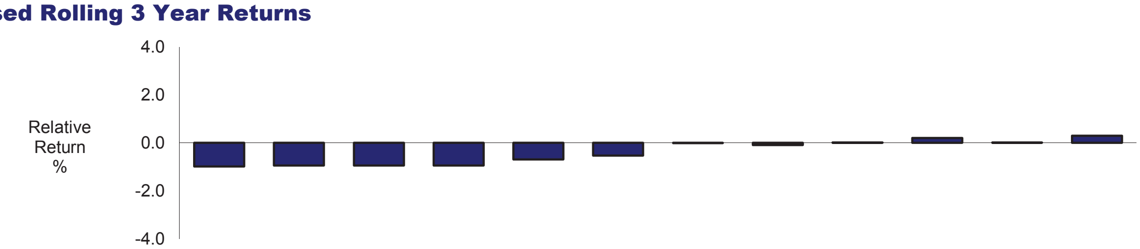
	2011	--------------- 2012			---------------	--------------- 2013			---------------	---------- 2014		----------
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Values (GBPm's)												
Initial	757.6	794.3	829.5	809.6	829.0	853.8	929.4	930.3	956.0	998.4	1016.2	1035.1
Net Investment	0.7	-0.2	4.6	1.0	3.9	2.2	3.7	0.8	6.2	7.1	4.2	4.3
Capital Gain/Loss	35.9	35.5	-24.5	18.5	20.9	73.3	-2.7	24.9	36.2	10.8	14.7	10.3
Final	794.3	829.5	809.6	829.0	853.8	929.4	930.3	956.0	998.4	1016.2	1035.1	1049.7
Income	2.8	2.2	3.2	2.3	1.9	2.3	3.2	2.3	2.1	2.1	4.0	2.4
Proportion Of Total Fund (%)	100	100	100	100	100	100	100	100	100	100	100	100
Proportions (%) In												
Total Equity	59	60	59	60	61	63	63	64	65	64	64	63
Bonds + IL	18	17	17	17	17	16	16	15	15	14	14	14
Cash/ Alts	12	12	12	12	12	12	11	11	11	11	11	12
Property	11	11	11	11	11	10	10	10	10	10	11	11

Quarterly Returns



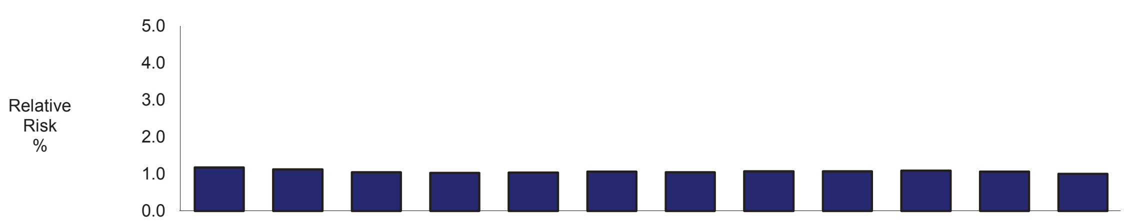
Fund	5.1	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2
Benchmark	4.9	5.1	-1.9	2.6	2.4	8.4	-0.2	2.5	3.6	0.7	2.1	1.5
Relative Return	0.2	-0.3	-0.6	-0.1	0.3	0.4	0.2	0.4	0.4	0.6	-0.3	-0.3

Annualised Rolling 3 Year Returns



Fund	7.8	12.7	9.9	5.8	5.7	6.6	9.5	7.8	7.1	7.1	7.2	11.2
Benchmark	8.8	13.8	11.0	6.8	6.5	7.1	9.6	7.9	7.1	6.9	7.2	10.9
Relative Return	-1.0	-0.9	-0.9	-0.9	-0.7	-0.5	-0.0	-0.1	0.0	0.2	0.0	0.3

Rolling 3 Year Risk



Relative Risk	1.2	1.1	1.0	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.0
Information Ratio	-0.8	-0.8	-0.9	-0.9	-0.7	-0.5	-0.0	-0.1	0.0	0.2	0.0	0.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Summary of Manager Performance

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end September 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

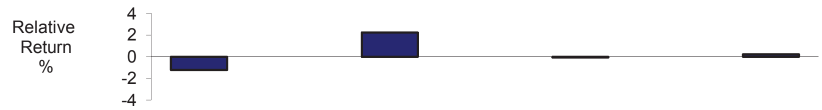
Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa

GMO - TOTAL ASSETS

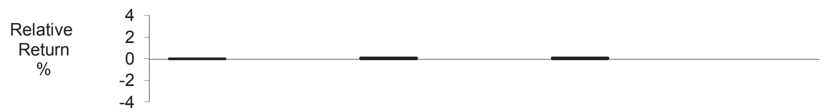
LB TOWER HAMLET - GMO WOOLEY BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.4	11.1	14.9	9.5
Benchmark	1.6	8.7	14.9	9.2
Relative Return	-1.2	2.2	-0.1	0.2

L&G - TOTAL ASSETS

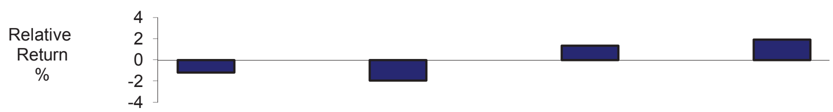
FTSE All Share TR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	-1.0	6.2	14.1	
Benchmark	-1.0	6.1	13.9	
Relative Return	0.0	0.1	0.1	

BAILLIE GIFFORD & CO - TOTAL ASSETS

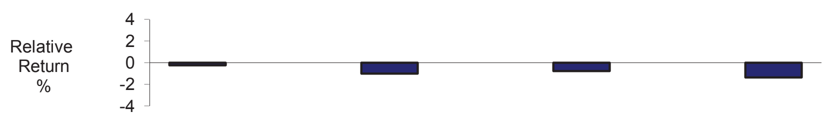
MSCI AC WORLD GDR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.9	9.6	17.2	12.4
Benchmark	3.2	11.8	15.7	10.3
Relative Return	-1.2	-2.0	1.3	1.9

SCHRODER INVEST. MGMT. - TOTAL ASSETS

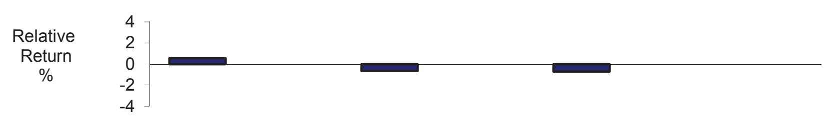
London Borough of Tower Hamlets - Schroders



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	3.8	15.7	6.6	8.0
Benchmark	4.0	16.8	7.4	9.5
Relative Return	-0.2	-1.0	-0.8	-1.4

INVESTEC ASSET MANAGEMENT - TOTAL ASSETS

GBP 3 MONTH LIBOR + 2%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.2	1.9	1.9	
Benchmark	0.6	2.5	2.7	
Relative Return	0.6	-0.7	-0.7	

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

not invested in this area for the entire period

Summary of Manager Performance

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end September 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

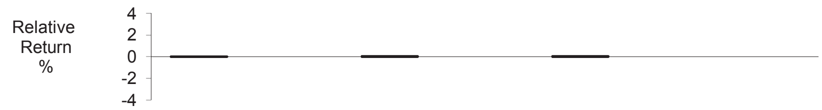
Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa

L&G - TOTAL ASSETS

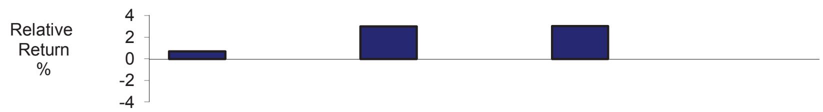
FTSE UK GILTS INDEXED > 5 YRS



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	5.9	10.0	7.2	
Benchmark	5.9	9.9	7.1	
Relative Return	0.0	0.1	0.1	

BAILLIE GIFFORD & CO - TOTAL ASSETS

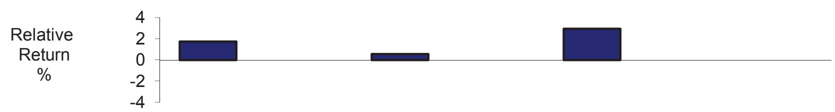
BANK OF ENGLAND BASE RATE + 3.5%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.7	7.1	7.2	
Benchmark	1.0	4.0	4.0	
Relative Return	0.7	3.0	3.0	

RUFFER INVESTMENT MGMT LTD - TOTAL ASSETS

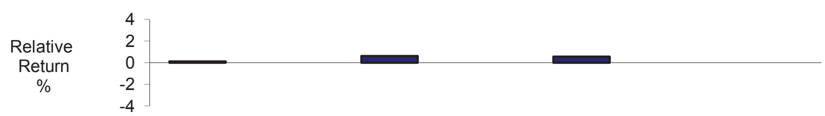
GBP 3 MONTH LIBOR + 2%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	2.4	3.1	5.7	
Benchmark	0.6	2.5	2.7	
Relative Return	1.7	0.6	3.0	

INTERNALLY MANAGED - TOTAL ASSETS

LB TOWER HAMLETS INTERNAL BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.2	1.0	1.0	n/a
Benchmark	0.1	0.3	0.4	0.4
Relative Return	0.1	0.6	0.6	n/a

Relative Return

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

not invested in this area for the entire period

Performance Summary - Manager Attribution

LONDON BOROUGH OF TOWER HAMLETS | Quarter to end September 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | Pound Sterling

This page analyses in detail the contributions to the Fund performance over the latest period.

Summary

Fund Return		1.2
Benchmark Return		1.5
Relative Performance		-0.3
	attributable to:	
	Strategic Allocation	-
	Manager Contribution	-0.4
	Residual	-

The relative performance can be attributed to the effects of manager contribution and strategic allocation.

Detail

Strategic Allocation				Manager Contribution		
Distribution		Policy	Investment	Weighted	% Return	
Portfolio	Benchmark	Contribution	Manager	Contribution	Portfolio	Benchmark
25.8	25.0	-	GMO	-0.3	0.4	1.6
20.9	20.0	-	L&G	-	-1.0	-1.0
17.7	16.0	-	BAILLIE GIFFORD & CO	-0.2	1.9	3.2
10.7	12.0	-	SCHRODER INVEST. MGMT.	-	3.8	4.0
9.4	14.0	-	INVESTEC ASSET MANAGEMENT	0.1	1.2	0.6
4.8	3.0	0.1	L&G	-	5.9	5.9
4.6	5.0	-	BAILLIE GIFFORD & CO	-	1.7	1.0
4.4	5.0	-	RUFFER INVESTMENT MGMT LTD	0.1	2.4	0.6
1.7	0.0	-	INTERNALLY MANAGED	-	0.2	0.1
		-		-0.4		

The Strategic Allocation quantifies the impact of the fund being invested differently from the Strategic Benchmark set.
The Manager Contribution comes about from the out / underperformance of each manager relative to their benchmarks weighted by the value of assets held.
= not invested in this area for the entire period

Appendices

Asset Mix and Returns

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end September 2014**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation								Stock Selection	
	30/06/2014				Gain/		30/09/2014			
	Value	%	Purchases	Sales	Loss	Income	Value	%	Return	B'M
TOTAL EQUITIES	*664,581*	*64*	*30,529*	*30,363*	*1,464*	*1,369*	*666,211*	*63*	*0.4*	*1.1*
U.K. EQUITIES	*238,958*	*23*	*2,848*	*1,306*	*-3,090*	*226*	*237,410*	*23*	*-1.2*	*-1.0*
OVERSEAS EQUITIES	*241,991*	*23*	*27,579*	*29,057*	*1,012*	*1,143*	*241,526*	*23*	*0.9*	*1.8*
NORTH AMERICA	*128,343*	*12*	*15,592*	*24,345*	*6,315*	*551*	*125,905*	*12*	*5.5*	*6.1*
TOTAL USA	*128,343*	*12*	*15,483*	*24,345*	*6,323*	*551*	*125,803*	*12*	*5.5*	
CONTINENTAL EUROPE	*85,414*	*8*	*6,134*	*2,389*	*-5,029*	*247*	*84,131*	*8*	*-5.6*	*-2.4*
EUROLAND TOTAL	*77,463*	*7*	*5,232*	*2,152*	*-4,851*	*224*	*75,692*	*7*	*-6.0*	
FRANCE	*27,063*	*3*	*1,972*	*430*	*-1,156*	*88*	*27,450*	*3*	*-4.0*	
GERMANY	*24,659*	*2*	*804*	*780*	*-2,819*	*3*	*21,865*	*2*	*-11.5*	
NETHERLANDS	*3,716*	*0*	*199*	*52*	*-77*	*10*	*3,786*	*0*	*-1.9*	
ITALY	*8,826*	*1*	*459*	*535*	*-479*	*88*	*8,271*	*1*	*-4.6*	
BELGIUM	*962*	*0*	*87*	*142*	*52*		*960*	*0*	*6.0*	
FINLAND	*1,874*	*0*	*404*	*14*	*176*		*2,441*	*0*	*8.2*	
AUSTRIA	*839*	*0*	*33*		*-151*	*9*	*721*	*0*	*-16.7*	
SPAIN	*8,304*	*1*	*438*	*199*	*-279*	*27*	*8,263*	*1*	*-3.0*	
IRELAND	*559*	*0*	*835*		*-34*	*6*	*1,359*	*0*	*-5.9*	
PORTUGAL	*660*	*0*			*-83*	*-6*	*577*	*0*	*-13.6*	
GREECE										
LUXEMBOURG										
NON EUROLAND TOTAL	*7,951*	*1*	*902*	*236*	*-178*	*23*	*8,439*	*1*	*-2.0*	
SWITZERLAND	*2,283*	*0*	*266*	*31*	*-35*		*2,483*	*0*	*-1.6*	
DENMARK	*1,001*	*0*	*103*		*-42*	*3*	*1,062*	*0*	*-3.9*	
NORWAY	*2,827*	*0*	*341*	*205*	*-126*	*21*	*2,837*	*0*	*-3.9*	
SWEDEN	*1,840*	*0*	*192*		*25*		*2,058*	*0*	*1.4*	
JAPAN	*27,691*	*3*	*2,839*	*1,956*	*-92*	*343*	*28,482*	*3*	*0.9*	*3.1*
TOTAL PACIFIC (EX.JAPAN)	*543*	*0*	*90*	*367*	*5*	*2*	*271*	*0*	*0.1*	*-0.7*
OTHER INTL EQUITIES			*2,924*		*-187*		*2,737*	*0*	*-8.5 #*	*1.9*
RUSSIA			*2,924*		*-187*		*2,737*	*0*	*-8.5 #*	
GLOBAL POOLED INC UK	*183,631*	*18*	*102*		*3,542*		*187,276*	*18*	*1.9*	*3.2*
BG INTERNATIONAL EQUITY FUND	*183,631*	*18*	*102*		*3,542*		*187,276*	*18*	*1.9*	
U.K. INDEX - LINKED	*49,733*	*5*			*2,950*		*52,683*	*5*	*5.9*	*5.9*
POOLED BONDS	*97,531*	*9*			*1,163*		*98,694*	*9*	*1.2*	*0.6*
CASH/ALTERNATIVES	*113,424*	*11*	*193,325*	*187,432*	*2,033*	*37*	*121,349*	*12*	*1.8*	*0.8*
CURRENCY INSTRUMENTS	*-46*	*0*	*140,469*	*140,406*	*-514*		*-496*	*0*	*n/a*	
U.K. PROPERTY	*104,230*	*10*	*3,782*	*5,572*	*3,815*	*823*	*106,254*	*10*	*4.5*	*4.0*
OVERSEAS PROPERTY	*5,609*	*1*			*-606*	*155*	*5,003*	*0*	*-8.3*	
TOTAL ASSETS	**1,035,062**	**100**	**368,104**	**363,773**	**10,305**	**2,385**	**1,049,698**	**100**	**1.2**	**1.5**

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

not invested in this area for the entire period

Summary of Long Term Returns

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end September 2014**

Benchmark - LOCAL AUTHORITY UNIVERSE — **Pound Sterling**

This page summarises the long term returns at asset class level
A ranking against the peer group is shown in brackets.

	2011	2012				2013				2014			1yr	3yrs	5yrs
Return %	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		% pa	% pa
UK Equities	*8.9*	*5.8*	*-2.5*	*4.7*	*3.6*	*10.3*	*-1.5*	*5.8*	*5.7*	*-0.4*	*2.7*	*-1.2*	*6.9*	*14.3*	*9.7*
	(19)	*(86)*	*(37)*	*(50)*	*(75)*	*(78)*	*(48)*	*(52)*	*(46)*	*(33)*	*(12)*				
N. America	*10.1*	*8.5*	*-2.0*	*3.2*	*-0.7*	*14.5*	*1.2*	*-1.8*	*7.4*	*1.4*	*1.5*	*5.5*	*16.7*	*16.7*	*13.0*
	(84)	*(73)*	*(62)*	*(80)*	*(43)*	*(98)*	*(95)*	*(98)*	*(58)*	*(36)*	*(79)*				
Europe ex UK	*3.1*	*5.6*	*-9.0*	*6.7*	*8.7*	*4.3*	*2.9*	*11.6*	*8.0*	*6.5*	*1.6*	*-5.6*	*10.4*	*14.9*	*4.6*
	(90)	*(95)*	*(98)*	*(44)*	*(15)*	*(100)*	*(6)*	*(1)*	*(4)*	*(1)*	*(16)*				
Pacific	*8.2*	*11.7*	*-1.1*	*12.6*	*7.2*	*4.2*	*-6.5*	*7.2*	*4.6*	*-0.8*	*4.4*	*0.1*	*8.4*	*17.7*	*12.4*
	(16)	*(10)*	*(7)*	*(2)*	*(9)*	*(96)*	*(17)*	*(4)*	*(3)*	*(75)*	*(13)*				
Japan	*-1.2*	*3.0*	*-4.2*	*-3.2*	*2.4*	*18.6*	*6.1*	*2.1*	*-2.4*	*-4.8*	*6.3*	*0.9*	*-0.3*	*7.4*	*7.2*
	(15)	*(100)*	*(27)*	*(56)*	*(77)*	*(81)*	*(20)*	*(22)*	*(92)*	*(27)*	*(8)*				
Global Eq	*7.8*	*9.9*	*-5.0*	*5.1*	*2.8*	*15.8*	*1.7*	*2.8*	*5.1*	*2.0*	*0.3*	*1.9*	*9.6*	*17.2*	*12.5*
	(36)	*(36)*	*(75)*	*(14)*	*(30)*	*(20)*	*(18)*	*(15)*	*(50)*	*(11)*	*(100)*				
UK IL	*9.8*	*-2.0*	*0.8*	*-3.2*	*5.1*	*9.0*	*-7.3*	*0.6*	*-0.9*	*3.6*	*1.1*	*5.9*	*10.0*	*7.2*	*8.8*
	(32)	*(61)*	*(22)*	*(63)*	*(28)*	*(27)*	*(51)*	*(30)*	*(28)*	*(21)*	*(34)*				
Pooled Bonds	*0.4*	*2.2*	*-0.4*	*0.9*	*1.0*	*0.2*	*0.1*	*-0.3*	*0.5*	*0.1*	*0.0*	*1.2*	*1.9*	*1.9*	
	(78)	*(50)*	*(85)*	*(84)*	*(76)*	*(92)*	*(33)*	*(78)*	*(64)*	*(93)*	*(76)*				
Cash	*0.2*	*-0.2*	*0.5*	*-0.4*	*0.1*	*1.5*	*0.2*	*-1.0*	*-0.2*	*-0.2*	*-0.2*	*0.8*	*0.3*	*0.3*	*0.3*
	(31)	*(81)*	*(27)*	*(87)*	*(39)*	*(22)*	*(37)*	*(81)*	*(70)*	*(80)*	*(72)*				
Alternatives	*1.6*	*3.5*	*-1.3*	*1.7*	*2.8*	*7.4*	*-2.0*	*0.4*	*1.7*	*-0.1*	*1.4*	*2.0*	*5.1*	*6.4*	*-4.3*
	(20)	*(16)*	*(77)*	*(32)*	*(20)*	*(22)*	*(86)*	*(28)*	*(39)*	*(86)*	*(39)*				
Curr Instr	*n/a*	*332.1*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
	n/a	*(40)*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Property	*0.7*	*0.3*	*-0.4*	*-0.3*	*0.2*	*1.2*	*1.2*	*2.0*	*3.7*	*2.8*	*4.7*	*3.9*	*16.0*	*6.7*	*8.5*
	(64)	*(70)*	*(78)*	*(66)*	*(54)*	*(36)*	*(77)*	*(51)*	*(58)*	*(61)*	*(36)*				
Total Assets	5.1	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	8.6	11.2	8.2
	(69)	(79)	(82)	(84)	(54)	(60)	(14)	(33)	(32)	(21)	(67)				

not invested in this area for the entire period

Rolling Years with Relative Risk - GMO World Equity

LONDON BOROUGH OF TOWER HAMLETS - GMO | **Periods to end September 2014**

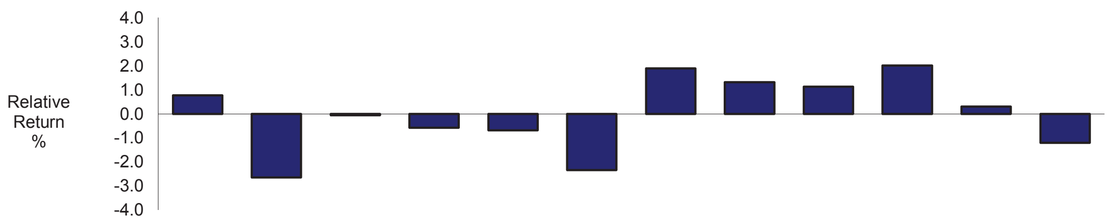
Benchmark - LB TOWER HAMLET - GMO WOOLEY BM | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

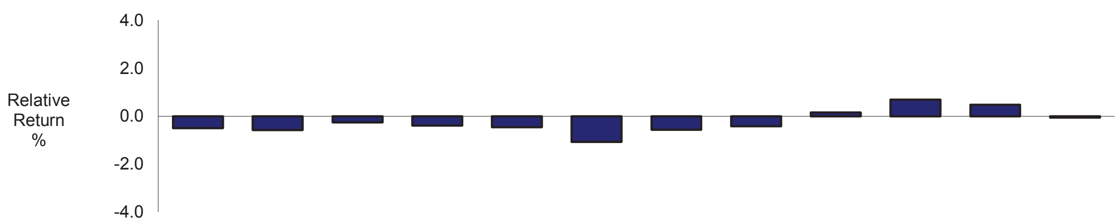
	2011	--------------- 2012	---------------			--------------- 2013	---------------			---------- 2014	----------	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Values (GBPm's)												
Initial	176.8	188.2	199.0	190.8	196.3	203.5	226.3	231.9	241.1	254.8	260.5	267.0
Net Investment	2.3	0.9	2.7	1.0	1.6	0.8	2.7	1.0	1.7	0.9	2.8	1.2
Capital Gain/Loss	9.1	9.9	-10.9	4.5	5.6	22.0	2.9	8.2	12.0	4.8	3.7	-0.4
Final	188.2	199.0	190.8	196.3	203.5	226.3	231.9	241.1	254.8	260.5	267.0	267.8
Income	2.1	1.5	2.2	1.5	1.1	1.3	2.3	1.3	1.3	1.2	2.8	1.4
Proportion Of Total Fund (%)	24	24	24	24	24	24	25	25	26	26	26	26

Quarterly Returns



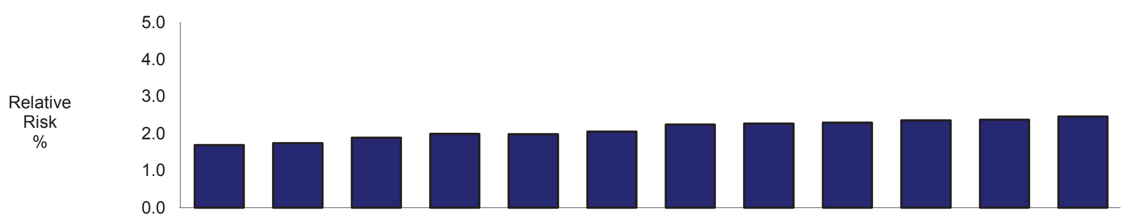
Fund	6.3	6.0	-4.3	3.1	3.4	11.4	2.3	4.1	5.5	2.4	2.5	0.4
Benchmark	5.5	8.9	-4.3	3.7	4.1	14.1	0.4	2.7	4.3	0.3	2.2	1.6
Relative Return	0.8	-2.6	-0.0	-0.6	-0.7	-2.3	1.9	1.3	1.1	2.0	0.3	-1.2

Annualised Rolling 3 Year Returns



Fund	7.4	15.0	10.8	4.9	5.5	6.3	11.4	9.3	8.4	8.5	8.7	14.9
Benchmark	7.9	15.7	11.1	5.3	5.9	7.5	12.0	9.8	8.3	7.8	8.2	14.9
Relative Return	-0.5	-0.6	-0.3	-0.4	-0.5	-1.1	-0.6	-0.4	0.1	0.7	0.5	-0.1

Rolling 3 Year Risk



Relative Risk	1.7	1.7	1.9	2.0	2.0	2.0	2.2	2.3	2.3	2.4	2.4	2.5
Information Ratio	-0.3	-0.3	-0.1	-0.2	-0.2	-0.5	-0.3	-0.2	0.1	0.3	0.2	-0.0

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - L&G Equity Uk

LB OF TOWER HAMLETS - L&G — **Periods to end September 2014**

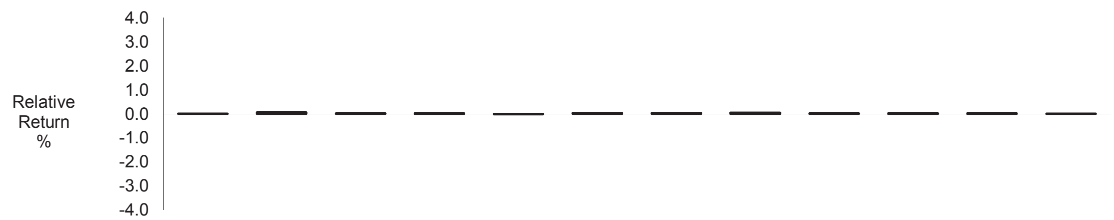
Benchmark - FTSE All Share TR — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2011	--------------- 2012	---------------			--------------- 2013	---------------			---------- 2014	----------	
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Values (GBPm's)												
Initial	144.7	156.8	166.5	162.2	169.8	176.3	194.6	191.5	202.3	213.4	212.1	216.9
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	12.2	9.7	-4.3	7.7	6.5	18.3	-3.1	10.8	11.1	-1.3	4.8	-2.1
Final	156.8	166.5	162.2	169.8	176.3	194.6	191.5	202.3	213.4	212.1	216.9	214.8
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	20	20	20	20	21	21	21	21	21	21	21	20

Quarterly Returns

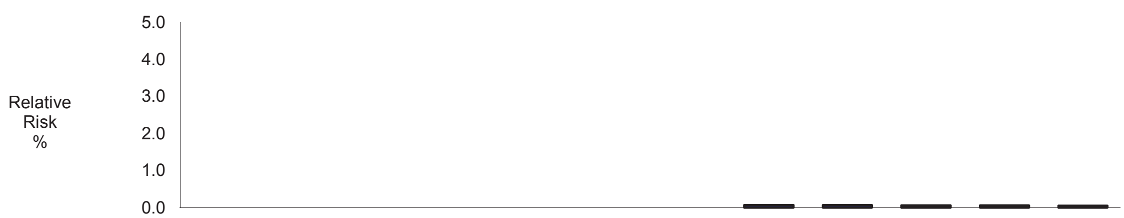


	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Fund	8.4	6.2	-2.6	4.7	3.8	10.4	-1.6	5.6	5.5	-0.6	2.3	-1.0
Benchmark	8.4	6.1	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6	2.2	-1.0
Relative Return	0.0	0.1	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Annualised Rolling 3 Year Returns

	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Fund								10.2	9.5	8.9	9.0	14.1
Benchmark								10.1	9.4	8.8	8.9	13.9
Relative Return								0.1	0.1	0.1	0.1	0.1

Rolling 3 Year Risk



	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Relative Risk								0.1	0.1	0.1	0.1	0.1
Information Ratio								1.7	1.9	1.9	2.3	2.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - B Gifford World Equity

LONDON BOROUGH OF TOWER HAMLETS - BAILLIE GIFFORD & CO — **Periods to end September 2014**

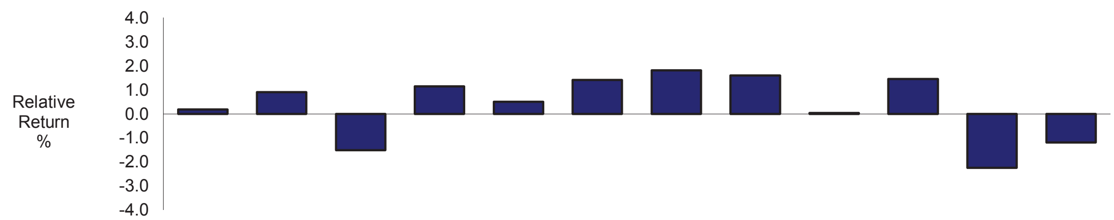
Benchmark - MSCI AC WORLD GDR — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

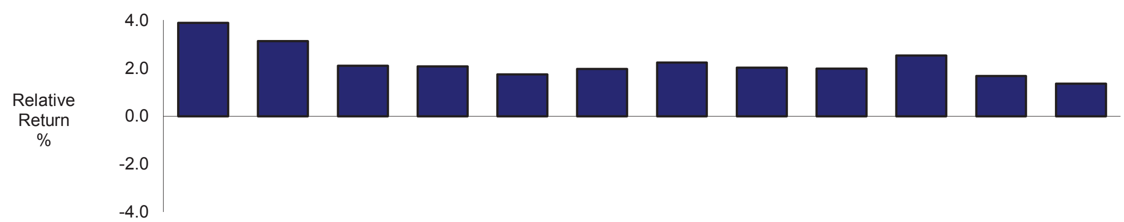
	2011	--------------- 2012 ---------------				--------------- 2013 ---------------				---------- 2014 ----------		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Values (GBPm's)												
Initial	115.5	124.6	137.0	130.1	136.8	140.8	163.1	165.9	170.6	179.4	183.1	183.6
Net Investment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Gain/Loss	9.0	12.4	-6.9	6.6	3.9	22.2	2.8	4.6	8.6	3.6	0.5	3.5
Final	124.6	137.0	130.1	136.8	140.8	163.1	165.9	170.6	179.4	183.1	183.6	187.3
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Proportion Of Total Fund (%)	16	17	16	17	16	18	18	18	18	18	18	18

Quarterly Returns



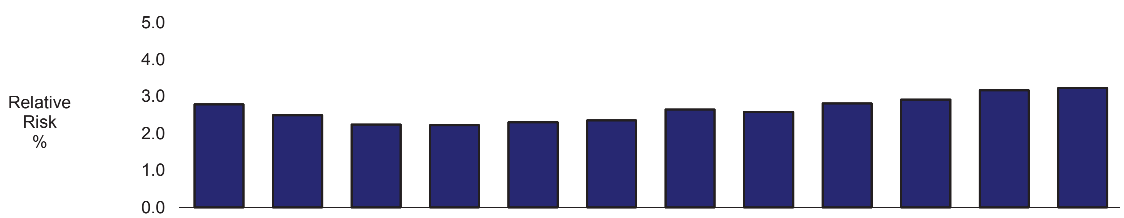
Fund	7.8	9.9	-5.0	5.1	2.8	15.8	1.7	2.8	5.1	2.0	0.3	1.9
Benchmark	7.6	9.0	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	2.6	3.2
Relative Return	0.2	0.9	-1.5	1.1	0.5	1.4	1.8	1.6	0.0	1.5	-2.2	-1.2

Annualised Rolling 3 Year Returns



Fund	14.0	20.7	15.6	9.7	8.8	10.5	15.0	12.0	10.4	10.4	10.4	17.2
Benchmark	9.7	17.1	13.2	7.4	6.9	8.3	12.5	9.8	8.3	7.7	8.5	15.7
Relative Return	3.9	3.1	2.1	2.1	1.7	2.0	2.2	2.0	2.0	2.5	1.7	1.3

Rolling 3 Year Risk



Relative Risk	2.8	2.5	2.2	2.2	2.3	2.3	2.6	2.6	2.8	2.9	3.2	3.2
Information Ratio	1.4	1.3	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.9	0.5	0.4

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Schroders UK Property

LB OF TOWER HAMLET PROPERTY PORTFOLIO - SCHRODER INVEST. MGMT. **Periods to end September 2014**

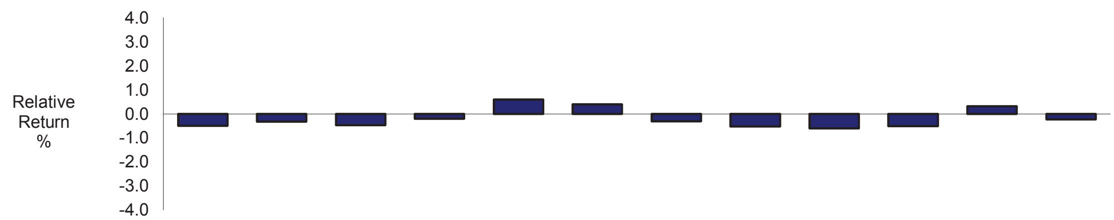
Benchmark - London Borough of Tower Hamlets - Schroders **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

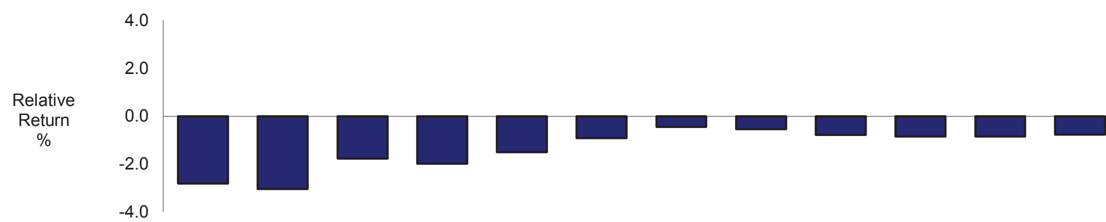
	2011	--------------- 2012	---------------	---------------	---------------	--------------- 2013	---------------	---------------	---------------	---------- 2014	----------	----------
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Values (GBPm's)												
Initial	94.3	94.9	95.1	94.8	94.5	94.7	95.8	96.8	98.7	102.3	105.2	110.1
Net Investment	0.6	0.7	1.0	0.8	0.8	0.9	0.8	0.9	0.8	1.0	1.1	1.0
Capital Gain/Loss	-0.0	-0.4	-1.3	-1.1	-0.7	0.1	0.3	0.9	2.8	1.9	3.8	3.2
Final	94.9	95.1	94.8	94.5	94.7	95.8	96.8	98.7	102.3	105.2	110.1	114.3
Income	0.7	0.7	0.9	0.8	0.8	1.0	0.8	0.9	0.8	0.9	1.1	1.0
Proportion Of Total Fund (%)	12	11	12	11	11	10	10	10	10	10	11	11

Quarterly Returns



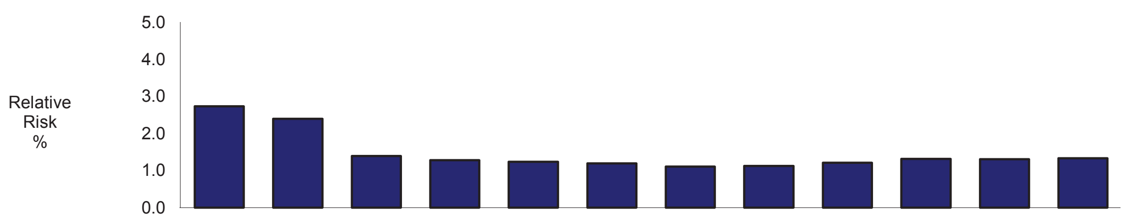
	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Fund	0.7	0.3	-0.4	-0.3	0.2	1.2	1.1	1.9	3.6	2.8	4.7	3.8
Benchmark	1.2	0.6	0.1	-0.1	-0.4	0.8	1.4	2.4	4.3	3.3	4.3	4.0
Relative Return	-0.5	-0.3	-0.5	-0.2	0.6	0.4	-0.3	-0.5	-0.6	-0.5	0.3	-0.2

Annualised Rolling 3 Year Returns



	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Fund	2.3	5.2	7.8	6.8	4.5	3.8	3.7	3.9	4.4	4.8	5.7	6.6
Benchmark	5.3	8.5	9.7	9.0	6.1	4.7	4.2	4.4	5.2	5.7	6.6	7.4
Relative Return	-2.8	-3.0	-1.8	-2.0	-1.5	-0.9	-0.4	-0.5	-0.8	-0.8	-0.9	-0.8

Rolling 3 Year Risk



	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Relative Risk	2.7	2.4	1.4	1.3	1.2	1.2	1.1	1.1	1.2	1.3	1.3	1.3
Information Ratio	-1.0	-1.3	-1.3	-1.5	-1.2	-0.8	-0.4	-0.5	-0.7	-0.6	-0.7	-0.6

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Investec Global Bonds

LONDON BOROUGH OF TOWER HAMLETS - INVESTEC ASSET MANAGEMENT | **Periods to end September 2014**

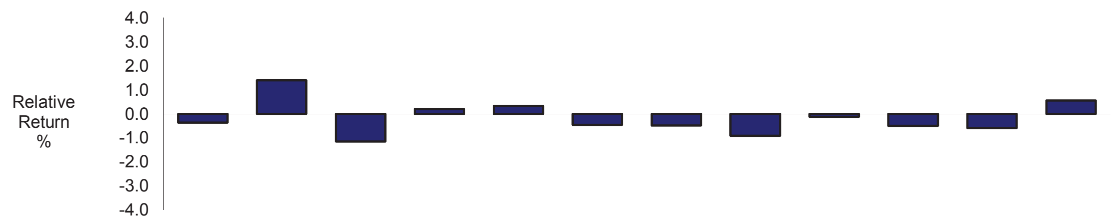
Benchmark - GBP 3 MONTH LIBOR + 2% | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

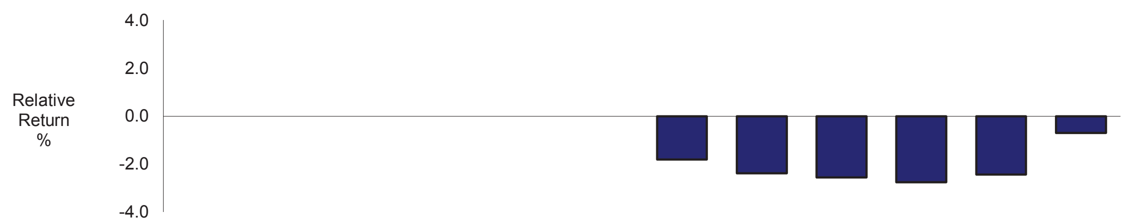
	2011	--------------- 2012 ---------------				--------------- 2013 ---------------				---------- 2014 ----------		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Values (GBPm's)												
Initial	93.1	93.5	95.5	95.1	96.0	96.9	97.0	97.2	96.9	97.4	97.5	97.5
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.3	2.0	-0.4	0.8	0.9	0.2	0.1	-0.3	0.5	0.1	0.0	1.2
Final	93.5	95.5	95.1	96.0	96.9	97.0	97.2	96.9	97.4	97.5	97.5	98.7
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	12	12	12	12	11	10	10	10	10	10	9	9

Quarterly Returns



Fund	0.4	2.2	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1	0.0	1.2
Benchmark	0.7	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Relative Return	-0.4	1.4	-1.2	0.2	0.3	-0.5	-0.5	-0.9	-0.1	-0.5	-0.6	0.6

Annualised Rolling 3 Year Returns



Fund							0.9	0.3	0.1	-0.1	0.2	1.9
Benchmark							2.8	2.8	2.7	2.7	2.7	2.7
Relative Return							-1.8	-2.4	-2.6	-2.8	-2.4	-0.7

Rolling 3 Year Risk

Relative Risk							2.5	2.4	2.3	2.3	2.3	1.6
Information Ratio							-0.7	-1.0	-1.1	-1.2	-1.1	-0.4

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - L&G Index Linked

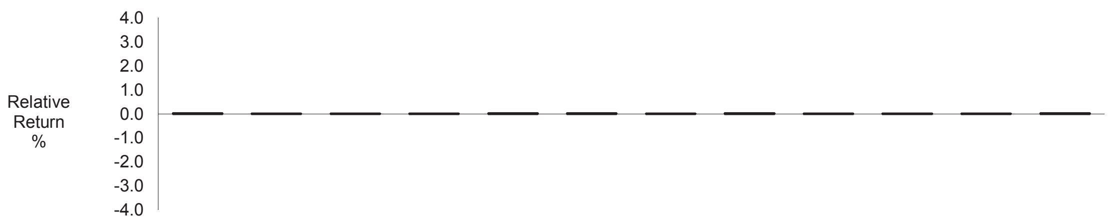
LB OF TOWER HAMLETS - L&G	Periods to end September 2014
Benchmark - FTSE UK GILTS INDEXED > 5 YRS	Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2011	--------------- 2012 ---------------				--------------- 2013 ---------------				---------- 2014 ----------		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Values (GBPm's)												
Initial	42.7	46.9	46.0	46.4	44.9	47.2	51.4	47.6	47.9	47.5	49.2	49.7
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	4.2	-0.9	0.4	-1.5	2.3	4.3	-3.8	0.3	-0.4	1.7	0.6	3.0
Final	46.9	46.0	46.4	44.9	47.2	51.4	47.6	47.9	47.5	49.2	49.7	52.7
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	6	6	6	5	6	6	5	5	5	5	5	5

Quarterly Returns

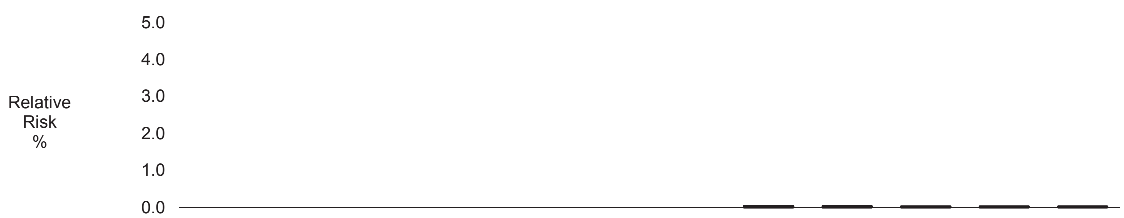


	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Fund	9.8	-2.0	0.8	-3.2	5.1	9.0	-7.3	0.6	-0.9	3.6	1.1	5.9
Benchmark	9.8	-2.0	0.8	-3.2	5.0	9.0	-7.3	0.5	-0.9	3.6	1.1	5.9
Relative Return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Annualised Rolling 3 Year Returns

	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Fund								8.4	7.7	9.0	7.8	7.2
Benchmark								8.3	7.6	8.9	7.8	7.1
Relative Return								0.0	0.0	0.1	0.1	0.1

Rolling 3 Year Risk



	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Relative Risk								0.0	0.0	0.0	0.0	0.0
Information Ratio								1.5	1.6	2.1	2.7	3.2

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - B Gifford Divers Growth

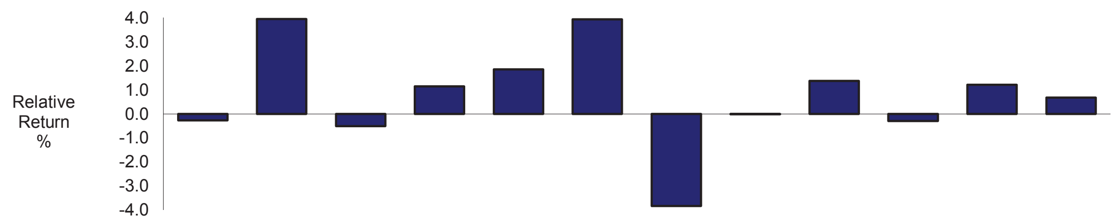
LB OF TOWER HAMLETS - BAILLIE GIFFORD & CO	Periods to end September 2014
Benchmark - BANK OF ENGLAND BASE RATE + 3.5%	Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2011	--------------- 2012 ---------------				--------------- 2013 ---------------				---------- 2014 ----------		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Values (GBPm's)												
Initial	39.5	39.7	41.7	42.0	42.9	44.1	46.3	45.0	45.5	46.5	46.9	47.9
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.3	2.0	0.2	0.9	1.2	2.2	-1.3	0.4	1.1	0.3	1.0	0.8
Final	39.7	41.7	42.0	42.9	44.1	46.3	45.0	45.5	46.5	46.9	47.9	48.8
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	5	5	5	5	5	5	5	5	5	5	5	5

Quarterly Returns

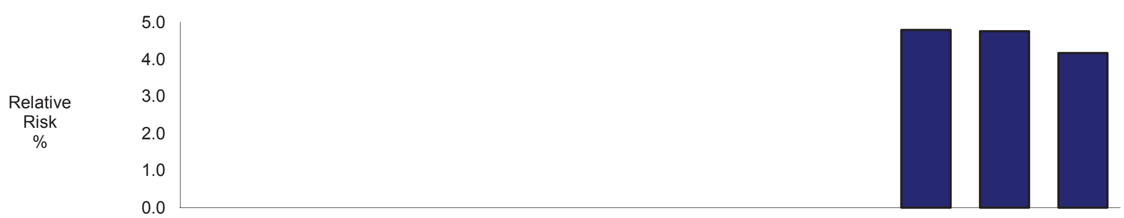


Fund	0.7	5.0	0.5	2.1	2.9	5.0	-2.9	1.0	2.4	0.7	2.2	1.7
Benchmark	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Relative Return	-0.3	3.9	-0.5	1.1	1.9	3.9	-3.8	-0.0	1.4	-0.3	1.2	0.7

Annualised Rolling 3 Year Returns

Fund										5.1	5.2	7.2
Benchmark										4.0	4.0	4.0
Relative Return										1.1	1.1	3.0

Rolling 3 Year Risk



Relative Risk										4.8	4.8	4.2
Information Ratio										0.2	0.2	0.7

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Ruffer

LB OF TOWER HAMLETS - RUFFER INVESTMENT MGMT LTD — **Periods to end September 2014**

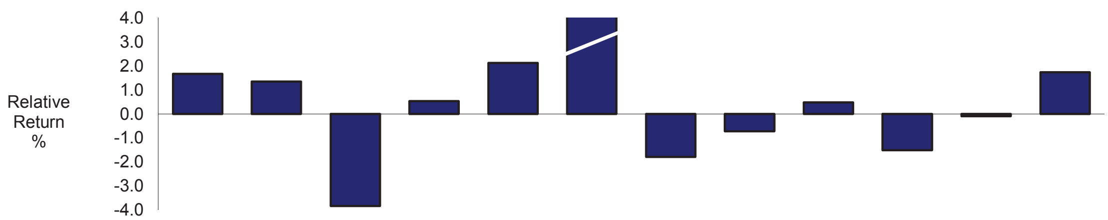
Benchmark - GBP 3 MONTH LIBOR + 2% — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2011	---------------	2012	---------------		---------------	2013	---------------		----------	2014	----------
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Values (GBPm's)												
Initial	39.2	40.2	41.0	39.8	40.2	41.3	45.5	45.0	44.9	45.4	45.0	45.3
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.9	0.8	-1.3	0.5	1.1	4.2	-0.5	-0.0	0.5	-0.4	0.2	1.1
Final	40.2	41.0	39.8	40.2	41.3	45.5	45.0	44.9	45.4	45.0	45.3	46.3
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	5	5	5	5	5	5	5	5	5	4	4	4

Quarterly Returns

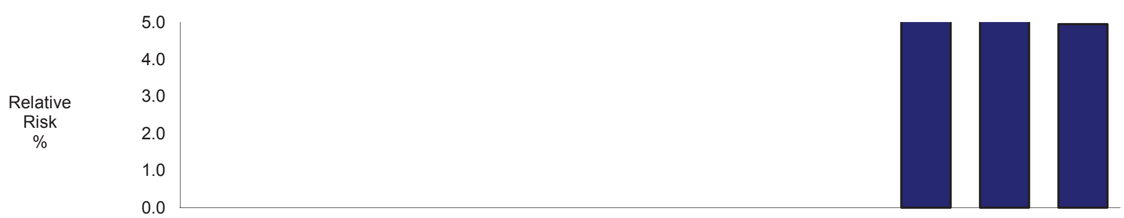


	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Fund	2.4	2.1	-3.1	1.2	2.8	10.1	-1.2	-0.1	1.1	-0.9	0.5	2.4
Benchmark	0.7	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Relative Return	1.7	1.3	-3.8	0.5	2.1	9.4	-1.8	-0.7	0.5	-1.5	-0.1	1.7

Annualised Rolling 3 Year Returns

	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Fund										4.3	4.1	5.7
Benchmark										2.7	2.7	2.7
Relative Return										1.6	1.4	3.0

Rolling 3 Year Risk



	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Relative Risk										5.5	5.5	4.9
Information Ratio										0.3	0.3	0.6

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

LONDON BOROUGH OF TOWER HAMLETS PENSION FUND

REPORT TO

30 SEPTEMBER 2014

Alex Lennard	Ian Rees	Tania McGhee
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Period under review 30 June 2014 – 30 September 2014

Portfolio value	**£46,342,381**

Performance (net of fees) to 30 September	**%**
3 months	**+2.4**
12 months	**+3.1**
Since inception (28 February 2011)	**+15.8**

Summary

The portfolio had a good quarter, as we benefited from a turnaround in the US dollar that more than reversed its losses from earlier this year, and from further gains from our long-dated index-linked bonds, especially in the UK. Supporting roles worthy of mention were also played by Japanese equities and key individual stock selections such as Microsoft, Lockheed Martin and ITV. This performance was set against a mixed background for risk assets as equity markets ran out of steam and commodity prices fell sharply, meanwhile bond yields hit new lows reflecting continued growth concerns, especially in the eurozone.

This improvement in portfolio performance was somewhat overdue and brings the portfolio back into positive territory for the year. In the first half of 2014 our performance suffered from the cost of protection assets (US dollar and options) and the lack of progress from our largest equity position, namely Japan. Our sense is that these headwinds are now starting to reverse. Meanwhile, we note with increasing concern the behaviour of equity investors chasing up the prices of much-hyped internet stocks and IPOs with seemingly ever-decreasing levels of shareholder governance. We do not claim to have any idea what the internet-savvy generation might call a 'pig in a poke' these days, but we are happy to avoid any of these blockbuster new issues on either side of the Atlantic.

Factors that helped performance

US dollar The dollar strengthened against all comers in the third quarter, rewarding our patience in a key protection asset. The key driver for us was sterling falling by 5.2% against the dollar as markets realised that the UK may neither be quite as politically 'united' as previously thought nor the only country where interest rates might soon start to crawl off the floor.

UK index-linked bonds Long-dated UK index-linked bonds gained as global growth concerns pushed down bond yields across the board, a move supported by the first official auction of long duration UK index-linked bonds on a negative real yield.

Options Profits were taken in euro/dollar puts as the dollar rose and volatility bounced off its lows.

Lockheed Martin The US defence stock not only had a strong quarter, but has steadily risen by over 90% since our first purchase in early 2013, when the shares fell on fears of US defence cuts due to the 'debt ceiling'. We saw this as a short-term issue compared to the long-term cash flows generated from its programmes.

Factors that hurt performance

Gold and gold equities Gold fell back as the dollar surged and commodity prices declined.

BP The company faced a declining oil price and a verdict of 'gross negligence' in the Macondo oil spill, against which it will now appeal, but its balance sheet is sufficiently strong to withstand these setbacks.

Summary performance attribution

Five largest positive contributions	%
US dollar	+1.7
UK index-linked	+1.0
Options	+0.3
Lockheed Martin	+0.2
Microsoft	+0.2

Five largest negative contributions	%
Gold and gold equities	-0.5
US Treasury Inflation Protected Securities	-0.3
BP	-0.2
Volkswagen	-0.1
Atmel	-0.1

CURRENT INVESTMENT STRATEGY

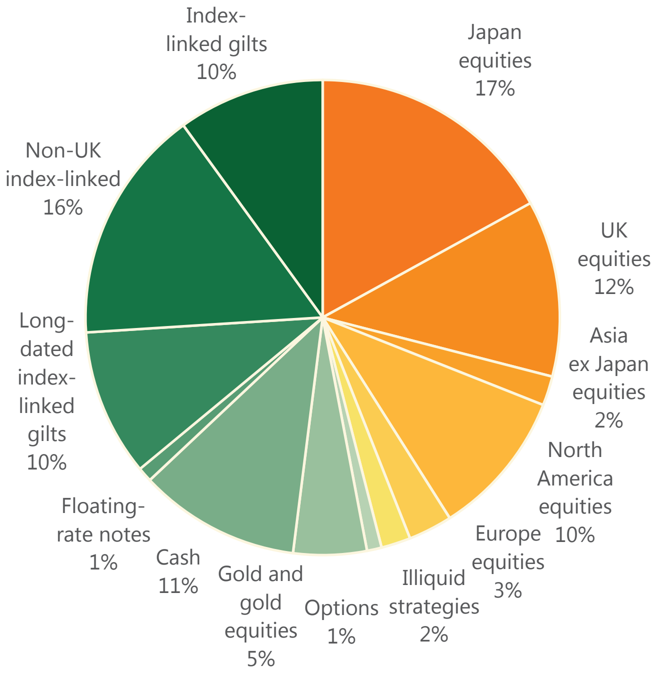
In the enclosed investment review, Jonathan Ruffer re-visits what we are trying to achieve in our investment approach as well as some of the challenges therein. At the centre, he notes, is the desire not to lose money, however the uncertainty of when events occur (particularly risky ones) can leave us looking pedestrian in some stages of the cycle, especially when market trends mature and the consensus view is that it is quasi-permanent. The difficulty of timing is alluded to in the performance summary on the previous page – we have been right about the euro, sterling and dollar this year, but that didn't look the case at the end of April! Unfortunately, timing markets is unlikely to become any easier any time soon.

October is likely to see the end of US quantitative easing ('money printing') and with that markets will shift their focus to when, and at what pace, the Federal Reserve will raise interest rates. Conveniently, the Fed's rate-setting committee publishes the average forecasts of its members to aid markets in managing expectations. Worryingly, the market is currently choosing in part to ignore them – out to 2017 the market is 'behind the curve' suggested by the Fed. The market could well be right, central bankers are clearly in no rush to raise rates, but this does leave it vulnerable to surprise if the hints about higher rates become reality.

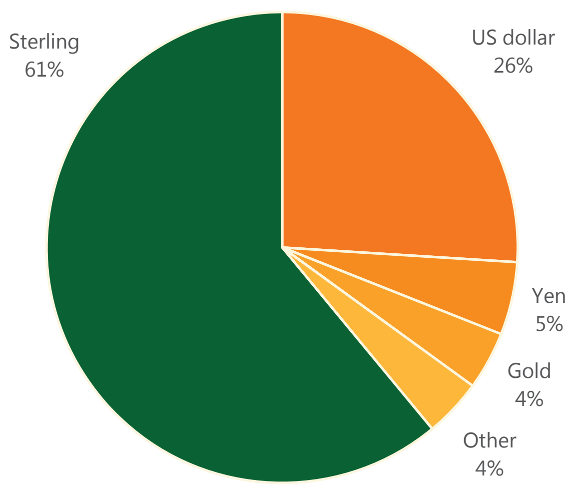
At the same time, our short term worries for the financial system find their expression increasingly in liquidity risk. Financial regulators, fearful as ever of the last crisis, are constraining the ability of banks to provide liquidity across a wide range of assets. This lack of liquidity increases the risk of a disruptive move, whatever its cause, out of higher yield private sector assets into cash or US treasury bills. This worries us; it also worries Janet Yellen, Chair of the Fed, and in July she deliberately described high yield corporate bond valuations as 'stretched'. These bonds subsequently sold off quite sharply, but the observation could apply to bonds and equities generally.

Such observations are worth heeding and we reduced our equity positions accordingly during the quarter to a fraction under 45% of the portfolio. We are also minded to retain our dollar exposure, despite the greenback's recent strength. Firstly to protect against a correlated, perhaps liquidity driven, set-back in both bonds and equities, and secondly, as the first line of defence against a surprise move up in US rate expectations. However, if the future path of interest rates is a source of uncertainty, this is in part due to greater confidence about economic growth, at least in the US, UK and Japan. To capture this we have exposure to banks in all three of these markets along with 'old tech' stocks in the US, such as Microsoft, Texas Instruments and Oracle that combine attractive cash flows with the potential to gain from a pick-up in corporate spending.

Asset allocation



Currency allocation



It is natural that people who run service industries tend to think that they provide a unique service, with the enthusiasts amongst the ranks opting for 'truly unique', and, every now and again, 'extremely unique'. I asked myself that question – are we unique? The question is, of course, absurd – of course we're not! But I have come to the nonplussing answer that we are considerably different from most of our peers.

This review takes a step back from the world's travails and opportunities, and addresses how we set about investing clients' money. There is some virtue in simply getting on with it – no navel-gazing here, please! But regulation forces an answer to the question, 'Is what you do suitable for the client?' For many organisations, who purport to do everything, the answer to the question is to show that the right bran-tub was selected. We parade the fact that we only do one thing – so the answer is binary: what we do is either suitable for a particular client or not. This is why more questions are asked of clients than ever before, both as to their objective requirements and their subjective wishes. It has also made me think through exactly what our investment offering consists of – and this is my answer to that question.

At the centre, is a desire not to lose money. This is disconcerting, since this can be achieved by placing cash in the current account of a bank, and going back to sleep. It has the considerable advantage of avoiding the payment of fees. Why go to the trouble, uncertainty and expense of going to a fund manager whose aspiration is the same as the local bank in the High Street? The answer is that an investment differs from a deposit because it has risk – and risk can either provide a good outcome, or a bad one. The deposit has no upside, beyond the interest it earns – and long-term savings are badly served by such a riskless strategy. However much the marketing departments might wish it otherwise, if you would have the opportunity of a return, you must inevitably take a risk. I have found, over a lifetime of looking after clients, that they love making money, but they hate losing it more. As a slogan, it therefore resonates; the swizz is that not losing money in a portfolio of investments is sometimes impossible to achieve. At Ruffer, we have an added complication: we have been going for twenty years without making a material loss in any single year – the time period over which we judge ourselves. Here is an organisation which appears to say it can walk on water – and, for a couple of decades, it looks like it has! Can I let you in on a secret, dear reader? It's a fluke. It's not a fluke in a directional sense – only in the sense that we haven't failed the test. Sooner or later we will, just as those who aspire to 'outperform the indices' don't do it relentlessly year after year – sometimes they have to point out that aspiration and reality are not the same thing. The correct response to our bedrock desire – not to lose money – and our long-term performance which is remarkably consistent with it, is that we really do have a robust investment process.

The first thing to say is that our aspiration gives us no hiding place, since every investment has the possibility of going down in value, and, even as one buys an investment, it is possible to articulate a number of plausible scenarios which would cause a loss of value. It is frustrating, since it results in the rejection of investments which look to have upside – and which go on subsequently to prove the point – because of worrisome downside. Spreading risk is a crucial element in the exercise – and this means that in a portfolio there will always be something letting the side down, holding back good work done in other parts of the portfolio.

There are two phenomena which aid our way of doing things. The first is that the financial markets are too loosely bound together for everything to be priced efficiently. If the financial world is a casino, then it's one where the roulette wheel is wonky, and some numbers come up more regularly than others, and the croupier is drunk, so calls the odds wrong periodically. The analogy is a good one – juxtapose two opposite 'plays', and if events prove one a loser, causing it to be no worse than dull, and the other is a sparkler, then you escape the tyranny of being ignorant of the future.

The second is that future events are much more knowable than generally conceded – it is their timing which is so opaque that the human mind seems indifferent to the advantages of isolating those things which are very likely to result from today's events. There's an old adage that being right too soon is simply a different way of being wrong – but one can build investments that benefit from future events of uncertain timing into the portfolio, without compromising today's performance. This is not easy, since in the latter stages of a bull market momentum tends to drive down tomorrow's winners, and drive up tomorrow's losers – the period preceding an inflection in the market is a tricky time for our style of investment. It is, however, essential, since tigers don't signal when it's time to stop riding them.

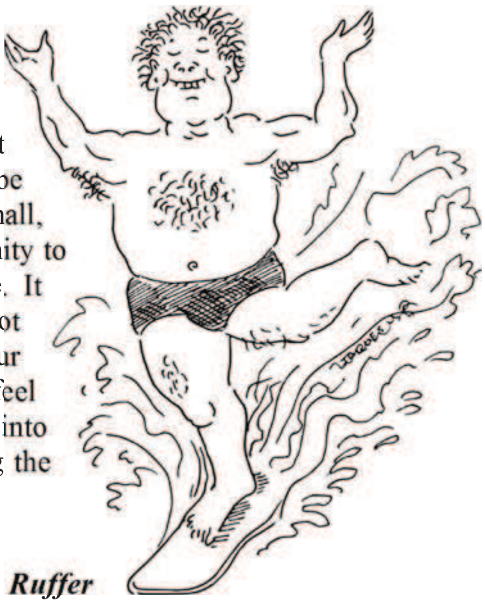
We are therefore looking for asymmetric investments with more chance of a favourable outcome than an unfavourable one. We also need to find investments which cover our backs if a less likely eventuality occurs, but which won't let us down if it doesn't. In research, stockpickers play their part if they find underestimated companies; 'big picture' researchers play theirs by correctly analysing the pressures and opportunities in the world.

It is this big picture 'macro' analysis which helps identify the inflection points (which we have called well during our 20 years of existence), and has helped us in the aftermath of the inflection point. Only when the trend matures, and the consensus view is that it is quasi-permanent, do we slip away from the momentum to embrace the next phase – and in this we will tend to be too soon. This move always appears not so much wrong as perverse – expectations for a continuity are high; it looks like foolishness to have changed direction.

Looking back over the last twenty years, the first five of them were the easiest, and it was during this time that I became aware of the power of this approach to investing. The insight, in 1991, was that the world would go into disinflation, which was regarded with incredulity – but all the new forces in the world pointed that way. China was growing to a size, coupled with the rest of the emerging economies to put wage pressure on the West. Volcker, as Chair of the Fed had put a cap on money supply with eye-wateringly high interest rates. Other countries were adopting Thatcher-like policies which reduced union power, and therefore the possibility of a wages led validation of the inflationary impulse. The rest was easy – invest in blue-chip equities for half the money, and long (preferably irredeemable) fixed interest stocks with the other half: the economic cycle was thereby covered, equities leading the way in the up phase, and the fixed interest stocks in the setbacks.

The distorted price of money – no yield at all, really, on deposits throughout the world – has had two consequences. The first is that it has driven all asset prices up – everything is correlated. The correction is likely to see a similarly widespread fall. The second is more pernicious since the distortion is in riskless money, ie deposits. It means that the safer the investment, the more distorted is its price; there's no safety in a safe investment when it trades at too high a price. All asset classes will fall together, and safe assets will fall by as much as risky assets, because of the distortion.

It is for this reason that we added to our armoury two ways of forcing the odds to our advantage; the first was to favour, from 2009, some illiquid investments, to take advantage of the opportunities thrown up in the rubble of the credit-crunch. Such investments have a timescale not suitable for everybody, so, unusually, we flagged this point to clients to be sure we were doing the right thing. It has been a very satisfactory, if small, element in portfolios. The other is to use options, which are an opportunity to give protection in markets where there is otherwise no hiding-place. It introduces an unwanted element of timing into the portfolios, so we do not commit much money to this, and it may well be the case that our commitments look too timidly small if and when they are needed. We feel that it will be in the aftermath of this shock, when inflation surges back into the world, that the portfolios will feel like those bronzed chaps surfing the Waikiki beach. If only!



Jonathan Ruffer

October 2014

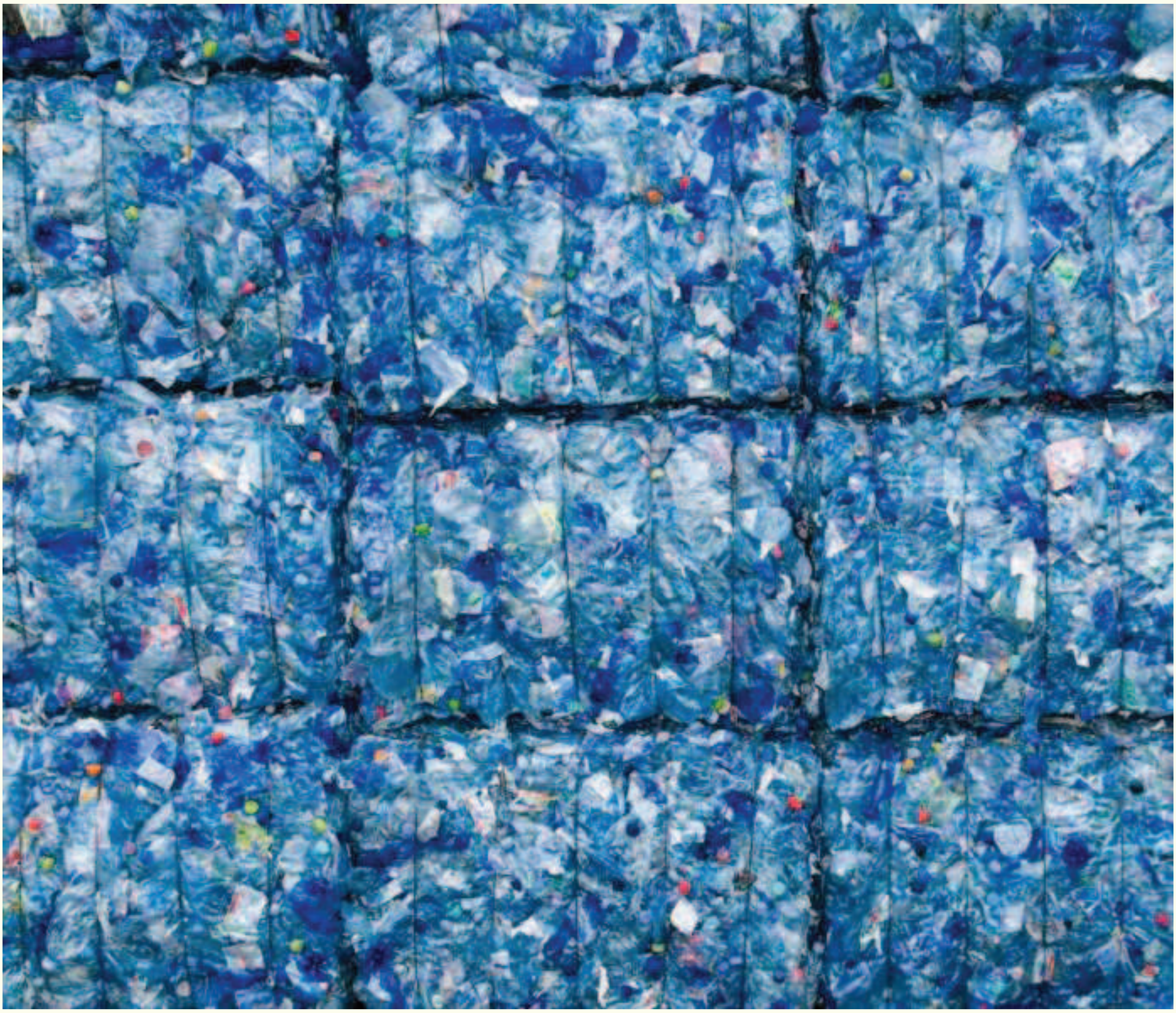
Past performance is not a guide to future performance. The value of investments and the income derived therefrom can decrease as well as increase and you may not get back the full amount originally invested. Ruffer LLP is authorised and regulated by the Financial Conduct Authority.

Who we are	Ruffer is a privately-owned investment management firm. We currently manage over £17 billion for pension funds, charities, companies and private clients, and employ over 200 people, with offices in London, Edinburgh and Hong Kong. We have a single investment strategy that has followed the same tried and tested investment approach since the firm started in 1994.
Our investment objectives	Our goal is to deliver consistent positive returns, regardless of how the financial markets perform. We define this through two investment aims ▪ not to lose money in any rolling twelve-month period ▪ to generate returns meaningfully ahead of the 'risk-free' alternative of placing money on deposit Since Ruffer started, this approach has produced returns ahead of equity markets, but with much lower volatility and risk. Over shorter time periods, if equity markets are rising, our returns are likely to be lower than those of equity indices, since we will always hold protective assets as well. Although these are our aims there is always the chance that we may lose money because of the nature of the investments involved and it is possible that individual constituents of the portfolio lose all their value.
How we invest	Ruffer portfolios are predominantly invested in conventional assets, such as equities, bonds, commodities and currencies; we also will make use of derivatives. Part or all of your portfolio may be invested in Ruffer in-house funds. At the heart of our investment approach is an asset allocation which always maintains a balance of 'greed' and 'fear' investments. Protective assets, such as bonds, should perform well in a market downturn and defend the portfolio value; those in growth, principally equities, should deliver good returns in favourable market conditions. This blend of offsetting investments reflects the prevailing risks and opportunities that we see in financial markets, rather than any pre-determined allocation. We operate without the constraints of benchmarks that institutional investors have historically been tied to. The asset allocation is fulfilled through specific stock selections. We invest only in companies that reflect the themes we seek to benefit from in portfolios. We never simply invest in a stock market index.
Our investment team	Ruffer's investment team and strategy are led by Jonathan Ruffer (Chairman) and Henry Maxey (Chief Executive). They are supported by a Research Team of over 20 analysts, focussing on economic and market trends, company analysis and developing investment ideas. These are used by portfolio managers on the Fund Management Team to construct portfolios in line with the investment strategy. The average experience of Ruffer's investment team is over 15 years.

BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund - DG

Report for the quarter ended
30 September 2014



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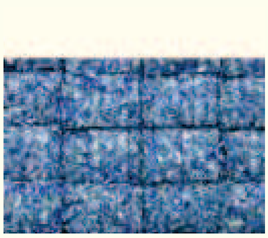
Online Reporting

You can access all your reports and other up-to-date portfolio information via our secure client extranet site *https://clients.bailliegifford.com*



Recycling.

Performance to 30 September (%)

	Fund	Base Rate +3.5%
Since Inception* (p.a.)	6.2	4.0
Three Years (p.a.)	7.9	4.0
One Year	7.8	4.0
Quarter	1.8	1.0

*22 February 2011
The Fund's objective is to outperform the UK base rate by at least 3.5% p.a. (net of fees) over rolling five year periods with an annualised volatility of less than 10%.
Source: StatPro, Baillie Gifford

Summary Risk Statistics (%)

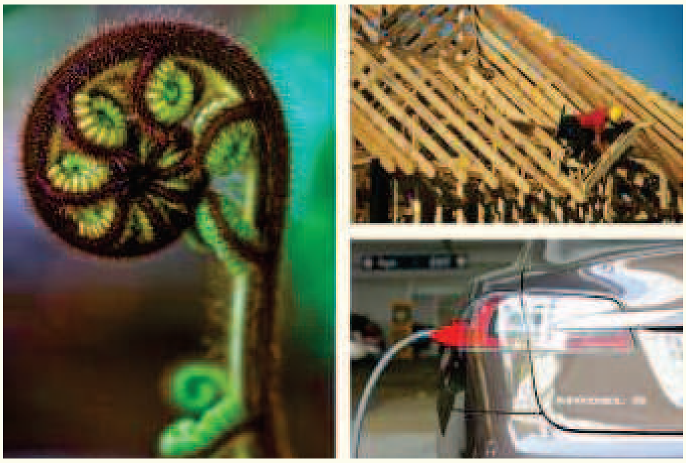
Delivered Volatility	4.7

Annualised volatility, calculated over 5 years to the end of the reporting quarter
Source: Baillie Gifford

Economic news in the third quarter was mixed - there were further positive developments in the job market and sentiment in the US, tempered by a weaker outlook in Europe, while growth in emerging markets continued to slow

Monetary policy has started to diverge, with the ECB cutting rates and embarking on a programme to buy private-sector assets just as the Fed brings its QE efforts to a close

Investment markets have been mixed with emerging markets (bonds and equities) performing reasonably well while high yield credit and European equities struggled - against this backdrop the Fund delivered a positive return



Valuation (after net flow of GBP 17,699)

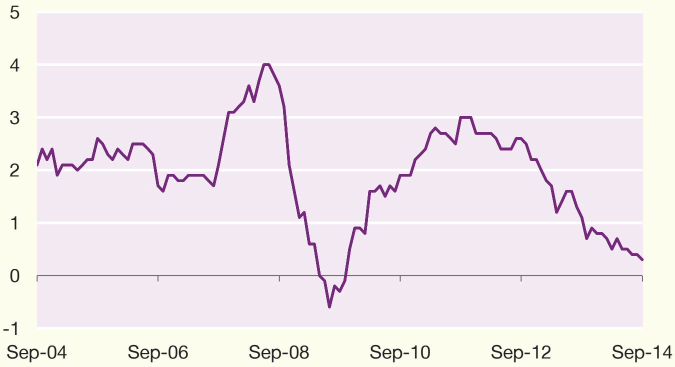
Investment environment

Data releases from the major developed economies have contrasted sharply over the summer months, with the US continuing to show a solid pick-up in activity and employment whilst Europe appears to be suffering from a downturn in confidence and growth.

In particular, the US looks to be on course for a respectable growth of between 2% and 2.5% with inflation around the 2% target level. Surveys of consumer and corporate sentiment are generally positive and improving with payrolls increasing, claims falling and the unemployment rate declining to just under 6%, a level that has been said to be one of the key triggers for rate rises.

In contrast, Europe continues to flirt with deflation. Much of the periphery and Eastern Europe is already seeing stagnant or falling prices, whilst even Germany is seeing notable falls in producer prices. Overall, Eurozone CPI is running at 0.5% (see chart below). Additionally, unemployment is high and sticky (between 11% and 12%) and consumer confidence surveys remain negative and falling.

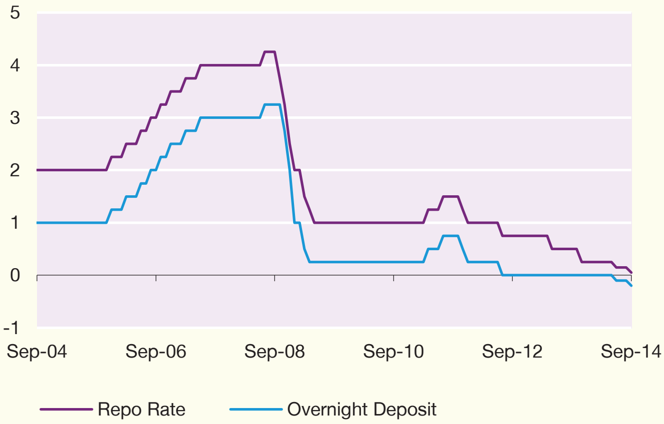
Eurozone Inflation Annual % Change (HICP)



Source: Thomson Reuters Datastream

Given this backdrop, we have seen central bank activity diverge: as the Federal Reserve announced the end of quantitative easing in the US, so the European Central Bank cut its policy rate further (see chart below) and embarked on a new ABS-buying programme of its own, aiming to buy up to €500 billion of structured finance securities, including those backed by residential mortgages.

ECB Interest Rates (%)



Source: Thomson Reuters Datastream

Elsewhere, both the UK and Japan continue to progress. The UK looks likely to raise rates before the US, with two of the MPC's nine members already voting for hikes; whilst Japan is still working through implementing Shinzo Abe's reform programme, with mixed results so far.

In emerging markets, growth continues to slow, albeit the picture varies country by country. Turkey, Russia and South Africa remain weak. And the Latin American countries, to which we have direct bond exposure, also saw further slowdowns as a combination of economic and political reforms and a weaker export environment made temporary impacts on both growth and inflation. However, the Asian countries, to which we recently took a small direct equity exposure, had a much stronger quarter, notably India following on from Modi's election in May.

Finally, a number of geopolitical risks made, or remained in, the headlines over the period. Unrest in Ukraine, Iraq and Syria continued, albeit with no immediate impact on asset prices, whilst protests in Hong Kong at the end of the quarter brought substantial new concerns and saw its equity market fall by almost 10%.

Closer to home, we also saw the independence referendum in Scotland return a 'No' vote by a slim margin. The vote had worried markets in the final weeks of campaigning with both sterling and the FTSE All Share weakening. However, the vote to maintain the status quo removed that uncertainty and saw both bounce back strongly.

Outlook

Whilst we are encouraged by the improvements in economic data in parts of the developed world, we remain concerned about financial market stability, particularly as quantitative easing is removed and interest rates begin to rise.

Looking at the past few years, we see many asset prices that have run ahead of their fundamentals. We put this outperformance down, in large part, to the highly accommodative monetary policy environment. Naturally then, as this begins to be tightened and this critical support is removed, we worry that some of these assets may look very exposed.

Nevertheless, the improving economic fundamentals of countries like the US do give grounds for cautious optimism and the falls in correlations both between and within asset classes that we have seen over the past year create more fertile ground in which to hunt for opportunities. So, whilst Japanese equities, emerging market bonds and insurance linked securities have continued to rise in value over the past three months, US high yield bonds, European equities and gold are amongst those asset classes that have seen price falls.

Positioning

Given our overall outlook, in particular the concerns around stretched valuations and the rate rise cycle ahead, we continue to position the portfolio cautiously, with holdings in more defensive securities such as T-Bills and AAA Structured Finance.

In particular, seeing higher valuations, we sold our European financial credit holdings and made reductions to both Private Equity and Commodities. We also took the opportunity to tilt our Listed Equity and Emerging Market Bond holdings more towards the markets we consider cheaper and make additions to highly-rated Structured Finance.

The change in our Listed Equity holdings involved a small reduction to our global fund holdings (which gave us a substantial exposure to the US, the regional equity market we view as being most expensive) and taking new direct positions in Emerging Asia (via the Baillie Gifford Pacific Fund) and in Japan (via the BG Worldwide Japanese Fund) where we view valuations and structural growth opportunities as more attractive.

We also increased our exposure to Eurostoxx 50 Dividend Futures, which are typically less volatile than regular listed equities and still forecast flat or falling dividend payments over the coming years.

Performance

The Fund generated a return of 1.8% over the third quarter of 2014, leading to a 7.8% return over the past 12 months. The annualised return for the past five years is 8.7% with a realised volatility of 4.7% per annum (all performance numbers are quoted before fees).

Across the past three months, the largest contributors to performance have been our Active Currency positions, in particular our short Australian dollar hedge position, which added 0.4% alone to performance as the currency fell 7.3% on Chinese growth concerns, as well as Insurance Linked Securities and Property.

Diversified Growth Client Seminars

We look forward to seeing many of you at our Client Seminars in November.

Special paper – Active Currency overlay

One feature of the Diversified Growth Fund that we have not covered in previous papers is our Active Currency overlay, which is an important part of our investment efforts.

Whilst most attention focuses on the broadly diversified range of assets that the Diversified Growth Fund holds, our currency investments also form an important component of the Fund's return profile. In fact, over the past five years, currency exposures taken via our Active Currency overlay have contributed 0.5% per annum to the overall Fund performance. We regard this as a valuable source of additional return, particularly as its drivers are different to those of equities and the other economically-exposed asset classes in which we invest.

We believe returns can be generated in this area as, despite their liquidity and high turnover, global currency markets are not as efficient as might be expected. This is because many participants deal in currencies for reasons other than to maximise profits – for example, to hedge their own exposure or for commercial trade purposes – and this presents a number of opportunities.

The overlay, which is managed by Baillie Gifford's specialist Rates & Currencies team, takes a series of offsetting long and short positions across currencies. It currently aims to deliver a return of 0.5% per annum, with a volatility of 1%. This return stream is typically uncorrelated with returns from other asset classes in the portfolio, and hence the Fund benefits fully from the return but with only a marginal increase in overall volatility.

The individual positions within the overlay are entered by using currency forwards, typically up to three months in length. These instruments do not require physical transfer of cash as each involves a promise to pay any profits owed at the end of the contract, depending on how the currencies in question have performed. These profits are always backed by collateral. Because the positions do not involve cash, however, and because long and short positions offset, they have no physical weight in the Fund and appear on our main asset allocation chart at 0%.

Currently the Fund's most significant long positions are to the US dollar, Mexican peso and Colombian peso, whilst our most significant short positions are against the Czech koruna, Thai baht and Hungarian forint.

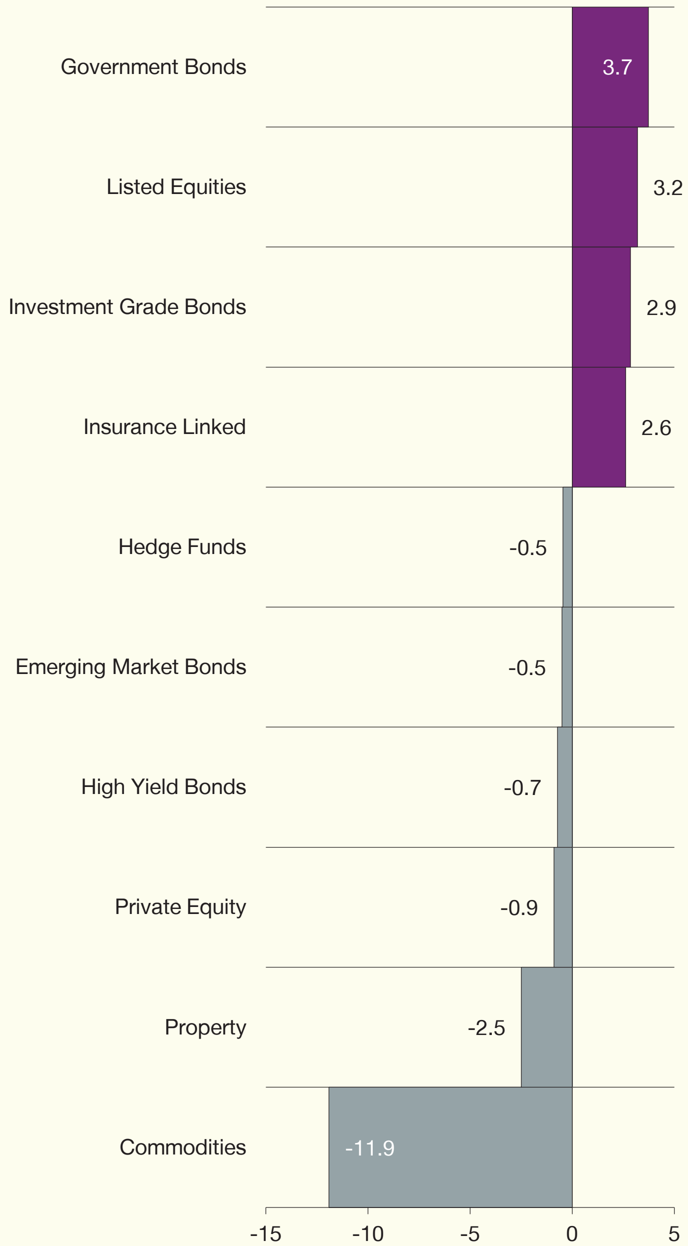
Below we set out the investment rationale for two current trades.

Trade:	Long US Dollar (USD) vs. Euro (EUR)
Rationale:	The US is growing more strongly than Europe, which is also flirting with deflation. That growth (and associated tighter policy) will be good for the USD vs. EUR.

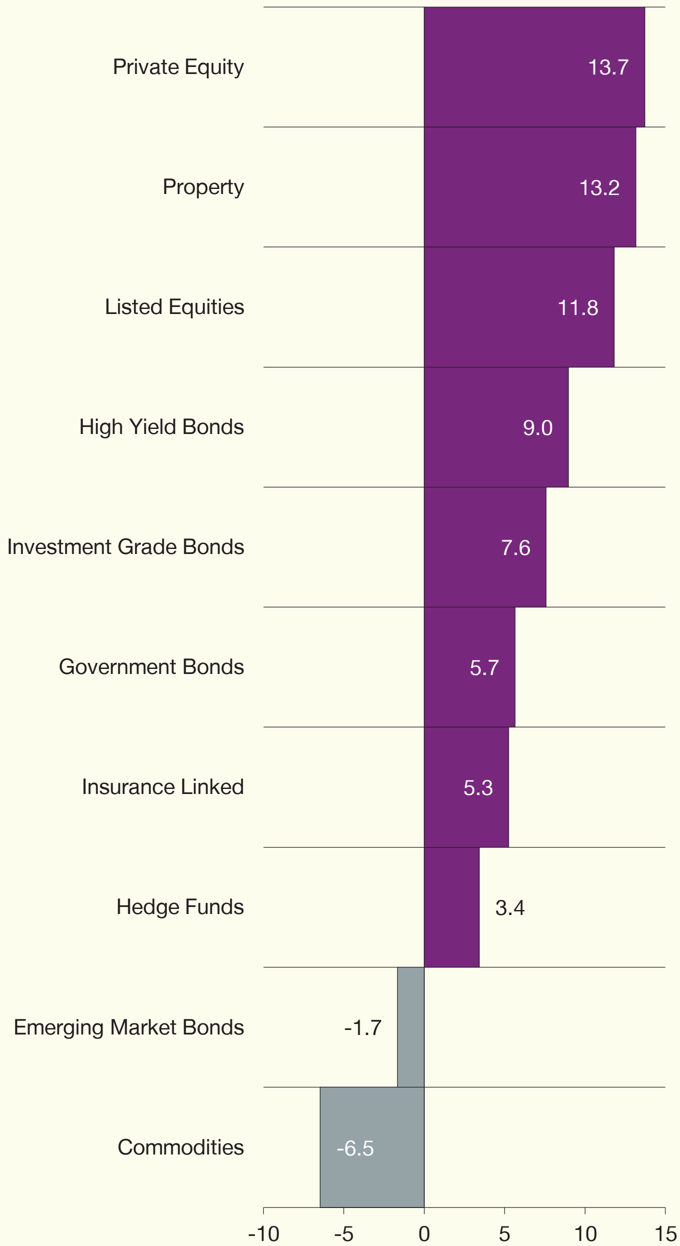
Trade:	Long Colombian Peso (COP) vs Peruvian New Sol (PEN)
Rationale:	The PEN is vulnerable to falls in the copper price, and deteriorating terms of trade for Peru, as Asian growth slows. Peruvian GDP is under pressure. Colombia, meanwhile, is more geared into the US and is also benefiting from increased domestic demand and infrastructure stimulus following May's election of Juan Manuel Santos.

Market Background - Asset Class Returns

Over One Quarter (%)



Over One Year (%)



% Change in GBP
Source: Baillie Gifford

Performance Objective

To outperform the UK base rate by at least 3.5% per annum (net of fees) over rolling five year periods with an annualised volatility of less than 10%.

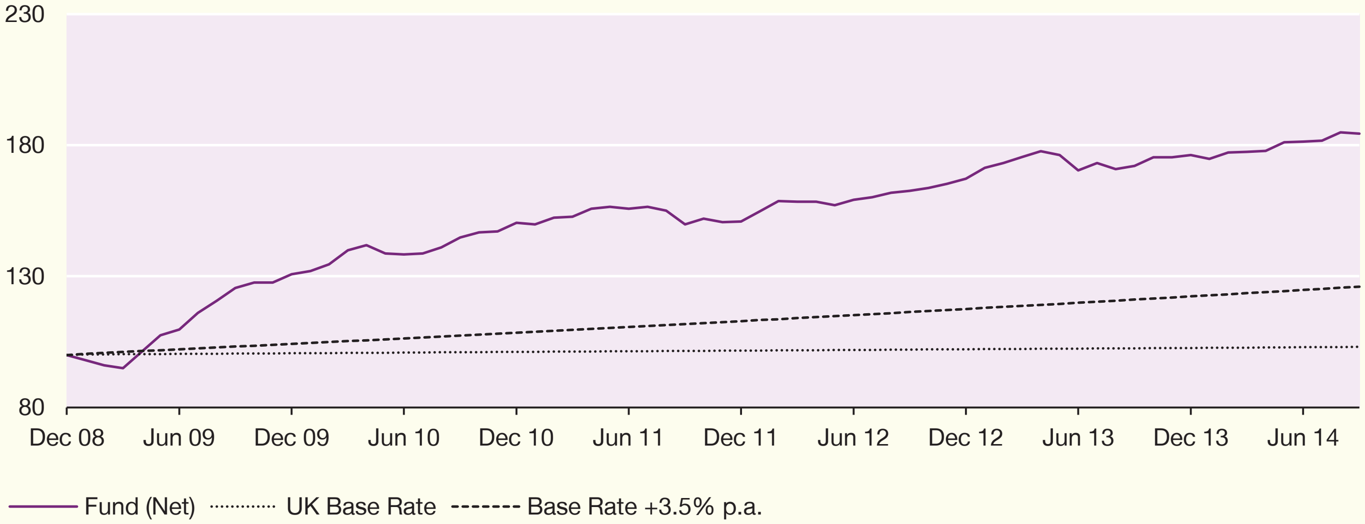
Performance

This table indicates the absolute performance of the fund after fees together with UK base rate.

	Fund Net (%)	Base Rate (%)	Base Rate (%) +3.5%
Five Years (p.a.)	8.0	0.5	4.0
Three Years (p.a.)	7.2	0.5	4.0
One Year	7.1	0.5	4.0
Quarter	1.7	0.1	1.0

Source: StatPro, Baillie Gifford

Fund and UK Base Rate Returns Since Launch of the Fund*



*31 December 2008
Source: StatPro, Baillie Gifford. All figures are total returns in sterling from 31/12/08, net of fees.

Summary Risk Statistics (%)

Delivered Volatility	4.7

Annualised volatility, calculated over 5 years to the end of the reporting quarter
Source: Baillie Gifford

Contributions to Performance

Quarter to 30 September 2014

Ave. Weight %	0.1	4.8	2.1	7.7	12.7	4.1	16.8	8.7	6.4	4.4	0.6	13.6	10.0	2.2	5.8	100.0
Return %	1.3	3.8	7.8	1.4	0.7	1.6	0.0	0.3	0.6	-0.2	-0.6	-0.6	-0.7	-2.9	-3.7	1.8

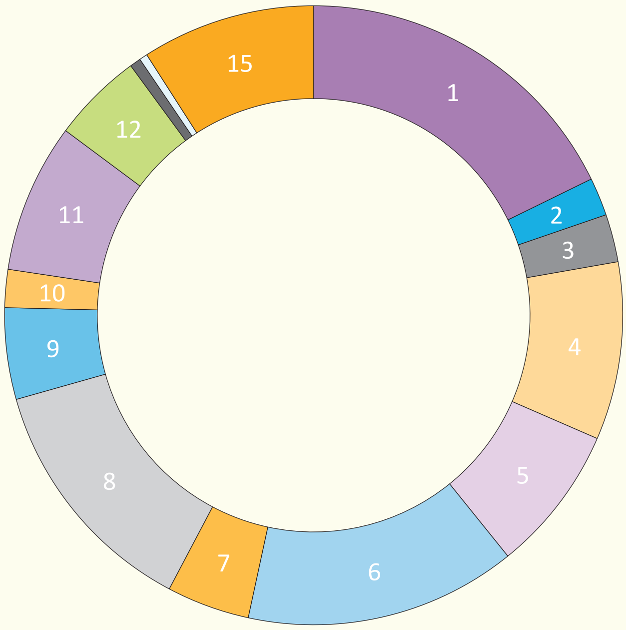
One Year to 30 September 2014

Ave. Weight %	16.0	0.1	10.8	11.3	8.6	13.0	2.0	3.9	5.5	2.7	5.0	6.3	8.6	0.6	5.6	100.0
Return %	11.1	1.3	7.3	5.6	7.9	3.7	26.6	12.2	7.4	10.3	4.1	1.7	0.9	4.4	-2.3	7.8

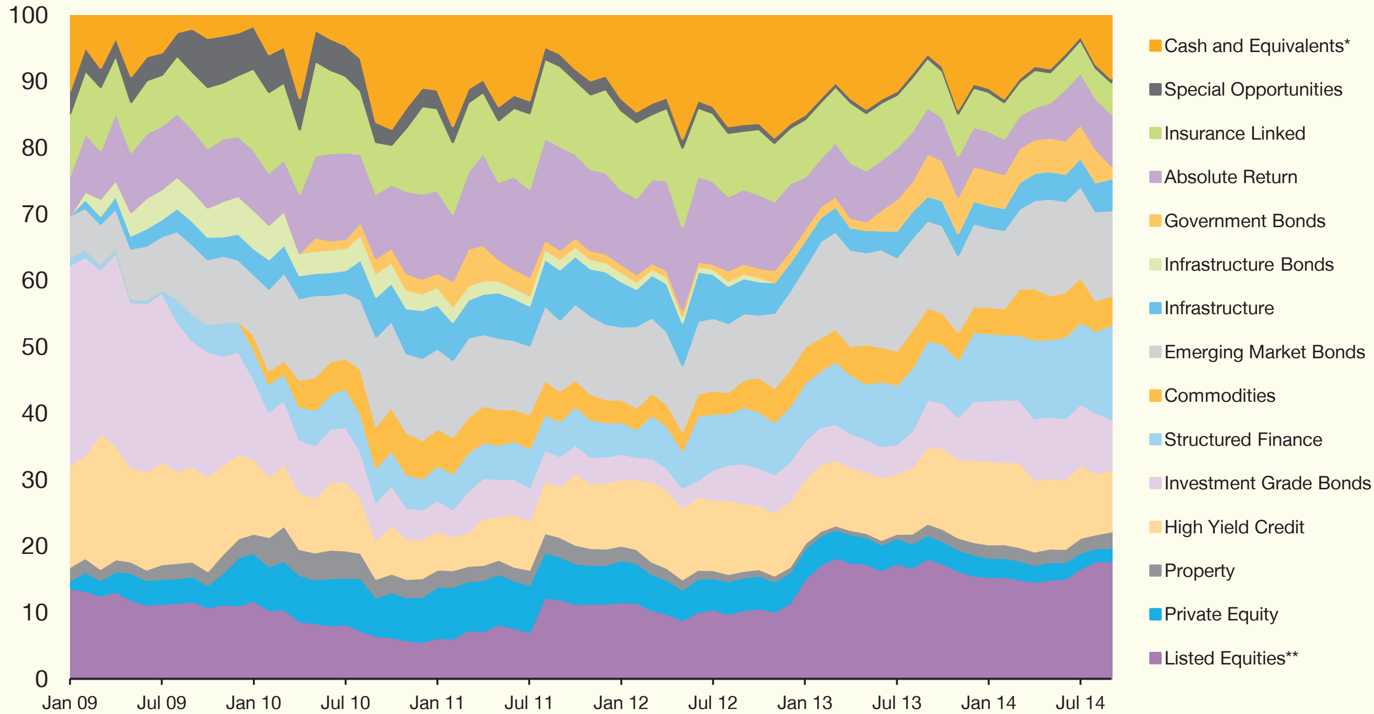
Source: Statpro/Baillie Gifford, gross of fees in sterling. Totals may not sum due to rounding

Asset Allocation at Quarter End

		(%)
1	Listed Equities**	17.7
2	Private Equity	2.0
3	Property	2.5
4	High Yield Credit	9.3
5	Investment Grade Bonds	7.7
6	Structured Finance	14.2
7	Commodities	4.3
8	Emerging Market Bonds	12.9
9	Infrastructure	4.8
10	Government Bonds	2.0
11	Absolute Return	7.8
12	Insurance Linked	4.7
13	Special Opportunities	0.6
14	Active Currency	0.4
15	Cash and Equivalents	9.1
	Total	100.0



Changes in Asset Allocation Since Launch of the Fund† (%)



† 30 December 2008
* Includes net Active Currency position
** Reflects effective exposure in portfolio, including futures positions; cash adjusted accordingly

Summary Risk Statistics (%)

Predicted Volatility	6.2

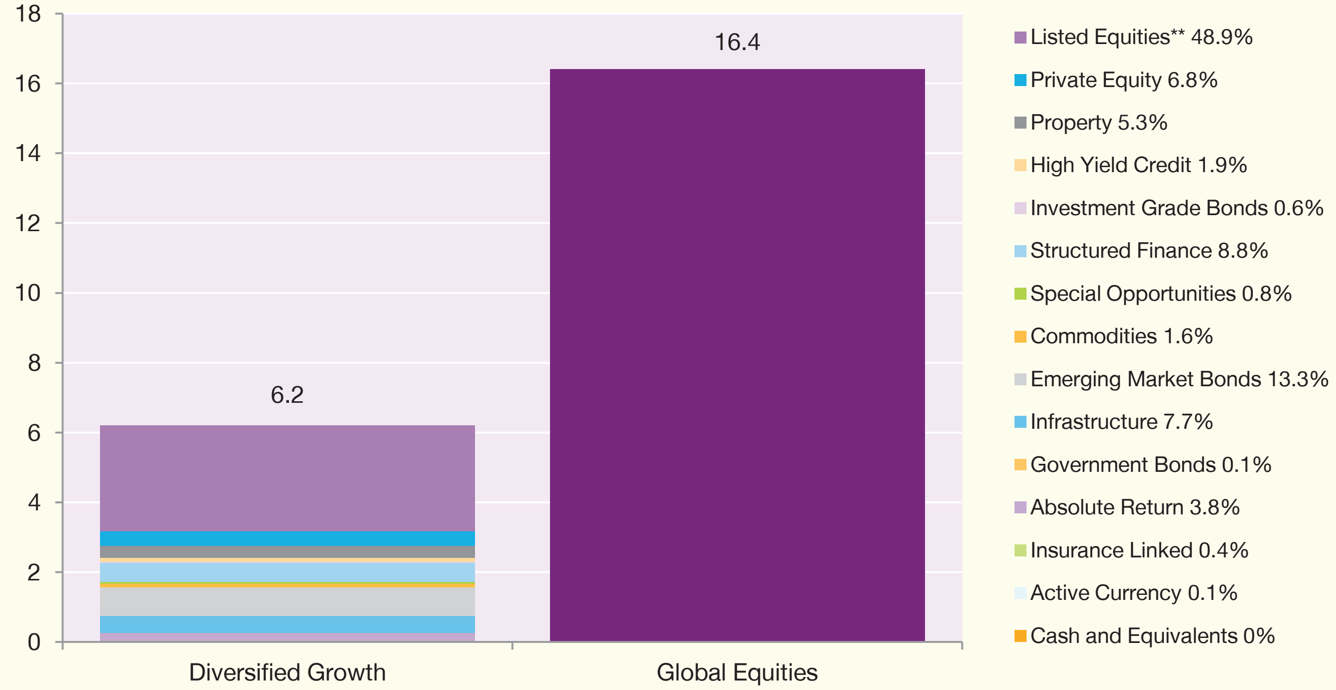
Source: Baillie Gifford, Moody's Analytics UK Limited

Volatility remained fairly low in the quarter, notwithstanding market concerns over developments in Ukraine, the Middle East and, closer to home, the Scottish independence referendum

The Fed continued to taper its QE programme, signalling an expected end in the fourth quarter, and the market is now looking forward to rate rises and digesting what that might mean for a number of asset classes that have benefited from the accommodative policy of the past few years

Given concerns over the withdrawal of stimulus and the valuations of some asset classes, the portfolio remains broadly diversified and fairly cautiously positioned

Risk Attribution



Source: Moody's Analytics UK Limited, Baillie Gifford & Co
Total may not sum due to rounding
** Reflects effective exposure in portfolio, including futures positions; cash adjusted accordingly

Predicted volatility is based on a snapshot of the Diversified Growth portfolio at the end of the quarter, and provides a one-year prediction of the volatility of returns. The risk model uses long- and short-term volatility and correlation data to arrive at a view of the one-year volatility for each asset class, as well as the correlation between each asset class. The Diversified Growth portfolio's holdings can then be mapped onto these estimates. The results are a prediction of portfolio volatility and detailed risk attribution, the latter of which shows the contribution to overall volatility from each asset class.

Asset Name	Fund %
Listed Equities**	
Baillie Gifford Global Income Growth Fund C Accum	4.9
Baillie Gifford Global Alpha Growth Fund C Acc	4.2
Baillie Gifford Pacific Fund C Accum	2.0
Baillie Gifford LTGG Fund C Accum	1.8
BG Worldwide Japanese C GBP Acc	1.0
Euro Stoxx 50 Index Dividend Futures 16	0.6
Euro Stoxx 50 Index Dividend Futures 17	0.6
Euro Stoxx 50 Index Dividend Futures 15	0.6
Euro Stoxx 50 Index Dividend Futures 18	0.6
Fondul Proprietatea	0.6
Euro Stoxx 50 Index Dividend 19	0.5
Euro Stoxx 50 Index Dividend 20	0.4
Damille Investments II	0.0
Total Listed Equities	17.7
Private Equity	
Electra Private Equity	0.4
Graphite Enterprise Trust	0.3
NB Private Equity Partners	0.3
HarbourVest Global Private Equity	0.2
Eurazeo	0.2
Better Capital	0.2
JZ Capital Partners	0.1
Better Capital 2012	0.1
Dunedin Enterprise Investment Trust	0.1
Electra Convertible 5% 2017	0.1
Total Private Equity	2.0
Property	
Deutsche Wohnen	0.7
LEG Immobilien	0.6
Hammerson	0.4
LondonMetric Property	0.2
Tritax Big Box REIT	0.2
Target Healthcare REIT	0.1
Japan Residential Investment Company	0.1
Forterra Trust	0.1
Terra Catalyst Fund	0.0
Invista 9% 2016 Pref	0.0
Max Property Group	0.0
Total Property	2.5

Asset Name	Fund %
High Yield Credit	
Baillie Gifford High Yield Bond Fund C Gross Acc	2.7
Credit Suisse Nova (Lux) Global Senior Loan Fund	1.6
Henderson Secured Loans Fund	1.5
ING (L) Flex Senior Loans Fund	0.9
NB Global Floating Rate Income Fund	0.5
NB Distressed Debt Invest F NPV	0.4
Nuveen Floating Rate Income Fund	0.3
Eaton Vance Floating Rate Income Trust	0.3
BlackRock Floating Rate Income Trust	0.2
CVC Credit Partners European Opportunities GBP	0.2
Apollo Senior Floating Rate Fund	0.1
Nuveen Senior Income Fund	0.1
Eaton Vance Senior Income Trust	0.1
CVC Credit Partners European Opportunities EUR	0.1
Pioneer Floating Rate Trust	0.1
HarbourVest Senior Loans Europe	0.0
Total High Yield Credit	9.3
Investment Grade Bonds	
BG Worldwide Global Credit C USD Acc	6.1
EIB 1.375% 2018	1.6
Total Investment Grade Bonds	7.7
Structured Finance	
Metreta Fund	3.2
Julius Baer Multibond ABS Fund	3.0
Galene Fund	3.0
TwentyFour Income Fund	0.4
Sorrento Park CLO A-1	0.4
German Residential Funding 2013-1 D	0.4
United Airlines 2013-1 B	0.3
DNA Alpha 2013-1 A	0.3
American Airlines 2013-2 A	0.3
DNA Alpha 2013-1 B	0.3
American Airlines 2013-2 B	0.3
Carlyle CLO 2014-3 A-1A	0.3
Phoenix Park 1X A1	0.2
Annington PIK 13% 2023	0.2
St Pauls CLO V A	0.2
Blackstone/GSO Loan Financing Fund	0.2
Granite 2007-1 3M2	0.2
Virgin Australia 2013-1 A (144A)	0.2

Asset Name	Fund %
Virgin Australia 2013-1 B (144A)	0.2
Carador Income Fund	0.2
German Residential Funding 2013-1 E	0.1
Granite 2007-1 6A1	0.1
Taberna 2005-1A A1A	0.1
Phoenix Park 1X A2	0.1
Sorrento Park CLO A-2	0.1
St Pauls CLO V B	0.1
Talisman 7 A	0.0
Carlyle CLO 2014-3 A-2A	0.0
Leopard II A2	0.0
Total Structured Finance	14.2
Commodities	
Source Physical Gold P-ETC	2.5
Source Physical Palladium P-ETC	0.7
Source Physical Platinum P-ETC	0.7
ETFS Physical Palladium	0.4
Total Commodities	4.3
Emerging Market Bonds	
Baillie Gifford Emerging Mkts Bond Fd C Gross Acc	8.3
Brazil CPI Linked 6% 15/05/2045	1.0
Brazil CPI Linked 6% 15/08/2050	0.5
Mexico 7.75% 13/11/2042	0.5
Mexico 8.5% 18/11/2038	0.5
Mexico IL 4% 15/11/2040	0.4
Peru 6.85% 12/02/2042	0.4
Colombia 10% 24/07/2024	0.4
Peru 6.95% 12/08/2031	0.2
Colombia 7.5% 26/08/2026	0.2
Peru 6.9% 12/08/2037	0.2
Afreximbank 5.75% 2016	0.2
Colombia 7% 04/05/2022	0.1
Total Emerging Market Bonds	12.9
Infrastructure	
3i Infrastructure	0.8
EDP Renovaveis	0.5
Renewables Infrastructure Group	0.4
National Grid	0.3
Greencoat UK Wind	0.3
John Laing Environmental Assets Group	0.3

Asset Name	Fund %
American Water Works	0.3
California Water Service	0.2
American States Water	0.2
Terna	0.2
Aqua America	0.2
OHL México	0.2
Snam Rete Gas	0.2
Foresight Solar Fund	0.2
Bluefield Solar Income Fund	0.2
NextEnergy Solar Fund	0.2
Total Infrastructure	4.8
Government Bonds	
Australia 5.5% 21/04/2023	1.6
Australia 5.75% 15/05/2021	0.4
Total Government Bonds	2.0
Absolute Return	
Allianz Merger Arbitrage Strategy	3.0
Aspect Diversified Trends Fund	1.9
Amundi Volatility World Equities	1.0
Ferox Salar Convertible Absolute Return Fund	0.9
Winton Futures Fund	0.5
DB Hermes Absolute Return Commodity Fund	0.3
Boussard & Gavaudan	0.2
Total Absolute Return	7.8
Insurance Linked	
Everglades Re 2014-1 A	0.8
Tar Heel Re 2013-1 A	0.6
Everglades Re 2013-1 A	0.4
Alamo Re 2014-1 A	0.4
Lakeside Re III A	0.4
Embarcadero Re 2012-2 A	0.4
CatCo Reinsurance Opportunity Fund	0.3
Pelican Re 2012-1 A	0.2
Embarcadero Re 2012-1 A	0.2
Mystic Re III A	0.2
East Lane Re V 2012 B	0.1
Blue Capital Reinsurance Holdings Fund	0.1
Blue Capital Global Reinsurance Fund	0.1
Tradewynd Re 2013-2 3B	0.1
MultiCat Mexico 2012-1 B	0.1

Asset Name	Fund %
Compass Re 2011-1 3	0.1
Skyline Re 2014-1 A	0.1
DCG Iris Fund	0.0
K1 Life Settlement	0.0
Total Insurance Linked	4.7

Special Opportunities	
Juridica Investments	0.2
Burford Capital	0.1
DP Aircraft I	0.1
Doric Nimrod Air Two	0.1
Total Special Opportunities	0.6

Active Currency	
Total Active Currency	0.4

Cash and Equivalents	
Cash and UK T Bills	7.1
BG Worldwide Active Cash Plus Fund C Acc	2.0
Total Cash and Equivalents	9.1

Total	100.0

** Reflects effective exposure in portfolio, including futures positions; cash adjusted accordingly

Fund Name	Update
Baillie Gifford Diversified Growth Fund	With no substantial changes to the global economic picture or individual asset class valuations, the Fund's asset allocation remained fairly stable over the third quarter of 2014. We made some small adjustments reflecting the outperformance of certain assets and the balance of opportunities. In particular, we increased our exposure to structured finance and certain equity markets, reduced our exposure to various developed bond markets and commodities. In aggregate, the value of our sales exceeded that of our new investments, seeing us increase the Fund's cash weighting to around 9%. We view this as an appropriate level given our concerns around the headline valuations of many asset classes at a time when monetary policy is becoming less accommodative. The investments into Structured Finance included a number of direct senior CLO positions (in deals such as St Paul's and Sorrento) as well as an addition to our holding of the Julius Baer Multibond ABS Fund. Whilst the returns on offer from senior structured finance are not large in absolute terms, we view them as exceptionally good for the risks involved, and particularly worthwhile given our overall economic view. We also took a new position in a Blackstone/GSO Loan Financing fund that invests at the more junior end of the CLO spectrum. Whilst we added 2% to our Listed Equity allocation, the more significant change was to the balance of the Fund's holdings within the asset class. We reduced our position in our global equity funds (which are heavily invested in the US) and brought in new holdings that give specific exposure to Asia (BG Pacific Fund, 2%) and Japan (BG Worldwide Japanese Fund, 1%). Relative to the US, these markets have struggled in recent quarters and, with lower valuations and positive fundamentals, seem well placed to perform better from here. We also took the opportunity to top up the Fund's exposure to European dividends. In bond markets, we took profits from our UK Gilt and European Investment Bank holdings following strong performance. We also sold our direct holding of European financial bonds, which we thought had limited value remaining. Since those sales, high yield credit spreads have begun to rise, although not yet to yields which would compel us to return to the market. The Fund does, however, remain invested in bank loans, with a 6% weighting in third party bank loan funds. In August, we halved our exposure to platinum and palladium, reflecting the good run in prices on the back of the miners' strike in South Africa. These holdings now represent 2% of the Fund. We continue to believe that these metals are underpriced relative to their cost of production, just less so than when we first took the position. Other notable transactions over the quarter included the sale of Onex, a Canadian private equity fund, which had begun to trade on a premium to its net asset value; the purchase of EDP Renovaveis, a Portuguese renewable energy operator which trades at an unwarranted discount to its net asset value; and a reduction to our holding of Peruvian bonds following a rate cut, with some of the funds raised being invested into Colombian bonds, which look relatively better value.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	16	Companies	2	Companies	None
Resolutions	162	Resolutions	4	Resolutions	None

There has been notable regulatory change in the UK, Japan and Europe

Within Europe, the EU Commission is proposing changes to the 2007 Shareholder Rights Directive in order to bring greater clarity to the investment chain. With regard to the UK, the Financial Reporting Council (FRC) has published a new edition of the UK Corporate Governance Code. Japan's first Stewardship Code, which we became signatories of in August, aims to promote long-term sustainable returns

We are currently adding to the Corporate Governance team's resources by recruiting new analysts

Company Engagement

Engagement Type	Company
Corporate Governance	Kubota Corp., Rakuten
Corporate Social Responsibility	Haier Electronics Group Co
AGM or EGM Proposals	John Laing Environmental Asset

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Following a demanding proxy voting season, the broader themes affecting the governance landscape this quarter have been the development of new and existing governance codes both at home and abroad. Whilst the outcome of the Scottish independence referendum has meant business continues as usual, there has been notable regulatory change in the UK, Japan and Europe.

With regard to the UK, the Financial Reporting Council (FRC) has published a new edition of the UK Corporate Governance Code which is designed to strengthen the focus of companies and investors on the long term and the sustainability of value creation. The main changes relate to risk management, shareholder engagement and, as always, executive remuneration. First, the FRC will request that companies robustly assess their principal risks and explain how they are being managed and mitigated. Second, on executive pay, the FRC has decided to codify malus provisions – this is already standard practice – empowering remuneration committees to recover or withhold variable pay awards if corporate health suffers over the long term. Third, the FRC hopes to promote shareholder engagement by requiring Boards to explain what actions they will take to understand and respond to significant "oppose" votes at any general meeting. The revised Code will apply to accounting periods on or after October 1 2014.

The direction of travel for Japanese governance continues to be positive, with recent momentum starting to deliver some significant changes from a regulatory perspective. The country's first Stewardship Code, of which we became signatories in August, aims to promote long-term sustainable returns by supporting purposeful dialogue between investors and companies. In addition, a new Corporate Governance Code is currently being developed and it is hoped that it will be in place for next year's voting season.

Although the old adage "I was waiting ages for a Code and then two came along at once" springs to mind, we do not expect an overnight change in governance standards. In fact, the required evolution in cultural and behavioural approaches to governance in Japan will be a much more difficult and important step to ensuring better practices and protection for shareholders.

Accordingly, it was encouraging that during our colleague Rachel Turner's September trip to Tokyo with the Asian Corporate Governance Association (ACGA), several of our investee companies reported seeing benefits from increased engagement with investors and electing independent board members, both of which are central components of the new Stewardship and Corporate Governance Codes.

Within Europe, the EU Commission is proposing changes to the 2007 Shareholder Rights Directive in order to bring greater clarity to the investment chain. In addition to providing shareholders with a right to vote on executive remuneration and related party transactions, the amendments will look to increase transparency between companies, shareholders and relevant intermediaries. In particular, the Directive will facilitate the identification of shareholders, transmission of information and the exercise of shareholder rights by obliging intermediaries, such as institutional investors and custodians, to provide specific information on the identity of the underlying shareholder. They will also need to ensure appropriate arrangements are in place to accommodate shareholders' right to participate and vote in general meetings.

The inclusion of these new items in each region's governance regulations should be viewed as positive. However, it is important to remember that compliance with regulatory requirements and exercise of proper stewardship are not one and the same. As ever, the challenge for the Governance team is not only identifying and engaging with those investee companies which do not comply with the letter of the their respective Codes, but those that fail to endorse their spirit too.

In order to meet this challenge head-on, we are currently adding to the team's resources by recruiting new analysts. The addition of new personnel will help to supplement the knowledge and experience already within the team, as well as enabling us to improve the level of service we provide to the investment managers.

We are conscious that this quarter's review has centred on topics with particular relevance to governance as opposed to environmental and social issues. In the next quarter, we will be looking more closely at climate change and supply chain management and look forward to providing a more balanced overview of this work come the year end.

Image: © Shutterstock.com/Rat007

Company	Engagement Report
Haier Electronics Group Co	Haier Electronics is a Chinese company that makes washing machines and water heaters and, maybe most interestingly, has an extensive logistics business. Disclosure on all ESG matters is extremely limited. Both the Corporate Governance team and the portfolio manager spoke to the company. The company has informed us that, despite the lack of disclosure, it is thinking about non-financial issues. Its reporting on ESG factors will be increasing in the next interim and annual reports and we look forward to continuing the dialogue.
Kubota Corp.	Kubota is a Japanese producer of agricultural equipment, mini-excavators and ductile iron piping. The company is aware of the changing emphasis on Corporate Governance in Japan and appeared keen to understand more about the impact of this. The Board now includes two independent outside directors whose contribution to discussions is considered invaluable. Being able to explain and justify proposals to outside directors has focused the business, and the outside directors will oppose those they feel are not in its best interests. As the company looks to expand into additional markets, it admits that more effort will be required to ensure issues such as labour conditions are in line with its requirements. Kubota also acknowledges that expansion creates a big challenge in terms of pay structures and incentivising employees globally. The company is also thinking about the effect agriculture has on the environment but hopes that through efficient farming products it can play a part in minimising damage. This was a helpful meeting that allowed us to establish an open and honest dialogue with the company which should facilitate further constructive engagement.
Rakuten	Rakuten is a Japanese e-commerce company. We recently took the opportunity to meet the company in Tokyo to gain a better understanding of the internal workings of the business and the challenges it faces. The inclusion of outside directors at Board meetings has led to increased scrutiny of decision making and greater consideration of the proposals being brought before the Board. The current statutory auditor structure is working but in the long term the company will consider a change if this is right for the business, most likely the addition of a nomination committee. Quality, safety and legality of product content are high on the agenda. Products are screened to identify any areas of concern and merchants may be removed from the platforms if Rakuten believes they are not up to standard. The company has accusations from environmental groups of inappropriate sales of whale and ivory products. Rakuten explained that after the ruling by the International Court of Justice, it no longer facilitates sales of whale products. The majority of ivory products sold are of a historical nature and merchants must have a special licence. This was a helpful meeting in terms of deepening our understanding of the business and continuing to strengthen our relationship.

Votes Cast in Favour

Companies	Voting Rationale
3i Infrastructure, Better Capital, BlackRock Floating Rate Income Trust, Boussard & Gavaudan, DCG Iris Fund, Fondul Proprietatea, Galene Fund, John Laing Environmental Assets Group, LondonMetric Property, Max Property Group, NB Distressed Debt Extended Life Shares, National Grid, Pioneer Floating Rate Trust, Target Healthcare REIT, Terra Catalyst Fund, TwentyFour Income Fund	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Fondul Proprietatea	EGM 23/09/14	2.2, 2.6	In alignment with management's view, we opposed this resolution put forward by the Romanian Financial Services Authority.
Fondul Proprietatea	OGM 23/09/14	2	In alignment with management's view, we opposed this resolution put forward by the Romanian Financial Services Authority.

Companies	Voting Rationale
LondonMetric Property	We opposed the proposal that gave the company the right to issue up to two-thirds of its issued share capital via a rights issue under Section 551 of the Companies Act 2006. We do not believe that it is in our clients' best interests to forego the right to vote on a large rights issue at an EGM.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
ING (L) Flex Senior Loans Fund	We did not vote due to the practice known as "blocking" - the rules in some markets which restrict us from selling your shares during the period between the votes being cast and the date of the meeting.
ING (L) Flex Senior Loans Fund	We did not vote due to the practise known as "blocking" - the rules in some markets which restrict us from selling your shares during the period between the votes being cast and the date of the meeting.

Counterparty Trading Analysis

Baillie Gifford Diversified Growth Fund		Transactions (%)			Commissions Paid (GBP)			Estimated Split of Commission Execution (GBP)		Research (GBP)	
	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Morgan Stanley	118,568,847	0.0	0.0	100.0	118,569	0	118,569	94,855	0	23,714	0
ITG Europe Ltd (POSIT-MTP) (Crossing Network)	36,793,256	0.0	0.0	100.0	12,403	0	12,403	12,403	0	0	0
Jefferies International (Holdings) Ltd	22,931,085	44.9	55.1	0.0	12,631	12,631	0	10,105	0	2,526	0
Deutsche Bank AG London	14,410,435	0.0	100.0	0.0	28,821	28,821	0	24,498	0	4,323	0
Nplus1 Singer Capital Markets Limited	10,310,298	100.0	0.0	0.0	0	0	0	0	0	0	0
Citigroup Inc	5,859,496	0.0	100.0	0.0	5,860	5,860	0	2,930	0	2,930	0
Royal Bank of Canada	3,183,108	0.0	0.0	100.0	344	0	344	344	0	0	0
Liquidnet Europe Ltd (MTP)	1,022,609	0.0	0.0	100.0	511	0	511	511	0	0	0
Total	255,820,751	14.3	16.7	69.0	198,081	66,253	131,828	160,800	0	37,281	0

Firm-Wide Comparators

		Transactions (%)			Commissions Paid (%)			Estimated Split of Commission Execution (%)		Research (%)	
	Value (%)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Baillie Gifford Diversified Growth Fund	100.0	14.3	16.7	69.0	100.0	33.4	66.6	81.2	0.0	18.8	0.0
BG Average *	100.0	4.5	28.5	67.0	100.0	43.8	56.2	87.3	0.0	12.7	0.0

Baillie Gifford Diversified Growth Fund Average Commission Rate	0.0774 %
BG Average *	0.0452 %
Total commission paid as a percentage of the value of the fund	0.0035 %

* Based on all global equity trading conducted with counterparties by Baillie Gifford.

Commission Analysis for any Baillie Gifford & Co. products held by the fund is shown below

		Transactions (%)			Commissions Paid (GBP)			Estimated Split of Commission Execution (GBP)		Research (GBP)	
Fund	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Global Income Growth Fund	27,294,774	0.0	56.7	43.3	24,843	21,721	3,121	18,621	0	6,222	0
Global Alpha Growth Fund	110,897,931	1.3	30.4	68.3	32,176	12,969	19,207	30,607	0	1,570	0
Worldwide Japanese Fund	164,606,578	0.0	59.0	41.0	125,132	97,189	27,943	95,978	0	29,154	0
Pacific Fund	177,163,221	1.2	3.3	95.5	51,080	9,487	41,593	49,049	0	2,031	0
Long Term Global Growth Fund	13,986,108	8.7	14.3	77.0	3,232	795	2,437	2,756	0	476	0

Comparative Analysis

Fund	Average Commission Rate
Global Income Growth Fund	0.09
Global Alpha Growth Fund	0.03
Worldwide Japanese Fund	0.08
Pacific Fund	0.03
Long Term Global Growth Fund	0.02

Firm-Wide Comparator	Average Commission Rate
Global	0.05
Global	0.05
Japan	0.04
Pacific (ex Japan)	0.04
Global	0.05

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
Deutsche Bank AG London	0	3,981,509,790	3,981,509,790
HSBC	0	2,558,087,253	2,558,087,253
Royal Bank of Canada	0	2,146,790,948	2,146,790,948
Royal Bank of Scotland plc	0	2,066,069,589	2,066,069,589
National Australia Bank	0	2,041,435,254	2,041,435,254
Barclays Bank plc	0	1,601,968,788	1,601,968,788
Bank of New York Mellon (Custodian)	544,787,557	0	544,787,557
UBS	23,060,312	0	23,060,312
State Street Bank	1,506,884	0	1,506,884
Total	569,354,754	14,395,861,622	14,965,216,375

*Foreign exchange trading is on net basis; no commission paid.

Direct Bond Transactions

Counterparty	Trading Value (GBP)
HSBC Bank Plc	419,405,790
Barclays Bank Plc	129,345,839
Royal Bank of Scotland plc	97,293,517
Merrill Lynch International	73,166,834
Citigroup Inc	35,115,332
BBVA Banco Bilbao Vizcaya Argentaria S.A	25,032,083
JP Morgan Chase Bank NA	14,797,290
Nomura Holdings	13,852,549
Imperial Capital, LLC	12,487,969
Deutsche Bank AG	10,981,155
Societe Generale	10,612,189
AK Capital LLC	9,558,363
Lloyds Banking Group Plc	7,504,214
Royal Bank of Canada	6,768,921
Jefferies International (Holdings) Ltd	6,763,400
BNP Paribas	3,908,907
Chalkhill Partners LLP	2,561,900
Credit Suisse	1,750,337
Goldman Sachs & Co	1,402,100
UBS AG	1,036,102
Total	883,344,791

*Bond Trading is on net basis; no commission paid.

Direct Futures Transactions

Counterparty	Consideration Paid*	Commission Paid
UBS AG London	0	36,975
Total	0	36,975

*Disclosure of consideration paid is a regulatory requirement, but please note that there is generally no cash paid or received on opening a future contract

IMA Pension Fund Disclosure Code (Third Edition)	The Pension Fund Disclosure Code was first adopted in May 2002 and was drawn up by a Joint Working Party of Members of the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF). The purpose of the Code is to promote accountability of fund managers to their clients through increased transparency and to assist clients in their understanding of the charges and costs levied on the fund assets for which they have responsibility. Under the Code, fund managers are required to provide clients with information on how they make choices between trading counterparties and trading venues, more detailed information on how the resulting commission spend is built up, and what services are met out of commission spend, in particular such execution and research services as are permitted by the Financial Conduct Authority (FCA). It also provides a comparison of client specific information on costs and trading with similar firm-wide information. Although the Code was initially drawn up with pension funds in mind, we provide the disclosures for all our clients in compliance with relevant regulatory requirements. There are two distinct types of disclosure required by the Code:- Level 1 requires disclosure of Baillie Gifford's policies, processes and procedures in relation to the management of trading costs incurred on behalf of clients. This disclosure is provided annually to clients and is called the "Trading Procedures and Control Processes" document. This document is also available on request. Level 2 requires client specific information to be provided and is contained within this quarterly report. Level 2 aims to provide comprehensive, clear and standardised disclosure of information from which clients and their advisers can compare and monitor trading costs incurred during the fund management process and the services received in exchange for these commissions. We have included disclosure of transactions and commissions for Equities, Bonds, Currencies and Derivatives, where relevant..
Broker Commission	This page gives information by geographic region on the commission paid by the fund on all commission bearing transactions in directly held equities.
Equity Trading Analysis and Commissions	The trading and commissions analysis on the previous pages represents trading and commissions incurred by the fund over the quarter. Portfolio transactions are analysed by counterparty and type of trade. Transactions listed under "Other Rates" include programme trades, direct market access or algorithmic trades where commission rates may be lower. Commissions have been shown by counterparty where the fund holds stocks directly. Commissions paid have been analysed by the service purchased (execution or research) in compliance with the enhanced code. Where the fund gains exposure to equities via Open Ended Investment Companies (OEICs), transactions and commission analysis have been provided at the total fund level. A full disaggregation by counterparty for each of these funds is available on request. Where relevant, the proportion of commissions paid under directed or recapture arrangements is also shown. The fund's analysis of transactions, commissions paid and the commission split is compared with Baillie Gifford's total transactions, commissions paid and the commission split across all trading in the same asset classes. The fund's average commission rate is compared with Baillie Gifford's average commission rate across all trading in the same asset classes. A similar analysis for OEIC holdings is shown, at the total fund level.
Non-Equity Trading Analysis	The trading report for bonds shows trading volume by the fund over the quarter, analysed by counterparty. As all trades are executed on a net basis, no commission figures are available. Where derivative transactions are permitted, and executed, these are analysed by counterparty (executing broker) and show market value, underlying exposure and (execution) commission. Where the fund gains exposure to bonds via OEICs, transaction volume by counterparty, is available for each of these funds on request. All foreign exchange activity, for the entire portfolio is analysed by counterparty, distinguishing between spot and forward transactions. As all trades are executed on a net basis, no commission figures are available. Where the fund gains exposure to markets via OEICs, currency transaction volume by counterparty, is available for each of these funds on request.
Income and Costs Summary	This shows costs deducted from the fund on an actual basis. Fund management fees and VAT are included during the period when the invoice is raised. Custody costs are included when the sum is debited from the funds managed by Baillie Gifford. Any holdings of in-house pooled funds are shown together with their total expenses on a rolling yearly basis, expressed as a percentage of fund value. Expenses include broker commission on transactions dealt within the fund, bank charges, audit, registrar, depository and Regulatory fees. Any tax paid by the fund is not included. For A and B class OEIC shares investment management fees are also included. A dilution levy may also be charged on OEIC purchases and sales in the case of large transactions. If the portfolio has a holding in a stock that is not covered by the code, such as third party funds or investment trusts, this is also shown.
AIFMD	Your investment in the Baillie Gifford Diversified Growth Pension Fund is via a Trustee Investment Policy issued by Baillie Gifford Life Limited. The Baillie Gifford Diversified Growth Pension Fund in turn invests in the Baillie Gifford Diversified Growth Fund. The Alternative Investment Fund Managers Directive (AIFMD) does not apply to Baillie Gifford Life Limited. AIFMD does apply to the underlying fund, the Baillie Gifford Diversified Growth Fund and background information on the application of AIFMD to this fund is detailed below. The AIFMD creates a regulatory and supervisory framework for alternative investment fund managers within the EU. The scope of the Directive captures the management and the marketing of all non-UCITS funds; the Baillie Gifford Diversified Growth Fund (the Fund), a UK authorised Non-UCITS Retail Scheme, is therefore within its remit. The Fund's manager, Baillie Gifford & Co Limited, received confirmation of its authorisation as an Alternative Investment Fund Manager (AIFM) by the Financial Conduct Authority, on 1 July 2014. The Directive includes disclosure requirements, which we will include in your end-December Quarterly Report each year. Relatively minor amendments were made to the Fund's prospectus to comply with the regime; a copy of which is available on request.

	Annual Expenses (%)			Trading Expenses (%)		
	Investment Management Fee	Other Expenses	Total Expense Ratio	Stamp Duty and Other Taxes	Broker Commissions	Total Expenses inc Direct Trading Costs
Baillie Gifford Diversified Growth Pension Fund	0.65	0.20	0.85	0.00	0.02	0.87

The Scheme invests in the Baillie Gifford Pooled Funds listed above. The Investment Management of the Funds has been delegated to Baillie Gifford & Co.

Costs are disclosed as a % of the value of the Fund on a historical rolling 12 month basis using average month end Fund values.

Investment Management Fees represent the standard annual investment management fee for each of the Pooled Funds listed and may not represent the fee actually paid by your Scheme. Please refer to your Scheme's Policy Terms or Management Agreement.

Other expenses will include custody charges unless separate provision is made for custody fee payment in your Scheme's Policy Terms or Management Agreement. Where the Fund is a sub-fund of an OEIC (Open Ended Investment Company) or invests in underlying OEIC sub-funds, it will also include expenses such as depositary fees, registration fees and audit fees.

Trading Expenses (stamp duty, other taxes and broker commission) arise when buying or selling stocks in the market. Buying or selling of stocks may result from: individual stock considerations, portfolio changes due to broader implementation of Baillie Gifford's investment policy and from both investment inflows and outflows from the Fund. When the Fund buys or sells investments in response to investment inflows and outflows the trading expenses are passed onto the incoming/outgoing investor through the pricing mechanism by means of a dilution adjustment.
Therefore, it is important to note that the above costs represent the costs of all trading undertaken by the Pooled Funds listed and do not reflect costs associated with investments or disinvestments that your Scheme may have undertaken during the period.

The Total Expense Ratio of the Baillie Gifford Diversified Growth Pension Fund is calculated by including the underlying expenses of the Fund and all open-ended fund investments, the management charges made by Baillie Gifford and the management charges of other open-ended funds. The Fund's investments change from time to time and so the figure quoted is an estimate based on the latest available data and asset allocation. Investments are also made in closed ended listed companies, none of which are managed by BG & Co; the underlying management expenses of these companies are not included in the above figure.

	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)
Total Purchases		17,699	
Accrued Interest		0	
		17,699	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			17,699
Net Accrued Interest			0
Total			17,699

Trade Date Settlement Date	Asset Name Sedol Code	Quantity Price	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)	Quantity Balance	Book Cost Balance (GBP)
Diversified Growth							
UK							
Purchases							
24/07/14 24/07/14	Baillie Gifford Diversified Growth Pension Fund B3CRJ02	9,585.286 GBP 1.85		17,699		26,132,056.606	40,218,460
Total Purchases				17,699			
Total Net Investment/Disinvestment UK							17,699
Total Net Investment/Disinvestment Diversified Growth							17,699
Total							17,699

Asset Name	Nominal Holding	Market Price	Book Cost (GBP)	Market Value (GBP)	Fund (%)
Diversified Growth					
Baillie Gifford Diversified Growth Pension Fund	26,132,056.606	GBP 1.87	40,218,460	48,767,644	100.0
Total Diversified Growth			40,218,460	48,767,644	100.0
Total			40,218,460	48,767,644	100.0

Valuation of securities	Holdings in Baillie Gifford Pooled Funds are valued at month end using a single price which reflects closing prices of the underlying assets in the funds. This month end price may differ from the price used for buying and selling units in the funds which is calculated daily at 10am and uses intra-day prices. This provides a consistent basis for reporting.

	Market Value 30 June 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 30 September 2014 (GBP)
Diversified Growth				
Baillie Gifford Diversified Growth Pension Fund	47,945,184	17,699	804,761	48,767,644
Total Diversified Growth	47,945,184	17,699	804,761	48,767,644
Total	47,945,184	17,699	804,761	48,767,644

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 30 June 2014			
Diversified Growth		40,200,760.73	47,945,183.86
		40,200,760.73	47,945,183.86
Income			
Management Fee Rebate	17,699.23		
	17,699.23		
Net Total Income and Charges		17,699.23	17,699.23
Change in Market Value of Investments		0.00	804,760.95
As at 30 September 2014		40,218,459.96	48,767,644.04
Of which:			
Diversified Growth		40,218,459.96	48,767,644.04
Total		40,218,459.96	48,767,644.04

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Q3 2014 Investment Report

For professional investors only

Schroders
London Borough of Tower Hamlets Superannuation Fund

Investment Report – Property Multi Manager

Schroders

Q3/2014

Schroders

London Borough of Tower Hamlets Superannuation Fund

In this report

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Market Summary
Portfolio Analysis
Performance Review
Portfolio Activity
Strategy
Governance
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The Team

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Overview

Portfolio Objective

To achieve a return of 0.75% pa net of fees over rolling three year periods above the AREF/IPD UK Quarterly Property Funds Indices - All Balanced Funds Weighted Average (benchmark).

Portfolio Valuation

Value at 30 Jun 2014	GBP	110,087,671
Net cash flow	GBP	-
Value at 30 Sep 2014	**GBP**	**114,272,725**

Performance Periods to 30 Sep 2014

Total returns GBP	3 months %	12 months %	3 years % pa	5 years % pa
Portfolio (gross)	3.8	15.7	6.6	8.0
Portfolio (net)	**3.8**	**15.5**	**6.4**	**7.8**
AREF/IPD UK Quarterly Property Fund Index All Balanced Funds Weighted Average	4.0	16.8	7.4	9.6
Difference	**-0.2**	**-1.3**	**-1.0**	**-1.8**

Breakdown of performance				
UK Investments (Gross)	4.6	18.5	8.3	10.3
Europe Investments (Gross)	-8.3	-20.0	-13.6	-9.3

Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 30 Sep 2014.
The portfolio's returns are calculated on the basis that units in open-ended funds are valued at their mid price and closed-ended funds at their NAV price.

Summary

The UK economy appears to be in good health. GDP grew by 0.8% in the second quarter (source: ONS), lifted by an increase in consumer spending and by an upturn in house building and business investment. The one disappointment has been exports, which have been held back by the anaemic recovery in the eurozone. Schroders believes that there is an increased likelihood of the Bank of England raising interest rates in early 2015 as a preventative measure to stop the economy from over-heating.

The momentum in the UK economy is being matched by activity and sentiment in the property market. Growing occupational demand is radiating out of the capital into the regions, alongside high levels of transactional activity. We believe that this should result in strong total returns of between 15% and 20% in 2014.

The portfolio returned 3.8% (net of fees) over the reporting period, increasing the twelve month total return to 15.5%. The recent strong performance in the UK has lifted the three and five year annualised returns to 6.4% and 7.8% respectively.

The portfolio's UK assets (95% of the portfolio's value) out-performed by +1.7% over the past twelve months and returns have now exceeded the benchmark over the quarter, one, three and five year periods. However, negative returns from continental Europe (5% of portfolio) have held overall portfolio returns below the benchmark, which has no exposure to markets on the continent.

Portfolio Strategy

We are reducing the portfolio's central London office position and increasing its exposure to business space outside of the capital.

In addition, Schroders Property Multi-Manager Team has recently launched the Multi-Let Industrial Property Unit Trust. This fund targets the small lot-size (sub £10 million) multi-let sector across the UK regions and is in the process of building a £100 million portfolio with the first transactions nearing completion. We have committed £1.5 million on behalf of your account.

The portfolio's continental European investment is focussed on returning investor capital subject to pricing, market circumstances and fund liquidity requirements.

UK Property Market Summary

Economy

The UK economy appears to be in good health. GDP grew by 0.8% in the second quarter (source: ONS), lifted by an increase in consumer spending and by an upturn in house building and business investment. The one disappointment has been exports, which have been held back by the anaemic recovery in the eurozone. While consumer price inflation has recently been benign, running at 1.5% per year (source: ONS), Schroders nevertheless expects the Bank of England to raise interest rates in early 2015 as a preventative measure to stop the economy from over-heating.

Occupational Market

The improvement in the economy has started to ripple out from London, boosting demand for office space along the Thames Valley and in certain regional cities. Manchester has so far been the most buoyant market this year, with a number of large lettings to lawyers and other professional service companies, but there has also been a significant recovery in office demand in Bristol, Edinburgh, Reading and Sheffield (source: Knight Frank). We also see opportunities in some other locations with strong economies, such as Brighton, Cambridge and Milton Keynes.

The pick up in office demand is echoed in the industrial market. Industrial rents in London, the South East and the Midlands are now rising by 2% per year (source: IPD) and there also signs of improvement in northern England. Part of this is due to a cyclical upturn in demand from traditional occupiers, such as builders' merchants, but part is also due to the rapid growth in parcel deliveries (+5% in the past year, according to PwC), driven by online retail.

Although the volume of retail sales grew by an impressive 4% (source: ONS) over the year to August, the fact that prices for clothing, food and household goods are flat or falling is a reminder that many retailers continue to struggle. As a result, we remain sceptical about the potential for widespread rental growth in the retail market and prefer either convenience stores, which are benefiting from the switch to 'small basket shopping', or retail warehouse units, which provide retailers with efficient and affordable space.

Investment Market

In total there were £20 billion of investment transactions in the first half of 2014, up 30% on the first half of 2013 (source: RCA). Most of the increase in activity was in the regions, as both domestic and foreign investors have become less fixated on London. Consequently, property yields in most regions have fallen by 0.5%

to 1.0% (source: IPD) since the start of 2014, although spreads continue to look attractive compared with London yields.

We believe that the vast majority of capital currently being invested is equity rather than debt. While the big UK banks have now worked through a lot of their problem assets and insurers and debt funds have stepped up their activity, lenders remain fairly conservative about the assets they will lend on and who they will lend to.

Outlook

The momentum in the UK economy is being matched by activity and sentiment in the property market. Growing occupational demand is radiating out of the capital into the regions, alongside high levels of transactional activity. We believe that this should result in strong total returns of between 15% and 20% in 2014.

We expect total returns to average 6% to 7% per year between end-2014 and end-2018, based on an income return of 5% and steady rental growth of 2% to 3% per year, assuming the UK economy continues to grow. The big uncertainty in the short-term is investor sentiment. If the average property initial yield settles at around 5.25% in 2015, then total annual returns should be reasonably stable over the next few years. However, if investors bid down property yields aggressively by a further 0.5% in 2015, then there is a risk that increasing interest rates will lead to falling capital values in 2016-2017. While the Scottish referendum is now over, the 2015 general election and the possibility of a referendum on EU membership will start to play on investors' minds.

Continental European Property Market Summary

Economy

Although the eurozone economy stagnated in the second quarter of 2014, we believe that this marks a growth pause, rather than a relapse into recession. Schroders believes that the eurozone started to grow again in the third quarter and we expect it to achieve annual growth of 0.75% this year and 1.25% in 2015. Low inflation is boosting households' real incomes and, while there are concerns about deflation, there are no signs yet that consumers are deferring purchases in the expectation that prices will fall. Furthermore, faster growth in the US and UK should lift exports and more than offset the impact of Russia's trade embargo on EU food. Further impetus should come from the ECB's decision to cut its main interest rate to 0.05% and start buying asset backed securities to encourage bank lending. We expect Germany to continue to be the strongest major economy in Europe, with growth of 1.5-2.0% per year through 2014-2015, followed by Spain. France and Italy will lag in the short-term, but could accelerate in the medium term if their governments implement thoroughgoing labour market reforms, similar to those in Spain.

Occupational Market

Most office markets in western Europe saw a fall in vacancies in the first half of 2014. In part this reflected an upturn in demand, particularly from large companies, but in part it also reflected low levels of new building and the conversion of obsolete offices into apartments and hotels. Indeed, estimates suggest that the total stock of office space in Amsterdam and Frankfurt fell marginally in the first half. We expect Berlin, Hamburg, Munich, Oslo and Stockholm to lead the upturn in office rents this year, followed by Brussels, the Paris central business district and other big German cities in 2015-2016.

Despite the recovery in retail sales in the eurozone in 2014, demand for retail space remains patchy. At present the key priority of the big fashion chains in Europe (e.g. H&M, Inditex) is to build their online presence; thus they have closed almost as many stores as they have opened in the last year (source: PMA). As a result, while most big shopping centres are trading quite well, many medium sized centres (20-40,000m^2) are suffering from rising vacancies and falling rents. Our retail strategy is therefore to focus on either dominant centres, small centres with a strong food and convenience offer, or furniture and DIY warehouse units, which are relatively resistant to the encroachments of the internet.

The rapid growth in international trade which went hand-in-hand with the transfer of manufacturing to Asia over the past two decades appears to be over. While we still see opportunities in logistics around Europe's major ports and airports, we expect the main area of growth will be online retail. Accordingly, we favour smaller warehouses close to big cities, where supply is restricted.

Investment Market

Most countries in western Europe saw an increase in investment transactions in the first half of 2014, reflecting growing demand from both domestic and foreign investors (source: RCA). While prime assets in major cities are still the main focus of attention, liquidity is deepening and we have also seen a definite upturn in deals in Tier II cities and in secondary assets. The only markets where liquidity is still uncertain are: Italy, due to investors' concerns about the economy; Poland due to tensions with Russia; and Finland, where both the previous factors have depressed investors' appetite for deals.

The weight of capital means that prime office and retail yields have fallen to 4-5% in most major cities in northern Europe. While this might look reasonable in the context of 10-year bond yields at 0.9-1.2%, we see better value in secondary assets in big cities with good bricks and mortar fundamentals which are perhaps just outside the central business district, or have a short lease, or are multi-let, or are in a complex legal structure. Yields on these assets are typically 0.5-1.5% higher than on prime properties and we expect them to outperform over the medium-term, assuming the eurozone economy continues to grow and rental growth becomes more widespread.

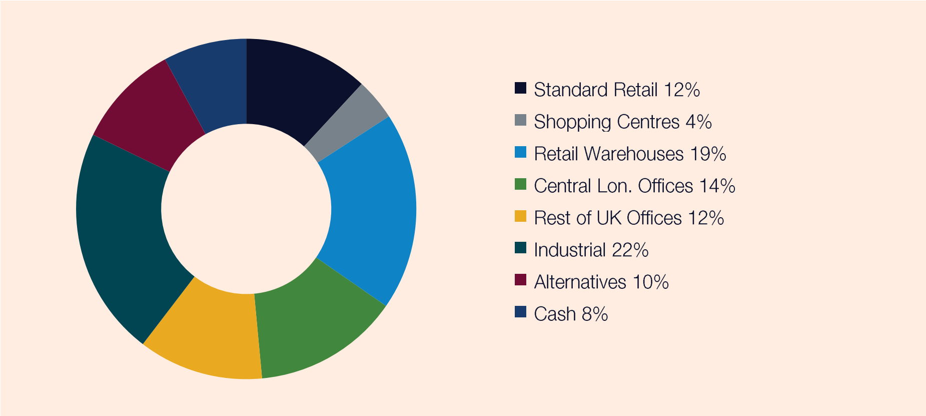
Outlook

We expect total returns on average investment grade European property to average 7-9% per year between end-2014 and end-2017. Capital values should benefit from yield compression in 2014-15 and from steady rental growth from 2015-2016 onwards.

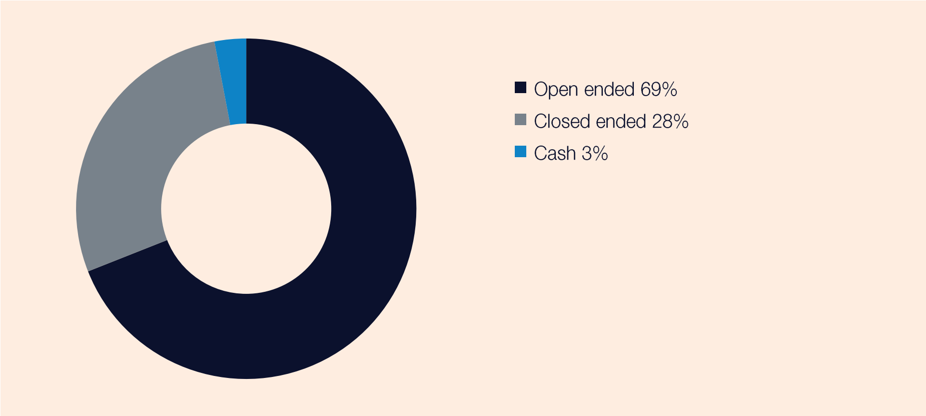
The main upside risk in the short-term is that the inflow of capital from Asia and the USA could trigger a widespread fall in property yields, which would push annualised total returns over 10% per annum for a limited period. The main downside risk is that the sovereign debt crisis could re-ignite if deflation takes hold and governments fail to meet targets to cut their budget deficits.

Portfolio Analysis

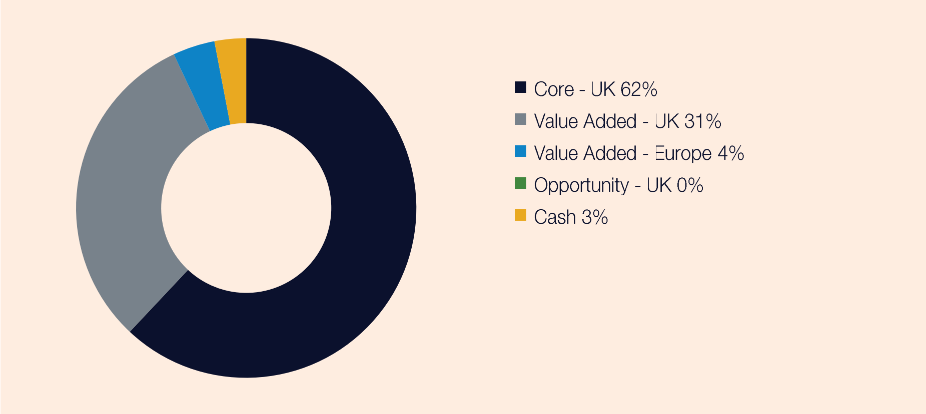
Portfolio sector exposure (including cash held by underlying property funds)



Open/closed-ended exposure



Fund style exposure



Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 30 Sep 2014. Totals subject to rounding. Cash included looks through cash in underlying holdings in the top chart.

Largest Stock Positions
at 30 Sep 2014

Largest Positions	Style	% of NAV
BLACKROCK UK PROPERTY FUND	Core	12.3
SCHRODER UK PROPERTY FUND GBP I INCOME (GROSS)	Core	12.1
STANDARD LIFE POOLED PENSION PROPERTY FUND	Core	10.2
AVIVA INVESTORS PENSIONS	Core	8.4
HERMES PROPERTY UNIT TRUST	Core	7.9
MAYFAIR CAPITAL PROPERTY UNIT TRUST	Core	6.8
INDUSTRIAL PROPERTY INVESTMENT FUND	Value-added	6.0
SCHRODER PROPERTY REAL INCOME FUND A UNITS	Value-added	5.1
WEST END OF LONDON PROPERTY UNIT TRUST	Value-added	4.7
HERCULES UNIT TRUST	Value-added	4.5

Full details of holdings can be found in the Appendix

Performance Review

The portfolio returned 3.8% (net of fees) over the reporting period, increasing the twelve month total return to 15.5%. The recent strong performance in the UK has lifted the three and five year annualised returns to 6.4% and 7.8% respectively.

UK portfolio out-performance strengthening

The portfolio's UK assets (95% of the portfolio's value) out-performed by +1.7% over the past twelve months and returns have now exceeded the benchmark over the quarter, one, three and five year periods. However, negative returns from continental Europe (5% of portfolio) have held overall portfolio returns below the benchmark, which has no exposure to markets on the continent.

Industrial and central London specialist funds have been key positive drivers

Sector specialist UK funds have been key positive drivers of returns over recent quarters. Industrial funds such as Industrial Property Investment Fund (IPIF) have benefitted from increasing occupier demand for business space across the UK and more competitive pricing from investors. Columbus UK Real Estate Fund is in its divestment stage and is currently in the process of selling its industrial portfolio into a strong investment market. We expect the bulk of proceeds to be returned in Q4 2014 and we aim to recycle these into the Multi-Let UK Industrial PUT – a fund we have recently created exclusively for our multi-manager clients.

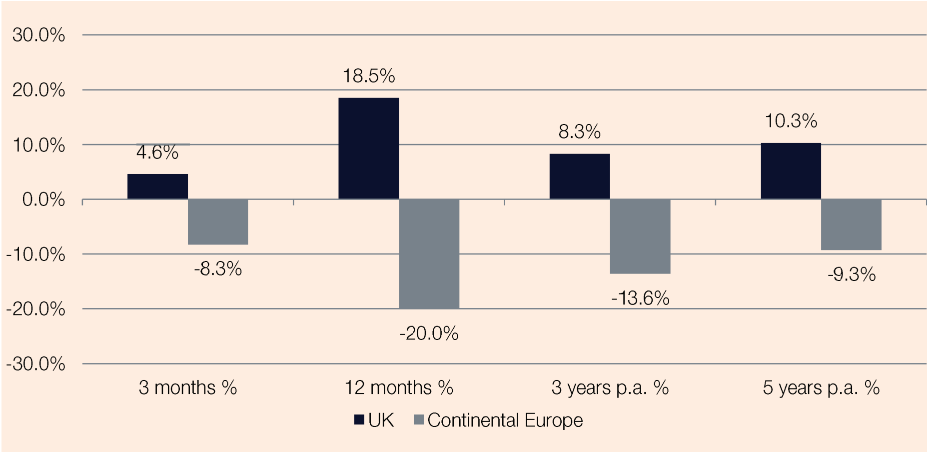
Central London office funds such as West End of London PUT (WELPUT) remain positive contributors to return. However, the rebound in rents and compression in yields already seen in these markets has prompted us to serve notice to redeem a portion of these units with the aim of locking in profits and reducing exposure closer to House View.

Performance of continental European investment remains weak

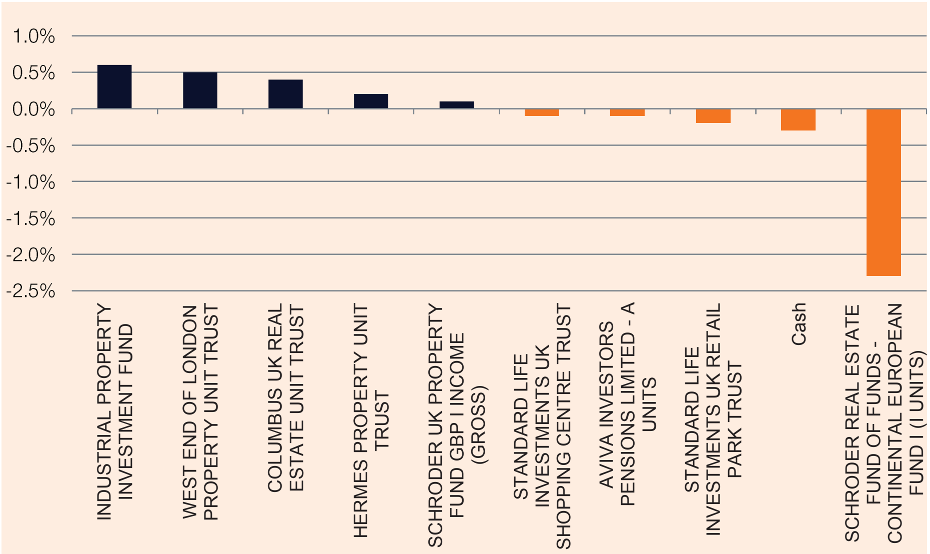
The Continental European Fund I (CEF I) produced a total return of -4.7% (Euros) in the third quarter of 2014. The negative return has been driven by three main factors: a substantial fall in the valuation of CG Malls Europe, a decline in the valuation of Corestate German Residential on the sale of the bulk of the fund's portfolio, and weakness in equity markets which particularly affected Immobiliare Grande Distribuzione.

The charts overleaf illustrate the key drivers of performance in further detail.

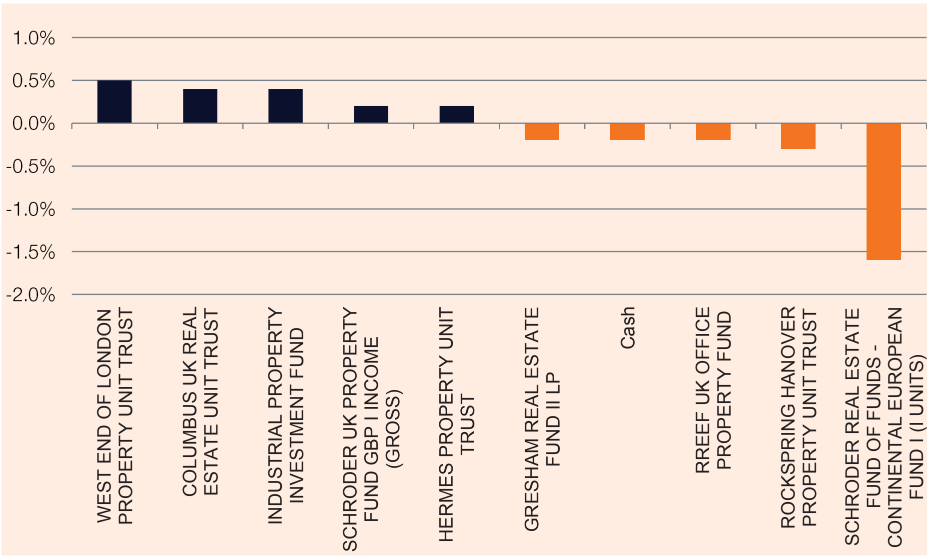
Total return by region
Periods to end 30 Sep 2014



Total return attribution relative to benchmark top & bottom five contributors
12 months to 30 Sep 2014



Total return attribution relative to benchmark top & bottom five contributors
3 years to 30 Sep 2014



Portfolio Activity

There was one acquisition over the period with £0.6m invested into Schroder Property Real Income Fund. This was funded through a sale of units in Standard Life Investments UK Shopping Centre PUT (£1.4m). Over the quarter Gresham Real Estate Fund II and Ashtenne Industrial Fund also made capital distributions following the sale of assets in line with business plans.

Purchases

Fund	Investment GBP	No. of units	Entry cost/(discount) (%)
SCHRODER PROPERTY REAL INCOME FUND A UNITS	665,820	574	-2.1

Sales

Fund	Disinvestment GBP	No. of units	Realised loss/gain GBP
ASHTENNE INDUSTRIAL FUND UNIT TRUST (ROC)	123,304	n/a	n/a
GRESHAM REAL ESTATE FUND II LP (ROC)	802,407	-1,819	-1,016,572
STANDARD LIFE INVESTMENTS UK SHOPPING CENTRE TRUST	1,424,352	-1,416	138,733
GRESHAM REAL ESTATE FUND II LP (ROC)	106,614	-195	-87,937

Commentary on Activity

Purchases	
Schroder Property Real Income Fund	We added to this existing holding by buying units on the secondary market at NAV. The fund has exposure to alternative sectors of the UK property market (e.g. leisure and motor retail) and aims for an income distribution in excess of 5.0%.

Sales	
Standard Life Investments UK Shopping Centre Trust	We took the opportunity to reduce exposure to the shopping centre sector by selling this holding at net asset value.

Return of Capital	
Ashtenne Industrial Fund	Following a portfolio sale, the manager sought the agreement of investors to distribute capital ahead of the contractual date and made a capital return.
Gresham II	Capital was returned following the sale of the final property assets held by the fund: an industrial property in Peterborough and office buildings in Bracknell and Borehamwood. The Borehamwood asset was a notable deal, having finally sold for more than of £40 million, well ahead of the best offer received 12 months previously of only £23 million.

Redemptions Outstanding

Fund	Curr	Est. proceeds	No. of units	Date proceeds expected	Notice date
Standard Life Investments Retail Warehouse Fund	GBP	4,200,000	4,327	Mar 2015	Sep 2014

Portfolio Commitments

Fund	Curr	Initial commitment	Drawn	Balance	Latest possible drawdown
Multi-Let Industrial Property Unit Trust	GBP	1,500,000	0	1,500,000	Feb 2015
Schroder Property Real Income Fund	GBP	1,650,000	665,810	984,190	n/a

Strategy

Central London office exposure to reduce in favour of business space across the regions

Assuming the UK economy continues to recover, we should see secondary property outperform prime, at least in the office and industrial sectors. As such, we are reducing the portfolio's central London office position and increasing its exposure to business space outside of the capital. Additional allocations to Metro PUT and Mayfair Capital PUT, both of which have taken active positions in the rest of UK office sector, should therefore be expected over coming months.

Bespoke UK industrial fund launched for Schroder Multi-Manager clients in Q3 2014

In addition, Schroders Property Multi-Manager Team has recently created the Multi-Let Industrial Property Unit Trust. This fund targets the small lot-size (sub £10 million) multi-let sector across the UK regions and is in the process of building a £100 million portfolio with the first transactions nearing completion. We have committed £1.5 million to this fund on the portfolio's behalf.

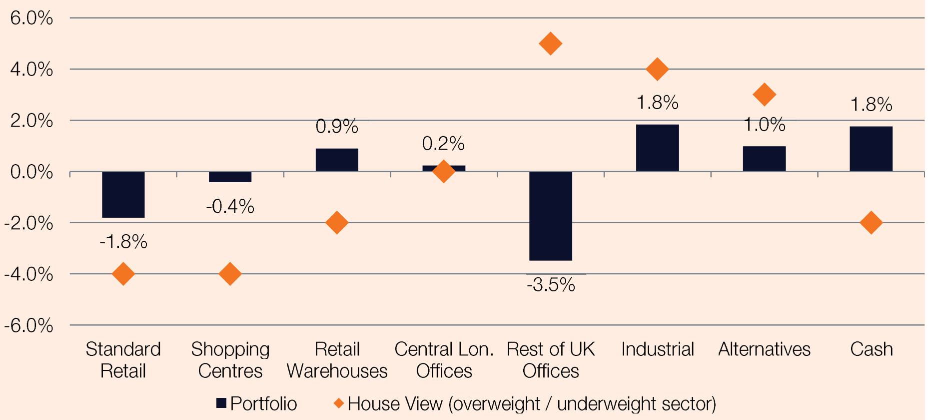
Retail focus remains on convenience and out-of-town parks

Vacancy rates remain stubbornly high in the retail sector, despite an improvement in consumer confidence. The exceptions are prime retail parks and regional shopping centres, where voids are starting to reduce. Our focus for now continues to be on local convenience retail and retail warehouses.

Continental European investment returning capital

The portfolio's continental European investment aims to return capital to investors at the earliest opportunity, subject to pricing, market circumstances and fund liquidity requirements. Two distributions have been paid in 2014 to return surplus capital and income to unit holders. A further distribution is likely to be paid during the fourth quarter. As an indicative guide, the frequency and size of capital distributions are expected to build over the coming 2-3 years, with the peak of returns from closed-ended funds in 2016-17.

UK portfolio sector weightings relative to benchmark



Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 30 Sep 2014

Governance

Investment Resolution	Date	Voting Recommendation
Ashtenne Industrial Unit Fund	**12 Jul 2014**	**For**
1. To permit capital proceeds received by the partnership to be distributed at the Fund Manager's discretion prior to the expiry of the investment period.		
Hermes PUT	**11 Jul 2014**	
To approve the following resolutions: 1 Accept Financial Statements and Statutory Reports 2.1. Re-elect Simon Melliss to the Appointments Committee 2.2. Re-elect David Nicol to the Appointments Committee 3 Reappoint PricewaterhouseCoopers LLP as Auditors and Authorise Their Remuneration		
Standard Life Investments UK Retail Park Trust	**12 Sep 2014**	**Against**
To approve the following resolutions: 1 Permit a Fund extension 2 Approve a new modernised trust instrument		
WELPUT	**18 Jul 2014**	**For**
To approve the following resolutions: 1. To extend the investible area 2. To introduce regular liquidity 3. There are two proposed changes to WELPUTs current fee basis: • The base management fees are to be calculated on Net Asset Value rather than Gross Asset Value. The change to NAV based fees is cost neutral. • The performance fee calculation to be calculated over rolling three year periods, rather than annually as is currently the case		

Appendix

Investment Restrictions

Parameters	Restriction	Current status
Max. exposure to any common investment fund (CIS)	30%	12.3%
Max. in Schroder in-house funds (Manager & Adviser)	60%	20.4%
Min. exposure to open-ended funds	45%	72.0%
Max. exposure to opportunity funds	20%	0.0%
Max. exposure to property index certificates	20%	0.0%
Max. exposure to listed property securities	10%	0.0%
Max. exposure to Continental Europe	20%	4.4%

Source: Schroders, to 30 Sep 2014.

Notes:

Valuation data represents value calculated as at the final business day of the quarter to which this Investment Report relates. Pricing occurs 10 days following quarter end. Accordingly, the above noted column entitled "current status" refers to the quarter end valuation data.

The Investment Management Agreement (as amended from time to time) constitutes the final record of applicable investment restrictions incumbent on Schroder Property Investment Management Limited. In the event of any inconsistency between the Investment Restrictions appearing in this Investment Report and the Investment Management Agreement, the Investment Management Agreement shall prevail.

Appendix

Portfolio Valuation

MID and NAV values

Fund	Description	Value at 30 Jun 2014 GBP	Value at 30 Sep 2014 GBP	Portfolio Value %
AVIVA INVESTORS PENSIONS	Core	9,274,043	9,632,946	8.4
BLACKROCK UK PROPERTY FUND	Core	13,689,084	14,071,571	12.3
HERMES PROPERTY UNIT TRUST	Core	8,676,928	9,041,236	7.9
MAYFAIR CAPITAL PROPERTY UNIT TRUST	Core	7,591,298	7,823,255	6.8
METRO PROPERTY UNIT TRUST	Core	4,922,028	5,165,945	4.5
SCHRODER UK PROPERTY FUND GBP I INCOME (GROSS)	Core	13,435,069	13,830,110	12.1
STANDARD LIFE POOLED PENSION PROPERTY FUND	Core	11,276,353	11,664,494	10.2
Sub total Core		**68,864,802**	**71,229,557**	**62.2**
ASHTENNE INDUSTRIAL FUND UNIT TRUST	Value Add	1,087,760	1,007,019	0.9
COLUMBUS UK REAL ESTATE UNIT TRUST	Value Add	4,173,492	4,439,380	3.9
HERCULES UNIT TRUST	Value Add	4,926,139	5,097,235	4.5
INDUSTRIAL PROPERTY INVESTMENT FUND	Value Add	6,434,455	6,869,800	6.0
LOCAL RETAIL FUND	Value Add	2,111,372	2,142,688	1.9
SCHRODER PROPERTY REAL INCOME FUND A UNITS	Value Add	5,036,641	5,836,294	5.1
STANDARD LIFE INVESTMENTS UK RETAIL PARK TRUST	Value Add	4,096,737	4,213,400	3.7
STANDARD LIFE INVESTMENTS UK SHOPPING CENTRE TRUST	Value Add	1,424,549	0	-
WEST END OF LONDON PROPERTY UNIT TRUST	Value Add	5,176,320	5,406,720	4.7
Sub total Value Add		**34,467,465**	**35,012,536**	**30.7**
GRESHAM REAL ESTATE FUND II LP	Opportunity	897,448	11,717	0.0
Sub total Opportunity		**897,448**	**11,717**	**0.0**

Portfolio Valuation

MID and NAV values

Fund	Description	Value at 30 Jun 2014 GBP	Value at 30 Sep 2014 GBP	Portfolio Value %
SCHRODER REAL ESTATE FUND OF FUNDS - CONTINENTAL EUROPEAN FUND I (I UNITS)	Europe	5,609,026	5,003,184	4.4
Sub total Europe		**5,609,026**	**5,003,184**	**4.4**
GBP Cash	Cash	248,929	3,015,733	2.6
Sub total Cash		**248,929**	**3,015,733**	**2.6**
Total		**110,087,671**	**114,272,725**	**99.9**

Totals may be subject to rounding

Portfolio valuations are calculated on the basis that units in open-ended funds are valued at their mid price and closed-ended funds at their NAV price.

Source: Schroders, periods to 30 Sep 2014.

Notes

Responsible Investment: Schroders Socially Responsible Investment and Corporate Governance policies can be found on our website http://www.schroders.com/global/about-schroders/corporate-responsibility/responsible-investment/. We also publish regular articles on Socially Responsible Investing, which can be found on Schroders Talking Point www.schroders.com/talkingpoint.

Important Information

For professional investors and advisors only. This document is not suitable for retail clients.

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Information herein is believed to be reliable but Schroder Investment Management Ltd (Schroders) does not warrant its completeness or accuracy. No responsibility can be accepted for errors of fact or opinion. This does not exclude or restrict any duty or liability that Schroders has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system. Schroders has expressed its own views and opinions in this document and these may change. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions.

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Schroders

Investment Report

London Borough of Tower Hamlets Pension Fund
Investment Report for the
Quarter ended 1 October 2014

Legal & General Investment Management
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Fund Report

Management and Distribution of your Assets

- Your Fund's assets are managed by investing in the pooled funds shown in the table below
- The distribution of the Fund is maintained within its control ranges by the application of cash flows and, where necessary, switches between the investment sector funds

INVESTMENT SECTOR FUND	MARKET INDEX	BENCHMARK %	RANGES %
UK Equity Index	FTSE All-Share	83.0	78.0 - 88.0
Over 5y Index-Linked Gilts	FTSE A Index-Linked > 5 Years	17.0	12.0 - 22.0
Total		**100.0**	

Your Fund's Activity and Valuation

- A breakdown of any investments, disinvestments and switches is detailed in the Transaction Statements which have been issued to your nominated recipients. Copies are also available through your website access or upon your request

Investment Sector Fund	Value and Distribution at 30 June 2014		Net Transactions	Value and Distribution at 30 September 2014		Benchmark Distribution
	GBP (Mid)	%	GBP	GBP (Mid)	%	%
UK Equity Index	216,871,818	81.3	-	214,801,995	80.3	83.0
Over 5y Index-Linked Gilts	49,732,682	18.7	-	52,683,001	19.7	17.0
Total Assets	**266,604,500**	**100.0**	**-**	**267,484,996**	**100.0**	**100.0**

Your Fund's Performance

- The table below shows the returns for each fund compared with the total return of the relevant market index, composite index or comparator
- Total asset figures show the time-weighted returns i.e. taking out the effects of cash flow, for the total fund and where applicable its benchmark
- All fund returns are shown before the deduction of charges except those marked '(chgs)' or '(charges included)'. Some index returns are net of fees
- Additional information can be found later in the report

TIME-WEIGHTED RETURNS TO 30 SEPTEMBER 2014

	Last Three Months			Last Twelve Months			Last Three Years			Since 31 Jul 2010		
Investment Sector Funds	Fund %	Index %	Deviat'n %	Fund %	Index %	Deviat'n %	Fund % pa	Index % pa	Deviat'n % pa	Fund % pa	Index % pa	Deviat'n % pa
UK Equity Index	-1.0	-1.0	+0.0	+6.2	+6.1	+0.1	+14.1	+13.9	+0.2	+10.4	+10.3	+0.1
Over 5y Index-Linked Gilts	+5.9	+5.9	+0.0	+10.0	+9.9	+0.1	+7.2	+7.2	+0.0	+9.9	+9.9	+0.0
Total Assets	**+0.3**	**n/a**	**n/a**	**+6.9**	**n/a**	**n/a**	**+12.6**	**n/a**	**n/a**	**+10.2**	**n/a**	**n/a**

Dealing Costs

Investment Management Association's Pension Fund Disclosure Code

The voluntary Code (Third Version) which has been adopted by the Investment Management Association and strongly endorsed by the National Association of Pension Funds is intended to assist those responsible for pension fund assets in the understanding of the charges and costs levied on the assets. The Code sets out the direct costs and related topics which fund managers should be able to report to their pension fund clients.

There are two levels of disclosure required by the Code.

Level One - house policies, processes and procedures in relation to the management of costs incurred on behalf of clients. LGIM has issued to clients a paper covering Level One Disclosure and this is updated yearly.

Level Two - client specific information. The Code requires details to be available of counterparties used and the split of commissions between execution and research. It further requires a comparison with appropriate firm-wide figures. For investors in pooled funds this comparison is at the pooled fund level; it is available on request from your Client Account Manager.

Notes to Level Two Disclosure – Client Specific Information for Pooled Fund Clients

- *Proportion of portfolio covered by the Code at period end:*
  All asset classes are covered with the exception of Property which is outside of the Code.
- *Fund management fees:*
  The fees applicable to your arrangements are shown in your quarterly invoice (except in the circumstances stated opposite).
- *Custody costs borne directly by the fund:*
  Custody costs are included in the fund management fees and are, therefore, not borne directly by the pooled fund (except in the circumstances stated opposite).
- *Transaction values/explicit dealing costs:*
  In the column opposite there are two tables. The first gives details of the total cost to the scheme of dealing in units during the reporting period calculated by comparing the actual value of the units dealt with their mid value. The second table provides an estimate of the total explicit dealing costs incurred by each of the pooled funds during the quarter, after allowing for the dealing costs received by the pooled fund through the bid/offer spread from the dealing in units. In the second table, only the explicit dealing costs are shown. Bonds are dealt on a net basis (i.e. no broker commission is paid) and, therefore, no explicit costs are shown.
- *Underwriting/sub-underwriting commissions received:*
  Any commissions received are credited to the funds that underwrote the share issue.
- *Stock lending:*
  Stock lending occurs in a limited number of overseas equities index funds. All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending.
- *Taxation:*
  Any UK stamp duty and overseas taxes are included in the costs shown. VAT is not payable on the fund management fees under current legislation.

COSTS OF DEALING IN UNITS DURING REPORTING PERIOD

	Total Unit Transactions	Total Dealing Costs	Average Dealing Cost
	GBP	GBP	%
Excluding Assets	0	0	0.00
Including Assets	0	0	0.00

FUND DEALING COSTS DURING REPORTING PERIOD

Fund	Explicit Dealing Cost (%) within Fund
UK Equity Index	less than 0.01%
Over 5y Index-Linked Gilts	nil

Policy and latest developments in Corporate Governance & Responsible Investment

Policy and Practice

We aim to maximise and protect shareholder value on behalf of our clients by exercising their voting rights. We also engage with companies both directly and collaboratively with other investors to reduce risks of corporate failure and promote best practice. We comply with the principles set out in the UK Stewardship Code and are a signatory to the UN Principles of Responsible Investment (PRI)
http://www.lgim.com/uk/en/capabilities/corporate-governance/

In order to demonstrate key governance issues, voting statistics are divided up into main voting categories. We engage on a range of Environmental, Social, Governance (ESG) and Financial issues and integrate all components where appropriate. All UK votes are disclosed on our website.

We have extended our public voting disclosure to cover the North American and Japanese markets. These can also be found on our webpage.

LGIM votes in all major developed markets including: Europe, North America, Japan, Asia Pacific and have minimised abstentions. We also vote in the major emerging markets and have started reporting on our activities in this region.

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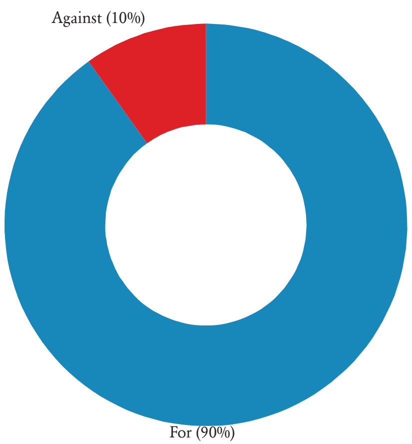
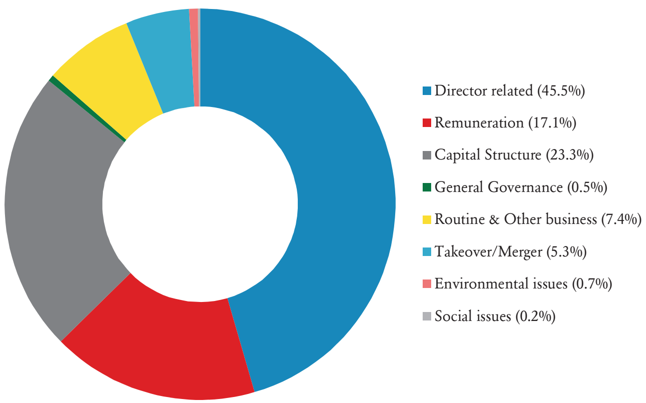
Voting Decisions



Against/Abstain Votes by Topic



Latest News and Development

Fundamentals

We published a *Fundamentals* article looking at two relatively new aspects of corporate governance – board effectiveness reviews and cyber security. We believe a code of practice for board effectiveness reviews would provide a framework to help ensure minimum standards for reviews are upheld. Additionally, cyber security should be treated with the same importance as any other key risk a company faces. Click link http://www.lgim.com/library/knowledge/thought-leadership-content/fundamentals/Fundamentals_OCT_2014_ENG.pdf
Press articles on the topics discussed have featured in the FT, Guardian, Reuters and Forbes.

Tax

We hosted an investor event to discuss the latest development on tax issues, as a follow up to a similar event we held last year. We continue to take a lead on this fast progressing topic and introduced the discussion paper put together with a number of other investors based on the findings from our engagements with a range of tax professionals and companies in the extractive and consumer brands sectors. LGIM are now talking to global investors as the regulatory background continues to change the tax practice and disclosure landscape for corporations.

US engagement and CII conference

LGIM travelled to the US to attend the CII conference and to undertake several company engagements, including Boeing, Abbot Laboratories, Exxon, Freeport and Chevron. We also visited Apple and Google at their offices in Silicon Valley. With Apple we discussed the work they are undertaking on their supply chain management, as well as on conflict minerals. Google was our first engagement with the company where we discussed general governance structures and improvements and compensation issues. Our final meeting was with McKesson, where we discussed board structure and compensation issues where the company has made improvements.

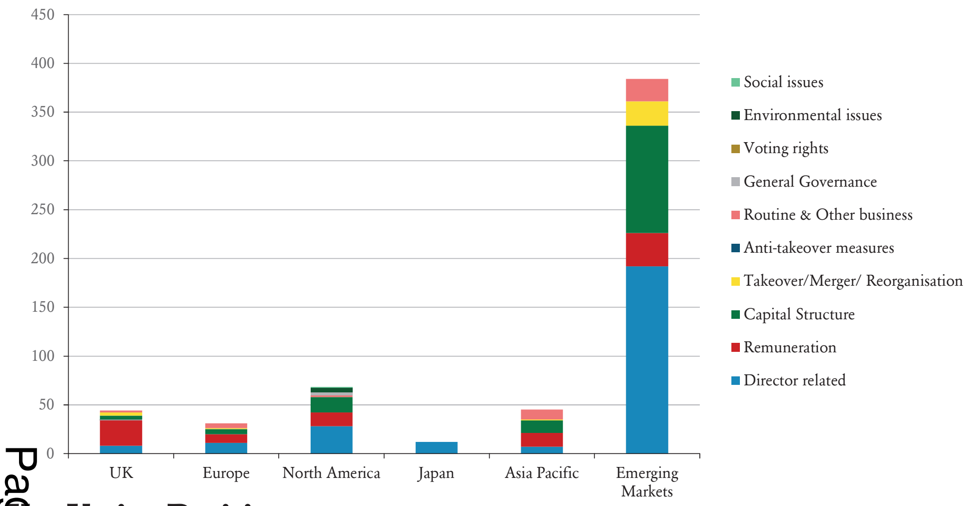
PRI conference

LGIM attended the PRI conference in Montreal, where 600 global practitioners congregated to discuss the latest developments in responsible investment. We spoke at a panel on executive pay to discuss the progress on the topic in the UK, compared to the US and Canada.

Going concern

In a joint letter published in the Financial Times we drew attention to the need to keep the vital investor protection afforded by the 'going concern statement'. This assures shareholders that directors believe the business will be a viable entity into the foreseeable future.

Regional Breakdown of AGAINST Votes by Topic



Key Voting Decisions

United Kingdom

Burberry	M.Cap: £6.49bn	Luxury Goods	UK

LGIM voted against the remuneration policy due to the discretion to make awards to a newly appointed director of up to 12 times their salary and the annual limit on salary increases being set at 15%. LGIM voted against the remuneration report due to the one-off award granted to the new CEO, which followed a number of previous one-off awards.

Betfair	M.Cap: £1.24bn	Leisure	UK

We held a call with the company's Chief Financial officer, Chairman of the Audit Committee and Chief Legal Officer to discuss the accounting error in relation to the payment of dividends and remuneration matters. Following this, we decided to vote against the resolution to accept the Annual Report and Accounts because the accounting error should have been presented with more clarity due to its unusual nature. We also voted against the Remuneration Report because the targets for the 2011 LTIP awards were amended downwards retrospectively without sufficient justification.

Sports Direct International	M.Cap: £3.65bn	Retail	UK

Sports Direct had three attempts in 2014 to obtain shareholder approval for an executive bonus scheme that included its Executive Deputy Chairman. We also had concerns about board governance, poor shareholder communication, stake building of other retailers, not signing the Accord on Fire & Safety in Bangladesh and use of zero hour contracts. In our engagement with the Chairman, we expressed the need for change. Although we had a number of assurances that there would be improvements in the forthcoming year we opposed the re-election of the Board Chairman and that of the Chairman of the Remuneration Committee.

US

Darden Restaurants	M.Cap: $6.77bn	Leisure	US

Starboard Value, an activist investor, proposed to replace the entire Darden board due to poor strategy at the company. We engaged with both Darden and Starboard to discuss these proposed board changes and decided to support the new board proposed by Starboard, as we felt that this new leadership would establish a better strategy at the company and improve company value over the long-term. The meeting is scheduled for the beginning of October.

Cliffs Natural Resources	M.Cap: $1.26bn	Mining	US

Casablanca Capital, an activist investor, proposed to replace the entire board at Cliffs due to the company losing focus on its core business, with the result in a drop in share price recently. We spoke to both Cliffs and Casablanca and decided to support Casablanca, as we felt the company was undervalued and needed a more clear strategy to focus on its core strengths, which the new board proposed. The whole Casablanca slate was approved by shareholders at the meeting.

Japan

Ito EN	M.Cap: JPY 204.12bn	Beverages	Japan

We voted against the Board Chairman since independent outsiders represent only 11.8% of the entire board, therefore not meeting our minimum requirement of board independence in Japan, which is set at 20%. We also have concerns with the size of the board, which exceeds 15 directors, thereby posing an obstacle to its effectiveness.

Asia –Pacific

Dalian Port	M.Cap: CNY 14.35bn	Industrial Transport	China

We opposed the management's proposal to issue bonds not exceeding 1 billion Chinese yuan renminbi. Even though we recognise that management should have the ability to determine the capital structure of the company according to its capital needs, the company failed to disclose sufficient information related to the issuance of bonds, such as their interest rate and use of proceeds, thereby not allowing us to make an informed decision on this matter.

China Gas Holdings	M.Cap: HKD 67.18bn	Oil & Gas	Hong Kong

We opposed the election of four non-independent directors, as the company's board is composed of only 27% of independent directors, therefore not compliant with the Hong Kong Stock Exchange's listing rules, which requires at least one-third of the directors to be independent. Moreover, we voted against the re-election of a non-independent director and member of the nomination committee, as the committee's independence did not meet the minimum requirements set by the listing rules.

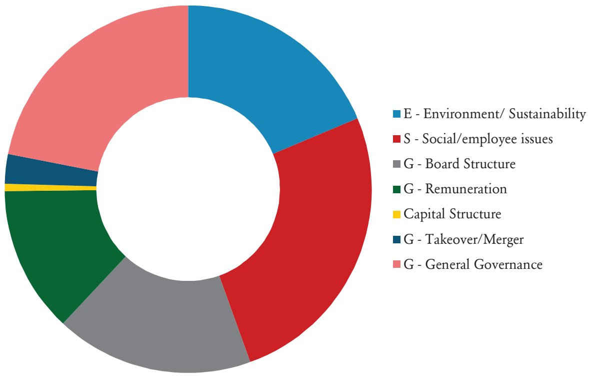
LGIM Voting Summary by Topic and Region

Between 01/07/2014 and 30/09/2014		UK		Europe		North America		Japan		Asia Pacific		Emerging Markets		Total
		FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	
Management Proposals	Director related	1037	8	79	11	239	25	50	12	127	7	732	191	2,518
	Remuneration	347	26	12	9	46	11	5		32	14	80	34	616
	Capital structure	464	4	19	5	6				24	13	218	110	863
	Auditors													0
	Voting rights													0
	General governance													0
	Routine and company business	643	2	59	5	40	2	4		57	10	495	23	1,340
	Anti-takeover related	112				7		1						120
	Takeover/merger/reorganisation	28	3	18	1	4				6	1	110	25	196
	Social issues													0
Shareholder Proposals	SP – Anti-takeover measures													0
	SP – Director related					8	3					2	1	14
	SP - Remuneration					2	3					32		37
	SP - Capital structure													0
	SP - Voting rights													0
	SP – Corporate Governance						2					16		18
	SP - Routine and company business											2		2
	SP – Health/Environment						4							4
	SP - Social issues						1							1
	SP - Other					3	1							4
Total Votes		2,631	43**	187	31	355	52**	60	12	246	45	1,687	384**	
Total number of resolutions		2,674		218		407		72		291		2,071		5,733
Annual General Meetings (AGM)		150		10		32		6		26		110		334
Extraordinary General Meetings (EGM)		35		8		7		0		17		91		158
Number of companies voted at		171		16		39		6		39		166		437

*The above table details the voting that has been carried out for the PMC UK, Europe, North America, Japan, Asia Pacific and Emerging Markets – Equity Index Funds

**Please note that abstentions were included within the 'Against' categories in the table above. This was one in UK, 14 in North America and two in Emerging Markets

Engagement Topics & Frequencies



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Meetings covering one or more of ESG and F topics*				Number of meetings
E	S	G	F	107
29	40	86	36	

Environment/ Sustainability	29
Social/employee issues	40
Board Structure	27
Remuneration	20
Capital Structure	1
Takeover/Merger	4
General Governance**	34

*Please note meetings may be double counted as we often discuss more than one issue in a meeting

**General Governance category covers topics including company performance and strategy, audit and risk, and voting rights.

Key Company Engagements on E(Environmental), S(Social), G(Governance) and F(Financial) Topics

Tesco	M.Cap: £14.82bn	Food Retail	UK	GF

Subject: Accounting issues

Since the start of 2013 the Corporate Governance team has met with the company 15 times on various issues including strategy, changes to the board, supply chain and auditors. In the last quarter we met with the Chairman and then, following the announcement of an accounting error, we met the senior independent director. We discussed recent changes to the board as well as future governance improvements.

Richemont SA	M.Cap: CHF40.98bn	Luxury Consumer Goods	Switzerland	G

Subject: Board structure

LGIM engaged with the company to discuss our concerns with the lack of independent directors on the board. We wanted to understand the rationale of the board for its lack of refreshment. We also covered their strategy and capital allocation policies. We were satisfied that although the company's governance is not fully compliant that it was being run conservatively and in a manner that will safeguard long-term shareholder returns.

FEMSA	M.Cap: MXN$431bn	Beverages	Mexico	ES

Subject: Sustainability

LGIM met with members of the sustainability team. We discussed the future direction of the business and their environmental and social practices, including the impact of the Mexican sugar tax on their business. The company has introduced many initiatives that have resulted in a reduction in staff turnover rates. These include educating its staff in their own university, ownership of a hospital and provision of other medical services. They are introducing energy saving initiatives to its store portfolio and hope to have more than 80% of their convenience stores powered by wind power.

Coca - Cola	M.Cap: $37.7bn	Beverages	US	SG

Subject: Remuneration and Social Issues

During our engagement we suggested that its long-term compensation plan be extended from three years to five years to be more in line with the company's 2020 Strategy. We also discussed labour and human rights and the company's work on water mapping and sustainable agriculture, as well as the issue of consumer changes in terms of sugar consumption and obesity.

Time Warner	M.Cap: $63.1bn	Media	US	GF

Subject: M&A, General Governance

We discussed the proposed bid for the company from Fox. The company felt that there were risks to their business from the combination and we asked how it will move on from this withdrawn bid and the company will issue a new strategy in the coming months. We discussed board structure and the role of the lead independent director, the remuneration policy as well as cyber security and the risk of piracy and the company's energy use.

Oil sands				ES

Subject: Sustainability

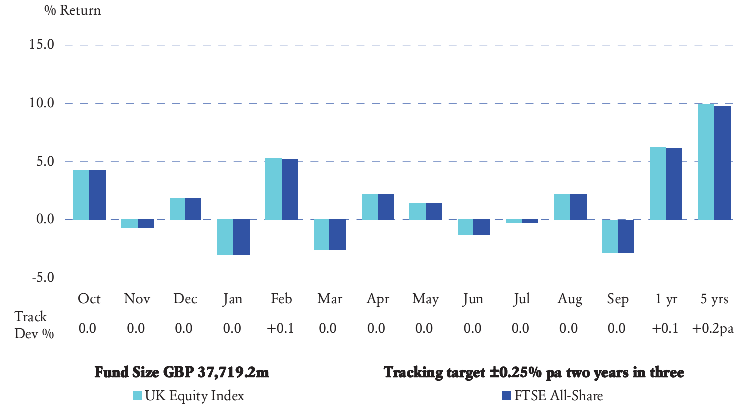
LGIM visited Fort McMurray, Alberta, Canada to observe the oil sands operations in the area. We met with Pembina (a think tank working to improve standards in oil sands operations), Suncor (oil sands operator) and representatives from the native first nations. We learned about a range of environmental impacts, such as tailings management, carbon reduction, air pollution, water contamination and land management, as well as social impacts on local communities. We also discussed the role of oil sands in the mix of overall global oil supply and costs of transport to various markets in the future.

Fund Activity & Performance

UK Equity Index

- The Fund returned -1.0% matching the index return over the quarter
- At the quarterly index review 16 companies were added, including TSB Banking Group, Saga, Zoopla Property Group and Spire Healthcare Group. New World Resources was the only deletion, while Glencore, Booker and Lamprell had their free float increased
- Dixons Carphone was created following the merger of Dixons Retail with Carphone Warehouse. Takeovers included engineer Kentz by Canadian SNC-Lavalin Group, Caracal Energy by Glencore (constituent) for cash and Wolfson Microelectronics. Other deletions included Talvivaara Mining, which was delisted, and Camellia, which transferred its listing to the AIM (Alternative Investment Market)
- Capital raisings included British Sky Broadcasting (£1.4 billion), the London Stock Exchange (£962 million), Hammerson (£400 million), Provident Financial (£120 million) and Mothercare (£100 million). Capital repayments were made by Foxtons, Hargreaves Lansdown, Next, Alent, HG Capital, Esure and Direct Line

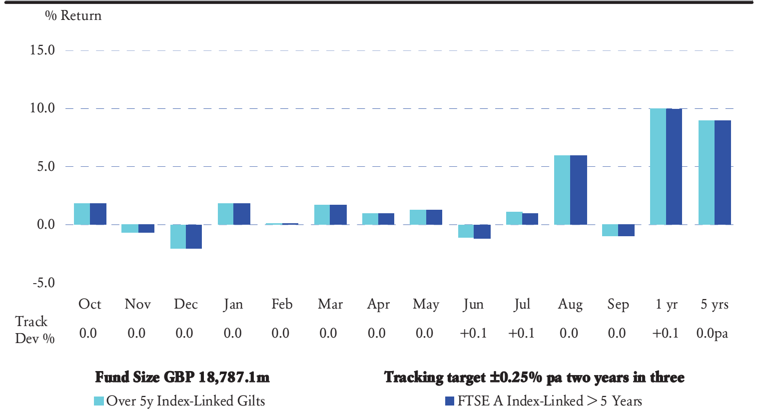
UK EQUITY INDEX - FUND AND INDEX MOVEMENTS - 2013/14



Over 5y Index-Linked Gilts

- The Fund returned 5.9% matching the index return over the quarter
- The UK economy continued on an upward growth trajectory, with second quarter GDP registering 3.2% year on year growth. Retail Price Index inflation held steady at 2.4% in August and with wage inflation remaining in check, the timing of the first base rate increase in the UK is finely balanced
- During the quarter there were four bond auctions, with maturities of 2019, 2024, 2040 and 2052. One bond syndication was held, to launch the new 2058 maturity issue. These activities together raised approximately £11.3 billion for government funding
- The Fund held all 22 stocks contained within the benchmark index. The Fund and index both had a modified duration of 21.66 years at the end of the quarter and the real yield was -0.35% (yield curve basis)

OVER 5Y INDEX-LINKED GILTS - FUND AND INDEX MOVEMENTS - 2013/14

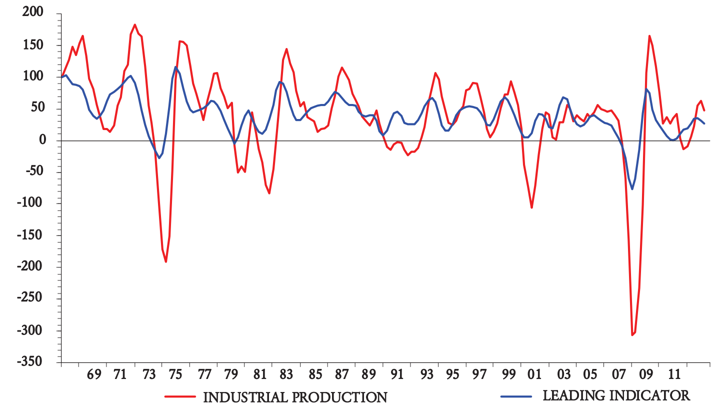


Market Background

Economies

- Data released during the third quarter highlighted the divergent path ahead facing rate setters. Some disappointing economic news in the euro zone and Japan highlighted the prospect of further stimulus, whereas the improving trading backdrop in the US and the UK raised expectations of interest rate hikes by mid-2015, if not before
- Firmer retail activity in the US raised hopes that the recovery has gained enough traction to offset the looming end of quantitative easing
- The UK economy has maintained its robust annual GDP growth. Although inflation eased further, the prospect rose of an increase in the Bank of England's (BoE) interest rate by early 2015
- With economic growth grinding to a virtual halt across the region, the European Central Bank (ECB) cut interest rates further but stopped short of introducing full quantitative easing
- The Japanese economy contracted by 1.8% in the second quarter, as retail spending and business investment fell

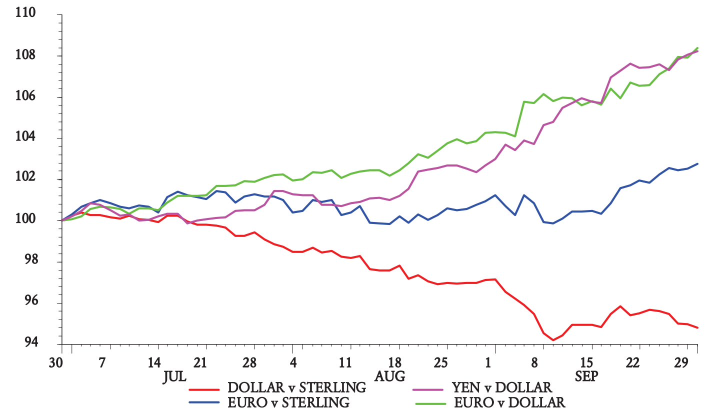
OECD G7 LEADING INDICATOR & INDUSTRIAL PRODUCTION - YoY



Currencies

- The US dollar made strong gains against the euro, yen and to a lesser extent sterling, as investors grew increasingly confident over the sustainability of the US recovery. Investors increasingly took the view that the US economy may be better positioned to withstand the end of quantitative easing in October
- The US dollar gained against the yen over the third quarter. Japan's economy contracted sharply in the second quarter, reflecting weaker consumer activity following April's sales tax increase, reaffirming the ongoing stimulus need from the Bank of Japan
- The euro fell versus the dollar. With inflation falling further and growth subdued across Europe, the ECB trimmed interest rates, unveiled a private asset buying programme but stopped short of quantitative easing
- Sterling shed value against the US dollar but rose versus the euro. BoE policymakers raised the prospect that interest rates could rise around the turn of the calendar year

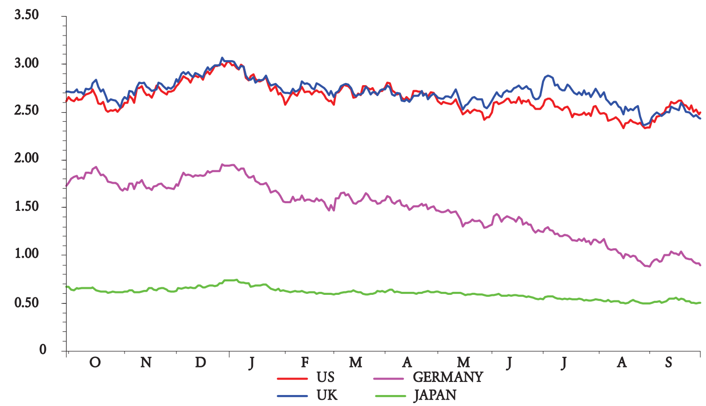
EXCHANGE RATES



Bonds

- Global government bond yields ended the quarter largely unchanged or slightly lower, as the geopolitical tensions witnessed early on were offset by the brighter tone of some global economic data later in the third quarter
- 10-year UK government bond yields eased to 2.4% over the third quarter. Despite weaker inflation data, further evidence of the robust economic recovery led to heightened speculation that the central bank's interest rate could rise from 0.5% early in 2015
- US 10-year bond yields ended the quarter unchanged at 2.5%. With quantitative easing set to end imminently, investors increasingly priced a rate rise from the US Federal Reserve by mid-2015
- In contrast, despite another fall in official borrowing costs (which pushed government bond yields lover across Europe), investors speculated that the waning euro zone economy could yet force the ECB to embark on full quantitative easing
- Japanese yields eased to 0.5%. With April's sales tax increase distorting first quarter growth data, the subsequent second quarter correction underlined the need for ongoing stimulus

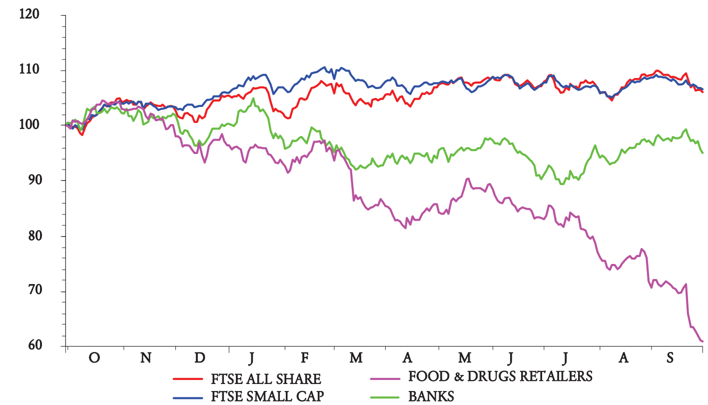
10 YEAR GOVERNMENT BOND REDEMPTION YIELD



UK Equities

- The FTSE All-Share Index fell by 1.0% in sterling terms, underperforming its overseas counterparts. The UK market outperformed its euro zone peers but underperformed US and Japanese equities in sterling terms
- On a total return basis, the FTSE 100 Index fell by 0.9%. Despite the positive outlook for the domestic economy, mid and small caps underperformed as rising geopolitical concerns weighed on investors' appetite for risk
- The UK economy continued to grow strongly, boosted by high levels of consumption. Although inflation fell to 1.5%, the strength of the economic recovery persuaded two members of the BoE's Monetary Policy Committee to vote for higher interest rates, raising the prospect of higher official borrowing costs by early 2015
- In sector terms, weaker oil prices weighed on energy companies, while Tesco's accounting woes and profit warning impacted on food & drug retailers. Banks performed relatively well, helped by a better than expected trading update from RBS

UK EQUITY PRICE INDICES



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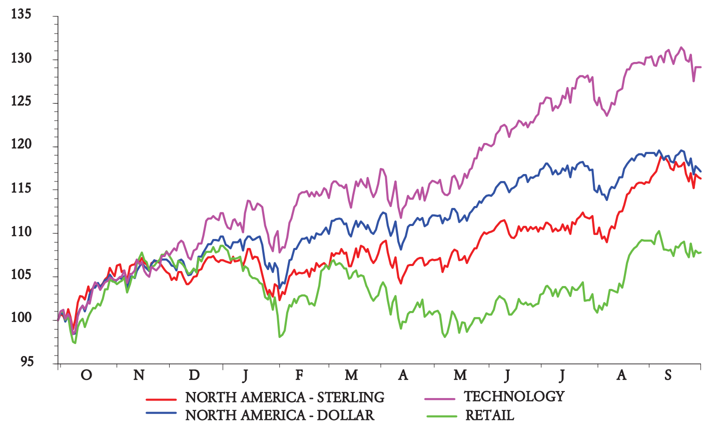
North American Equities

- US equities rose by 0.6% and 6.1% in local and sterling terms respectively during the quarter, outperforming their Japanese, UK and Europe excluding UK counterparts. Having risen for seven consecutive quarters, the S&P 500 Index set a new all-time high in September
- Survey data suggested that the economy remained buoyant in the third quarter, with consumer sentiment and retail activity firmly on the rise. The jobs market, however, showed only modest further improvement
- With the economy continuing to recover in line with official forecasts, the US Federal Reserve continued to reduce quantitative easing by $10 billion a month, with the bond-buying stimulus programme scheduled to end in October. Speculation rose that official borrowing costs could rise as early as mid-2015
- In sector terms, technology, real estate, financials and communication services outperformed, while consumer defensives, industrials, utilities and consumer cyclicals lagged the wider market

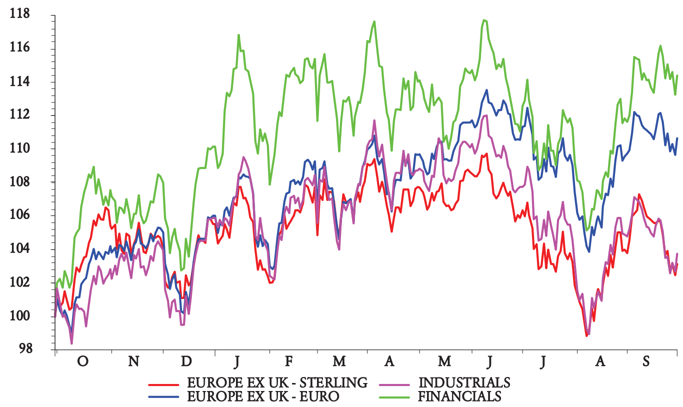
FTSE NORTH AMERICA PRICE INDICES



Continental European Equities

- Continental European stocks posted modest gains in euro terms in the third quarter, underperforming their global peers on concerns over the region's economic malaise. The FTSE World Europe (excluding UK) Developed Total Return Index rose 0.1% in euroœ terms but declined 2.6% in sterling terms
- The euro zone economy stagnated during the second quarter, with Italy returning to recession and the German economy contracting, as tougher sanctions against Russia weighed on exports
- Having trimmed interest rates again in September, the ECB sought to inject liquidity into the financial system with a private asset repurchase programme but stopped short of quantitative easing
- Inflation continued to ease, falling to just 0.3% in September, highlighting concerns that deflation could yet set in following an extended period of sluggish economic performance
- In country terms, Ireland, Finland and Switzerland outperformed. Austria and Portugal underperformed significantly amid concerns over the health of their financial sectors

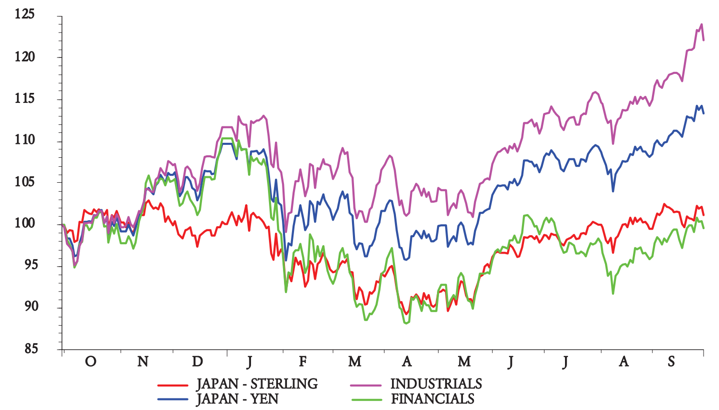
FTSE EUROPE (EX UK) PRICE INDICES



Japanese Equities

- Following an early setback, Japanese equities subsequently rallied to end the quarter with solid gains of 5.9% and 3.1% in local and sterling terms, reflecting investors' confidence that renewed support from the Bank of Japan can help the economy to recover from its second quarter setback. Nevertheless, yen weakness resulted in muted gains for sterling-based investors and losses for US dollar investors
- Consumer confidence remained below the key 50 level, while the quarterly Tankan Index of business sentiment eased following a firm start to 2014. Weaker export data in August suggested global demand for Japanese goods remains subdued, despite the weaker yen
- With global equity markets extending their gains, Japanese equities touched their highs of December 2013, underpinned by confidence that policymakers will continue to stimulate the economy in an effort to maintain to cyclical recovery

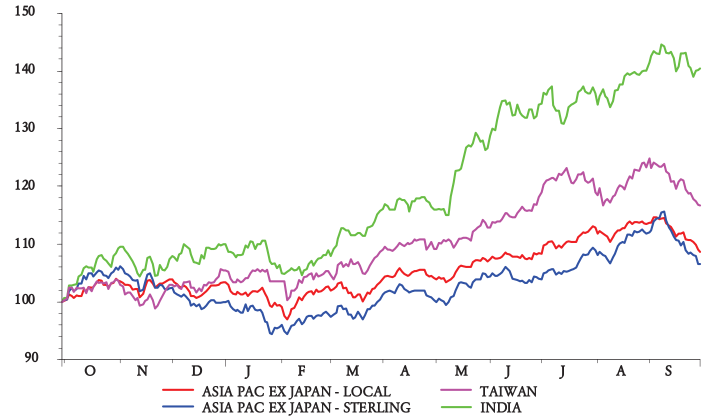
FTSE JAPAN PRICE INDICES



Asia Pacific (ex Japan) Equities

- The region's markets produced negative returns in local terms during the third quarter, marginally underperforming global market indices. The FTSE World Asia-Pacific (excluding Japan) Total Return Index ended the quarter 0.3% and 2.4% in local and sterling terms, as the UK currency lost ground against its Asian peers
- Following firm performance for much of the quarter, Asian equities fell back in September as heightening geopolitical concerns weighed on investors' appetite for risk
- Data released early in the third quarter suggested that China's economy was performing marginally ahead of forecasts. Nevertheless, more recent data hit a softer note as industrial production fell and house prices continued to cool
- China, Thailand and Indonesia were among the better performing markets, underpinned by relatively positive economic data. Nevertheless, Korea was weighed down by electronics giant Samsung as its results highlighted slower growth in the smartphone market

FTSE ASIA-PACIFIC PRICE INDICES (LOCAL RETURNS)



Additional Information

Investment Sector Fund Returns
Sector fund returns are calculated on the basis of closing middle-market prices and are compared with the relevant market total return index i.e. including both income and capital. For overseas markets the figures are sterling adjusted and net of withholding tax where applicable

Composite Index
Composite Fund index returns, which assume monthly rebalancing, are based on the Pooled Funds central distribution, and the index returns (CAPS where applicable) for each investment sector

Benchmark Rebalancing
Where applicable the benchmark returns, which assume periodic rebalancing, are based on the Fund's central distribution and the index returns for each investment sector

Investment Income
Income is reinvested in the Fund from which it derived for the exclusive benefit of unit holders. Income can be withdrawn on a monthly basis from those funds invested solely/partially in UK securities without incurring dealing costs

Index-Tracking Funds
The objective of each Fund is to track the total return of the relevant market index, within specified tolerances and after allowance for withholding tax where applicable

LDI Funds
For the Liability Driven Investment (LDI) Funds, the index returns shown in the performance tables are for comparison purposes. For the Matching Plus Fund range, the comparator returns are calculated using the return on a zero-coupon swap with the same term to maturity as the relevant maturity bucket, the index return on the underlying Sterling Liquidity Fund, and assuming a similar level of leverage as the relevant maturity bucket over the period. For the Interest Rate Hedged Corporate Bond Funds, the comparator is made up from a cash return plus 85% of the credit spread return on the index. For the Better Bonds range the comparator returns shown in the performance tables combine the Matching Fund comparator and the Interest Rate Hedged Corporate Bond Fund comparator in the appropriate weights

Managed Property Fund
The objective of the Managed Property Fund is to exceed the index return of the AREF/IPD UK Quarterly All Balanced Property Funds Index over three and five year periods. The index returns, which are 'Net of Fees' are shown in the 'Fund Activity and Performance' section of the report together with the activity and distribution of the Managed Property Fund. For historic reporting purposes, the benchmark index displayed in the 'Performance of Invested Funds – Time Weighted Returns' table is a composite of the BoNYM CAPS Pooled Property Fund Index for periods to 31 March 2014, chain-linked to the AREF/IPD UK Quarterly All Balanced Property Funds Index thereafter. Prior to 31 March 2014 the Fund's benchmark was the BoNYM CAPS Pooled Property Fund NAV Median. The BoNYM CAPS Pooled Property Fund Index is used as a proxy to allow the chain-linking of returns. As the new AREF/IPD UK Quarterly Property All Balanced Funds benchmark index return is published on a quarterly basis, returns for periods outside the quarter end period will be based on the most recent available quarterly return

SICAV Funds
For PMC (Pensions Management Company) Funds invested in a SICAV (Société d'investissement à Capital Variable) sub-fund for which unit prices are quoted using single swinging price methodology, the PMC bid, mid and offer prices (and the resultant valuations of client holdings) will be identical. Performance is based on the theoretical SICAV mid price. Valuations are based on the actual dealing price

Index Name Changes
A full review has been conducted of the indices associated with the funds LGIM manage. As a result of this review, we have made some amendments to the naming conventions to more closely reflect the published names of the indices used by FTSE. The name changes take effect from 30th June 2014, if you require further information please contact your Client Relationship Manager or Executive

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GMO

London Borough of Tower Hamlets
Quarter Ending 30 September 2014

Client Relationship Manager

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Alex.Bark@gmo.com

Investment Management Review

London Borough of Tower Hamlets

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Quarter Ending 30 September 2014

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GMO

London Borough of Tower Hamlets

Performance Gross of Management, Operating, Incentive Fees in GBP

Periods Ending 30 September 2014

Investment	Month	Quarter	YTD	Annualised 1 Year	Annualised 3 Year	Annualised 5 Year	Annualised *Since Inception	Market Value (000)
Global Equity Separately Managed (GBP) (29/04/2005)	-1.10 %	0.38 %	5.24 %	11.06 %	14.77 %	9.44 %	9.27 %	268,708
London Borough of TH Custom Benchmark	-0.88	1.59	4.14	8.66	14.92	9.22	9.17	
Value Added	-0.22	-1.21	1.10	2.40	-0.15	0.22	0.10	

** Periods of less than a year are not annualised*
Note:
The London Borough Custom Benchmark is comprised of 30% FTSE World North America, 30% FTSE Developed Europe ex-UK Index, 17% FTSE Japan Index, 10% FTSE All-Share, 8.5% FTSE Developed Asia Pacific ex-Japan Index (ex Korea effective 21sep09), 4.5% MSCI Emerging Markets Index.

London Borough of Tower Hamlets

Performance Net of Fees and Expenses in GBP

Periods Ending 30 September 2014

Investment	Month	Quarter	YTD	Annualised 1 Year	3 Year	5 Year	*Since Inception	Market Value (000)
Global Equity Separately Managed (GBP) (29/04/2005)	-1.12 %	0.32 %	5.06 %	10.82 %	14.40 %	9.03 %	8.81 %	268,708
London Borough of TH Custom Benchmark	-0.88	1.59	4.14	8.66	14.92	9.22	9.17	
Value Added	-0.24	-1.27	0.92	2.16	-0.52	-0.19	-0.36	

** Periods of less than a year are not annualised*
Note:
The London Borough Custom Benchmark is comprised of 30% FTSE World North America, 30% FTSE Developed Europe ex-UK Index, 17% FTSE Japan Index, 10% FTSE All-Share, 8.5% FTSE Developed Asia Pacific ex-Japan Index (ex Korea effective 21sep09), 4.5% MSCI Emerging Markets Index.

London Borough of Tower Hamlets

Change in Market Value, Account Detail in GBP

QTD Ending 30 September 2014

Fund	Market Value 30/06/2014	Cash Flows	Gains/ Losses	Market Value 30/09/2014
London Borough of Tower Hamlets Pension Fund	267,721,761	-28,955	1,015,638	268,708,444
Total	**267,721,761**	**-28,955**	**1,015,638**	**268,708,444**

If you are an investor in a GMO fund who receives statements directly from the relevant Fund's transfer agent or administrator, we urge you to compare those statements with your GMO statements.

Transaction Details

Date	Transaction	Gross Amount
London Borough of Tower Hamlets Pension Fund in GBP		
18/08/2014	Redemption	-29,088.03
21/08/2014	Purchase	133.22

London Borough of Tower Hamlets

Global Equity Strategy - Investment Review

Quarter Ending 30 September 2014

Global Equity Strategy

Product Manager: Kim Mayer

Overview:

- The Strategy seeks to deliver high total return by investing in equities or groups of equities that the GMO Global Equity team believes will provide higher returns than the benchmark.
- The Strategy uses multi-year forecasts of returns among asset classes to build a portfolio that typically provides exposure to global equity markets.

Global equities posted generally negative results during the third quarter, as growing concerns about geopolitical instability combined with less certainty about future sources of global stimulus to shake the bullish complacency of the first half of the year. The key elements of geopolitical risk include the evolution of ISIS within the Middle East and the Russia/Ukraine conflict, as well as the response of the West to these events. On the Central Bank policy front, we are at a potential inflection point within the U.S. in the present transition from Fed stimulus to neutrality. The MSCI ACWI index fell 2.3% for the quarter. The U.S. market was the only broad regional market to post positive returns for the quarter, with the S&P 500 registering modest gains of 1.1%. In developed international markets, MSCI EAFE was down 5.9% for the quarter as Europe was hard hit. MSCI Europe declined 7.0% over the quarter. Japan fared a bit better, but was still in negative territory with the MSCI Japan index shedding 2.3% for the quarter. Emerging markets also posted losses. The MSCI Emerging index fell 3.5% for the third quarter.

Weak returns for most equity markets globally during the third quarter generally resulted in modest gains for GMO's assessment of equity market opportunities with the exception of the U.S. market. In the U.S., we favor high quality stocks from a group level valuation perspective. Quality stocks essentially matched the returns of the S&P for the quarter. Our forecast for U.S. high quality stocks at the end of the quarter was unchanged at 2.2%. Among international developed equities we continue to favor value stocks, particularly within Europe. Our forecast for European value stocks (excluding financials) at the end of the third quarter was 1.8%. We also continue to favor emerging market equities. Our emerging market equities forecast increased to 3.7% at the end of the quarter, as compared to 3.6% at the end of the second quarter.

During the quarter, our allocations within the portfolio changed incrementally. We maintain key exposures to U.S. quality equities, European value stocks, and emerging market equities.

London Borough of Tower Hamlets

Global Equity Strategy - Profile Summary

As of 30 September 2014

Top Ten Holdings [2]

Amazon.com Inc.	3.8%
Philip Morris International Inc.	3.3%
Total S.A.	2.9%
Royal Dutch Shell PLC	2.9%
Express Scripts Holding Co	2.7%
Microsoft Corp.	1.9%
Japan Tobacco Inc.	1.8%
Oracle Corp.	1.8%
International Business Machines Corp.	1.7%
BP PLC	1.7%
Total	**24.5%**

Risk Profile Since 30/04/2005 [3]

	Portfolio	Benchmark [1]
Alpha	-.24	.00
Beta	.98	1.00
R-Squared	.98	1.00
Sharpe Ratio	.50	.52

Group Exposures [4]

US Quality	28.4%
US Opportunistic Value	10.1%
Europe Value	39.6%
Japan	10.6%
Other Int'l Opportunistic Value	0.6%
Emerging Markets	9.1%
Cash & Cash Equiv.	1.6%

Characteristics

	Portfolio	Benchmark [1]
Price/Earnings - Hist 1 Yr Wtd Median	15.6x	18.2x
Price/Cash Flow - Hist 1 Yr Wtd Median	8.9x	12.0x
Price/Book - Hist 1 Yr Wtd Avg	1.6x	1.8x
Return on Equity - Hist 1 Yr Med	13.4%	12.4%
Market Cap - Weighted Median -Bil	32.5 GBP	19.2 GBP
Number of Equity Holdings	721	3297
Dividend Yield - Hist 1 Yr Wtd Avg	3.1%	2.6%

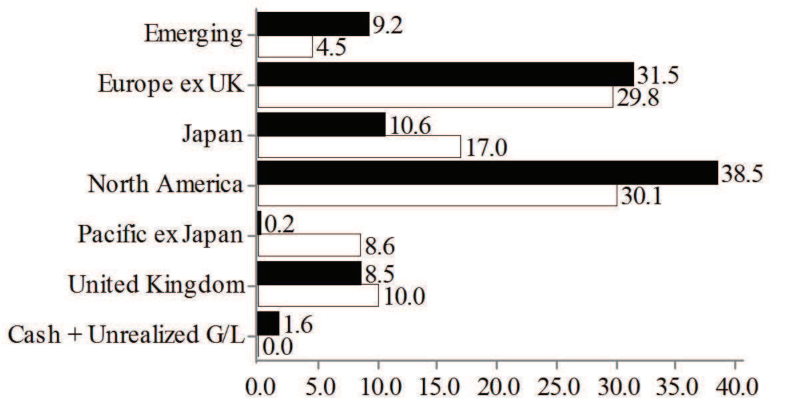
[1] *London Borough of TH Custom Benchmark*
[2] *Portfolio holdings are a percent of equity. They are subject to change and should not be considered a recommendation to buy individual securities.*
[3] *Alpha is a measure of risk-adjusted return; Beta is a measure of a portfolio's sensitivity to the market; R-Squared is a measure of how well a portfolio tracks the market; Sharpe ratio is the return over the risk free rate per unit of risk. Risk profile data is net.*
[4] *The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time.*

London Borough of Tower Hamlets

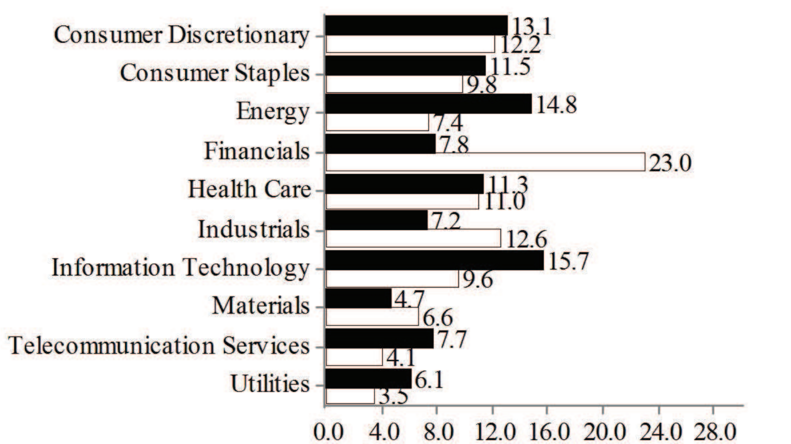
Global Equity Strategy - Profile Summary

As of 30 September 2014

Regional Weights

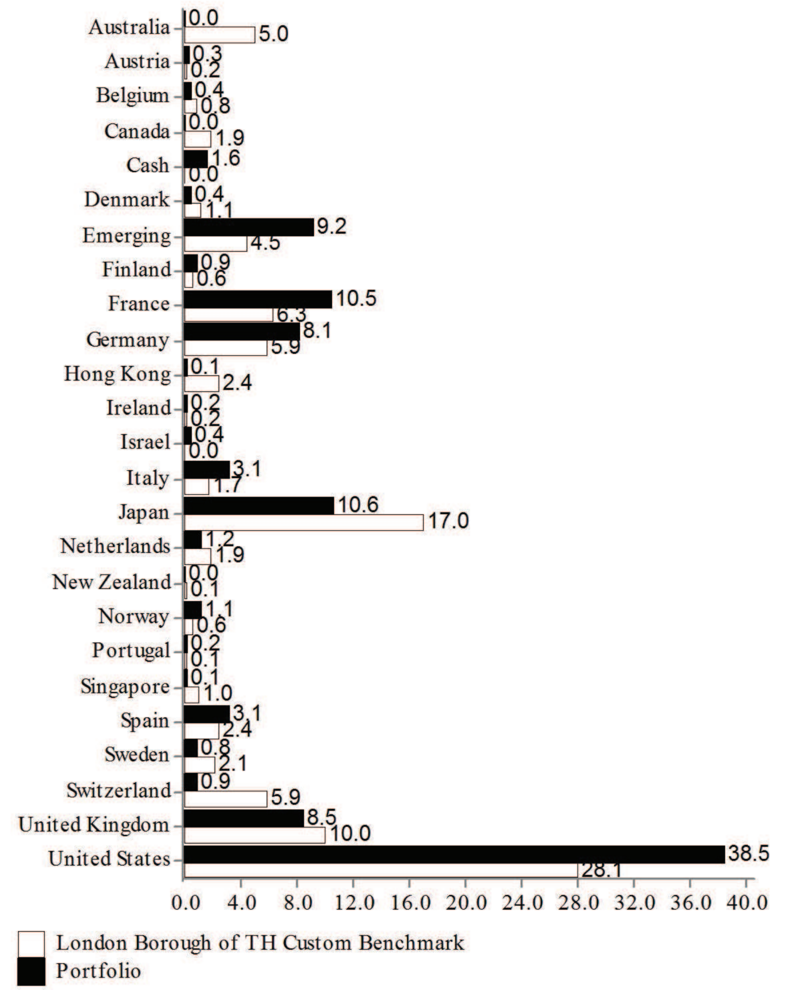


Sector Weights



GICS Sectors

Country Allocation



London Borough of Tower Hamlets

Global Equity Strategy - Attribution Overview

Quarter Ending 30 September 2014

Performance (%)	
Net of Fees, USD (Rep Account)	-5.30
Gross of Fees, USD (Rep Account)	-5.05
MSCI World	-2.16
Value Added	**-2.89**

GROUP ALLOCATION: -1.0%

U.S. ↑ Int'l ↓ EM ↓

SECURITY SELECTION: -1.9%

U.S. ↓ Int'l ↓ EM ↓

Major Performance Drivers

U.S. High Quality

Characteristics: Our position in U.S. high quality is comparatively multinational and carries less cyclical economic exposure compared to the U.S. market.

Positioning: U.S. high quality accounted for approximately 26% of our total portfolio weight during the quarter.

Results: Our position in U.S. high quality produced a positive allocation impact and a modestly positive selection impact during the quarter. High quality stocks outperformed the U.S. market during the period as U.S. investors favored Health Care and Information Technology over more cyclical sectors such as Energy and yield-sensitive sectors such as Utilities.

Emerging Markets

Characteristics: Our position in emerging markets is focused on undervalued segments within the market that have recently fallen out of favor with investors, highlighted by a position in Russia Energy.

Positioning: Emerging markets accounted for approximately 10% of our total portfolio weight during the quarter.

Results: Our emerging markets position produced negative allocation and selection impacts during the quarter, as the asset class underperformed global indices and our valuation-driven selections underperformed within the region. Leading country-sector detractors during the period included Russia Energy and Brazil Utilities, while China Telecommunication Services was the leading contributor.

The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy.

London Borough of Tower Hamlets

Global Equity Strategy - Attribution Overview

Quarter Ending 30 September 2014

Major Performance Drivers (continued)

Japan

Characteristics: Our position in Japan is focused primarily on value stocks within the region selected by both quantitative and fundamental valuation approaches.

Positioning: Japan accounted for approximately 10% of our total portfolio weight during the quarter.

Results: Our Japan position produced a neutral allocation impact and a negative selection impact during the quarter. Japan performed in line with the global index, while our value oriented stock selections underperformed within the region. Sectors in which our selections delivered negative relative returns included Industrials and Consumer Staples.

European Value

Characteristics: Our position in European value carries a fair amount of exposure to some of the more cyclically-exposed segments of the market and is currently the largest group-level allocation in the strategy.

Positioning: European value accounted for approximately 41% of our total portfolio weight during the quarter.

Results: Our position in European value produced a negative allocation impact during the quarter, as European stocks trailed the broader market. This was further affected by negative selection impacts, as our valuation-focused positions underperformed. Selections within countries including the United Kingdom and Germany were the leading detractors from returns.

Global Equity Strategy - Process Review

Overview

The GMO Global Equity Strategy seeks to deliver high total return by investing in equities or groups of equities that the GMO Global Equity team believes will provide higher returns than the benchmark.

The Strategy uses multi-year forecasts of returns among asset classes to build a portfolio that typically provides exposure to global equity markets.

Methodology

GMO's Global Equity team uses active investment management methods, which means that equities are bought and sold according to the team's evaluation of companies' published financial information and corporate behavior, securities' prices, equity and bond markets, and the overall economy.

In selecting equities for the Strategy, the team uses a combination of investment methods to identify equities that the team believes present attractive return potential. Some of these methods evaluate individual equities or a group of equities based on the ratio of their price relative to historical financial information and forecasted financial information, such as book value, cash flow, and earnings, and a comparison of these ratios to industry or market averages or to their own history. Other methods focus on patterns of information, such as price movement or volatility of a security or group of securities relative to the Strategy's investment universe or corporate behavior of an issuer. The team also may adjust the Strategy's portfolio for factors such as position size, market capitalization, and exposure to groups such as industry, sector, country, and currency.

The resulting portfolio reflects the team's assessment of the best investment opportunities within the Strategy's investment universe and takes into consideration factors such as liquidity, transaction costs, and client mandate requirements.

Portfolio Construction

GMO believes the best form of portfolio management is an understanding and frequent examination of the underlying models and inputs used to generate portfolios.

Security weights are primarily a by-product of our security selection process. Position sizes and group exposures, both absolute and relative to the broad market, are monitored and reviewed by the portfolio management team.

The Strategy typically invests directly and indirectly (e.g., through underlying funds or derivatives) in equities of companies based around the world. Derivatives used may include futures, options, forward currency contracts, and swap contracts.

The Strategy is managed to remain fully invested (typically less than 10% allocations to cash).

Last Updated: September 30, 2013

GMO

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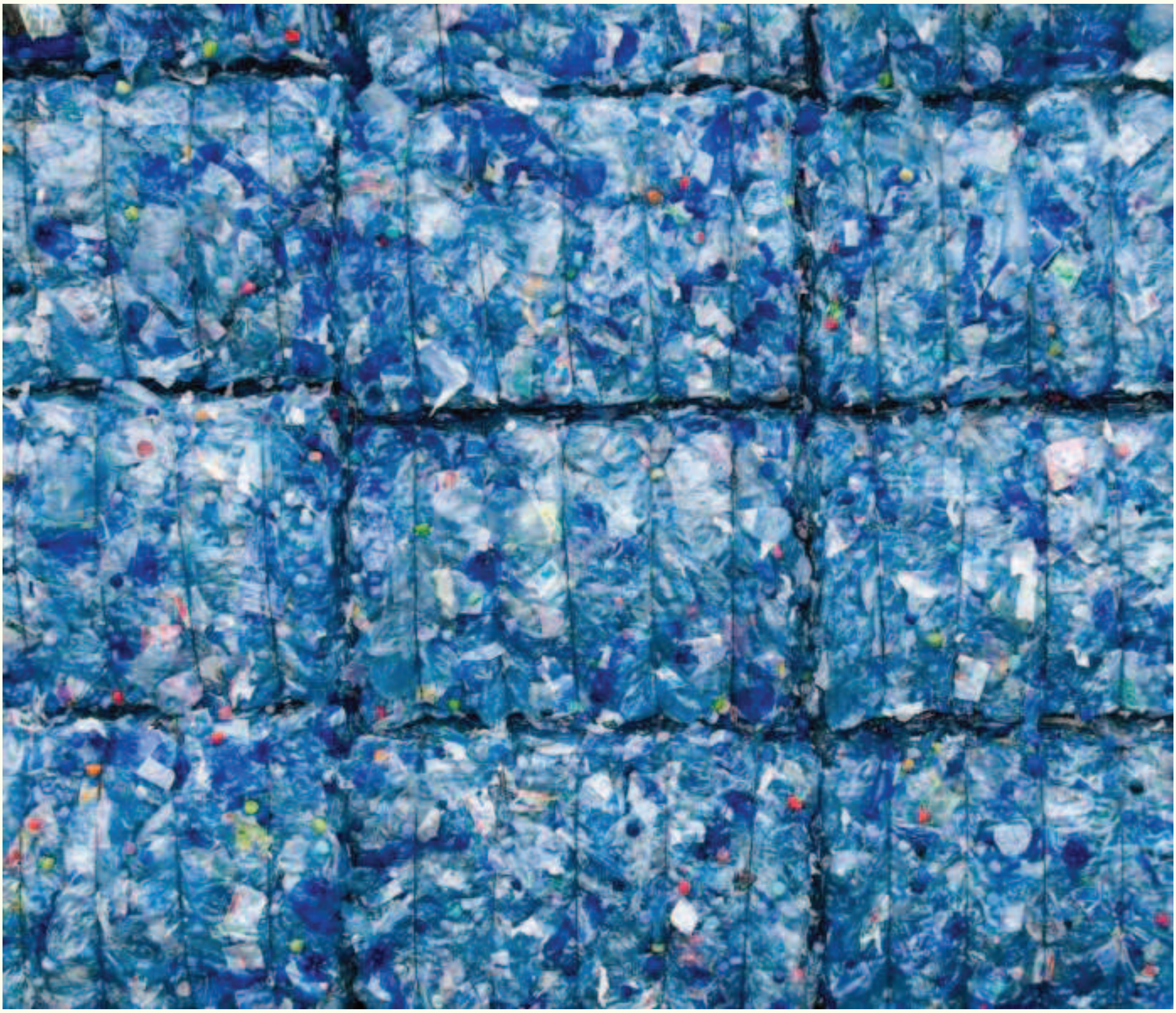
BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund

Report for the quarter ended 30 September 2014



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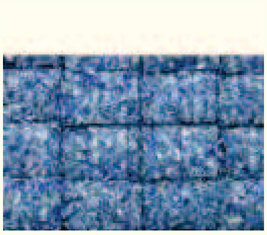
Online Reporting

You can access all your reports and other up-to-date portfolio information via our secure client extranet site *https://clients.bailliegifford.com*



Recycling.

Performance to 30 September (%)

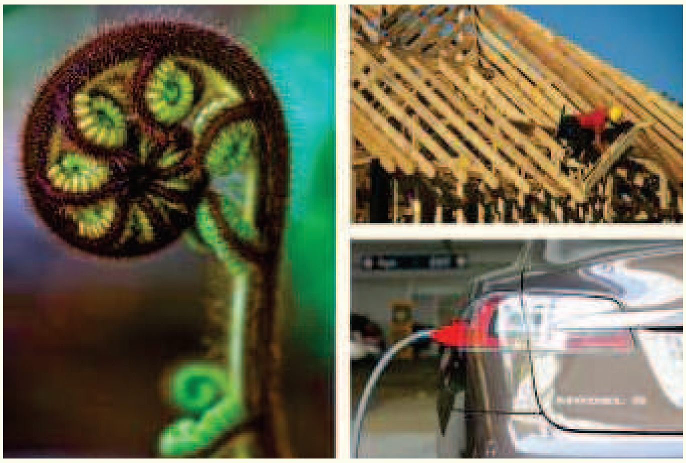
	Fund	Benchmark
Since Inception* (p.a.)	8.4	6.0
Five Years (p.a.)	13.2	10.3
One Year	10.2	11.8
Quarter	2.1	3.2

*05 July 2007
Source: StatPro

Global equity markets made only modest progress over the quarter

We continue to find growth opportunities in emerging Asia, conviction in the economic recovery in America is rising and there are early signs of recovery in the European periphery

Interest rates and monetary policy should normalise over time, which could lead to a greater divergence between market winners and losers



Valuation (after net flow of GBP 102,004)

Market background

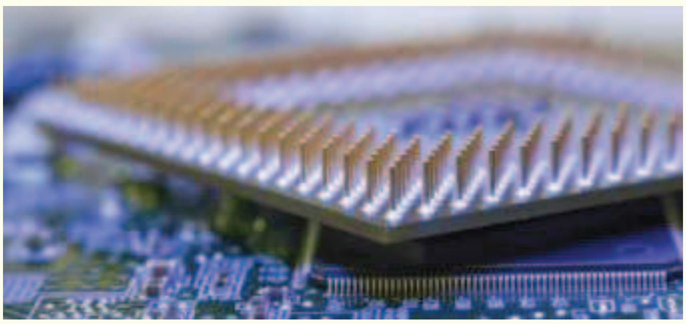
Global equity markets made only modest progress over the quarter, but have delivered consistently strong returns since the nadir in early 2009. Concerns that the nascent Eurozone recovery may be faltering, combined with a ratcheting up of Russian sanctions in response to the conflict in the Ukraine led to relative weakness in the region, while further evidence of a broadening US recovery contributed to a marginally stronger market. We are optimistic about the US economy and continue to see tapering as a positive, in contrast to the majority of market commentary. In both the US and Europe, we're looking for companies that won't just benefit from their own structural growth story, but also have cyclical upside.

Portfolio

We recently produced a progress report on our annual research agenda, highlighting several themes which bind our efforts to unearth exciting growth opportunities. We continue to search for opportunities in emerging markets, particularly Asia, our conviction in the economic recovery in America is rising and we are mildly encouraged by early signs of recovery in the European periphery. We are excited by the transformative power of technology, although our recent focus has been on less glamorous parts of the technology sector, where consolidation of market shares and rising barriers to entry offer the potential for much improved economic performance. Most notably, we hold a range of businesses along the semiconductor supply chain as we are attracted by the combination of the improving supply side dynamics and the 'internet of things' which we believe underpins demand for connected data and devices. Furthermore, this consolidation may alter the pricing power dynamics in favour of the component makers, rather than the producers of the end products.

Wealth creation in emerging Asia generates myriad long-term growth opportunities spanning consumer sectors, healthcare and savings and insurance. There is a multi-decade opportunity offered by the life insurance industry across Asia, owing to the lack of state social welfare provision and supportive demographics. We are long-term holders of Prudential and added to the recent purchase, AIA, during the quarter. Both companies have leading market shares and deep-rooted distribution throughout South East Asia, and strong brands, having operated in local markets for decades. New entrants cannot match this, barriers to entry are high and both companies should be primary beneficiaries of Asian wealth creation for decades to come.

We participated in the Alibaba initial public offering (IPO). Few businesses have as rapidly become entrenched in the national psyche anywhere, as Alibaba has in China. Alibaba handles more than 80% of China's e-commerce business, with nearly US$250 billion passing through its systems in 2013, more than Amazon and eBay combined. Alibaba initially set up a business to business online marketplace, but its offerings now include consumer to consumer and business to consumer e-commerce, online payments, mobile apps, online deposits and consumer credit. Alibaba helps solve many of the state's problems through job creation, supporting businesses in rural villages and aiding economic growth. Despite its significant size, we are excited by the rapid infiltration of the internet into all aspects of Chinese life and believe there is a significant long-term growth



opportunity ahead. For this reason, we also have exposure to Baidu and Tencent (through Naspers), which, alongside Alibaba, are the three dominant internet businesses in China.

Switching to the developed world, we added to a number of holdings benefiting from consolidating industries, market leading positions and western economic recovery. In the US, we added to Martin Marietta Materials and DistributionNOW. Martin Marietta is an aggregates and heavy building materials business which recently merged with Texas Industries, improving its competitive position across most of the largest and fastest-growing parts of North America. Ireland is years behind the US in terms of recovery, but Bank of Ireland has come through the global financial crisis in a dramatically strengthened competitive position. During the crisis, Irish house prices fell by 50%, but in spite of this headwind, Bank of Ireland has repaid its government bailout and is one of two banks left with any risk appetite in Ireland. We expect rapid book value growth over the next five years, and increasing profitability.

In contrast, we bade farewell to two long-term holdings, John Deere and Namco Bandai. In both cases, we have gradually come to the conclusion that the continued domestic success of their businesses will not be replicated abroad. The famous green tractor manufacturer, John Deere, has an exceptionally strong competitive position in the US due to its dealer network, but is increasingly dependant on growth in foreign markets where it is far less profitable. We became concerned that the business is likely to see a fall in profitability in the years ahead. Namco Bandai is a Japanese games and entertainment publisher. Generations have enjoyed Namco Bandai's creativity through Pac-Man, Power Rangers and Ben 10. However, the share price has been strong and we no longer believe the management team is sufficiently dynamic or spending enough to repeat past successes on a global scale.

Outlook

Whilst we make few claims to be market timers or top-down macro investors, our broad view is that the world is mending and therefore interest rates and monetary policy will normalise over time. We suspect that the gradual withdrawal of economic stimulus will lead to a decoupling, with a greater divergence between market winners and losers, although overall we remain positive on market direction. Above all, we remain focused on investing in the long-term success of businesses, as we believe the compounding of above market earnings offers us a consistent, repeatable edge in a market that repeatedly fails to look beyond recent 'news'.

Product Overview

Baillie Gifford is primarily a bottom-up, active investor, seeking to invest in companies that it believes enjoy sustainable competitive advantages in their industries and which will grow earnings faster than the market average. This is based on our belief that share prices ultimately follow earnings. The aim of the Global Alpha investment process is to produce above average long term performance by picking the best growth stocks available around the world by combining the specialised knowledge of Baillie Gifford's investment teams with the experience of some of our most senior investors.

Risk Analysis

Key Statistics	
Number of Holdings	96
Number of Countries	25
Number of Sectors	9
Number of Industries	43
Active Share	92%
Rolling One Year Turnover	16%

Top Ten Holdings

Asset Name	% of Portfolio
Royal Caribbean Cruises	3.5
Prudential	3.3
Naspers	2.9
Roche	2.3
TSMC ADR	2.1
Moody's	2.1
Google Inc Class C	2.0
TD Ameritrade Holding Corp	2.0
Wellpoint	1.8
Nestle	1.8

New Purchases During Quarter

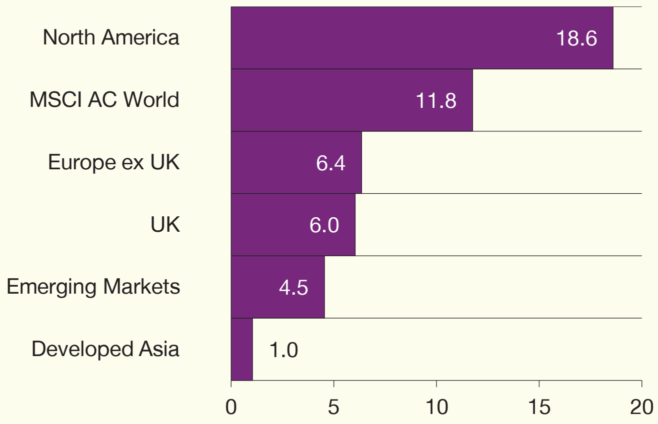
Asset Name
Alibaba Group Holding Ltd
DistributionNOW

Complete Sales During Quarter

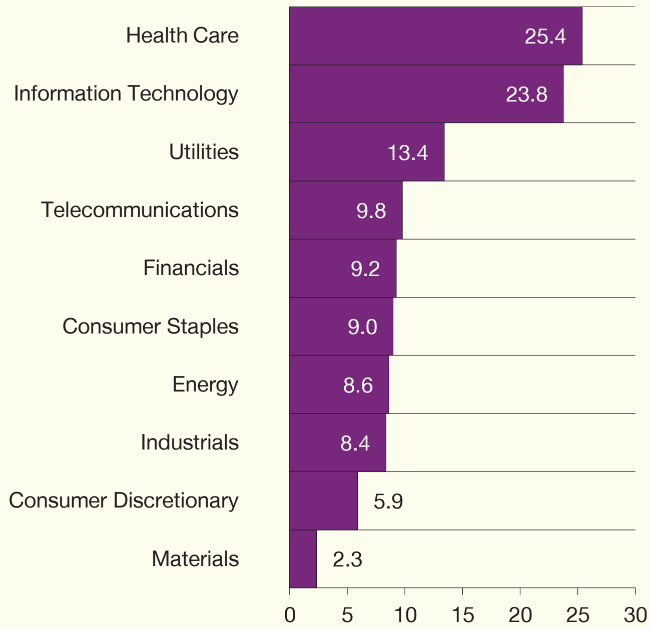
Asset Name
Deere
Google
Recall Holdings
Walt Disney

Index Information

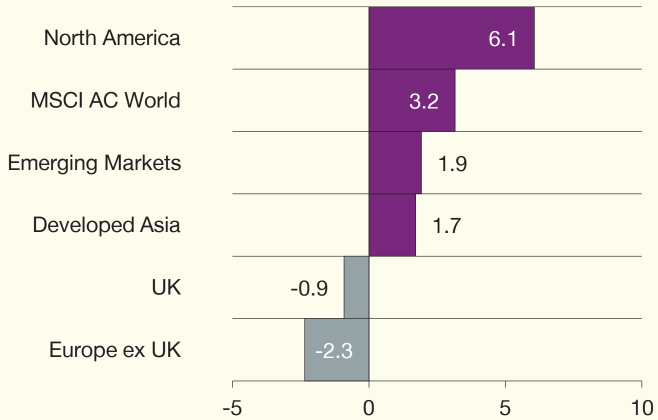
Regional Returns Over One Year (%)



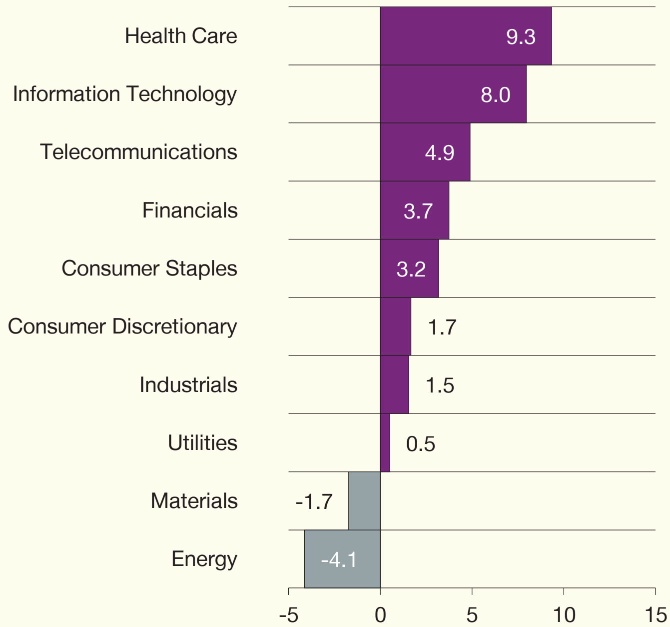
Sector Returns Over One Year (%)



Regional Returns During Quarter (%)



Sector Returns During Quarter (%)



% Change in GBP
Source: Baillie Gifford

Performance Objective

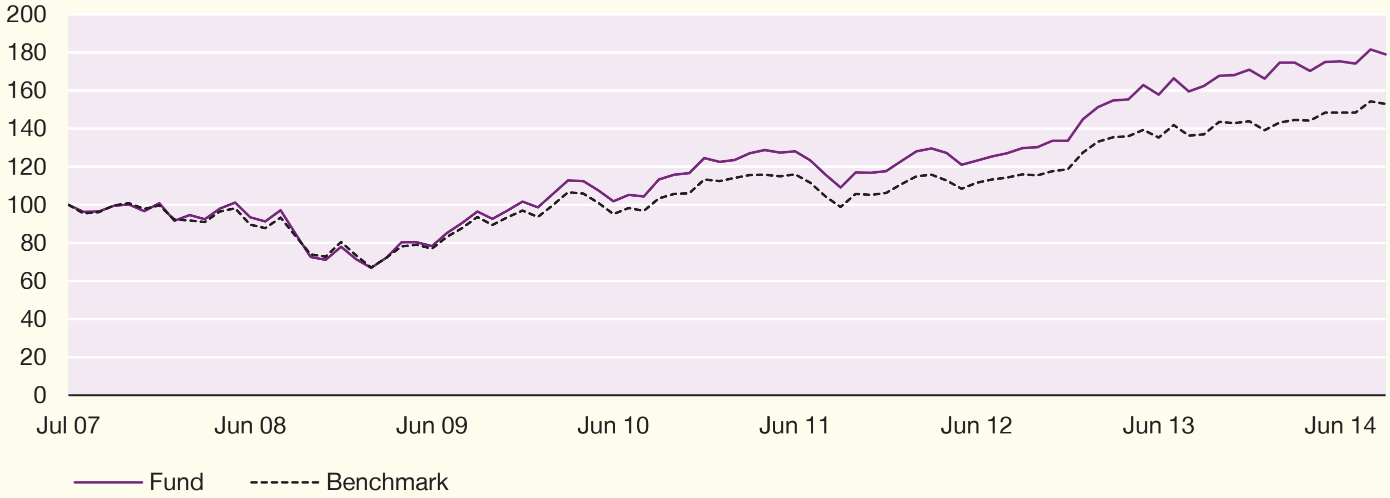
To outperform the MSCI AC World Index by 2.0 - 3.0% per annum (gross) over rolling five year periods.

Relative Performance

This table indicates the performance of the portfolio relative to the benchmark before fees.

	Fund (%)	Benchmark (%)	Difference (%)
Since Inception* (p.a.)	8.4	6.0	2.3
Five Years (p.a.)	13.2	10.3	2.8
One Year	10.2	11.8	-1.5
Quarter	2.1	3.2	-1.1

Returns Since Inception*



*05 July 2007
Source: StatPro

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Since Inception* to 30 September 2014

Asset Name	Contribution (%)
Naspers	3.1
Schindler	1.7
Amazon.com	1.5
Tesla Motors	1.4
Royal Crbn.Cruises	1.4
Prudential	1.4
Richemont	1.3
Svenska Handelsbanken	1.3
Genentech	1.3
Baidu.com ADR	1.1
Apple	-1.3
OGX Petroleo E Gas Participa	-1.0
Q-Cells	-1.0
Celesio AG	-0.9
Northern Rock	-0.7
Johnson & Johnson	-0.7
Man Group	-0.7
Yamaha Motor	-0.6
Coca Cola HBC (CDI)	-0.6
UBS	-0.6

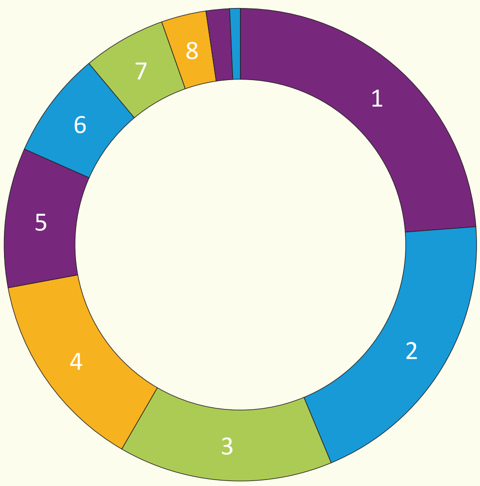
*05 July 2007
Source: StatPro

One Year to 30 September 2014

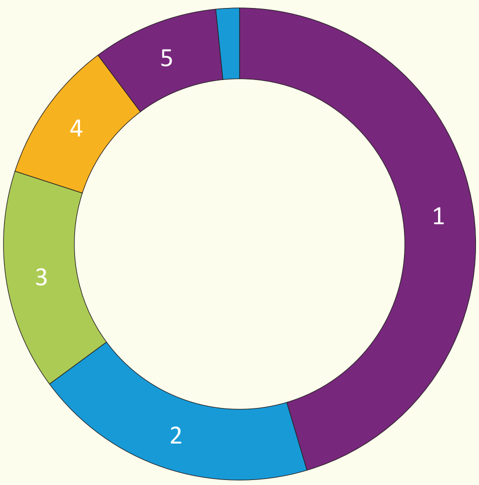
Asset Name	Contribution (%)
Royal Crbn.Cruises	1.2
Moody's	0.4
Wellpoint	0.3
Baidu.com ADR	0.3
ICICI Bank Ltd	0.3
Illumina	0.3
Prudential	0.3
TD Ameritrade Holding Corp	0.3
Myriad Genetics Inc	0.2
Namco Bandai Holding	0.2
Coca Cola HBC (CDI)	-0.5
Apple	-0.5
Mindray Medical International	-0.4
Rolls-Royce	-0.3
Harley-Davidson	-0.3
China Resources Enterprise	-0.3
Volvo B	-0.3
Samsung Electronics	-0.3
eBay	-0.2
Arcos Dorados	-0.2

Top Ten Holdings

Asset Name	Description of Business	% of Portfolio
Royal Caribbean Cruises	Global cruise company that offers a fleet of vessels in the cruise vacation industry	3.5
Prudential	Life insurer	3.3
Naspers	Media and e-commerce company	2.9
Roche	Pharmaceuticals	2.3
TSMC ADR	Semiconductor manufacturer	2.1
Moody's	Credit rating agency	2.1
Google Inc Class C	Online search engine	2.0
TD Ameritrade Holding Corp	Online brokerage firm	2.0
Wellpoint	Healthcare insurer	1.8
Nestle	Food and beverage producer	1.8
Total		23.9



	Sector Weights	(%)
1	Financials	23.8
2	Information Technology	19.9
3	Consumer Discretionary	14.7
4	Industrials	13.7
5	Health Care	9.6
6	Consumer Staples	7.3
7	Energy	5.7
8	Materials	3.1
9	Cash	1.6
10	Telecommunication Services	0.7
	Total	100.0



	Regional Weights	(%)
1	North America	45.4
2	Europe (ex UK)	19.5
3	Emerging Markets	15.1
4	Developed Asia Pacific	9.8
5	UK	8.6
6	Cash and Deposits	1.6
	Total	100.0

New Purchases

Stock Name	Transaction Rationale
Alibaba Group Holding Ltd	Alibaba is the clear leader in the rapidly developing Chinese ecommerce market. The constant benchmarking of the industry against that of the US is a frustration, albeit one that is perhaps creating the largest inefficiency of all. That is: ecommerce in China is likely to be more successful than most market participants currently predict, not least given the potential for, in part, 'leapfrogging' bricks & mortar retail. Mentally capping the upside for ecommerce as a proportion of the whole makes the mistake of not only anchoring off a quite frankly bizarre starting point where data quality is a big issue but also of too narrowly defining the ecommerce market itself. The opportunity is viewed as one of the most exciting that we have available to us as investors and is still at an embryonic stage with every possibility of becoming even more exciting. A position of clear leadership across its businesses combined with an entrepreneurial management team and superb cash generating abilities give us confidence that Alibaba will be one of the best ways of capitalising on this opportunity for investors.
DistributionNOW	This distribution business was recently spun out of National Oilwell Varco. It serves companies in the oil & gas sector from a network of 300 stores and distribution locations around the world. As a leader in an industry where scale matters the company benefits from a strong competitive position. However, we believe this will improve further as DistributionNOW leverages its strong balance sheet to make deals and consolidate the industry. Furthermore, we are optimistic that improved management alignment as a result of the spin-out will result in increased entrepreneurial energy at the company and lead to significantly higher operating margins and returns.

Complete Sales

Stock Name	Transaction Rationale
Deere	There is a lot to admire about John Deere - it possesses very loyal customers in the US, an established distribution network and good profitability. However, we believe that these attributes are proving harder to replicate as the company expands internationally. Specifically, there is more competition from international brands such as First Tractor in China and Mahindra and Mahindra in India, and also from Agco and New Holland. The capital needed to establish strong distribution in newer markets, combined with less brand loyalty, implies that returns on the international business will struggle to be as good as those in the US. These factors convinced us to sell the holding.
Google (A shares)	We have consolidated the Google holding into the 'C' share class. This allowed us to take advantage of a discount in price.
Recall Holdings	Recall Holdings is an Australian document management and storage business with operations worldwide. We received shares in this company following its spin off from Brambles, the pallet pooling business. Having analysed the prospects of Recall as a standalone business, we do not believe the investment case is suitably compelling and we have therefore sold the small holding.
Walt Disney	Our initial investment in this media giant was based on the belief that the market was under appreciating the value and growth potential of its core content. Whilst the growth produced by areas such as movie production, The Disney Channel and ESPN has been excellent, we now feel that the shares have caught up with our assessment of the longer-term outlook.

Portfolio Characteristics

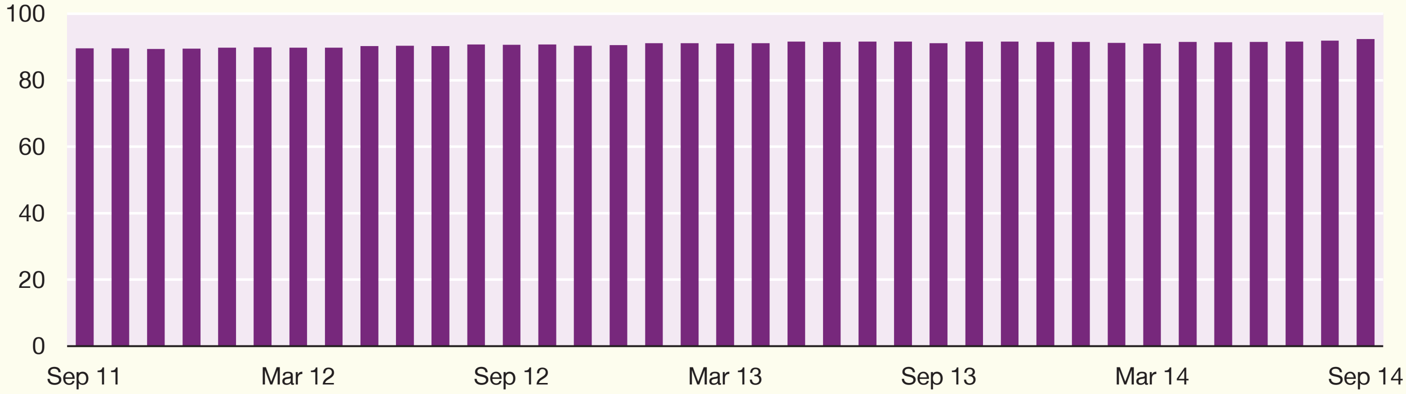
Key Statistics	
Number of Holdings	96
Number of Countries	25
Number of Sectors	9
Number of Industries	43
Active Share	92%
Rolling One Year Turnover	16%

Your portfolio is diversified in terms of number of holdings, sectors and industries. Bottom-up stock specific risk is the main source of total active risk in your portfolio

The portfolio continues to be biased away from traditionally defensive sectors such as Utilities and Telecommunications. Stock selection within Consumer Discretionary and Information Technology sectors remains a key feature

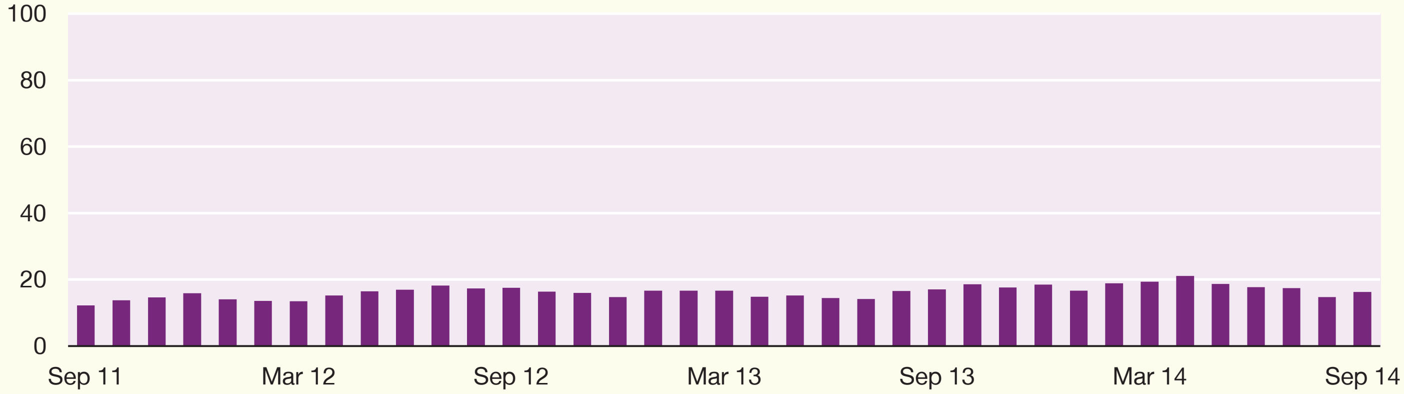
High active share and low turnover are consistent features in your portfolio and underpin our active stock picking approach and long-term investment horizons

Active Share (%)



Active Share – This is a measure of how actively managed a portfolio is. "Active Share" ranges from 0% to 100%. If the fund is exactly in line with the benchmark then "Active Share" will be 0%. If the fund has no commonality with the benchmark then "Active Share" will be 100%. Active Share is calculated by taking 100 minus "Common Money" (the % of the portfolio that overlaps with the index). For the calculation of "Common Money", for each stock the smaller of either the portfolio or benchmark weight is taken, and these numbers are then summed.

Rolling One Year Turnover (%)



Rolling One Year Turnover is calculated as the lesser of the sum of all purchases and the sum of all sales in each month divided by the month end market value, summed over 12 months. Turnover is a measure of average investment horizon, the lower the turnover the longer the average investment horizon.

Asset Name	Fund %
Equities	
Royal Caribbean Cruises	3.46
Prudential	3.33
Naspers	2.91
Roche	2.32
TSMC ADR	2.14
Moody's	2.08
Google Inc Class C	2.01
TD Ameritrade Holding Corp	2.00
Wellpoint	1.83
Nestle	1.81
Ryanair	1.80
Amazon.com	1.61
M&T Bank	1.58
EOG Resources	1.55
AIA Group	1.54
Baidu.com ADR	1.54
Markel	1.51
Samsung Elec. Common GDR Reg S	1.50
First Republic Bank	1.48
Harley-Davidson	1.38
Svenska Handelsbanken	1.36
eBay	1.35
INPEX	1.32
Wolseley	1.25
Ultra Petroleum	1.20
Rolls-Royce	1.17
FLIR Systems	1.16
Myriad Genetics Inc	1.16
Atlas Copco B	1.15
Mastercard	1.08
Dolby Laboratories	1.08
CarMax	1.08
Schindler	1.04
Visa Inc-Class A Shares	1.04
Colgate-Palmolive	1.03
Bank of Ireland	1.03
New York Community Bank	1.03
Martin Marietta Materials	1.02
Lincoln Electric Hdg.	1.00
Tokyo Electron	0.99
SMC	0.99
ICICI Bank Ltd	0.97

Asset Name	Fund %
Qualcomm	0.94
Waters	0.93
Tesla Motors	0.93
American Express	0.92
Teradyne	0.92
SAP	0.92
Coca Cola HBC (CDI)	0.91
Fairfax Financial NYC	0.91
DistributionNOW	0.88
THK	0.88
British American Tobacco	0.87
Brambles	0.87
Carlsberg	0.86
Mindray Medical International ADR	0.85
Bunzl	0.85
Xilinx	0.85
Praxair	0.82
Schibsted	0.81
Jardine Matheson	0.79
CRH	0.77
Olympus	0.74
Dia	0.73
China Mobile	0.72
Richemont	0.72
Rohm	0.67
Deutsche Boerse	0.61
China Resources Enterprise	0.59
Volvo	0.59
Investor	0.57
Jyske Bank	0.56
Facebook	0.56
BM&F Bovespa	0.55
Seattle Genetics	0.54
TripAdvisor	0.54
Namco Bandai	0.53
SK Hynix Inc	0.52
Hays	0.50
Ritchie Bros Auctioneers (USA)	0.50
Sberbank Spon ADR	0.50
Alibaba Group Holding Ltd	0.50
Howard Hughes	0.49
Tsingtao Brewery 'H'	0.49
Qiagen	0.48

Asset Name	Fund %
Norsk Hydro	0.47
Japan Exchange Group	0.45
Shandong Weigao	0.42
Dragon Oil	0.40
Teradata	0.37
Tullow Oil	0.33
Aggreko	0.32
Bank Negara Indonesia	0.30
Twitter Inc	0.29
Intuitive Surgical	0.27
Arcos Dorados	0.21
Total Equities	98.39
Total Cash and Deposits	1.61
Total Fund	100.00

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	4	Companies	1	Companies	2
Resolutions	117	Resolutions	2	Resolutions	2

There has been notable regulatory change in the UK, Japan and Europe

Within Europe, the EU Commission is proposing changes to the 2007 Shareholder Rights Directive in order to bring greater clarity to the investment chain. With regard to the UK, the Financial Reporting Council (FRC) has published a new edition of the UK Corporate Governance Code. Japan's first Stewardship Code, of which we became signatories in August, aims to promote long-term sustainable returns

We are currently adding to the Corporate Governance team's resources by recruiting new analysts

Company Engagement

Engagement Type	Company
Corporate Social Responsibility	Naspers Ltd, Ryanair Holdings PLC
AGM or EGM Proposals	Xilinx
Executive Remuneration	Hays

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Following a demanding proxy voting season, the broader themes affecting the governance landscape this quarter have been the development of new and existing governance codes both at home and abroad. Whilst the outcome of the Scottish independence referendum has meant business continues as usual, there has been notable regulatory change in the UK, Japan and Europe.

With regard to the UK, the Financial Reporting Council (FRC) has published a new edition of the UK Corporate Governance Code which is designed to strengthen the focus of companies and investors on the long term and the sustainability of value creation. The main changes relate to risk management, shareholder engagement and, as always, executive remuneration. First, the FRC will request that companies robustly assess their principal risks and explain how they are being managed and mitigated. Second, on executive pay, the FRC has decided to codify malus provisions – this is already standard practice – empowering remuneration committees to recover or withhold variable pay awards if corporate health suffers over the long term. Third, the FRC hopes to promote shareholder engagement by requiring Boards to explain what actions they will take to understand and respond to significant "oppose" votes at any general meeting. The revised Code will apply to accounting periods on or after October 1 2014.

The direction of travel for Japanese governance continues to be positive, with recent momentum starting to deliver some significant changes from a regulatory perspective. The country's first Stewardship Code, of which we became signatories in August, aims to promote long-term sustainable returns by supporting purposeful dialogue between investors and companies. In addition, a new Corporate Governance Code is currently being developed and it is hoped that it will be in place for next year's voting season.

Although the old adage "I was waiting ages for a Code and then two came along at once" springs to mind, we do not expect an overnight change in governance standards. In fact, the required evolution in cultural and behavioural approaches to governance in Japan will be a much more difficult and important step to ensuring better practices and protection for shareholders.

Accordingly, it was encouraging that during our colleague Rachel Turner's September trip to Tokyo with the Asian Corporate Governance Association (ACGA), several of our investee companies reported seeing benefits from increased engagement with investors and electing independent board members, both of which are central components of the new Stewardship and Corporate Governance Codes.

Within Europe, the EU Commission is proposing changes to the 2007 Shareholder Rights Directive in order to bring greater clarity to the investment chain. In addition to providing shareholders with a right to vote on executive remuneration and related party transactions, the amendments will look to increase transparency between companies, shareholders and relevant intermediaries. In particular, the Directive will facilitate the identification of shareholders, transmission of information and the exercise of shareholder rights by obliging intermediaries, such as institutional investors and custodians, to provide specific information on the identity of the underlying shareholder. They will also need to ensure appropriate arrangements are in place to accommodate shareholders' right to participate and vote in general meetings.

The inclusion of these new items in each region's governance regulations should be viewed as positive. However, it is important to remember that compliance with regulatory requirements and exercise of proper stewardship are not one and the same. As ever, the challenge for the Governance team is not only identifying and engaging with those investee companies which do not comply with the letter of the their respective Codes, but those that fail to endorse their spirit too.

In order to meet this challenge head-on, we are currently adding to the team's resources by recruiting new analysts. The addition of new personnel will help to supplement the knowledge and experience already within the team, as well as enabling us to improve the level of service we provide to the investment managers.

We are conscious that this quarter's review has centred on topics with particular relevance to governance as opposed to environmental and social issues. In the next quarter, we will be looking more closely at climate change and supply chain management and look forward to providing a more balanced overview of this work come the year end.

Image: © Shutterstock.com/Rat007

Company	Engagement Report
Naspers Ltd	Following a brief call with the company prior to the AGM, we abstained on the remuneration report. We subsequently had a second meeting that was less time pressured; the AGM had been and all resolutions had passed. The company has a simple long-term scheme which is positive but doesn't disclose information about maximum size of awards. There are reasons for this and we will continue to discuss this issue with Naspers. We also spoke about the value for the company having completed its third integrated annual report - this has resulted in a more focused approach to its CSR budget and activities and is increasing the alignment between the activities and business operations. This has been positive for the company and the projects and regions in which it operates.
Ryanair Holdings PLC	Ryanair is a low cost airline and its attitude to cost cutting could be considered extreme. We met the CEO at our offices. In the past 12 months there has been a change of rhetoric and, in the words of the CEO, the company has become more 'cuddly'. Although customers are still attracted by low fares and the company is still growing, the rate of growth has slowed. The change in approach is intended to supplement the company's sustainable cost advantage and help support its corporate reputation. Shortly after this meeting, we had a call with the CFO about the structure and transparency of the company's remuneration policy. The Board will discuss our suggestions regarding disclosure and we are arranging a follow up meeting with the Remuneration Committee.

Votes Cast in Favour

Companies	Voting Rationale
Naspers, Richemont, Ryanair, Xilinx	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Xilinx	Annual 13/08/14	3, 4	We opposed amendments to the Omnibus Stock Plan and Executives' compensation as we do not believe the performance and vesting conditions are appropriate.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Naspers	AGM 29/08/14	O.7	We abstained on the resolution to approve the remuneration policy. Disclosure is not complete but following an initial conversation with the company engagement will continue with a view to increasing disclosure prior to the 2015 AGM.
Ryanair	AGM 25/09/14	2	We abstained on the remuneration report due to a lack of disclosure and are engaging with the company to encourage greater transparency of the executives' pay in the future.

Votes Withheld

We did not withhold on any resolutions during the period.

	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)
Total Purchases		102,004	
Accrued Interest		0	
		102,004	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			102,004
Net Accrued Interest			0
Total			102,004

Trade Date Settlement Date	Asset Name Sedol Code	Quantity Price	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)	Quantity Balance	Book Cost Balance (GBP)
Pension Funds							
Other							
International							
Purchases							
24/07/14 24/07/14	Baillie Gifford Global Alpha Pension Fund B1C4T87	52,117.413 GBP 1.96		102,004		94,221,997.117	109,629,823
Total Purchases				102,004			
Total Net Investment/Disinvestment International							102,004
Total Net Investment/Disinvestment Other							102,004
Total Net Investment/Disinvestment Pension Funds							102,004
Total							102,004

	Annual Expenses (%)			Trading Expenses (%)		
	Investment Management Fee	Other Expenses	Total Expense Ratio	Stamp Duty and Other Taxes	Broker Commissions	Total Expenses inc Direct Trading Costs
Baillie Gifford Global Alpha Pension Fund	0.65	0.01	0.66	0.04	0.02	0.72

The Scheme invests in the Baillie Gifford Pooled Funds listed above. The Investment Management of the Funds has been delegated to Baillie Gifford & Co.

Costs are disclosed as a % of the value of the Fund on a historical rolling 12 month basis using average month end Fund values.

Investment Management Fees represent the standard annual investment management fee for each of the Pooled Funds listed and may not represent the fee actually paid by your Scheme. Please refer to your Scheme's Policy Terms or Management Agreement.

Other expenses will include custody charges unless separate provision is made for custody fee payment in your Scheme's Policy Terms or Management Agreement. Where the Fund is a sub-fund of an OEIC (Open Ended Investment Company) or invests in underlying OEIC sub-funds, it will also include expenses such as depositary fees, registration fees and audit fees.

Trading Expenses (stamp duty, other taxes and broker commission) arise when buying or selling stocks in the market. Buying or selling of stocks may result from: individual stock considerations, portfolio changes due to broader implementation of Baillie Gifford's investment policy and from both investment inflows and outflows from the Fund. When the Fund buys or sells investments in response to investment inflows and outflows the trading expenses are passed onto the incoming/outgoing investor through the pricing mechanism by means of a dilution adjustment.
Therefore, it is important to note that the above costs represent the costs of all trading undertaken by the Pooled Funds listed and do not reflect costs associated with investments or disinvestments that your Scheme may have undertaken during the period.

Counterparty Trading Analysis

Baillie Gifford Global Alpha Pension Fund		Transactions (%)			Commissions Paid (GBP)			Estimated Split of Commission			
								Execution (GBP)		Research (GBP)	
	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Merrill Lynch International	96,605,727	0.0	93.5	6.5	17,044	15,747	1,297	16,296	0	748	0
Morgan Stanley	78,095,422	8.6	48.1	43.3	25,783	21,836	3,947	23,416	0	2,367	0
UBS AG	34,989,222	0.0	0.9	99.1	10,772	558	10,213	10,617	0	155	0
CICC (HK) Ltd	30,940,604	0.0	0.0	100.0	18,564	0	18,564	18,564	0	0	0
J&E Davy	13,541,480	0.0	100.0	0.0	13,541	13,541	0	9,479	0	4,062	0
Sanford C Bernstein & Co LLC	12,883,359	0.0	90.8	9.2	6,442	5,848	594	6,442	0	0	0
Citigroup Inc	7,973,020	0.0	0.0	100.0	3,986	0	3,986	3,986	0	0	0
Liquidnet Europe Ltd (MTP)	5,361,142	0.0	0.0	100.0	2,681	0	2,681	2,681	0	0	0
Credit Suisse	4,091,955	0.0	100.0	0.0	1,555	1,555	0	1,555	0	0	0
ITG Europe Ltd (POSIT-MTP) (Crossing Network)	293,784	0.0	0.0	100.0	88	0	88	88	0	0	0
Other Brokers *	72,217	0.0	0.0	100.0	36	0	36	36	0	0	0
Total	284,847,932	2.4	55.3	42.3	100,492	59,087	41,406	93,160	0	7,333	0

* The details of all other counterparties used during the period are available to clients upon request.

Firm-Wide Comparators

		Transactions (%)			Commissions Paid (%)			Estimated Split of Commission			
								Execution (%)		Research (%)	
	Value (%)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Baillie Gifford Global Alpha Pension Fund	100.0	2.4	55.3	42.3	100.0	58.8	41.2	92.7	0.0	7.3	0.0
BG Average *	100.0	4.5	28.5	67.0	100.0	43.8	56.2	87.3	0.0	12.7	0.0

Baillie Gifford Global Alpha Pension Fund Average Commission Rate	0.0353 %
BG Average *	0.0452 %
Total commission paid as a percentage of the value of the fund	0.0032 %

* Based on all Global equity trading conducted with counterparties by Baillie Gifford.

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
Bank of New York Mellon (Custodian)	88,756,000	0	88,756,000
Brown Brothers Harriman	6,556,431	0	6,556,431
Northern Trust Company	2,966,956	0	2,966,956
Total	98,279,387	0	98,279,387

*Foreign exchange trading is on net basis; no commission paid.

IMA Pension Fund Disclosure Code (Third Edition)	The Pension Fund Disclosure Code was first adopted in May 2002 and was drawn up by a Joint Working Party of Members of the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF). The purpose of the Code is to promote accountability of fund managers to their clients through increased transparency and to assist clients in their understanding of the charges and costs levied on the fund assets for which they have responsibility. Under the Code, fund managers are required to provide clients with information on how they make choices between trading counterparties and trading venues, more detailed information on how the resulting commission spend is built up, and what services are met out of commission spend, in particular such execution and research services as are permitted by the Financial Conduct Authority (FCA). It also provides a comparison of client specific information on costs and trading with similar firm-wide information. Although the Code was initially drawn up with pension funds in mind, we provide the disclosures for all our clients in compliance with relevant regulatory requirements. There are two distinct types of disclosure required by the Code:- Level 1 requires disclosure of Baillie Gifford's policies, processes and procedures in relation to the management of trading costs incurred on behalf of clients. This disclosure is provided annually to clients and is called the "Trading Procedures and Control Processes" document. This document is also available on request. Level 2 requires client specific information to be provided and is contained within this quarterly report. Level 2 aims to provide comprehensive, clear and standardised disclosure of information from which clients and their advisers can compare and monitor trading costs incurred during the fund management process and the services received in exchange for these commissions. We have included disclosure of transactions and commissions for Equities, Bonds, Currencies and Derivatives, where relevant..
Broker Commission	This page gives information by geographic region on the commission paid by the fund on all commission bearing transactions in directly held equities.
Equity Trading Analysis and Commissions	The trading and commissions analysis on the previous pages represents trading and commissions incurred by the fund over the quarter. Portfolio transactions are analysed by counterparty and type of trade. Transactions listed under "Other Rates" include programme trades, direct market access or algorithmic trades where commission rates may be lower. Commissions have been shown by counterparty where the fund holds stocks directly. Commissions paid have been analysed by the service purchased (execution or research) in compliance with the enhanced code. Where the fund gains exposure to equities via Open Ended Investment Companies (OEICs), transactions and commission analysis have been provided at the total fund level. A full disaggregation by counterparty for each of these funds is available on request. Where relevant, the proportion of commissions paid under directed or recapture arrangements is also shown. The fund's analysis of transactions, commissions paid and the commission split is compared with Baillie Gifford's total transactions, commissions paid and the commission split across all trading in the same asset classes. The fund's average commission rate is compared with Baillie Gifford's average commission rate across all trading in the same asset classes. A similar analysis for OEIC holdings is shown, at the total fund level.
Non-Equity Trading Analysis	The trading report for bonds shows trading volume by the fund over the quarter, analysed by counterparty. As all trades are executed on a net basis, no commission figures are available. Where derivative transactions are permitted, and executed, these are analysed by counterparty (executing broker) and show market value, underlying exposure and (execution) commission. Where the fund gains exposure to bonds via OEICs, transaction volume by counterparty, is available for each of these funds on request. All foreign exchange activity, for the entire portfolio is analysed by counterparty, distinguishing between spot and forward transactions. As all trades are executed on a net basis, no commission figures are available. Where the fund gains exposure to markets via OEICs, currency transaction volume by counterparty, is available for each of these funds on request.
Income and Costs Summary	This shows costs deducted from the fund on an actual basis. Fund management fees and VAT are included during the period when the invoice is raised. Custody costs are included when the sum is debited from the funds managed by Baillie Gifford. Any holdings of in-house pooled funds are shown together with their total expenses on a rolling yearly basis, expressed as a percentage of fund value. Expenses include broker commission on transactions dealt within the fund, bank charges, audit, registrar, depository and Regulatory fees. Any tax paid by the fund is not included. For A and B class OEIC shares investment management fees are also included. A dilution levy may also be charged on OEIC purchases and sales in the case of large transactions. If the portfolio has a holding in a stock that is not covered by the code, such as third party funds or investment trusts, this is also shown.

Asset Name	Nominal Holding	Market Price	Book Cost (GBP)	Market Value (GBP)	Fund (%)
Pension Funds					
Baillie Gifford Global Alpha Pension Fund	94,221,997.117	GBP 1.99	109,629,823	187,275,641	100.0
Total Pension Funds			109,629,823	187,275,641	100.0
Total			109,629,823	187,275,641	100.0

Valuation of securities	Holdings in Baillie Gifford Pooled Funds are valued at month end using a single price which reflects closing prices of the underlying assets in the funds. This month end price may differ from the price used for buying and selling units in the funds which is calculated daily at 10am and uses intra-day prices. This provides a consistent basis for reporting.

	Market Value 30 June 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 30 September 2014 (GBP)
Pension Funds				
Baillie Gifford Global Alpha Pension Fund	183,631,265	102,004	3,542,372	187,275,641
Total Pension Funds	183,631,265	102,004	3,542,372	187,275,641
Total	183,631,265	102,004	3,542,372	187,275,641

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 30 June 2014			
Pension Funds		109,527,819.21	183,631,265.42
		109,527,819.21	183,631,265.42
Income			
Management Fee Rebate	102,004.20		
	102,004.20		
Net Total Income and Charges		102,004.20	102,004.20
Change in Market Value of Investments		0.00	3,542,371.85
As at 30 September 2014		109,629,823.41	187,275,641.47
Of which:			
Pension Funds		109,629,823.41	187,275,641.47
Total		109,629,823.41	187,275,641.47

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.
Pensions Committee	**19 November 2014**	**Unrestricted**	
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): **Bola Tobun – Investment & Treasury Manager**		TITLE: **2013/14 Local Government Pension Fund Annual Report** Ward(s) affected: N/A	

1. SUMMARY

1.1 This report presents the amended draft Annual Pension Fund Report and Statement of Accounts.

1.2 The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules and is now presented for consideration by the Pensions Committee.

.

2. DECISIONS REQUIRED

2.1 Members are recommended to:

- Approve the Pension Fund Annual Report;
- Approve the Pension Fund Statement of Accounts;
- Note the Funding Strategy Statement;
- Approve the Statement of Investment Principles;
- Note the Governance Compliance Statement.

3. REASONS FOR DECISIONS

3.1 The Local Government Pension Scheme (Administration) Regulation 2008 requires the Authority as the administering body for the London Borough of Tower Hamlets Pension Fund to approve and publish an annual report by 1 December following the year end.

3.2 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets.

4. ALTERNATIVE OPTIONS

4.1 The final Pension Fund Annual Report and Statement of Accounts are presented to Members following the conclusion of the audit carried out by the Council's external auditors, the Audit Commission.

4.2 There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is a legislative requirement.

5. BACKGROUND

5.1 The Council as an administering authority under the Local GovernmentPension Scheme Regulations is required to produce a separate set ofaccounts for the scheme's financial activities and assets and liabilities.

5.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP).

5.3 The Councils auditors, KPMG are concluding the audits and they are preparing their statement of opinion under a separate cover.

5.4 The Department Communities and Local Government (DCLG) have introduced an additional requirement for Councils to publish before the 1st December an annual report which incorporates elements of the financial accounts.

6. THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

6.1 The Accounts comprise two main statements with supporting notes. The main statements are:

- Dealings with Members Employers and Others which is essentially the funds revenue account
- The Net assets Statement which can be considered as the funds balance sheet.

6.2 The return on investment section of the Accounts sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:

- The financial transactions relating to administration of the fund.
- The transactions relating to its role as an investor.

6.3 The fund income section of the Report principally relates to the receipt of contributions from employers and active members and the payment of pensions benefits. The section indicates that the Fund is cash positive in that the receipt of contributions exceeds the pension payments £8.2m in 2013/14compared to £3.3m in 2012/13 and £3.7m in 2011/12.

6.4 Whilst the Fund net cashflow position in 2013/14 is more than double the previous year, it is expected that the Fund will become cashflow negative over the 2 year - although the exact timing is difficult to predict. A Fund is expected to become cashflow negative over time as fund membership matures.

6.5 Overall, fund membership has risen, and the active members rose significantly more than the rise in other categories of membership. The number of active members have gone up by 1,494 (28.2%), compared to deferred and retired membership numbers of 372 (5.9%) and98 (2.4%) respectively. These movements are a consequence of the auto enrolment exercise carried out in the year.

6.5 The investment performance section of the Report details returns on the investment portfolio and the impact of managers' activities and investment markets on the value of investments. The Fund achieved a return on its investment portfolio of 8.5% in 2013/14 outperforming benchmark return of 6.8% by 1.7%. The

Fund posted 3 year return of 7.1% which is marginally better than the benchmark return of 6.9% and delivered a 10 year return of 7% lagged benchmark return of 7.5% by 0.5%.

6.6 Overall, fund assets increased by £86m. The increase was mostly due to gains made from performance of financial markets in which the Fund held its investments and a net gain between fund income and expenditure.

6.7 The net asset statement represents the net worth (£1,013m) of the fund as the 31st March 2014. The statement reflects how the transactions outlined in the other statement have impacted on the value of the fund's assets.

6.8 The Annual report also includes three key statements (Funding Strategy Statement, Statement of Investment Principles and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.

6.9 The Funding Strategy Statement undergoes a detailed review and was updated after the triennial valuation. The 2013 triennial valuation outcome was reported, discussed and approved at the Pensions Committee meeting of 27thFebruary 2014.

6.10 The purpose of the Funding Strategy statement is threefold:

- To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory framework to maintain as nearly constant employer contributions rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

6.11 The Statement of Investment Principles facilitates adherence to best practice in the management of pension schemes as set out by the revised Myners Principles and the Fund is required to state the extent to which it has complied with these principles.

6.12 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

7.1. The comments of the Acting Corporate Director of Resources have been incorporated into the report.

8. LEGAL COMMENTS

8.1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 imposes a duty on the Council as an administering authority to prepare a pension fund annual report.

8.2 The report should deal with the following matters:

(a) management and financial performance during the year of the pension;

(b) an explanation of the investment policy for the fund and a review of performance;

(c) a report on arrangements made during the year for administration of the fund;

(d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;

(e) a Governance Compliance Statement;

(f) a Fund Account and Net Asset Statement;

(g) an Annual Report dealing with levels of performance and any other appropriate matters;

(h) the Funding Strategy Statement;

(i) the Statement of Investment Principles;

(j) statements of policy concerning communications with members and employing authorities; and

(k) any other material which the authority considers appropriate.

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 The Pension Fund Accounts demonstrate financial stewardship of the fund's assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive for the Council.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

10.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

11. RISK MANAGEMENT IMPLICATIONS

11.1 Accounts provide an effective mechanism to safeguard the Council's assets and assess the risks associated with its activities.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no any Crime and Disorder Reduction implications arising from this report.

13. EFFICIENCY STATEMENT

13.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***
None	*Bola Tobun(Investment & Treasury Manager)*
	X4733

The London Borough of Tower Hamlets Pension Fund

Annual Report 2013/14

TOWER HAMLETS

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Foreword by Chris Holme: Acting Corporate Director, Resources

This report details the financial position of your Pension Fund and the performance of the professional fund managers appointed to administer its investment portfolio.

The economic backdrop within the UK and US are showing signs of improvement, but downside risks persist and the Eurozone economy remains fragile. Ongoing geopolitical tensions are still impacting on financial markets so the value of our investments has seen some volatility.

The 31 March 2013 triennial valuation of the Fund recognised an estimated deficit of £365m with corresponding funding level of 72% compared to the last valuation (31 March 2010) which recognised estimated deficit of £305m with corresponding funding level of 71%. Although equities have rebounded; bond yields are at record lows potentially raising the valuation of the Fund's liabilities. However, it is worth noting that the Council is a long term investor and has a relatively secure long term income stream. Therefore, the Fund should be able to alter strategy that enables it to ride out periods of market underperformance and should not have to crystallise losses during market downturns.

The Fund has seen significant positive movement in the year benefiting from continued recovery in the financial markets, especially equities. The overall value of the portfolio of assets grew 8.5% in 2013/14 outperforming benchmark by 1.7%. This performance is reflective of average return on pension fund assets nationally and also average gains in financial markets. This year's performance follows on from good performances in 2012/13 and 2011/12 with average returns of 11% and 32% respectively. Markets continue to be volatile therefore the short to medium term outlook for the performance of the Fund remains uncertain.

The Investment Strategy allocates assets across a range of asset classes and further attempts to minimise exposure to significant movements within each asset class by appointing fund managers that pursue contrasting but complementary investment strategies. This approach ensures a diversified and balanced portfolio that targets steady and sustainable growth. However, asset allocation can drift away from target over time due to market or manager performance. To ensure that strategic asset allocation is in line with target and Fund Strategy objectives, the Fund's swing manager, L&G Investment Management is tasked with rebalancing the portfolio between equities and bonds when allocation significantly varies from target.

The Fund net cash flow position has increased significantly this year, it is expected that the Fund will become cash flow negative over the next two years - although the exact timing is difficult to predict. The Pensions Committee recognised this issue and agreed that, if necessary, income from two of the eight mandates can be recalled to ensure the Fund is able to pay its liabilities as they fall due.

Local Government Pension Scheme (LGPS) are still undergoing major changes to reduce the costs of running the scheme. We are presently waiting for the outcomes/decisions on the government consultation on proposed governance and structure of the LGPS. We continue to keep abreast of all proposed regulatory and changes.

Chris Holme

Governance of the Pension Scheme

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute.

The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets Pension Fund. The Pensions Committee has delegated responsibility for the management of the Fund and oversees the general framework within which the Fund is managed and sets investment policy on behalf of the Council and other employers in the Fund. Therefore, the Pensions Committee considers all investment aspects of the Pension Fund.

MANAGEMENT AND ADVISERS TO THE PENSION FUND

Pensions Committee:

Councillors:	Councillor Zenith Rahman (Chair) Councillor Judith Gardner Councillor Ann Jackson Councillor Shiria Khatun Councillor Craig Aston Councillor Oliur Rahman
Trade Union Representative (non-voting):	John Gray (Unison) Frank West (GMB)
Admitted Bodies Representative (non-voting):	John Gray (Circle Anglia Ltd)

Investment Advisers
Hymans Robertson
Raymond Haines (Independent Investment Adviser)

Actuarial Services
Hymans Robertson

Custodian
State Street Bank

Investment Performance
WM Company

Legal Advisors
In-House Team

Acting Corporate Director
Chris Holme

Auditor
KPMG LLP (UK)

Investment Managers
Baillie Gifford
GMO UK Limited
Investec Asset Management
Legal & General Investment Management
Ruffer LLP
Schroders Investment Management

The Pension Fund Regulations require the Council to obtain proper advice on the Fund's investment strategy. To obtain this advice the Pensions Committee has constituted an Investment Panel including professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the fund and individual managers and to consider technical reports on investment issues.

During 2013/14 the members of the Investment Panel were: -

Investment Panel

Raymond Haines, Independent Adviser (Chairman)
Councillor Zenith Rahman (Chair)
Councillor Judith Gardner
Councillor Ann Jackson
Councillor Shiria Khatun
Councillor Craig Aston
Councillor Oliur Rahman
John Gray (Unison)
Frank West (GMB)

Matt Woodman, Hymans Robertson

Chris Holme, Acting Corporate Director, Resources

Risk Management

The Funding Strategy Statement (appendix 3) explains the fund's key risks and how they are identified, mitigated, managed and reviewed.

The investment managers and custodian are audited separately and at different times. The Council receives AAF01/06 and SSAE16 reports that provides from their independent auditors.

The council is the primary employer in the Fund and the risks of late payment of contributions are with admitted and scheduled bodies who are treated by the Pension Regulations as part of the Council for pension purposes. All contributions received from external payroll providers are reconciled monthly.

The LGPS Scheme (2014)

The new scheme will not change pensions already being paid or benefits built up before April 2014, **existing benefits will be protected in full**. The main changes are as follows:

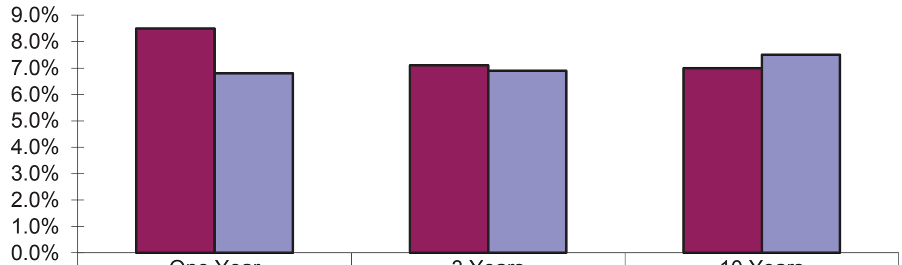
- A career average revalued earnings (CARE) scheme;
- The retirement age, which is currently 65, to be linked to the state pensionable age;
- The move to an accrual rate of 1/49th compared with 1/60th as at present;
- Pensions to be increased in line with the consumer prices index;
- Pensionable pay to include overtime;
- An increase in the employee's contribution rate for those earning over £34,000; and
- Introduction of the 50:50 option which will enable new scheme members to pay half contributions for half pension benefits.

Investment Performance of the Fund

The Council's Statement of Investment Principles sets the Fund's investment objective as "to follow an investment strategy which will achieve an appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk".

In 2013/14 the fund had a strong performance achieving a return on its investment portfolio of 8.5%, outperforming the benchmark of 6.8%. The three year return also outperformed the benchmark with the fund returning 7.1% against a benchmark of 6.9%. The return for 10 year continued to lag the benchmark by 0.5% as it contains the negative equity returns of 2008/09.

Fund Performance (One, Three and 10 Years)



	One Year	3 Years	10 Years
Fund	8.5%	7.1%	7.0%
Benchmark	6.8%	6.9%	7.5%
Rank	10	69	81

Fund Management Activity

The year was essentially a period of consolidation in which the manager appointments and asset allocation changes resulting from the restructuring initiated in 2010/11 began to be reflected in the fund's performance. A recovery in the equity markets and strong returns from the fund's two global equity managers was a major contributor to the outperformance.

The fund continued to be cash flow positive as concerns over a move toward negative cash flow were alleviated by the introduction of auto enrolment which brought an increase in the number of active members.

Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as at 31 March 2014 as set out below. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

Analysis of Asset Allocation

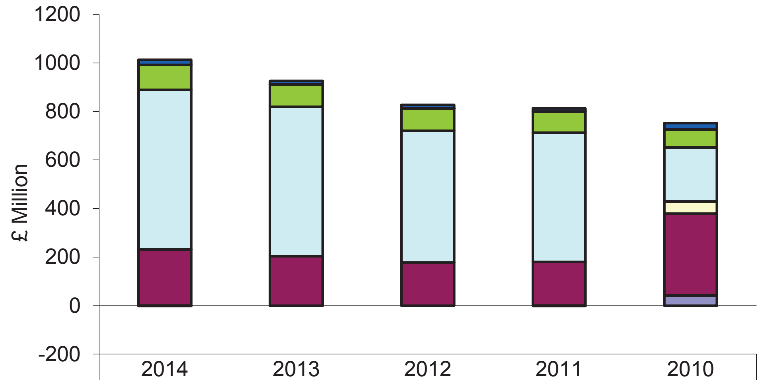
Asset Class	Benchmark	Fund Position	Variance
UK Equities	24.0%	24.8%	0.8%
Global Equities	37.0%	39.1%	2.1%
UK Index Linked	3.0%	4.8%	1.8%
Pooled Bonds	14.0%	9.6%	-4.4%
Property	12.0%	10.2%	-1.8%
Alternatives	10.0%	9.0%	-1.0%
Cash	0.0%	2.5%	2.5%

All investment activity is regulated by the Fund's Statement of Investment Principles which together with the Myners Compliance Statement are set out in Appendix 2.

Financial Accounts

During the financial year 2013/14 the value of the Fund increased by £86.1m. This is principally attributable to the performance of the financial markets in which the Fund held its investments. The "cash" sum includes the amount held by fund managers and the Pension Fund bank account.

ANALYSIS OF ASSET CLASS

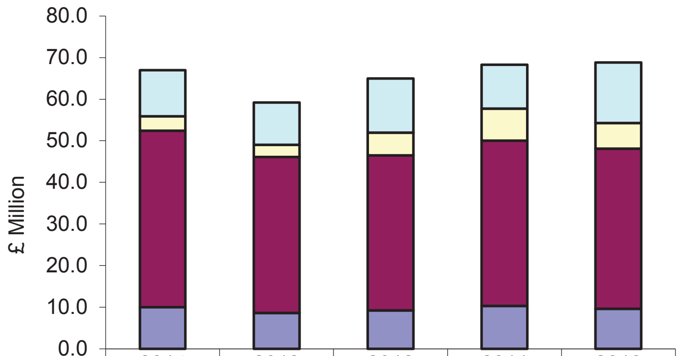


	2014	2013	2012	2011	2010
Cash	21.6	15.1	14.2	13.5	26.9
Derivatives	-0.4	0.5	0.2	-0.4	0.8
Property Units	102.1	92.1	92	86.2	73.5
Unit Trusts	658.7	615.2	542.9	532.8	222.6
Index Linked	0	0	0	0	49.9
Equities	231.0	203.9	177.9	180.1	337.2
Fixed Interest	0	0	0	0	41.7

Fund Income

There was a significant increase in the amount of income received by the Fund in 2013/14 compared to 2012/13. As illustrated by the below chart, all income streams recorded notable reductions other than employer related contributions, which increased slightly.

Fund Income Analysis



	2014	2013	2012	2011	2010
Investment Income	11.1	10.2	13	10.6	14.5
Transfer Values	3.5	2.9	5.5	7.7	6.2
Council Related Contributions	42.4	37.5	37.3	39.7	38.5
Employees Contributions	10.0	8.6	9.2	10.3	9.6

Investment income increased over the year by £0.9m (9%) due to an increase in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) increased by £0.6m (20.7%). Both employee and employer contributions increased significantly due to the auto-enrolment exercise carried out in the year. Employee contributions increased by £1.4m (16.2%) and employer contributions increased by £4.9m (13.1%)

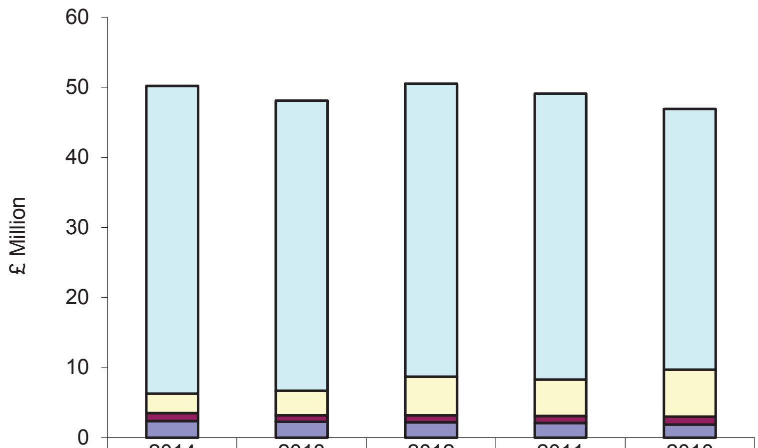
Fund Income Variance Analysis

Type of Income	2014 £m	2013 £m	Variance %
Employees Contributions	10	8.6	16.3%
Council Related Contributions	42.4	37.5	13.1%
Transfer Values	3.5	2.9	20.7%
Investment Income	11.1	10.2	8.8%
Total Fund Income	**67**	**59.2**	**13.2%**

Fund Expenditure

In 2013/14 the overall Fund expenditure increased by £2.1m (4.4%). The major contributor to the increase was the rise in benefits payable of £2.5m (6%) offset by a fall in transfer values of £0.7m (20%). There was a modest increase in investment management and administration costs.

Fund Expenditure Analysis



	2014	2013	2012	2011	2010
Benefits Payable	43.9	41.4	41.8	40.8	37.2
Transfer Values	2.8	3.5	5.5	5.2	6.7
Administration	1.1	0.9	1.0	1.0	1.1
Investment Management	2.4	2.3	2.2	2.1	1.9

The increase in benefits payable is due to Council making a higher number of redundancies in the year in order to meet its savings targets. The decrease in transfers out is due to a reduction in the number of staff leaving and also in the value of their funds being transferred out. There has been a reduction in administration costs of £126k (15.6%) owing to the restructure of the Council's Finance Department however this does not show in the table as it has been offset by the purchase cost of the new pension administration system. Similarly the fee reduction offered by the fund manager GMO does not show in the table as it has been subsumed by the increase in investment management fees which are performance based and have risen in line with the increase in the market value of the funds held.

Fund Expenditure Variance Analysis

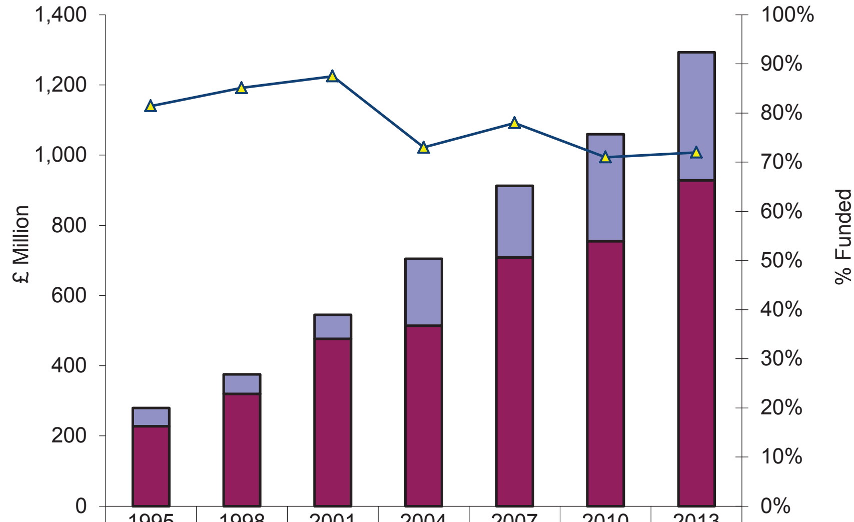
Type of Expenditure	2014	2013	Variance £m	Variance %
Investment Management	2.4	2.3	0.1	4.3%
Administration	1.1	0.9	0.2	22.2%
Transfer Values	2.8	3.5	-0.7	-20.0%
Benefits Payable	43.9	41.4	2.5	6.0%
Total Fund Expenditure	50.2	48.1	2.1	4.4%

Funding Level

The Council is required to value the Pension Fund every three years.

The fund was valued by the consultant actuary Hymans Robertson LLP as at the 31st March 2013. The Actuary calculated that the Pension Fund is 71.8% funded and has a deficit of £365m.

Movement in Funding Level



	1995	1998	2001	2004	2007	2010	2013
Deficit	52.0	56.0	68.1	191.0	204.8	305.0	365.0
Assets	228.0	320.0	477.2	514.0	708.4	755.0	928.0
Funding	81%	85%	88%	73%	78%	71%	72%

The funding position increased by 0.8% between the previous revaluation in 2010 and the 2013 valuation. This is principally attributable to an increase in the market value of assets with a reduction in ill-health retirements and slower rate of increase in salaries having a positive effect too. The deficit increase of £60m was brought about by an increase in the value of the Fund's liabilities owing to the decrease in the real gilt yield.

On the recommendation of the Actuary, the Council adopted a strategy to recover the deficit over a 20-year period. This will involve the Council paying a lump sum of £18.5m in 2014/15 rising to £20.5m and £22m in 2015/16 and 2016/17 respectively, into the pension fund specifically to recover the deficit.

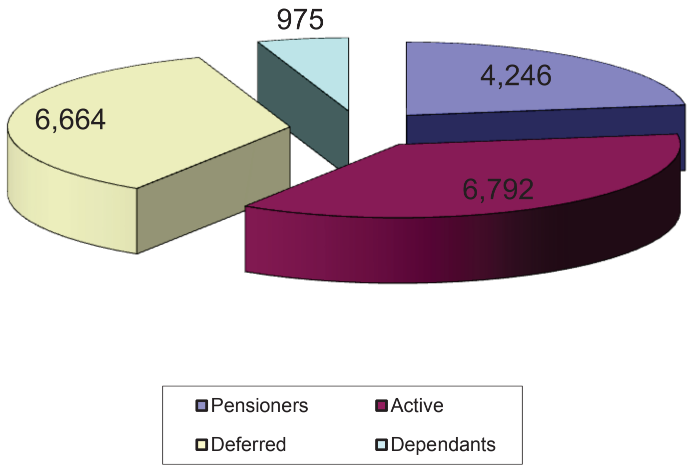
Although the increase in deficit has necessitated an increase in the overall monetary amounts payable by the Council, the contribution rate element of this has been held at 15.8% of employee pay.

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. It should be recognised that the position is not unique to the Tower Hamlets Fund. All Pension Funds in both the public and private sectors have been subject to declining investment returns and increasing life expectancy, which has resulted in rising deficits in many cases.

The 2013 valuation exercise has shown the fund to be gradually maturing as the proportion of employee members has fallen whilst the deferred and pensioner numbers have risen.

Scheme Membership

The Fund currently has a membership of 18,677 comprising the following categories as set out in the below chart.



The total pension fund membership has increased by 11.7% between 2012/13 and 2013/14. The number of actives members (those currently contributing to the fund) has increased by 28.2% owing to the auto enrolment exercise carried out in the year which has seen employee contributions increase by 16.3%. The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has increased by 372 (5.9%) and pensioner members by 2.4%. There has been little movement in the dependants category. The table below sets out the movement in membership number between the different categories in 2012/13 and 2013/14.

Movement in Fund Membership

Membership Type	31-Mar-14	31-Mar-13	Variance No.	Variance %
Actives	6,792	5,298	1,494	28.2%
Deferreds	6,664	6,292	372	5.9%
Pensioners	4,246	4,148	98	2.4%
Dependants	975	979	-4	-0.4%
Total	18,677	16,717	1,960	11.7%

The membership of the fund over the last five years is as set out below.

Membership Type	31-Mar-14	31-Mar-13	30-Mar-12	31-Mar-11	31-Mar-10
Actives	6,792	5,298	5,252	5,686	5,669
Deferreds	6,664	6,292	6,060	5,601	5,319
Pensioners	4,246	4,148	4,064	3,914	2,906
Dependants	975	979	940	931	925
Total	18,677	16,717	16,316	16,132	14,819

Contributions to the Fund

Employees pay contributions based on the level of pay they receive with rates being set between 5.5% to 7.5% of pensionable pay. The employers contribution rate used during the financial year ranged from 15.8% to 44.1% of pensionable pay.

The following table shows the contributing employers and the contributions received from each during the year.

Contributing Employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough of Tower Hamlets	6,159	8,848,875	21,209,827
Agilisys	47	117,996	292,525
Bethnal Green Academy	22	44,401	264,060
Canary Wharf College	5	5,214	12,708
Capita	8	13,111	31,759
Circle Anglia Ltd	3	6,189	41,987
Culloden Academy	18	9,352	49,845
East End Homes	42	101,517	452,599
Ecovert FM Ltd	15	8,146	21,971
Gateway Housing Association	1	1,922	9,109
Greenwich Leisure Limited	7	16,360	44,353
Look Ahead Housing and Care	2	3,287	10,062
Old Ford Academy	33	13,449	73,439
One Housing Group	10	14,877	179,301
Redbridge Community Housing Ltd	2	3,678	10,016
Sir William Burrough School	8	14,083	57,372
St.Pauls Way Community School	20	45,081	103,557
Swan Housing Association	1	1,922	16,654
Tower Hamlets Community Housing	19	50,594	245,751
Tower Hamlets Homes Limited	370	661,250	1,651,656
Total	6,792	9,981,304	24,778,551

* The Council contributed an additional £16.5m in respect of deficit funding

The full accounts are as set out in Appendix 1.

The Council is required to publish a number of statements relating to the operation of the fund. The statements and the associated reports are as set out in the following appendices.

Appendix 2 Statement of Investment Principles
Appendix 3 Funding Strategy Statement
Appendix 4 Communications Strategy Statement
Appendix 5 Governance Compliance Statement

For further information on the Local Government Pension Scheme and your entitlement, please contact Anant Dodia at anant.dodia@towerhamlets.gov.uk or by telephoning 020 7364 4248.

Statement from the Actuary

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2013 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2014 to 31 March 2017 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 71.8% of the Funding Target and the estimated deficit on the Fund at the valuation date was £365m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is £18.5m (2014/15) rising to £20.5m (2015/16) and £22m (2016/17).

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2014 to 31 March 2017 is 35.5% of pensionable pay.

Individual Adjustments are required under Regulation 77 for the period 1 April 2014 to 31 March 2017 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

		Minimum Contribution for the year ending				
Employer Name as per 31 March 2013	Year ending 31 March 2015	Additional Monetary Deficit Payment £	Year ending 31 March 2016	Additional Monetary Deficit Payment £	Year ending 31 March 2017	Additional Monetary Deficit Payment £
London Borough of Tower Hamlets	15.8%	18.5m	15.8%	20.5m	15.8%	22m
Tower Hamlets Community Housing Limited	34.7%		36.1%		37.6%	
Redbridge Community Housing Limited	17.7%		17.7%		17.7%	
East End Homes Limited	31.1%		32.3%		33.6%	
Greenwich Leisure Limited	17.7%		17.7%		17.7%	
Swan Housing Association Limited	26.2%	10k	26.2%	10k	26.2%	11k
Gateway Housing Association (Bethnal Green & Victoria Park)	25.6%	26k	25.6%	27k	25.6%	28k
One Housing Group (Toynbee Island Homes)	41.4%		41.4%		41.4%	
Circle Anglia Limited	27.7%		27.7%		27.7%	
Tower Hamlets Homes	23.1%		23.1%		23.1%	
Look Ahead Housing & Care Limited	19.9%		19.9%		19.9%	
Ecovert FM Limited	22.5%		22.5%		22.5%	
Bethnal Green Academy	20.6%	141k	20.6%	146k	20.6%	152k
Sir William Burrough School	25.3%		23.6%		21.8%	
St Pauls Way Community School	16.7%		17.8%		18.9%	
Capita	19.6%		19.6%		19.6%	
Canary Wharf College	15.9%		15.9%		15.9%	
Agilisys	16.8%		16.8%		16.8%	

In addition to the certified contribution rates, payments to cover the additional liabilites arising from early retirements (other than ill-health) will be made to the Fund by the employers.

The results of the triennial valuation depend on the actuarial assumptions made about the future of the Fund. The effect on the valuation of the Fund of changes to the main assumptions are set out in the table below.

Sensitivity of valuation results to changes in asumptions

		Impact	
Assumption	Change	Deficit (£m)	Future service rate (% of pay)
Discount rate	Increases by 0.5%	Falls by £112m	Falls by 3%
Salary increases	Increases by 0.5%	Rises by £31m	Rises by 2%
Price inflation/pension increases	Increases by 0.5%	Rises by £92m	Rises by 2%
Life expectancy	Increases by 1 year	Rises by £39m	Rises by 1%

This is not an exhaustive list of assumptions but those that are likely to have the biggest impact. The effect of changes are shown in isolation and it is possible that the Fund could experience changes to more than one assumption simultaneously.

The next triennial valuation of the Fund is due as at 31 March 2016. The contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Independent auditor's report to the members of London Borough of Tower Hamlets Pension Fund

APPENDIX 1 - PENSION FUND ACCOUNTS

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2012/13 £'000	2013/14 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	37,466	42,401
From members	3	8,637	9,982
Transfers in			
Transfers in from other pension funds	4	2,939	3,527
Benefits			
Pensions	4	(34,271)	(35,681)
Lump sum benefits	4	(7,115)	(8,178)
Payments to and on account of leavers			
Refunds of contributions		(1)	(3)
State scheme premiums		(1)	(3)
Transfers out to other pension funds		(3,458)	(2,778)
Administrative expenses	13	(926)	(1,087)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		**3,270**	**8,180**

RETURN ON INVESTMENTS		2012/13 £'000	2013/14 £'000
Investment income	11	10,586	11,540
Taxes on Income		(396)	(410)
Change in market value of investments			
Realised		4,989	22,195
Unrealised	10	83,354	46,918
Investment management expenses	16	(2,283)	(2,364)
NET RETURN ON INVESTMENTS		**96,250**	**77,879**
Net increase in the Fund during the year		99,519	86,059
Add: Opening net assets of the scheme		827,352	926,871
CLOSING NET ASSETS OF THE SCHEME		**926,871**	**1,012,930**

NET ASSETS STATEMENT AS AT 31ST MARCH		2013 £'000	2014 £'000
Investments Assets			
Equities		203,869	230,998
Pooled Investment Vehicles			
Unit Trusts		523,418	566,768
Property		92,128	102,073
Other		91,831	91,918
Derivative Contracts			
Forward Foreign Exchange Contracts		654	238
		911,900	991,995
Cash deposits	6	6,198	5,292
Other investment balances	5	1,001	817
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(122)	(647)
Other investment balances	5	(215)	0
Current Assets	5	9,752	16,954
Current Liabilities	5	(1,643)	(1,481)
TOTAL NET ASSETS		**926,871**	**1,012,930**

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

The Council is the administering authority for the Pension Fund and has executive responsibility for it. The Council delegates its responsibility for administering the Fund to the Pensions Committee which is responsible for considering all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and other statutes relating to investment issues. The Committee meets quarterly to determine investment policy objectives, appoint investment managers, monitor investment performance and make representations to the Government on any proposed changes to the Local Government Pension Scheme. The Committee is required to obtain proper advice on the investment strategy of the Fund for which it has established an Investment Panel which includes professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the Fund and individual managers and consider technical reports on investment issues. The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

The day to day administration of the Fund and the operation of the management arrangements and administration of the investment portfolio is delegated to the Corporate Director of Resources.

The Fund is operated as a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets and those of bodies admitted to the Fund. These individuals are referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividend receipts and gains on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management - that is the accountability of management for the resources entrusted to it - and the disposition of its assets at the period end.

2. ACCOUNTING POLICIES

(a) **Accounts**

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007 and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Fund is administered in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009.

(b) **Basis of preparation**

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2014. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

Fund Account - Revenue Recognition

Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which it relates. Any amount due in the year but unpaid will be classified as a current asset.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid.

(d) **Investments**

Investments are shown in the Net Assets Statement at market value on the following bases.

(i) Listed securities are shown by reference to bid price at the close of business on 31st March 2014.

(ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2014.

(iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2014.

(iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.

(v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2014. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

(vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.

(vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(e) **Investment Income**

(i) Interest income is recognised in the Fund account as it accrues.

(ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

(iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.

(iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

NOTES TO THE PENSION FUND ACCOUNTS

2 ACCOUNTING POLICIES Cont…

Fund account - expense items

(f) **Management Expenses**

Fund managers' fees are paid in accordance with the terms of each individual management agreement. The fees are based mainly on a percentage of the value of funds under their management and increase or reduce as the value of the investments change.

(g) **Benefits Payable**

Pensions and lump sums payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Net assets statement

Financial Assets

(h) Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined by

(ii) Fixed interest securities

Fixed Interest Securities – are recorded at net market value based on their bid price.

(iii) Unquoted investments

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from assumptions and estimates.

There is just one item in the authority's net asset statement as at 31st March 2014 for which there which there is a significant risk of material adjustment in the forthcoming financial year.

Pensions Liability - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2013/14, the Council’s actuaries advised that the net pensions liability had decreased by £34.4 million to £488.6 million as a result of higher return on investment assets and a reduction in the salary increase rate.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2014 range from 15.8% to 44.1% of pensionable pay. The Council paid an agreed additional monetary contribution of £16.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2012/13 £'000	2013/14 £'000
Members normal contributions		
Council	7,571	8,849
Admitted bodies	223	222
Scheduled body	843	911
Total members	**8,637**	**9,982**
Employers		
Normal contributions		
Council	17,979	21,210
Admitted bodies	997	1,064
Scheduled bodies	2,282	2,505
Deficit funding contributions		
Council	15,250	16,500
Other contributions		
Council	958	1,122
Total employers	**37,466**	**42,401**
Total contributions	**46,103**	**52,383**

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2013/14 employees made contributions of £26,465.94 (£44,059.40 in 2012/13) into the AVC Scheme operated by Aviva (Norwich Union) and £6,444.33 to Equitable Life (£6,444.33 in 2012/13). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index linked to keep pace with inflation. In April 2011, the method of indexation changed from the retail prices index to the consumer prices index. Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2012/13				2013/14			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(32,650)	(872)	(749)	(34,271)	(33,852)	(968)	(861)	(35,681)
Lump sum retirement benefits	(4,943)	(768)	(392)	(6,103)	(6,817)	(31)	(288)	(7,136)
Lump sum death benefits	(1,012)	0	0	(1,012)	(990)	0	(52)	(1,042)
Total Pensions and Benefits	**(38,605)**	**(1,640)**	**(1,141)**	**(41,386)**	**(41,659)**	**(999)**	**(1,201)**	**(43,859)**
Transfer Values Received	2,939	0	0	2,939	3,527	0	0	3,527
Transfer Values Paid	(3,458)	0	0	(3,458)	(2,778)	0	0	(2,778)
Total	**(39,124)**	**(1,640)**	**(1,141)**	**(41,905)**	**(40,910)**	**(999)**	**(1,201)**	**(43,110)**

5. DEBTORS AND CREDITORS

Unless otherwise stated, all transactions are accounted for on an accruals basis. The following amounts were debtors or creditors of the Pension Fund as at 31st March.

	2012/13 £'000	2013/14 £'000
Debtors		
Other Investment Balances		
Investment sales	0	27
Dividends receivable	691	514
Tax recoverable	310	276
	1,001	817
Current Assets		
Contributions due from admitted bodies	87	86
London Borough of Tower Hamlets Pension Fund	340	62
	427	148
Total Debtors	**1,428**	**965**
Creditors		
Other Investment Balances		
Investment purchases	215	0
Current Liabilities		
Unpaid benefits	1,073	1,171
Administrative expenses	570	263
London Borough of Tower Hamlets Pension Fund		47
	1,643	1,481
Total Creditors	1,858	1,481
Net Debtors	**(430)**	**(516)**

6. CASH

The deposits held by fund managers can be further analysed as follows:

	2012/13 £'000	2013/14 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	2,477	3,803
Schroders: Multi Asset Portfolio	15	14
Schroders: Property Portfolio	3,698	1,465
London Borough of Tower Hamlets Pension Fund	9,324	16,806
TOTAL CASH	**15,524**	**22,098**

7. TAXATION

UK Income Tax
Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property unit trusts.

Value Added Tax
By virtue of Tower Hamlets Council being the Administering Authority, VAT input tax is recoverable on all Fund activities.

Overseas Tax
Taxation agreements exist between the UK and certain other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 14th November 2013.

9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2014

	2013	2014
London Borough of Tower Hamlets		
Active Members	4,789	6,158
Pensioners	3,957	4,043
Deferred Pensioners	5,970	6,332
Dependants	965	959
	15,681	**17,492**
Admitted & Scheduled Bodies		
Active Members	509	634
Pensioners	191	203
Deferred Pensioners	322	332
Dependants	14	16
	1,036	**1,185**

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilisys
Capita
Circle Anglia Ltd.
East End Homes
Ecovert FM Ltd.
Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
Greenwich Leisure Limited
Look Ahead Housing and Care
One Housing Group (formerly Island Homes)
Redbridge Community Housing Ltd.
Swan Housing Association
Tower Hamlets Community Housing

Scheduled Bodies

Bethnal Green Academy
Canary Wharf College
Sir William Burrough School
St. Pauls Way Community School
Tower Hamlets Homes Limited
Culloden Primary School
Old Ford Primary School

10. INVESTMENTS

The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

Manager	Mandate
Baillee Gifford Life Ltd.	Global Equity, Diversified Growth
GMO UK Ltd.	Global Equity
Investec Asset Management	Absolute Return Bonds
Legal & General Investment Management	UK Equity, Index Linked Gilts
Ruffer LLP	Diversified Growth
Schroders Asset Management Property Fund	Property

The value of the Fund, by manager, as at 31st March was as follows:

	2013		2014	
	£ million	%	£ million	%
Baillee Gifford Life Ltd - Diversified Growth	46.3	5.0	46.9	4.7
Baillee Gifford Life Ltd - Equities	163.1	17.7	183.1	18.4
GMO UK Ltd.	227.3	24.7	261.3	26.2
Investec Asset Management	97.0	10.6	97.5	9.8
Legal & General Investment Management - Equities	194.1	21.1	211.6	21.2
Legal & General Investment Management	51.3	5.6	49.0	4.9
Ruffer LLP	45.5	5.0	45.0	4.5
Schroders Asset Management Property Fund	94.1	10.3	103.1	10.3

10. INVESTMENTS (continued)

The movement in the opening and closing value of investments during the year, together with related direct transaction costs, were as follows:

	Market Value as at 1 Apr 2013 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2014 £'000	Transaction Costs £'000
Baillee Gifford Life Ltd - Diversified Growth	46,313	69	0	507	46,889	0
Baillee Gifford Life Ltd - Equities	163,061	0	0	20,005	183,066	0
GMO UK Ltd.	223,829	138,258	(108,035)	2,626	256,678	74
Investec Asset Management	97,034	0	0	468	97,502	0
Legal & General Investment Management	245,390	0	0	15,166	260,556	0
Ruffer LLP	45,518	0	0	(488)	45,030	0
Schroders Asset Management Property	90,633	13,236	(10,879)	8,638	101,628	0
	911,778	**151,563**	**(118,914)**	**46,922**	**991,349**	**74**

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2013 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2014 £'000
UK Investment Assets					
Quoted	687,949	13,305	(10,879)	44,296	734,671
Overseas Investment Assets					
Quoted	223,297	138,905	(108,273)	3,158	257,087
Unquoted	532	(647)	238	(532)	(409)
	911,778	**151,563**	**(118,914)**	**46,922**	**991,349**

Derivative Contracts

The fund managers GMO UK Ltd is permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2014 were forward foreign exchange contracts.
Forward Foreign Exchange Contracts are over-the-counter contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. They are used to manage economic exposure to markets.

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the reporting date. The market value of the contracts is represented by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The global equity manager GMO is instructed to use forward foreign exchange contracts to minimise currency risk exposure. Net exposure to forward foreign exchange is restricted to 10% of the portfolio.

Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date £'000	Sterling value of equal and opposite obligation at 31 March 2014 £'000	Gains/(losses) on Contract £'000
Currency contracted to purchase	(34,483)	33,836	(647)
Currency contracted to sell	25,701	(25,463)	238
Net Position	**(8,782)**	**8,373**	**(409)**

Contract	Manager	Expiration	Gains/(Losses) on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2014	(16)
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2014	3
Danish Krone	GMO UK Ltd	April 2014	
Euro Foreign Currency	GMO UK Ltd	April 2014	2
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2014	
Japanese Yen Foreign Currency	GMO UK Ltd	April 2014	(351)
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2014	(32)
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2014	2
Swedish Krona Foreign Currency	GMO UK Ltd	April 2014	7
Swiss Franc Foreign Currency	GMO UK Ltd	April 2014	8
US Dollar Forward Currency	GMO UK Ltd	April 2014	(32)
Unrealised Loss			**(409)**

Unrealised losses were made on foreign exchange contracts in the year amounting to £0.409 million.

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2012/13 £'000	2013/14 £'000
Dividends from overseas equities	7,217	7,886
Net rents from properties	3,159	3,427
Interest on cash deposits	51	58
Foreign tax	159	169
TOTAL	**10,586**	**11,540**

12 ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employer's contribution rate is determined by the Actuary as part of the revaluation exercise.

The 2013 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £365 million and the funding level to be 72%. This compares to a deficit at the previous revaluation in 2010 of £305 million and a corresponding funding level of 71%.

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contributions to recover the deficit for the term of the revaluation is as set out below :-

	£m
2014/15	18.50
2015/16	20.50
2016/17	22.00

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2013 determined that this would require a contribution (additional to the future contribution rate) of 15.2% of members' pensionable pay equivalent to £18.5 million per annum.

The Council, as Administering Authority, prepares a Funding Strategy Statement (FSS) in respect of the Fund in collaboration with the Fund's Actuary and after consultation with the employers and investment advisors. The Actuary is required to have regard to this statement when carrying out the valuation. The FSS includes the Fund's funding policy, the objectives of which are:

- to ensure the long-term solvency of the Fund
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Council can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

The basis of valuing the Fund's assets (see note 2) is compatible with the basis of placing a value on members' benefits as both are related to market conditions at the valuation date.

12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2013/14 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2016 and the recommendations implemented from 1st April 2017.

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2013. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

Financial Assumptions	Nominal	Real	
Price inflation (CPI)	2.5%		
Pay increases	3.8%	1.3%	Real rates are nominal rates
Funding basis discount rate	4.6%	2.1%	adjusted for inflation

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.2	24.2
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	24.3	26.4

Actuarial Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.503 million (£1,497 million in 2012/13).

13. ADMINISTRATIVE EXPENSES

	2012/13 £'000	2013/14 £'000
Investment Advice	116	153
Performance Measurement	15	15
Administration	806	686
Audit Fees	21	21
Other Fees/Income	(32)	212
	926	1,087

14. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. The aim of investment risk management is to minimise the risk of a reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level.

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

The Council only invests money with institutions with a minimum credit rating by Fitch agency of A+ or higher.

Liquidity risk

This is the risk that the Fund might not have the cash flow required in order to meet its financial obligations when they become due. Over the years contributions have tended to be greater than benefits and this has ensured that sufficient cash has been available to meet payments.

The Fund currently operates two bank accounts. One is held by the Fund's custodian (State Street Bank) and holds cash relating to the investment activities and the other is the LBTH Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

Market risk

This is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises; interest rate risk, currency risk and other price risk. The Fund mitigates these risks as follows:

Interest rate risk
Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

The Fund's direct exposure to interest rate movements as at 31st March 2013 and 31st March 2014 is set out below.

Interest Rate Risk	As At 31st March 2013	As At 31st March 2014
Asset Type	**£'000**	**£'000**
Cash and cash equivalents	6,198	5,292
Cash balances	9,752	16,954
Fixed interest securities	148,287	146,517
Total	**164,237**	**168,763**

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2014	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		**£'000**	**£'000**
Cash and cash equivalents	5,292	53	(53)
Cash balances	16,954	170	(170)
Fixed interest securities	146,517	1,465	(1,465)
Total change in net assets available	**168,763**	**1,688**	**(1,688)**

Interest rate risk - sensitivity analysis

Interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The table below shows the effect of a +/- 100 BPS change in interest rates.

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2013	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		**£'000**	**£'000**
Cash and cash equivalents	6,198	155	(155)
Cash balances	9,752	4	(4)
Fixed interest securities	148,287	(1,483)	1,483
Total change in net assets available	**164,237**	**(1,324)**	**1,324**

14. RISK MANAGEMENT (continued)

Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 5.8%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous year end.

Currency Exposure - Asset Type Asset Type	As At 31st March 2013 £'000	As At 31st March 2014 £'000
Overseas quoted securities	205,044	238,710
Overseas unit trusts	7,384	5,949
Cash	2,300	13
Total overseas assets	**214,728**	**244,672**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2014	Change in year in net assets available to pay benefits	
		+5.8%	-5.8%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	238,710	252,555	224,865
Overseas unit trusts	5,949	6,294	5,604
Cash	13	14	12
Total change in net assets available	**244,672**	**258,863**	**230,481**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2013	Change in year in net assets available to pay benefits	
		+5.7%	-5.7%
Asset Type		£'000	£'000
Overseas quoted securities	205,044	216,732	193,356
Overseas unit trusts	7,384	7,805	6,963
Cash	2,300	2,431	2,169
Total change in net assets available	**214,728**	**226,968**	**202,488**

The percentage change in the year of 5.8% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

Other Price risk

To mitigate the risk of a loss owing to a fall in market prices the Fund maintains a diverse portfolio of investments. Diversification ensures that the Fund has a balance of investments that offer different levels of risk and return.

The Fund employs a number of investment managers, with differing but complementary styles, to mitigate the risk of underperformance of any single manager and to ensure that any fall in market prices should not affect the Fund as a whole.

Manager performance and asset allocation policy is regularly reviewed by the Pensions Investment Panel. The Fund also uses certain derivative instruments as part of efficient portfolio management.

Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis Asset Type	Potential Market Movements (+/-)
UK equities	12.1%
Global equity	11.9%
Total fixed interest	2.8%
Alternatives	4.4%
Cash	0.0%
Pooled Property Investments	1.9%

14. RISK MANAGEMENT (continued)

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	22,098	0.0%	22,098	22,098
Investment portfolio assets				
UK equities	211,541	12.1%	237,074	186,008
Global equity	440,153	11.9%	492,311	387,995
Total fixed interest	146,517	2.8%	150,678	142,356
Alternatives	91,919	4.4%	95,963	87,875
Pooled Property Investments	101,628	1.9%	103,518	99,738
Net derivative assets	(409)	0.0%	(409)	(409)
Investment income due	817	0.0%	817	817
Amounts receivable for sales	0		0	0
Amounts payable for purchases	0	0.0%	0	0
Total assets available to pay benefits	**1,014,264**		**1,102,050**	**926,478**

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2013 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	15,524	0.0%	15,524	15,524
Investment portfolio assets				
UK equities	194,137	13.4%	220,151	168,123
Global equity	386,358	12.8%	435,812	336,904
Total fixed interest	148,287	2.9%	152,587	143,987
Alternatives	91,831	4.7%	96,147	87,515
Pooled Property Investments	90,633	1.4%	91,902	89,364
Net derivative assets	532	0.0%	532	532
Investment income due	1,001	0.0%	1,001	1,001
Amounts receivable for sales			0	0
Amounts payable for purchases	(215)	0.0%	(215)	(215)
Total assets available to pay benefits	**928,088**		**1,013,441**	**842,735**

Refinancing risk

The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

15. FINANCIAL INSTRUMENTS DISCLOSURES

The net assets of the Fund are made up of the following categories of financial instruments:

	Long-term		Current	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
Financial Assets				
Loans and receivables	0	0	16,611	17,709
Financial assets at fair value through profit or loss	911,246	991,757	994	5,592
Total Financial Assets	**911,246**	**991,757**	**17,605**	**23,301**
Financial Liabilities				
Payables	0	0	(1,858)	(1,481)
Financial liabilities at fair value through profit or loss	0	0	(122)	(647)
Total Financial Liabilities	**0**	**0**	**(1,980)**	**(2,128)**

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

Fair Value Hierarchy

IFRS7 requires the Fund to classify fair value instruments using a three-level hierarchy.
The three levels are summarised as follows:

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts

Level 2 - inputs other than quoted prices for identical assets or liabilities in active markets

Level 3 - inputs that are not based on observable data. Such instruments would include unquoted equity investments and hedge fund of funds.

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2014.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	230,998	0	0	230,998
Pooled Funds				
Unit Trusts	566,768	0	0	566,768
Property Unit Trust	102,073	0	0	102,073
Other	91,918	0	0	91,918
Derivative Contracts				
Forward Foreign Exchange Contracts	0	(409)	0	(409)
Cash and bank Deposits	22,160	0	0	22,160
Current Assets	903	0	0	903
Current Liabilities	(1,481)	0	0	(1,481)
	1,013,339	**(409)**	**0**	**1,012,930**

During the year ended 31st March 2014 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2013 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	203,869	0	0	203,869
Pooled Funds				
Unit Trusts	523,418	0	0	523,418
Property Unit Trust	92,128	0	0	92,128
Other	91,831	0	0	91,831
Derivative Contracts				
Forward Foreign Exchange Contracts	0	532	0	532
Cash and bank Deposits	15,864	0	0	15,864
Current Assets	1,087	0	0	1,087
Current Liabilities	(1,858)	0	0	(1,858)
	926,339	**532**	**0**	**926,871**

15. FINANCIAL INSTRUMENTS DISCLOSURES

Net gains and losses on financial istruments

	Long-term 2012/13 £'000	Long-term 2013/14 £'000
Financial Assets		
Loans and receivables		
Financial assets at fair value through profit or loss*	88,568	69,645
Total Financial Assets	**88,568**	**69,645**
Financial Liabilities		
Payables		
Financial liabilities at fair value through profit or loss	(225)	(532)
Total Financial Liabilities	**(225)**	**(532)**

16. INVESTMENT MANAGEMENT EXPENSES

	2012/13 £'000	Fund Value %	2013/14 £'000	Fund Value %
Payments to Managers	2,283	0.25	2,364	0.23

17. RELATED PARTY TRANSACTIONS

The London Borough of Tower Hamlets Pension Fund is administered by The London Borough of Tower Hamlets.

In accordance with IAS24 'Related Party Disclosure', material transactions with related parties not disclosed elsewhere in the financial statements are detailed below.

The Council incurred costs of £680k (£806k 2012/13) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £16.5m (£15.3m 2012/13) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

During the year no Committee Members or Council Chief Officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2014, the Fund held an average investment of £6.0m (£5.5m 31st March 2013), earning interest of £62k (£68k in 2012/13).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £2.3m (£2.2m 2012/13) from this company.

Fund administration expenses payable to the administrating authority are as set out in the table below.

Fund Administration Expenses	2012/13 £'000	2013/14 £'000
Payroll / HR Support	478	374
Corporate Finance	328	306
	806	**680**

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2014 include:
Chief Accountant
The financial value of their relationship with the fund is as set out below

	2012/13 £'000	2013/14 £'000
Short term benefits	25	18
Long term/post retirement benefits	3	4

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2013/14 there were no Members of the Pension Fund Committee who had involvement with other organisations.

Compensation of key management - It was not practical to include costs relating to key management personnel within the Pension Fund Accounts, principally as they are charged to the Council's Accounts and have not been charged to the Pension Fund. All costs are disclosed within note 33 of the Council's main accounts.

18. CONTINGENT LIABILITIES

The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations. The liability as at 31st March 2014 was £1.572m (£5.338m 2012-13).

19. CONTINGENT ASSETS

Admitted body employers in the Fund hold insurance bonds to guard against the possibility of not being able to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

20. IMPAIRMENT LOSSES

During 2013/14 impairment losses were nil (impairment losses in 2012/13 were also nil).

Appendix 2 - Statement of Investment Principles

Introduction

This is the Statement of Investment Principles adopted by the London Borough of Tower Hamlets Pension Fund (“the Scheme”) as required by the Local Authority Pension Scheme (Management and Investment of Funds) Regulations 2009. It is subject to periodic review by the Pensions Committee which acts on delegated authority of the London Borough of Tower Hamlets. The Pensions Committee receives recommendations and advice from the Investment Panel which oversees the investment management of the Scheme on a day to day basis. The terms of reference for the Pensions Committee within the Council’s Constitution (3.1.1.10 1) are:

- To consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972 and the various statutory requirements in respect of investment matters.

The Pensions Committee has responsibility for:

- Determining an overall investment strategy
- Appointing the investment managers, an independent custodian, an investment advisor, the actuary and any other external consultants where considered necessary
- Reviewing on a regular basis the investment managers’ performance and the quality of their internal controls systems
- Reviewing the Statement of Investment Principles, the Governance Compliance Statement and the Funding Strategy Statement at regular intervals

In preparing this Statement, the Pensions Committee has taken written advice from the Investment Practice of Hymans Robertson Consultants and Actuaries.

The Myners Code of Investment Principles

The Government commissioned a report in 2000 entitled “Review of Institutional Investment in the UK”. The Review, which was undertaken by Paul Myners was published in March 2001 and is referred to as The Myners Review. The Pensions Committee of the London Borough of Tower Hamlets believes the Myners Report constitutes an important guide to best practice in the management of pension schemes. Following a review in October 2008 the Treasury published a revised set of six principles. Local authorities are required to state the extent to which the administering authority Compliant with the six principles set out in a document published by the Chartered Institute of Public Finance and Accountancy entitled “CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme Investment in the United Kingdom”.

The Investment Panel has produced, and maintains, a record of compliance (Myners Code Adherence Document) with these principles on behalf of the Pensions Committee.

The extent to which the Scheme complies with these principles is outlined in the table at the end of this document.

Fund Objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Council aims to fund the Scheme in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Scheme's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The Investment Panel has translated these objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to the Scheme's authorised investment managers. The strategic benchmark has been translated into benchmarks for the Scheme's investment managers which are consistent with the Scheme's overall strategy. The Scheme benchmark is consistent with the Investment Panel's views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used on an ongoing basis).

The Investment Panel monitors strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme.

To achieve its objectives the Pensions Committee has agreed the following with the Investment Panel:

Choosing Investments: The Investment Panel is responsible for the appointment of investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Investment Panel, after seeking appropriate investment advice, has given the managers specific directions as to the asset allocation, but investment choice has been delegated to the managers, subject to their specific benchmarks and asset guidelines.

Kinds of investment to be held: The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and pooled funds. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management. The Investment Panel considers all of these classes of investment to be suitable in the circumstances of the Scheme. The Fund's structure and benchmarks are set out in the table below.

Current Managers and Mandates		
Manager	**Mandate**	**Target**
Baillie Gifford	Global Equities Diversified Growth	Outperform benchmark by 2-3% over a rolling 3 year period 3.5 above UK Base Rate
GMO	Overseas Equities	Outperform benchmark by 1.5% over a rolling 3 year period
Investec	Pooled Bonds	3 month LIBOR +2% pa
Legal & General	UK Equities UK Index Linked	FTSE All share FTSE A Gov Index Linked >5yrs
Ruffer	Diversified Growth	Greater than the expected return on cash
Schroders	Property	Outperform benchmark by 0.75% over a rolling 3 year period

Balance between different kinds of investments: The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market the managers will maintain diversified portfolios of investments through direct holdings or pooled vehicles. The asset allocation varies over time due to the impact of changing market conditions and manager performance creating an imbalance between target and actual allocation. When the Fund moves more than 5% away from target then consideration is given to rebalancing.

Risk: The Investment Panel provides a practical constraint on Scheme investments deviating greatly from its intended approach by adopting a specific asset allocation benchmark and by setting manager-specific benchmark guidelines. The Investment Panel monitors the managers' adherence to benchmarks and guidelines. In appointing more than one investment manager, the Investment Panel has considered the risk of underperformance of any single investment manager.

Expected return on investments: Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Scheme. In the short term returns are measured against a peer group benchmark.

Realisation of investments: The majority of investments held within the Scheme may be realised quickly if required. As the Fund is cash flow positive there will not be a need to realise investments quickly at least in the medium term.

Social, Environmental and Ethical Considerations: The Council has a fiduciary responsibility to obtain the best level of investment return consistent with the defined risk parameters as embodied in the strategic benchmark. However, the Council recognises that Social, Ethical and Environmental issues are factors to be taken into consideration in assessing investments. The investment managers have confirmed they pay due attention to these factors in the selection, retention and realisation of investments. The Investment Panel will monitor the managers' statements and activities in this regard.

Exercise of Voting Rights: The Investment Panel has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their processes and practices in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending

The Fund does not currently participate in a stock lending arrangement.

Additional Voluntary Contributions (AVCs): The Pensions Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Principle	Compliance	Compliance
Principle 1: Effective Decision Making Administering authorities should ensure that: Decisions are taken by persons or organisations with the skills, knowledge, advice and resources to make them effectively and monitor their implementation; Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	The Council has a Pensions Committee and an Investment Panel who meet on a quarterly basis for decision making purposes. The Fund's Governance Compliance Statement sets out the governance structure, Terms of Reference, delegations and representation. All members and officers of the Committee are required to undertake training on a periodic basis to ensure that they attain the necessary knowledge and skills with which to undertake their duties effectively. To ensure that they are fully aware of their statutory and fiduciary responsibilities new members are provided with a handbook containing the Committee's terms of reference, standing orders and operational procedures. Two training days per year are arranged for the committee members to deliver training. The committee intends to use the CIPFA knowledge and skills framework as the basis for a training programme to assess the training needs of its members and to actively monitor the progress made. The Fund contracts an actuary, a professional investment advisor and an independent investment advisor all of who attend committee meetings throughout the year and provide advice to committee members. Other expert advisors attend as required.	Compliant
Principle 2: Clear Objectives An overall investment objective should be	The Fund's aims and objectives are set out in its Funding Strategy Statement and Investment Management Agreements are in place on the segregated mandates held by the Fund. The funding strategy is	Compliant

set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	reviewed at each triennial valuation and the actuarial position and financial impact on scheme employers and tax payers is considered when formulating the investment strategy. All external procurement is conducted within EU procurement regulations and the authority's own procurement rules. The Fund is aware of the investment management fees charged by the investment managers and transaction related costs, and this is considered when letting and monitoring contracts for investment management.	
Principle 3: Risk and Liabilities In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Following each triennial valuation the Committee assesses the structure of the Fund's liabilities and, where necessary, amends its investment strategy to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed by all employers. The Fund's liabilities are long term in nature and the investment strategy reflects this liability profile by investing in long term generating assets. The Fund's benchmark includes a significant holding in equities in pursuit of long term higher returns. Allowances are made for periods of underperformance in the short term. The triennial valuation sets out the liability profile for each individual employer. The strength of covenant of each employing body and risk of default is taken into consideration when setting the employer contribution rate. The Fund has an active risk management programme in place. The risk management process is outlined in the Fund's Annual Report and Accounts. The Committee receives the external auditor's Annual Governance Report which states their assessment of the risk management process.	Compliant

Principle 4: Performance assessment Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.	The Fund's Investment Panel meets quarterly to review the Fund's performance against its investment objective. In consultation with the Fund's investment advisors the Committee will assess the performance of the investment managers and consider whether any action is required. The fund managers attend the Investment Panel meetings periodically. The Fund employs the WM company to measure the performance of its investment managers. The Fund's Annual Report is presented to the Committee explaining the Fund's activities and decisions taken during the year. This allows the Investment Panel to reflect on the effectiveness of its strategy and also the management of the fund managers to deliver against agreed benchmarks.	Compliant
Principle 5: Responsible ownership Administering authorities should: Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the statement of investment principles. Report periodically to scheme members on the discharge of such responsibilities.	The Fund requires its investment managers to adopt the Institute Shareholders Committee Statement of Principles. The extent to which these principles are taken into account in the selection, retention and realisation of investments is left to the manager's discretion. The manager's activities in this regard are reviewed by the Investment Panel. The Fund's approach to responsible ownership is set out in its Statement of Investment Principles. Any significant issues arising over the year are reported in the Fund's Annual Report.	Compliant
Principle 6: Transparency and reporting Administering authorities act in a transparent manner, communicating with stakeholders on issues relating to their	The Fund publishes a Governance Policy Statement, a Communications Strategy, a Funding Strategy Statement, and a Statement of Investment Principles. The statements are reviewed and updated when required and are approved by the Pensions Committee.	Compliant

management of investment, its governance and risks, including performance against stated objectives. Provide regular communication to scheme members in the form they consider most appropriate.	Fund manager performance data is included in the Fund's Annual Report and Accounts. The statements form part of a suite of annual report documentation which may be found on the website http://www.towerhamlets.gov.uk An Annual Benefits Statement is sent hard copy to active and deferred members of the Fund. Pensioner members receive an annual newsletter detailing any information affecting pensions in payment.	

Appendix 3 - FUNDING STRATEGY STATEMENT

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Tower Hamlets Pension Fund ("the Fund"), which is administered by London Borough of Tower Hamlets, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1st April 2014.

1.2 What is the London Borough of Tower Hamlets Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Tower Hamlets Fund, in effect the LGPS for the London Borough of Tower Hamlets area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in **Appendix B**.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,

- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in **Appendix A**.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions and cessations;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Anant Dodia in the first instance at e-mail address anant.dodia@towerhamlets.gov.uk or on telephone number 020 7364 4248.

2 Basic Funding issues

(More detailed and extensive descriptions are given in **Appendix D**).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in **Appendix E**.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report which will be issued by 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see **Appendix A**.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authorities**	**Police, Fire, Colleges etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)			Attained Age approach (see Appendix D – D.2)		Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No employers of this type	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	NA	14 years	20 years	Future working lifetime of remaining active members	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	NA	% of payroll	% of payroll	Monetary amount	% of payroll

Treatment of surplus	Covered by stabilisation arrangement	NA	Spread over recovery period	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority
Phasing of contribution changes	Covered by stabilisation arrangement	NA	Maximum of 3 years	3 years - Note (e)	3 years - Note (e)	Maximum of 3 years
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to the London Borough of Tower Hamlets Council.

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Employer	**London**

	Borough of Tower Hamlets
Max contribution increase	+£2m
Max contribution decrease	-£2m

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same approach to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate because of a small or decreasing payroll; or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;

- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff.

The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers.

The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This may require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;

- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?
The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on an ad-hoc basis.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?
The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?
Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on 27 January 2014 for comment;

b) Comments were requested within 22 days; and

c) Following the end of the consultation period the FSS was updated where required and the report will be published on 1st December 2014.

A3 How is the FSS published?
The FSS is made available through the following routes:

- Published on the website, at www.towerhamlets.gov.uk;
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;
- A summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;

- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Committee] and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.towerhamlets.gov.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- advise the Actuary of any new or ceasing employers;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures such as deficit spreading and phasing are also in place to limit sudden increases in contributions,
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.

Risk	Summary of Control Mechanisms
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections through employers paying monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.

Risk	Summary of Control Mechanisms
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this a change from the 2010 valuation where 1.4% was used). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add around 0.5 years of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).

Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Appendix 4 - Communications Strategy Statement

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Introduction
This is the Communications Strategy Statement of London Borough of Tower Hamlets Pension Fund.
The Fund liaises with over 12 employers and approximately 15,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

Any enquiries in relation to this Communication Strategy Statement should be sent to:

London Borough of Tower Hamlets
Town Hall
Human Resources
Payroll & Pensions Services
Mulberry Place
5 Clove Crescent
London E14 2BG

Telephone: 020 7364 4251
Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

Regulatory Framework
This Policy Statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme (LGPS) Regulations 1997. The provision requires us to:
"….prepare, maintain and publish a written statement setting out their policy concerning communications with:
(a) members.
(b) representatives of members.
(c) prospective members.
(d) employing authorities."

In addition it specifies that the Statement must include information relating to:
"(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employing authorities."

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remains very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*.

The draft Code of Practice[3] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

Responsibilities and Resources

Within the Pension Section, the responsibility for communication material is performed by our Pensions Manager with the assistance of two Principal Pensions Officers.

Although, the team write all communications within the section, all design work is carried out by the Council's Creative & Technical team. The Pensions team are also responsible for arranging all forums, workshops and meetings covered within this Statement.

All printing is carried out by an external supplier, which is usually decided upon by the Council's Creative & Technical team.

Communication with key audience groups

Our audience

We communicate with a number of stakeholders. For the purposes of this Communication Policy Statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities (scheme employers and admitted bodies);
- senior managers;
- union representatives;
- elected members/the Pension Panel;
- Pensions Section staff;

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Department for Communities and Local Government, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

How we communicate

General communication

We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will compliment this by

[3] Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

use of electronic means such as our intranet. We will accept communications electronically, for example by e-mail and, where we do so, we will respond electronically where possible.

Our pension section staffs are responsible for specific tasks. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person.

Branding
As the Pension Fund is administered by London Borough of Tower Hamlets, all literature and communications will conform to the branding of the Council.

Accessibility
We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically. However, on all communication from the Pension Fund office we will include a statement offering the communication in large print, Braille, on cassette or in another language on request.

Policy on Communication with Active, Deferred and Pensioner Members
Our objectives with regard to communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees.
- for better education on the benefits of the LGPS.
- to provide more opportunities for face to face communication.
- as a result of improved communication, for queries and complaints to be reduced.
- for our employers to be employers of choice.
- to increase take up of the LGPS employees.
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail beneath the table:

Scheme booklet	Paper based and on intranet	At joining and major scheme changes	Post to home address/via employers	Active
Newsletters	Paper based and on intranet	Annually and after any scheme changes	Via employers for Actives. Post to home address for deferred & pensioners	Separately for active, deferred and pensioners
Pension Fund Report and Accounts	Paper based and on intranet	Annually	On request	All
Pension Fund Accounts – Summary	Paper based	Annually	Via employers for actives. Post to home address for deferred and pensioners	All
Estimated Benefit Statements	Paper based/via intranet	Annually	Post to home address/via employers for active members. To home address for deferred members.	Active and Deferred.
Factsheets	Paper based and on intranet	On request	On request	Active, deferred & pensioners
Intranet	Electronic	Continually available	Advertised on all communications	All
Road shows/ Workshops	Face to face	Annually	Advertised in newsletters, via posters and pensioners payslips	All
Face to face education sessions	Face to face	On request	On request	All
Joiner packs	Paper based	On joining	Post to home addresses	Active members
Pay advice slip/P60	Paper based	Conditional	Post to home address	Pensioners

Explanation of communications

Scheme booklet - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Newsletters - An annual/biannual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming road shows, a summary of the accounts for the year, contact details, etc.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Estimated Benefit Statements – For active members these include the current value of benefits as well as the projected benefits as at their earliest retirement date and at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pension's increases.

Intranet – The intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (such as newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Road shows/Workshops – Every year a number of staff will visit the schools/offices around the Borough, providing the opportunity to have a face to face conversation about your pension rights

Face to face education sessions – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights.

Joiner packs – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

Pay advice slip/P60 – The Pay advice slips are sent when the address, pension or tax code changes. The P60 information is communicated using this medium on an annual basis.

Policy on promotion of the scheme to Prospective Members and their Employing Authorities
Our objectives with regard to communication with prospective members are:

- to improve take up of the LGPS.
- for the LGPS to be used as a tool in the attraction of employees.
- for our employers to be employers of choice.
- for public relations purposes.

As we, in the Pension Team Section, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

Overview of the LGPS leaflet	Paper based	On commencing employment	Via employers	New employees
Educational sessions	As part of induction workshops	On commencing employment	Face to face	New employees
Promotional newsletters/flyers	Paper based	Annually	Via employers	Existing employees
Posters	Paper based	Ongoing	Via employers	New and existing employees

Explanation of communications
Overview of the LGPS leaflet - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so.

Educational sessions – A talk providing an overview of the benefits of joining the LGPS.

Promotional newsletters/flyers – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the Scheme and provide guidance on how to join the Scheme.

Posters – These will be designed to help those who are not in the LGPS understand the benefits of participating in the scheme and provide guidance on how to join the Scheme.

Policy on communication with Employing Authorities
Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.
- to ensure smooth transfers of staff.
- to ensure they understand the benefits of being an LGPS employer.

- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

Employers' Guide	Paper based and intranet	At joining and updated as necessary	Post or via email	Main contact for all employers
Newsletters	Electronic (e-mail) and intranet	Annually or more frequent if necessary	E-mail	All contacts for all employers
Employers' focus groups	Face to face	At least quarterly/half yearly	Invitations by e-mail	Either main contacts or specific groups (e.g. HR or payroll) depending on topics
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for all employers
Meeting with adviser	Face to face	On request	Invite sent by post or email	Senior management involved in funding and HR issues.

Explanation of communications

Employers' Guide - A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pensions Section and Scheme members.

Newsletters – A technical briefing newsletter that will include recent changes to the scheme, the way the Pensions Section is run and other relevant information so as to keep employers fully up to date.

Employers' focus groups – Generally workgroup style sessions set up to debate current issues within the LGPS.

Pensions Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.
Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

Policy on communication with senior managers
Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS
- to ensure that they understand costs/funding issues
- to promote the benefits of the Scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Committee papers	Paper based and electronic	In advance of Committee	Email or hard copy	All

Explanation of communications
Briefing papers – a briefing that highlights key issues or developments relating to the LGPS and the Fund, which can be used by senior managers when attending meetings

Committee paper – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members

Policy on communication with union representatives
Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the Scheme to their members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the Scheme
- to engage in discussions over the future of the Scheme
- to provide opportunities to Education Union representatives on the provisions of the Scheme

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All
Pension Committee	Meeting	Quarterly	Via invitation when appropriate	All

Explanation of communications
Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Face to face education sessions – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the Scheme, or to explain possible changes to policies.

Pensions Committee – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the Scheme (policies, etc) are taken.

Policy on communication with elected members/Pensions Committee
Our objectives with regard to communication with elected members/Pensions Committee are:

- to ensure they are aware of their responsibilities in relation to the Scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the Scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Training sessions	Face to face	When there is a new Pensions Committee and as and when required	Face to face or via the Employers Organisation for local government	All members of the Pensions Committee as well as other elected members
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pensions Committee
Pension Committee	Meeting	Quarterly	Members elected onto Pension Committee	All members of the Pensions Committee

Explanation of communications
Training sessions – providing a broad overview of the main provisions of the LGPS, and elected members responsibilities within it.

Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund.

Pension Committee - a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the Scheme (policies, etc) are taken.

Policy on communication with pension section staff
Our objectives with regard to communication with Pension Section's staff are:

- ensure they are aware of changes and proposed changes to the scheme
- to provide on the job training to new staff
- to develop improvements to services, and changes to processes as required
- to agree and monitor service standards

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Face to face training sessions	Face to face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All
Software User Group meetings	Face to face	Quarterly	By email, paper based.	Principal Administrators
Regional Officer Group meetings	Face to face	Quarterly	By email, paper based.	Pension Manager/ Principal Administrators

Explanation of communications

Face to face training sessions – which enable new staff to understand the basics of the Scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the Scheme

Staff meetings – to discuss any matters concerning the local administration of the Scheme, including for example improvements to services or timescales

Attendance at seminars – to provide more tailored training on specific issues

Software User Group meeting – to discuss any issues concerning the computer software used to administer the scheme, including future upgrades and improvements

Regional Officer Group meetings - discussion group of principal officers from other administering authorities.

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide access to key information in relation to the management of the scheme
- to outline the management of the scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund Report and Accounts	Paper based and on website	Annually	Post	All, on request
Pension Fund Committee Papers	Paper based and on website	As and when available	Post	All, on request

Explanation of communications

Pension Fund Report and Accounts – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Pension Fund Committee Papers - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contributions (AVC) scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports • Rates and Adjustments (R&A) certificates • Revised R&A certificates • Cessation valuations	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	Government Departments /HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	Government Departments /HMRC/the Pensions Regulator

Explanation of communications

Pension Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

Details of new employers – a legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission of third party service providers into the scheme)

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – various questionnaires that my received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund

Performance Measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Scheme booklet	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS
Estimated Benefit Statements as at 31 March	Active members	On request	31 July each year
Telephone calls	All	Not applicable	95% of phone calls to be answered within 30 seconds
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	95% of retirement benefits to be issued within 10 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within one month of notification
Transfers in	Joiners/active members	Within two months of request	Within one month of request
Issue of forms i.e. expression of wish	Active/deferred members	N/A	Within five working days
Changes to Scheme rules	Active/deferred and pensioner	Within two months of the change	Within one month of change coming

	members, as required	coming into effect	into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within ten working days

Quality

Active and deferred members	Paper based survey with annual benefit statements	All services	
All member types	Annual paper based survey on completion of specific tasks	Service received during that task	One task to be chosen each quarter from: retirements new starts and transfers in transfers out deferred leavers
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types. To include union representatives.
Employers	Focus Groups	Their issues	Regular feedback sessions.

Results

Details of the performance figures are reported to the Head of Pay, Pension, & e-HR on a quarterly basis. Feedback is received from the Service Head and from various focus /discussion groups.

Review Process

We will review our Communication Policy to ensure it meets audience needs and regulatory requirements at least annually. A current version of the Policy Statement will always be available on our intranet and paper copies will be available on request.

Appendix 5- Governance Compliance Statement

1. Background

1.1 The Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities to produce a statement on the governance policy of the pension fund. This document sets out the Policy of the London Borough of Tower Hamlets, as an administering authority in relation to its governance responsibilities for the Tower Hamlets Local Government Pension Scheme.

2. Governance Structure

2.1 The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.

2.2 The governance structure is supported by:

- The Pensions Committee
- The Investment Panel
- Officers of the Council; and
- Professional Advisors

Pensions Committee

2.3 The terms of reference of the Pensions Committee encompass: -

- Determination of investment policy objectives
- Appointment of investment managers
- Monitoring investment performance and
- Making representations to Government on any proposed changes to the LGPS.

2.4 The Pensions Committee meets quarterly and it comprises seven Members of the Council, one trade union member and one admitted body member. Special meetings of the Committee are arranged as necessary.

2.5 The Committee is subject to the Council's Financial Regulations and is advised on investment issues by an Investment Panel, which is a sub-committee of the Pensions Committee and includes professional advisors.

3. Investment Panel

3.1 The Investment Panel comprises of all members of the Pensions Committee, an independent chair, an independent advisor, the Corporate Director, Resources (or deputy) and one observer from trade unions and one observer from admitted bodies. The terms of reference of the Investment Panel include the following:

- Review the Scheme's asset allocation
- Consider and monitor the quarterly performance reports
- Review annually each manager's performance
- Consider the need for any changes to the Scheme's investment manager arrangements
- Evaluate the credentials of new managers prior to their appointment

4. Officer Delegation

4.1 The Corporate Director, Resources has delegated authority for implementing Council policy, Pension Committee decisions in the areas of scheme administration, funding, investment, communications and risk management.

5. Professional Advisors

5.1 The Council employs external professional advisors in the form of independent chair of the Investment Panel, investment advisers, fund managers, global asset custodians and independent performance assessors

6. Overall Power

6.1 The Pensions Committee delegate specific functions on the appointment of managers on a case by case basis after consideration of reports by that Committee.

6.2 Committee retain responsibility for all policy decisions relating to the investment portfolio. Responsibility for the day to day operation of the management arrangements and administration of the portfolio is delegated to the Corporate Director, Resources.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pensions Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Investment Panel is presented at the following Pensions Committee. All key recommendations of the Investment Panel are ratified by the Pensions Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Investment Panel are also members of the Pensions Committee.
REPRESENTATION	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee. An independent professional observer has also been appointed to chair the Investment Panel.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Investment Panel are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Investment Panel have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	The Pensions Committee/ Investment Panel does not currently confer voting rights on non-Councillors in line with common practice across the local government sector.
TRAINING/FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pensions Committee.
MEETINGS	That an administering authority's main committee or	Compliant	Meetings of the Pensions Committee

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
(FREQUENCY/ QUORUM)	committees meet at least quarterly.		are arranged to take place quarterly.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Meetings of the Investment Panel are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund.
ACCESS	That subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	Panel meeting papers are circulated at the same time to all members of the Pensions Committee/ Investment Panel.
SCOPE	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Pensions Committee considers are range of issues at its meetings and therefore has taken steps to bring wider scheme issues within the scope of the governance arrangements.
PUBLICITY	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report.

Membership of Pensions Committee and Investment Panel 2013/14

Attendances at Pensions Committee 2013/14

Attendees	Voting Rights	Meetings Scheduled 13-Jun	19-Sep	14-Nov	25-Feb
Members					
Cllr Zenith Rahman	√	Present	Present	Present	Present
Cllr Judith Gardiner	√	Present	Present	Present	Present
Cllr Ann Jackson	√	Present	Present	Present	Present
Cllr Craig Aston	√	Present	Present		
Cllr Oliur Rahman	√				
John Gray (Non-voting)	x	Present	Present	Present	
Frank West (Non-voting)	x	Present	Present	Present	
Officers					
Chris Holme	x		Present		
Oladapo Shonola	x	Present	Present	Present	
Anant Dodia	x	Present	Present	Present	Present
Simon Kilbey	x			Present	Present
Paul Thorogood	x	Present		Present	
Lisa Stone	x	Present			Present
Ngozi Adedeji	x			Present	Present
David Galpin	x			Present	
Kevin Miles	x			Present	Present
Pearl Emovon	x				Present
Antonella Burgio	x	Present	Present	Present	Present
Raymond Haines	x	Present	Present		
Matt Woodman	x	Present	Present		Present
Lynn Coventry	x		Present		
Barry McKay	x			Present	Present

Training is provided to members of the Pensions Committee to enable them to discharge their duties in a responsible manner. A training session was offered to members of the Committee, on 20th September 2012. The session provided an introduction to the Local Government Pension Scheme and covered governance, investment strategy and actuarial valuation. The attendance at the training session is set out in the table below:

Attendance at Training Sessions 2013/14

Attendees	**19-Sep**	**14-Nov**	**25-Feb**
Cllr Zenith Rahman	Present	Present	Present
Cllr Judith Gardiner	Present	Present	Present
Cllr Ann Jackson	Present	Present	Present
Cllr Craig Aston	Present		