TOWER HAMLETS

PENSIONS COMMITTEE

Tuesday, 24 February 2015 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 Clare Harrisson

Councillor Andrew Cregan, Councillor Shafiqul Haque, 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].

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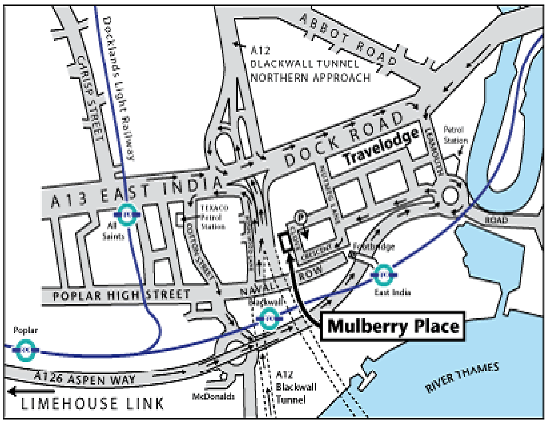

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WC P L T

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5. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Next Meeting of the Committee:
To be confirmed.

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 vocation 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, 19 NOVEMBER 2014

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

Members Present:

Councillor Andrew Cregan	
Councillor Clare Harrisson	
Councillor Ayas Miah	
Councillor Mohammed Mufti 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:

James Sparshott	Head of Local Authorities
Barry Mckay	Actuary for LBTH LGPS

Officers Present:

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

Apologies:

Councillor Shafiqul Haque and Councillor
Harun Miah

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the previous meeting held on 17th September 2014 were presented for approval.

Cllr Harrisson – noted that information previously requested on the investment strategy and ethical investments strategy had yet to be circulated

RESOLVED:

- That the minutes of 17th September 2014 be approved as a correct record of proceedings.

ACTION BY: Kevin Miles (Chief Accountant) Bola Tobun (Investment &Treasury Manager)

3. PETITIONS

No requests to present petitions were received.

4. REPORTS FOR CONSIDERATION

4.1 Brief overview of roles, responsibilities & statutory documents

The Investment & Treasury Manager delivered a presentation outlining the different roles involved in the management of a Local Government Pension Scheme (LGPS) fund.

Which includes;

- The investments or pensions committee
- The Fund administrator
- The administering authority
- Employers
- Investment managers
- Custodians
- The actuary

- Professional advisers

The presentation explained having the necessary knowledge and skills to manage the LBTH Fund is an essential requirement for all those in the roles mentioned above. And that the Pensions Committee is the recommended decision-making body within the LGPS scheme, hence they have to meet quarterly.
Larger LGPS funds have partial or full internal investment management, most investment managers are external appointments.
In 2006 over50% of LGPS funds were managed by the top five managers.
However, more recently there has been a significant increase in the number of external managers. This requires more internal resources for relationship management and
performance monitoring.

The committee were informed that the scheme actuary is an independent and appropriately qualified adviser who carries out statutorily required fund valuations and other valuations as required and who will also provide general actuarial advice.
The actuary will prepare fund valuations, including setting employers contribution rates, after agreeing valuation assumptions with the administering authority.
The results of the valuation determine the rate of the employer's contribution for the subsequentthree years. The actuary is required to certify employer contribution rates that will achieve fullsolvency over the longer-term, while keeping contribution rules as stable as possible.
There is a regulation requirement to publish a Funding strategy statement (FSS) after the triennial valuation review, in order to align funding strategy with the actuarial valuation results. The FSSwould be revise following any material change in its policy on relevant matters or in its statement of investment principles (SIP), and publish a revised FSS.
The FSSwould state the measures that will be taken when a valuation reveals that the fund is in surplus or deficit and how employer contribution rates will be adjusted to restore the solvency position over a period of years (the recovery period).review every year but must be updated immediately after the
Members were informed that one of the crucial roles under the new LGPS structure is that of fund administrator. For LBTH this role is carried out by the Acting Corporate Director, ensuring compliance with the statutory rules governing the investment of LGPS assets, including the various policy documents and statements required under the regulations.

Another role the committee were informed about was that of the administering authority; (LBTH) some of the responsibilities carried out by LBTH as the administering authority are collecting and accounting for employer/employee contributions and transfer values, maintaining an accurate data base, monitoring and managing all aspects of the Fund’s performance and managing communication with employers, members and pensioners.

Noted:

- underpinning principles for choice of investments and the managers
- funding strategy statement is revised triennially by the actuary

- the different elements incorporated in the roles and responsibilities

Action - Cllr Harrison stated that the presentation should have happened at the first meeting of the municipal year.

RESOLVED

- that the report be noted.

4.2 LGPS - The structure and Governance Arrangements of the LBTH Pension Fund

John Jones, presented the report on LGPS- The structure and governance arrangements of the LBTH Pension Board.

The Committee were informed that membership of the Pensions Board must consist of employers and councillors who are not members of thr Pensions Committee but are required to have understanding and knowledge of pension and others nominated by Council which may be equal in number but not exceed the number of employer members
Members were informed, the most significant change will be the establishment of the Pensions Board.

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 committee was told those with membership on the Pensions Board, must display knowledge and understanding of pensions and investments and training would be a requirement.

The Pensions Board must be created by 1st April 2015- which means the council has to make the necessary arrangements before this date.

The new structures that must be in place:

- Scheme advisory board
- Scheme Manager (the Council)
- Pensions Board (mirrors private sector practice, review function)

  The Committee were informed that membership of the Pensions Board must consist of employers and councillors who are not members of the Pensions Committee but are required to have understanding and knowledge of pensions and others nominated by Council which may be equal in number but not exceed the number of employer members

  A number of issues surrounding the establishment of the Pensions Board was highlighted:

- Conflicts of interest
- Role of board and its interaction with PensionsCttee
- Knowledge, understanding and capacity to undertake duties
- Board must be established by 1 April 2015

- Size / membership / recruitment
- Recommend Council delegate work to establish Board to Officers in consultation with Chair
- DCLG amenable to proposal for joint boards

Members requested;

- To see collaboration proposals before giving view. Especially interested in reporting and accountability matters.
- Clarity on proposed size and makeup.

And more information on;

- Breadth of employee representation.
- How selection will be decided
  Members highlighted that composition must be sufficient to manage potential conflicts and ensure expertise.

  RESOLVED
- That the Members approve recommendations to full Council and establish a working group.
- Cllrs, Clare Harrisson, Ayas Miah and John Gray to work with the Acting Corporate Director on the proposals.

4.3 Investment Performance Review for Quarter End 30 September 2014

The Investment and Treasury Manager presented the Investment Performance Review for Quarter End 30 September 2014 informing the Committee about the performance of the Fund and its investment managers for the quarter ending 30th September 2014.

The Members were told about the recent economic performance in the UK, Europe, USA and the East, highlighting the UK economy's position.

The Members were told, this quarter, Japanese equities stood out however sterling returns were lower.

UK and European markets performed badly with low returns and are lagging behind global equity markets.

For the quarter end 30th September 2014, the Fund performance was below the benchmark over the quarter, this was due to the poor performance and low returns from fund managers Baillie Gifford Global Equities, GMO and Schroder.

Members were also informed that investments redeemedfrom GMO portfolio is being held as cash investments awaiting further guidance on market development to govern where best future investment opportunities would lie in order to invest appropriately.

In response to Members comments and questions, the Committee were;

- Advised by the independent investment advisor at the meeting, not to place unallocated cash in UK equities as it is not performing well at present and to retain cash and invest at a more opportune moment.
- Regarding concerns over performance of fund managers the Members were told; that Schroder and Investec showed improvement in performance and the committee were also advised to take long term view of performance monitoring instead of taking the quarter by quarter approach.
- Note: Schroder and Investec are propertyand bond managers which are long term (property yes, bonds less so) categories of investment.

RESOLVED

That the report be noted.

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

The Committee received a presentation and training delivered by the Head of Local Authorities.

The presentation and training was on bond asset class investments, explaining terminologies, categories, yields and their drivers and risks and ratings.

Bonds

- A bond is a loan from one organisation to another. Issuers and buyers include governments and banks and insurance companies.
- The amount of bonds issued by the UK government has gone up to one trillion.
- Bonds deliver set amount of cash flow over time.
- There are two types of bonds; Conventional Gilts and Index-linked Gilts.
- Pension schemes prefer index-linked gilts because pension schemes are linked to liability and investment in index-link gilts provides protection from inflation.
- The Committee were told that in general Bonds are good for Pension scheme investors.

RESOLVED
That the presentation be noted.

4.5 Hymans - Overview of actuarial valuation by Barry McKay (Actuary)

Members received a presentation on the overview of the Actuarial Valuation delivered by Barry McKay of Hymans.

The Actuarial review is an assessment of solvency of a fund and calculation for all contributors of the benefits at joining or leaving the fund

Barry McKay informed Members that;

- The fund valuation has to be carried out every three years due to amount of work involved.
- The funding strategy purpose is to ensure long term solvency and stable and affordable contribution rates.
- Actuaries are based on guilt yields

The presentation also noted the changing nature of the LGPS;

- Active membership is declining which means less income coming in
- This may then require the use of investment income.

The Committee also heard that discounting permits LGPS' to determine how much money needs to be held to meet pay outs required now and for the future which is also an indication of how mature the fund is
It was noted that Hymans and Mercer use similar evaluation principles

The representative accompanying Mr McKay informed the Committee further about the establishment of a Pensions Board.

- The Pensions Board covers all of the public sector
- It was noted that every fund must have its individual board and a shared pensions board may not be permissible.

A suggestion was made to the working group, to consult the draft code of practice for LGPS and Pensions board as the codes of practice can be applied to many areas and not just for the governance of Pensions.

It was emphasized that the Pensions Board has much more onus on it as there is a legal requirement for all members of the Board to be trained and have knowledge to be able to carry out duties and be willing to commit.

RESOLVED

That the report be noted

4.6 2013/14 Local Government Pension Fund Annual Report

The Chief Accountant introduced this report

The Committee were informed that auditors at KPMG had finished audit of the Pension Fund and if the Committee agreed the report, auditors would provide the Council with an official statement of accounts.

It was also said that the accounts had not gone through much change since the last audit.

The Investment and Treasury Manager informed the Committee that Fund Managers would be invited to present on the assets at a future Committee meeting.

She also informed Members that the Council had joined the Collective Investment Vehicle (CIV) which required a representative from each LGPS, so Members were asked to nominate a representative as the first meeting had been scheduled to be held on 22nd December 2014.

Members requested to see a report on early retirement.

It was
RESOLVED

- That Members agreed on the accounts

5. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Report to be presented on early retirements and implications on the Pensions fund.

Councillor nominations requested for London CIV committee membership – Councillor Clare Harrisson volunteered, the first meeting to be held on the 22nd December and the Acting Corporate Director agreed to send the details of the meeting to Cllr Harrisson.

The meeting ended at 8.59 p.m.

Chair, Councillor Rajib Ahmed
Pensions Committee

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**24 February 2015**	**Unrestricted**		
REPORT OF: Acting Corporate Director of Resources ORIGINATING OFFICER(S): Bola Tobun– Investment and Treasury Manager		TITLE: **Investment Performance Review for Quarter End 31 December 2014** Ward(s) affected: N/A		

1. SUMMARY

1.1 This report informs Members of the performance of the Fund and its investment managers for the quarter ending 31st December 2014.

1.2 For the quarter, the Fund outperformed the benchmark by 0.3%, delivering a positive absolute return of 2.8% against benchmark return of 2.5%.

1.3 The Fund is ahead its benchmark for the last twelve months to end of December 2014, the Fund returned 7.3%, and this exceeds the benchmark by 0.2%.

1.4 For longer term performance the Fund posted three year returns of 10.4% ahead the benchmark return of 10% and posted five year returns of 8.1% against benchmark return of 8.2%.

1.5 For this quarter end, five out of the eight mandates matched or achieved returns above the benchmark. The Fund performance was above the benchmark over the quarter, this was mainly due to relatively good returns from Ruffer, Baillie Gifford Global Equities, Investec and Legal & General 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 31 December 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 31 December 2014had a market value of £216.1m. 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 manages 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 market value of the assets as of 31 December 2014 was £199.4m. 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 market value of assets as at 31 December 2014 was £49.1m. 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 31 December 2014 had a market value of £250.7m. £20.8m was redeemed from the portfolio in order to keep it in line with the strategic asset allocation weight for this manager. 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 31 December 2014had a market value of £99.5m. 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 31 December 2014 was £48.3m.

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 manages a property mandate. The value of this mandate on 20 September 2004 was £90m. The market value of assets at 31 December 2014 was £119.2m.

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.

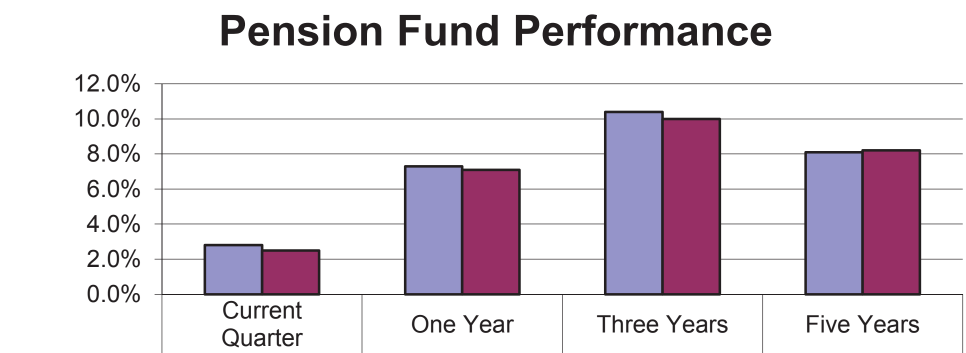
6. INVESTMENT PERFORMANCE

6.1 The Fund's overall value has increased by £31.77m from £1,049.7m as of 30 September 2014 to £1,081.5m as of 31 December 2014.

6.2 The fund outperformed the benchmark this quarter with a return of 2.8% compared to the benchmark return of 2.5%. The twelve month period sees the fund outperforming the benchmark by 0.2%.

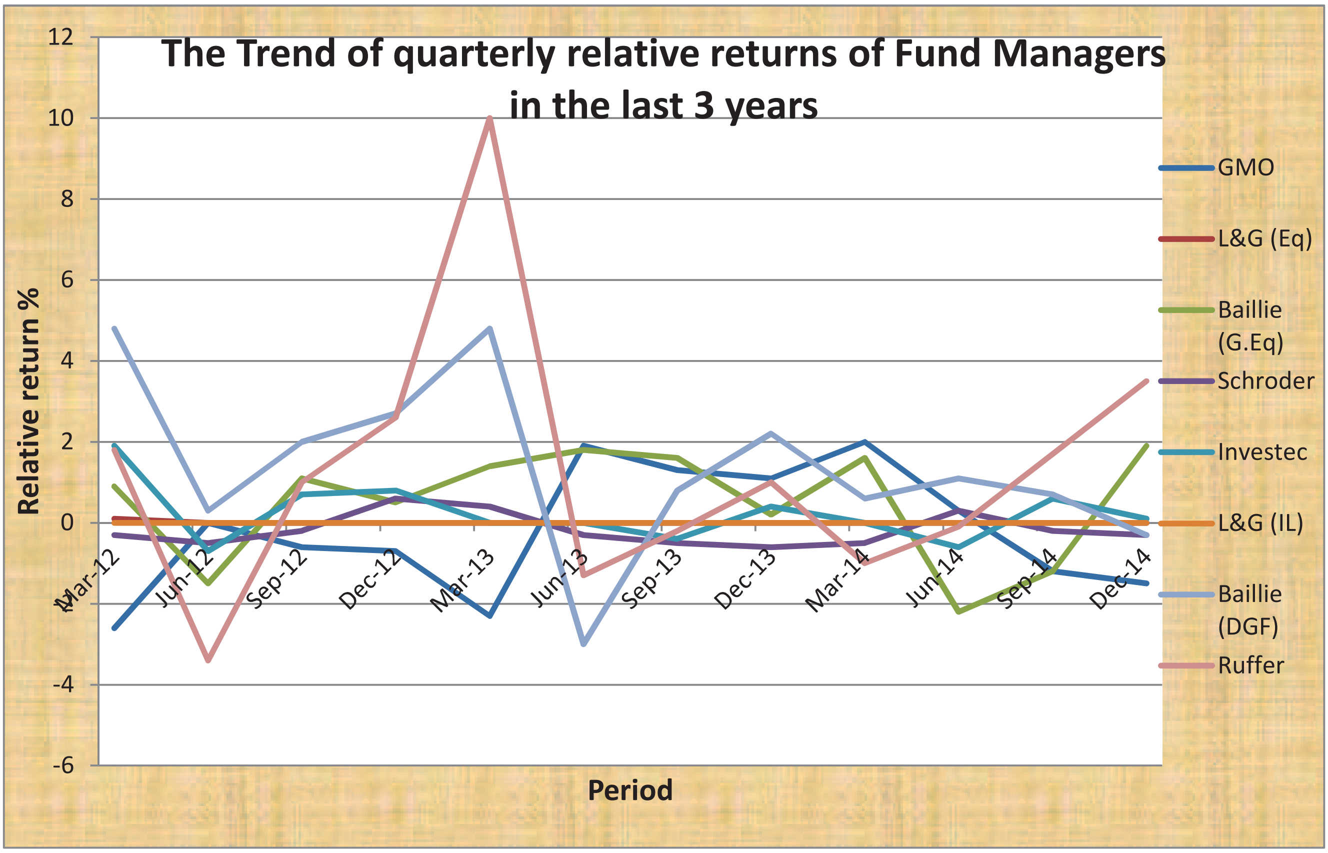
6.3 The performance of the fund over the longer term is as set out in the chart below.

Table 1 – Pension Fund Performance



	Current Quarter	One Year	Three Years	Five Years
Fund	2.8%	7.3%	10.4%	8.1%
Bench Mark	2.5%	7.1%	10.0%	8.2%

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 A decision was made at the last quarterly meeting of rebalancing the Fund, in order to reduce the Fund's overweight to equities given the strength of equity markets. And also to provide a better balance between the two global equity mandates. Taking into account the current overweight position of Baillie Gifford global equity portfolio, it was agreed that:

- the target allocation to Baillie Gifford GE should be increased from 16% to 18%;
- the target allocation to GMO should be reduced from 25% to 23%; and
- 2.0% would be subsequently disinvested from GMO portfolio to bring this mandate broadly in line with the new target allocation, to be held as cash for later investment opportunity.

7.2 The Fund 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 December 2014 £m	Benchmark Weight % of Fund Managers	Actual Weight % of Fund Managers	Difference %	Value September 2014 £m	Revised B/Mark Weight Dec 2014	Date Appointed
GMO	Global Equity	**250.74**	25.0%	23.3%	-1.7%	**267.83**	23.0%	29 Apr 2005
Baillie Gifford	Global Equity	**199.44**	16.0%	18.4%	2.4%	**187.28**	18.0%	5 Jul 2007
L & G UK Equity	UK Equity	**216.08**	20.0%	20.0%	0.0%	**214.80**	20.0%	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	**49.08**	5.0%	4.5%	-0.5%	**48.77**	5.0%	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	**48.29**	5.0%	4.5%	-0.5%	**46.34**	5.0%	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	**57.65**	3.0%	5.3%	2.3%	**52.68**	3.0%	2 Aug 2010
Investec Bonds	Bonds	**99.49**	14.0%	9.2%	-4.8%	**98.69**	14.0%	26 Apr 2010
Schroder	Property	**119.21**	12.0%	11.0%	-1.0%	**114.27**	12.0%	30 Sep 2004
Cash	Currency	**41.47**	0.0%	3.8%	3.8%	**19.03**		
Total		**1,081.46**	**100.0%**	**100.0%**	**0.0%**	**1,049.69**	**100.0%**	

7.2 The Fund was valued at £1,081.5million as at 31 December 2014. This includes cash held and being managed internally (LBTH Treasury Management), this has increased to 3.8% 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	-1.50%	-0.50%	-0.80%	0.00%
Baillie Gifford Global Equities	1.90%	-0.10%	1.90%	2.00%
L & G UK Equity	0.00%	0.10%	0.10%	N/A
Baillie Gifford Diversified Growth	-0.03%	1.40%	3.00%	N/A
Ruffer Total Return Fund	3.50%	3.70%	3.60%	N/A
L & G Index Linked-Gilts	0.00%	0.00%	0.10%	N/A
Investec Bonds	0.10%	-0.60%	-0.60%	N/A
Schroder	-0.30%	-0.80%	-0.70%	-1.30%
Total Variance (Relative)	**0.30%**	**0.20%**	**0.30%**	**-0.10%**

7.4 **GMO** - A rebalancing decision was made at the last meeting, to reduce the portfolio from 25% strategic allocation weight to 23%. As a result £20.8m was redeemed from the portfolio, which was equivalent of 2% of the total fund. GMO made absolute return of 1.3% in the quarter, underperforming the benchmark of 2.8% by 1.5%.

7.5 With exception of the U.S market, global equities posted weak results for this quarter amidst heightened volatility and increased dispersion across regional markets around the world. GMO, U.S high quality position carries less cyclical economic exposure compared to the U.S market and this produced a positive selection impact during the quarter. High quality stock outperformed the U.S market during the period as U.S. investors generally favoured a mix of less cyclical sectors including Health Care and Consumer Staples. The light concentration in energy stocks also contributed to relative returns for the quarter.

7.6 The emerging markets position produced negative allocation and selection impacts during the quarter. The largest detractor was Russia Energy as investors reacted to the oil price drop and continued concern around Russia/Ukraine. The portfolio position in China Financials was the biggest contributor for the quarter and it offset some of the shortfall.

7.7 The Japan position produced a negative allocation and selection impact during the quarter. The largest detractor was the overweight position in Japan Autos, specifically Nissan and Honda, which underperformed during the quarter.

7.8 The European value position produced a negative allocation impact during the quarter, as European value stocks trailed the broader market. Allocation within France and Italy was the leading detractor from returns.

7.9 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.

7.10 **Baillie Gifford** – the portfolio outperformed the benchmark of 4.5% over the quarter, delivering a return of 6.4% resulting in relative outperformance of 1.9%. 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 also delivered on this over the longer term, as performance remains ahead of the benchmark over 3 years and 5 years.

7.11 The fund one year performance was 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.

7.12 The main contributors to performance were Naspers and Royal Caribbean Cruises, the Fund's largest holding. Royal Caribbean Cruises saw strong yield growth driven by an improving economic outlook and positive pricing trends. Naspers has a significant stake in the Chinese gaming and ecommerce site, Tencent, to which its share price is highly correlated. Tencent released positive third quarter results which showed an increase in revenues and operating profits.

7.13 The stocks that detracted from performance were Rolls-Royce, which has seen an extended period of share price weakness throughout 2014 and Ultra Petroleum, whose share price fell following the drop in oil and gas prices.

7.14 **Legal & General - L & G (UK Equity)** – The portfolio returned 0.6% matching the index return over the quarter. At the quarterly index review there were two additions and four deletions.

7.15 **L & G Index Linked Gilts** – The portfolio returned 9.4% matching the index return over the quarter.

7.16 During the quarter there were four bond auctions, with maturities of 2024, 2034, 2042 and 2050. These raised approximately £5.7bn. The 2019 maturity fell out of the index as its remaining maturity fell below five years.

7.17 The portfolio held all 21 stocks contained within the benchmark index. The portfolio and index both had a modified duration of 22.51 years at the end of the quarter and the real yield was -0.74% (yield curve basis)

7.18 **Investec (Bonds)** – The portfolio delivered a return 0.7% against a target of 0.6% over the quarter. The marginal outperformance here was driven once again by the currency exposure.

7.19 The strategic long in the US dollar was a notable contributor after a buoyant US economy, and the subsequently more hawkish tones from the US Federal Reserve, helped the dollar rally.

7.20 Interest rate positioning and emerging market debt exposure both made broadly flat contributions. For the former, the contribution from the portfolio positioning in Australia was offset by the portfolio exposure to Japan. Meanwhile, emerging market debt came under significant pressure over the quarter and the fund manager selectivity served to help mitigate this drawdown and result in flat performance from their holdings here.

7.21 Corporate credit once again came over the pressure for the quarter and detracted modestly from returns for the portfolio. The unexpected volatility and subsequent 'risk-off' environment that ensued resulted in credit spreads widening. Nonetheless, the portfolio's defensive positioning helped limit the drawdown.

7.22 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 delivered 1.9%.

7.23 **Schroder (Property) –** The portfolio returned 4.3% over the quarter; this is below the benchmark of 4.6% resulting in underperformance of the benchmark by 0.3%.

7.24 There were a number of transactions in this quarter, with £3.2m of property purchases and £2.7m returns of capital. There were two returns of capital over the quarter: Columbus UK Real Estate Fund (£2.5m) and Schroder Continental European Fund I (£0.2m).

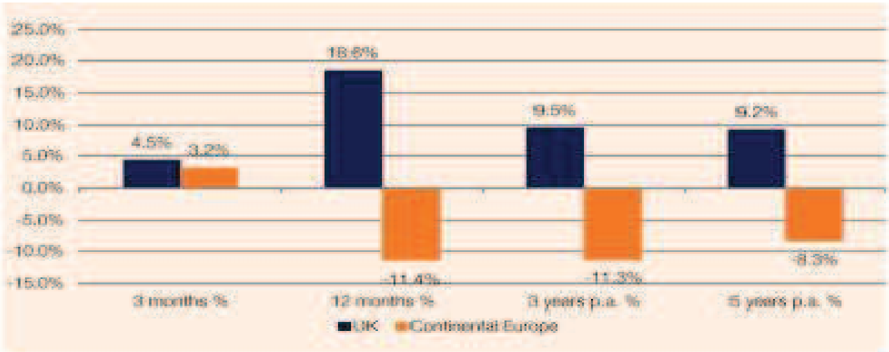
7.25 Longer term performance continues to lag the benchmark; with an underperformance 1.3% p.a. over the 5 years to 31 December 2014.

7.26 The UK investments assets (96% of the portfolio's value) outperformed by +1.4% over the past twelve months and 0.9% over the three years. The UK assets marginally underperformed the benchmark over the quarter due in part to cash held on account pending investment.

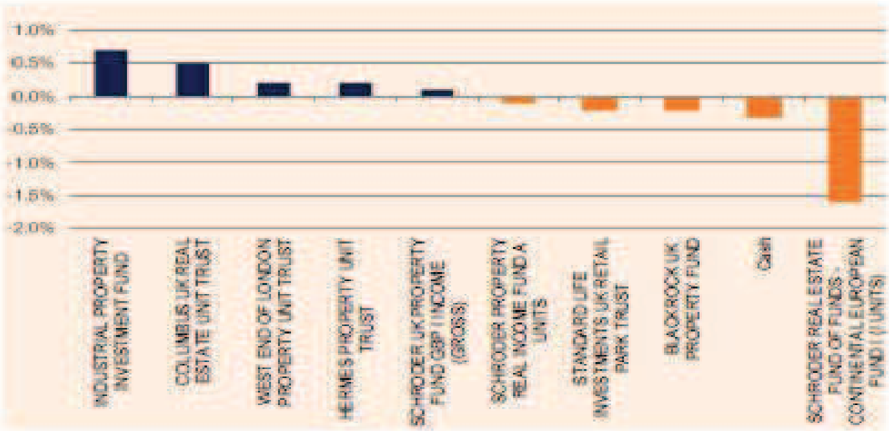
7.27 The Continental European Fund (4% of portfolio) produced a positive return this quarter, reducing the negative impact on overall portfolio performance.

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

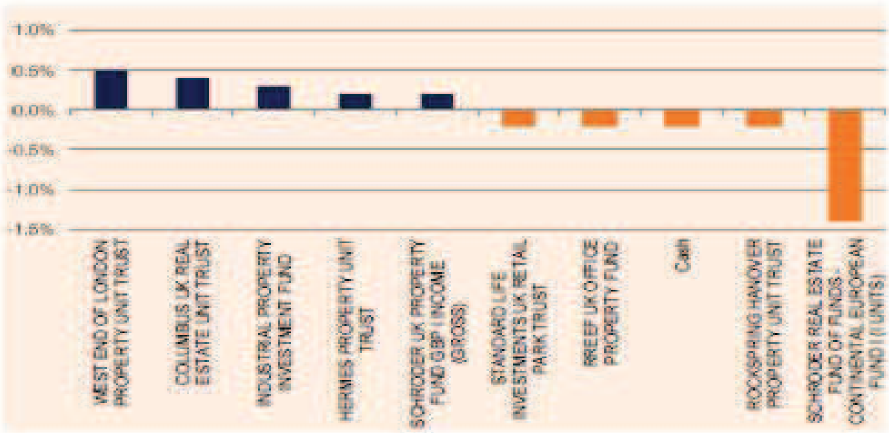
Total return by region
Periods to end 31 Dec 2014



Total return attribution relative to benchmark top & bottom five contributors
12 months to 31 Dec 2014



Total return attribution relative to benchmark top & bottom five contributors
3 years to 31 Dec 2014



7.29 **Baillie Gifford Diversified Growth Fund** generated a return of 0.6% for the quarter, underperformed the benchmark of 1.0% by 0.4%.

7.30 For the reporting quarter, the largest contributors to performance were absolute return, listed equities and property. The other asset classes were broadly flat over the quarter, with the exception of a negative contribution from active currency.

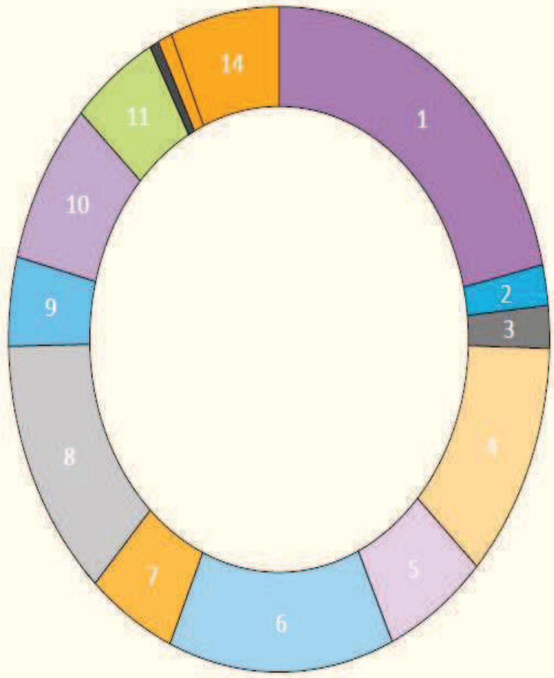
7.31 The long term performances are ahead of the benchmark. The last 12 months are ahead by 1.4% and the last 3 years by 3.0% above benchmark returns.

7.32 The greatest positive contributors over the past 12 months were listed equities, emerging market bonds and absolute return.

7.33 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**	21.8
2	Private Equity	2.0
3	Property	2.1
4	High Yield Credit	11.7
5	Investment Grade Bonds	6.3
6	Structured Finance	13.7
7	Commodities	5.4
8	Emerging Market Bonds	13.0
9	Infrastructure	4.4
10	Absolute Return	8.1
11	Insurance Linked	5.3
12	Special Opportunities	0.6
13	Active Currency	-0.9[T]
14	Cash and Equivalents	6.6
	Total	100.0



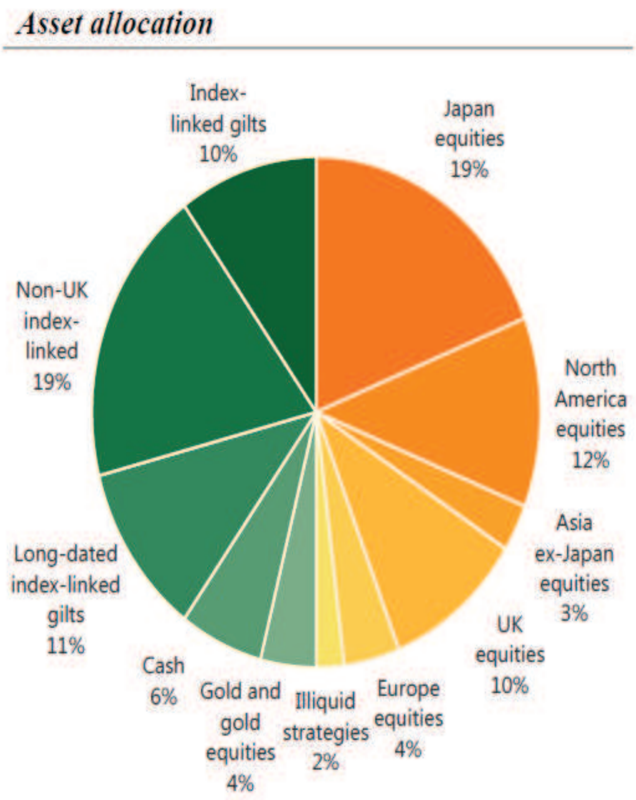
7.34 The fund returns exceeded the performance target for 12 months and 3 years as shown on table 3, page 5.

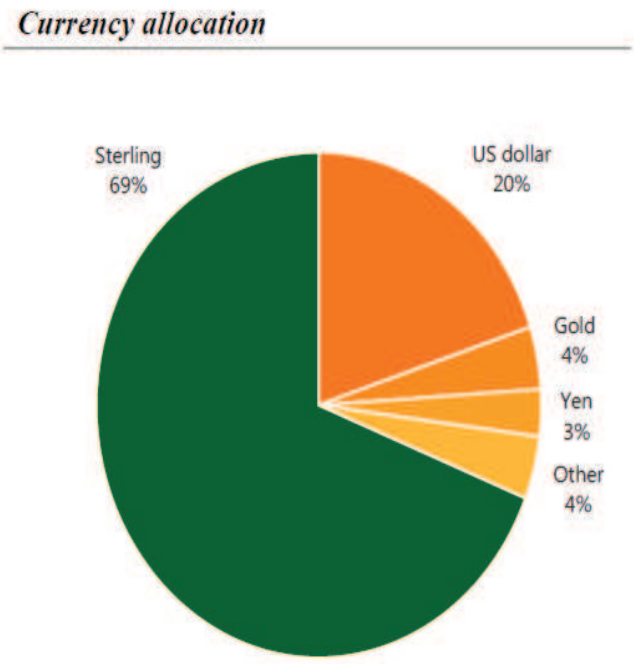
7.35 **Ruffer Total Return Fund (Absolute Return)** – The portfolio performed very encouragingly by posting a positive return of 4.2% against a target return of 0.6% over the quarter.

7.36 The portfolio had a good quarter. The portfolio option positions helped weather October's storm, while the promise of further low inflation readings, via weak commodity prices, caused government nominal and real bond yields to fall. Perhaps slightly unexpectedly this produced strong gains in the portfolio's UK index-linked stocks, especially the longer-dated issues. Other helpful developments were further strength in the US dollar and the continued restoration of Japanese equities, which rose by 6% in yen.

7.37 Other major contributors to positive returns were Chinese equities and key individual stock selections such as Oracle and Texas Instruments.

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





Internal 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 31 December 2014 the Pension Fund internal cash balance was £41.5m. There was a rebalancing of managers' asset allocation weights whereby it was proposed to reduce GMO asset allocation weight from 25% to 23%. This occurred during the quarter whereby 2% of the total fund was redeemed from GMO portfolio, £20.8m realised from this transaction is added to internal cash management pending best investment opportunity.

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.

8 ASSET ALLOCATION

The benchmark asset distribution and the fund position at 31 December 2014 are as set out below:

Table 4: Asset Allocation

Asset Class	Benchmark	Fund Position as at 31 Dec 2014	Variance as at 31 Dec 2014
UK Equities	24.0%	23%	-1.0%
Global Equities	37.0%	39%	2.0%
Total Equities	**61.0%**	**62%**	**1.0%**
Property	12.0%	11.0%	-1.0%
Bonds	14.0%	9.0%	-5.0%
UK Index Linked	3.0%	5%	2.0%
Alternatives	10.0%	9.5%	-0.5%
Cash	0.0%	4.5%	4.5%
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 2014.

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***
Investment Managers Quarterly reports (Investec, GMO, Schroder, Baillie Gifford, LGIM and Ruffer) *WM Quarterly Performance Review*	*Bola Tobun Investment &Treasury Manager x4733*

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WM PERFORMANCE SERVICES
A State Street Business

Quarterly Performance Service

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED

QUARTERLY PERFORMANCE REVIEW

PERIODS TO END DECEMBER 2014

Produced 31 January 2015

Contents

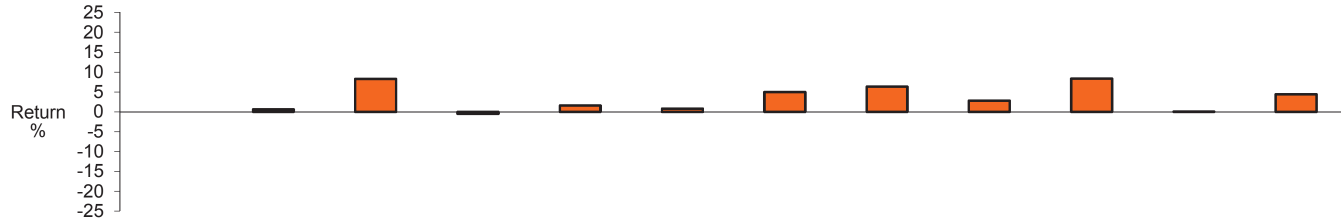
Market Background

Periods to end December 2014
Pound Sterling

This page details the performance of the major markets.

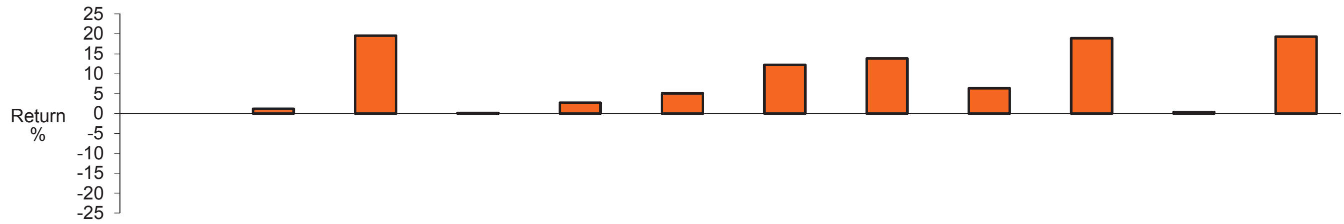
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property

Latest Quarter



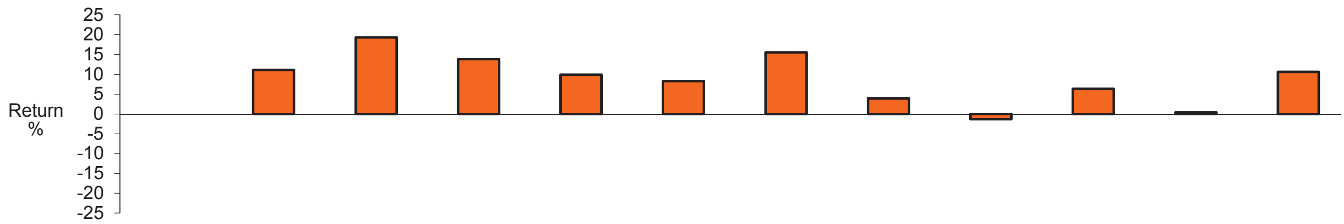
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	0.6	8.3	-0.5	1.6	0.7	5.0	6.3	2.8	8.4	0.1	4.4

Last 12 Months



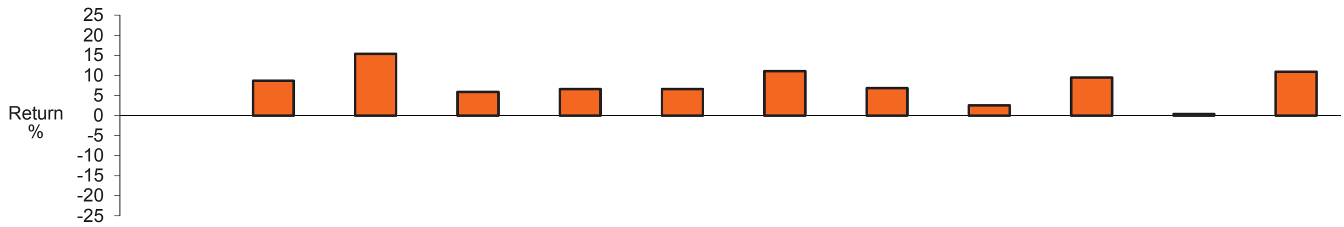
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	1.2	19.6	0.2	2.7	5.0	12.3	13.8	6.4	18.9	0.3	19.3

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	11.1	19.3	13.9	9.9	8.3	15.5	3.9	-1.4	6.3	0.4	10.6

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	8.7	15.4	5.9	6.6	6.6	11.0	6.8	2.5	9.4	0.4	10.9

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

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. From 1/4/14 returns are shown net of fees.

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 December 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 30/09/2014	Transactions	Capital Gain / loss	Income	Value at 31/12/2014	*% Fund*
GMO	Eq Glbl	267,830	-18,843	1,750	1,928	250,737	23
L & G	Eq UK	214,802	0	1,276	-26	216,078	20
BAILLIE GIFF	Eq Glbl	187,276	107	12,059	106	199,442	18
SCHRODERS	Prop UK	114,273	989	3,948	933	119,210	11
INVESTEC	Bd Glbl	98,694	0	800	-65	99,494	9
L & G	Bd UK I/L	52,683	0	4,971	-5	57,654	5
BAILLIE GIFF	Structured	48,768	18	298	18	49,084	5
RUFFER	Absolute	46,342	0	1,948	0	48,290	4
INT MGD	Cash	19,031	22,443	0	21	41,474	4
Total Fund		1,049,698	4,715	27,050	2,910	1,081,463	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

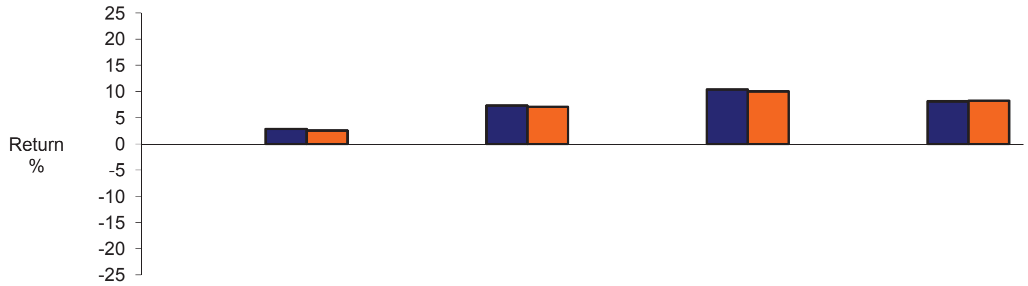
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end December 2014**

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	2.8	7.3	10.4	8.1
Benchmark	2.5	7.1	10.0	8.2
Relative Return	0.3	0.2	0.3	-0.1

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 December 2014**

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

Category - TOTAL ASSETS

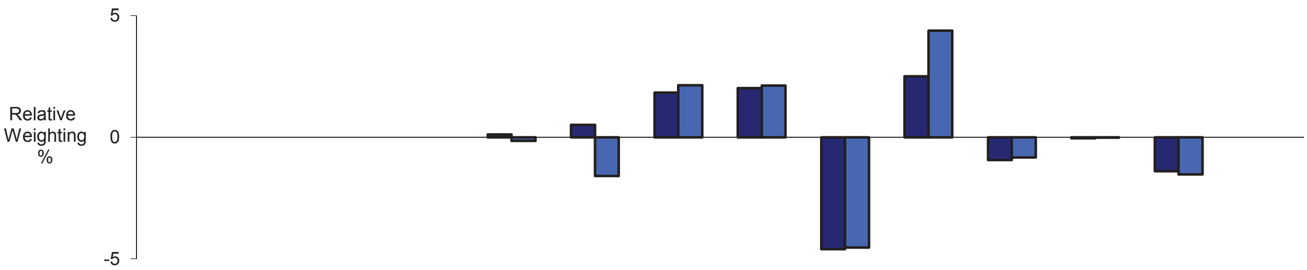
This page analyses in detail the Fund performance over the latest period.

Summary

Fund Return	2.8
Benchmark Return	2.5
Relative Performance	0.3
attributable to:	
Asset Allocation	0.1
Stock Selection	0.1

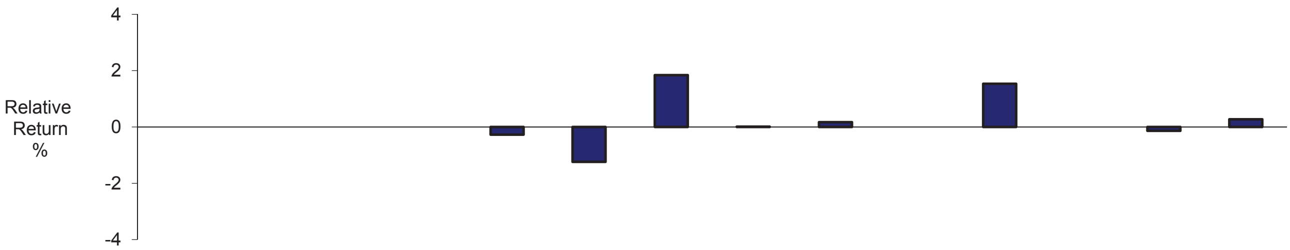
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

Asset Allocation



	UK Equities	O/S Equities	Global Eq	UK IL	Pooled Bonds	Cash	Alternatives	Curr Instr	Property	Total Fund
Fund Start	22.6	23.0	17.8	5.0	9.4	2.5	9.1	-0.0	10.6	100.0
Fund End	21.9	21.0	18.4	5.3	9.2	4.4	9.0	-0.0	10.7	100.0
BM Start	22.5	22.5	16.0	3.0	14.0		10.0		12.0	100.0
BM End	22.1	22.6	16.3	3.2	13.7		9.8		12.2	100.0
Impact	-	-	-	0.1	0.1	-	-	-0.1	-	0.1

Stock Selection



	UK Equities	O/S Equities	Global Eq	UK IL	Pooled Bonds	Cash	Alternatives	Curr Instr	Property	Total Fund
Fund	0.3	1.8	6.4	9.4	0.8	0.9	2.4	n/a	4.4	2.8
Benchmark	0.6	3.1	4.5	9.4	0.6		0.8		4.6	2.5
Impact	-0.1	-0.3	0.3	-	-		0.1		-	0.1

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

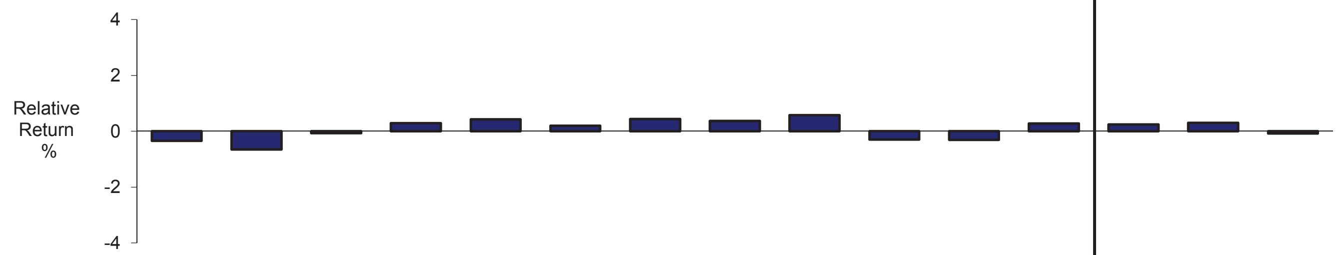
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end December 2014**

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



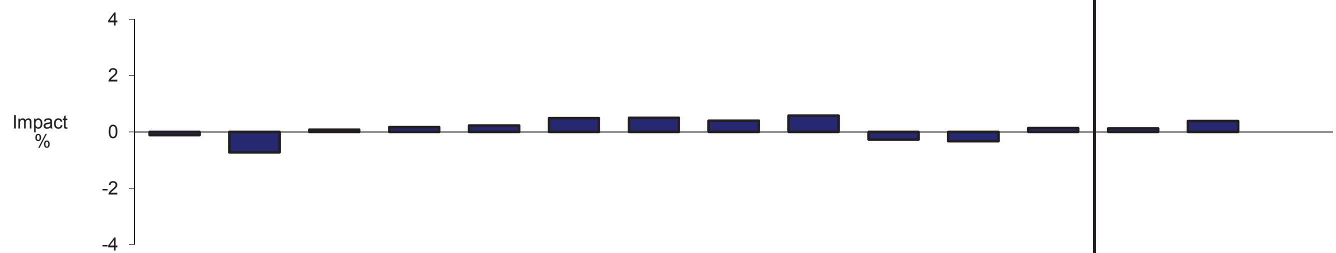
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	2.8	7.3	10.4	8.1
Benchmark	5.1	-1.9	2.6	2.4	8.4	-0.2	2.5	3.6	0.7	2.1	1.5	2.5	7.1	10.0	8.2
Relative	-0.3	-0.6	-0.1	0.3	0.4	0.2	0.4	0.4	0.6	-0.3	-0.3	0.3	0.2	0.3	-0.1

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

Asset Allocation

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

Stock Selection



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

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

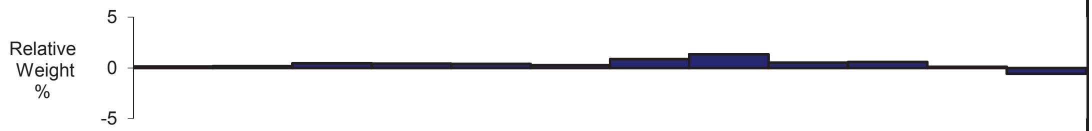
Long Term Asset Allocation

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

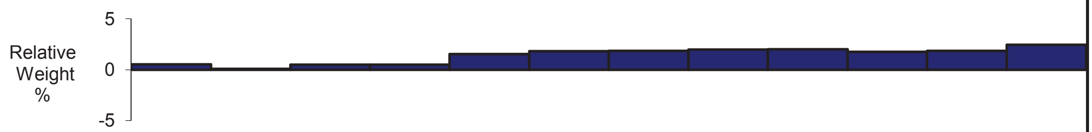


	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	22.6	22.7	23.0	22.9	22.9	22.8	23.4	23.9	23.0	23.1	22.6	21.9			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

OVERSEAS EQUITIES

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	21.1	20.5	20.8	21.3	22.1	22.4	22.7	22.8	23.1	23.4	23.0	21.0			
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



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	16.5	16.1	16.5	16.5	17.5	17.8	17.8	18.0	18.0	17.7	17.8	18.4			
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

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	17.1	17.5	17.0	16.9	16.0	15.6	15.1	14.5	14.4	14.2	14.4	14.5			
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	-0.1	-	-0.1	0.1	0.2	-0.2	-	-	0.1	-	0.1	0.2	0.4	0.1	0.2

U.K. INDEX - LINKED

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	5.5	5.7	5.4	5.5	5.5	5.1	5.0	4.8	4.8	4.8	5.0	5.3			
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	-0.2	0.1	-0.2	0.1	-	-0.2	-	-0.1	-	-	0.1	0.1	0.2	-0.1	0.1

POOLED BONDS

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	11.5	11.8	11.6	11.3	10.4	10.4	10.1	9.8	9.6	9.4	9.4	9.2			
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	-	-	0.2	-	0.1	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

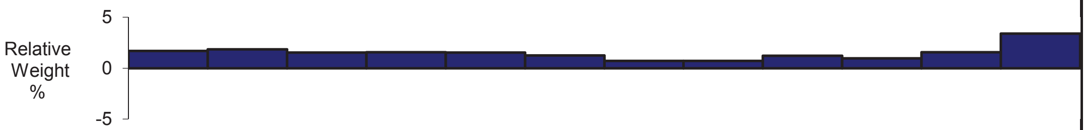
Long Term Asset Allocation

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

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

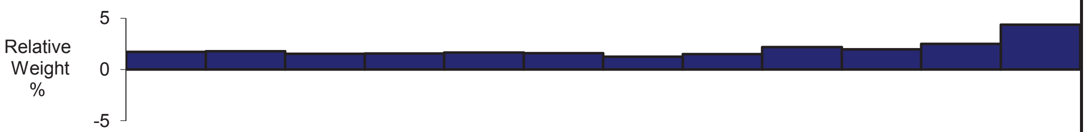
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	11.7	11.9	11.5	11.6	11.5	11.3	10.7	10.7	11.2	11.0	11.6	13.4			
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	-0.1

TOTAL CASH

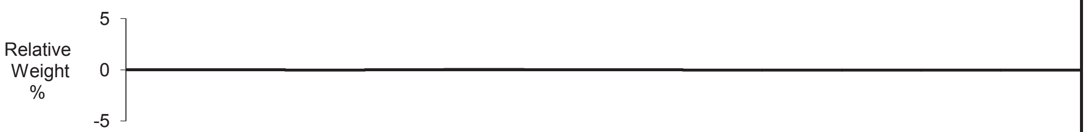


	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	1.7	1.8	1.5	1.6	1.6	1.6	1.3	1.5	2.2	2.0	2.5	4.4			
Benchmark															
Impact	-0.1	0.1	-	-	-0.1	-	-0.1	-	-	-0.1	-	-	-0.1	-0.2	-0.2

ALTERNATIVES

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



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

TOTAL PROPERTY

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	11.0	11.4	11.2	10.9	9.9	10.1	10.2	10.2	10.2	10.6	10.6	10.7			
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	-	-	-	-	-	-	-	-0.2	-	-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.

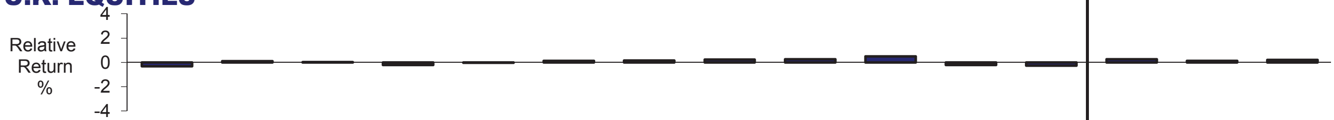
- indicates a value less than 0.05 and greater than -0.05

Long Term Stock Selection

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

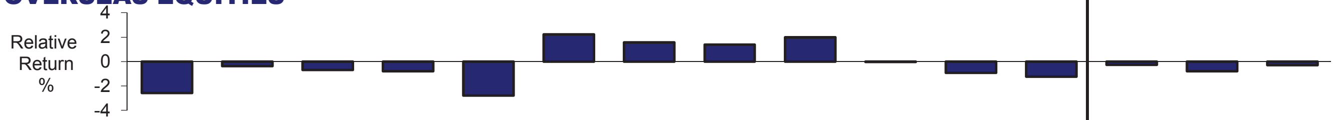
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



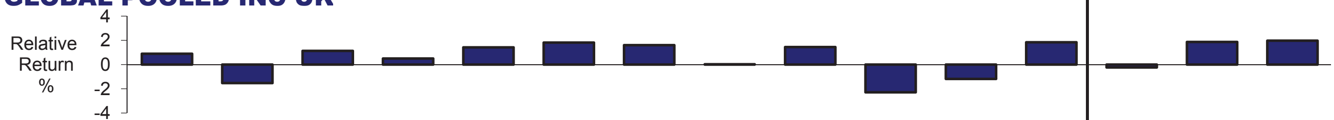
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	5.8	-2.5	4.7	3.6	10.3	-1.5	5.8	5.7	-0.4	2.7	-1.2	0.3	1.4	11.2	8.9
Benchmark	6.1	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6	2.2	-1.0	0.6	1.2	11.1	8.7
Impact	-0.1	-	-	-	-	-	-	0.1	0.1	0.1	-	-0.1	0.1	-	0.1

OVERSEAS EQUITIES



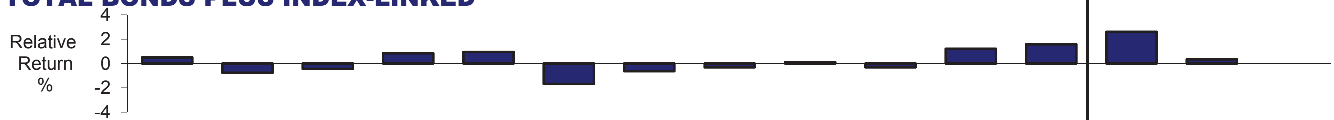
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	6.3	-4.8	2.9	3.4	11.4	2.8	4.1	5.6	2.4	2.1	0.9	1.8	7.4	13.3	9.1
Benchmark	9.2	-4.5	3.7	4.2	14.6	0.5	2.5	4.2	0.5	2.1	1.8	3.1	7.6	14.2	9.4
Impact	-0.6	-0.1	-0.1	-0.2	-0.6	0.5	0.4	0.3	0.4	-	-0.2	-0.3	-0.1	-0.1	-0.1

GLOBAL POOLED INC UK



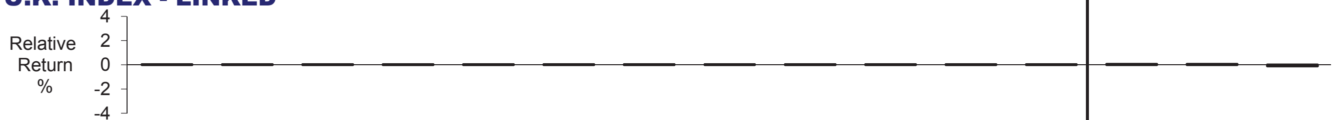
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	9.9	-5.0	5.1	2.8	15.8	1.7	2.8	5.1	2.0	0.3	1.9	6.4	11.0	16.7	12.7
Benchmark	9.0	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	2.6	3.2	4.5	11.2	14.6	10.5
Impact	0.1	-0.2	0.2	0.1	0.2	0.3	0.3	-	0.3	-0.4	-0.2	0.3	-	0.3	0.3

TOTAL BONDS PLUS INDEX-LINKED



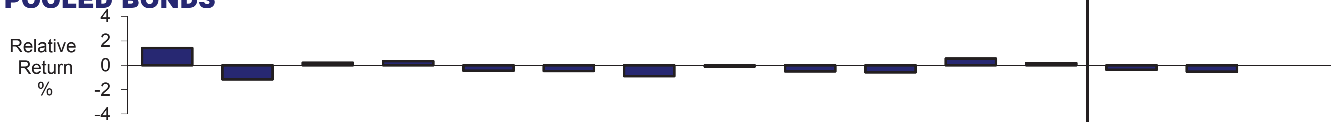
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	0.8	-0.0	-0.4	2.3	3.1	-2.5	-0.0	0.0	1.3	0.4	2.8	3.8	8.5	3.8	3.8
Benchmark	0.3	0.7	-0.0	1.4	2.1	-0.8	0.6	0.3	1.1	0.7	1.6	2.2	5.7	3.5	
Impact	0.2	-0.1	-	-	-	-	-0.1	-	-	-0.1	0.1	-	-	-	-0.3

U.K. INDEX - LINKED



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	-2.0	0.8	-3.2	5.1	9.0	-7.3	0.6	-0.9	3.6	1.1	5.9	9.4	21.4	7.1	10.4
Benchmark	-2.0	0.8	-3.2	5.0	9.0	-7.3	0.5	-0.9	3.6	1.1	5.9	9.4	21.4	7.0	10.5
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

POOLED BONDS



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	2.2	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1	0.0	1.2	0.8	2.2	2.1	
Benchmark	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.5	2.6	
Impact	0.2	-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

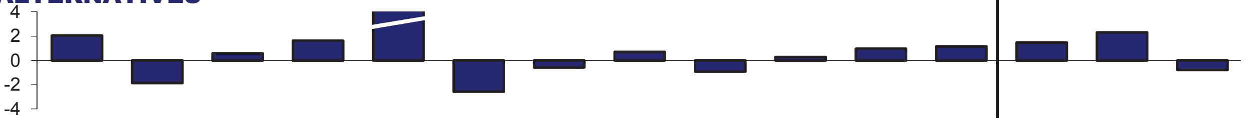
Long Term Stock Selection

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

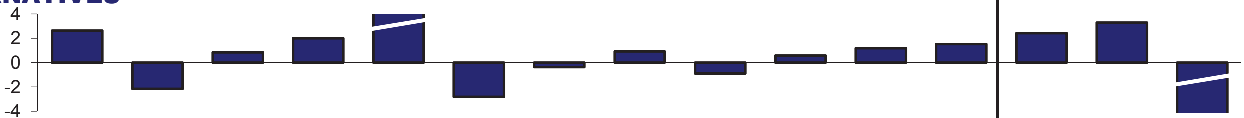


	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	2.9	-1.0	1.4	2.4	6.6	-1.8	0.2	1.5	-0.1	1.1	1.8	2.0	4.8	5.7	1.9
Benchmark	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	3.3	3.3	2.7
Impact	0.3	-0.2	0.1	0.2	0.6	-0.3	-	0.1	-0.1	0.1	0.1	0.1	0.2	0.3	-

TOTAL CASH

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	-0.2	0.5	-0.4	0.1	1.5	0.2	-1.0	-0.2	-0.2	-0.2	0.8	0.9	1.4	0.6	0.6
Benchmark															
Impact															

ALTERNATIVES

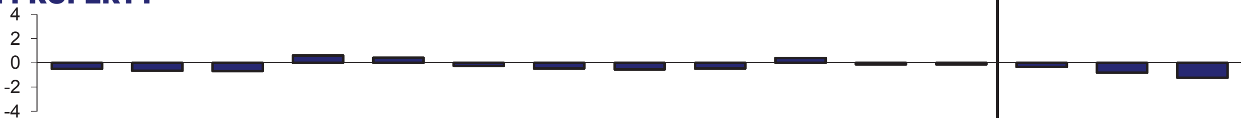


	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	3.5	-1.3	1.7	2.8	7.4	-2.0	0.4	1.7	-0.1	1.4	2.0	2.4	5.8	6.7	-3.0
Benchmark	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	3.3	3.3	2.7
Impact	0.3	-0.2	0.1	0.2	0.6	-0.3	-	0.1	-0.1	0.1	0.1	0.1	0.2	0.3	-

CURRENCY INSTRUMENTS

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
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



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	1yr	3yrs % pa	5yrs % pa
Fund	0.3	-0.4	-0.3	0.2	1.2	1.2	2.0	3.7	2.8	4.7	3.9	4.4	16.8	8.0	7.8
Benchmark	0.8	0.3	0.4	-0.4	0.8	1.4	2.4	4.3	3.3	4.3	4.0	4.6	17.2	8.9	9.1
Impact	-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

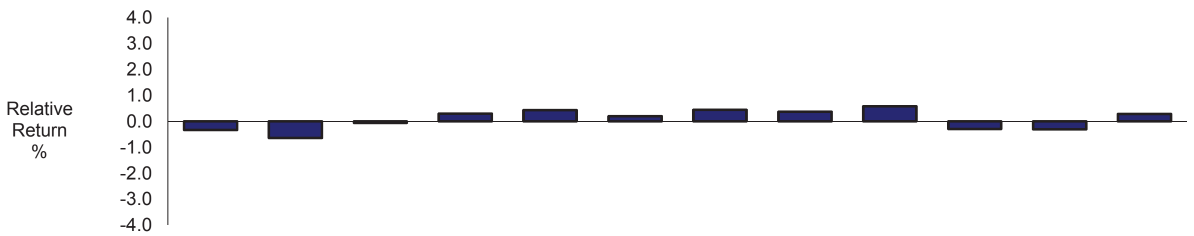
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end December 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Category - TOTAL ASSETS

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

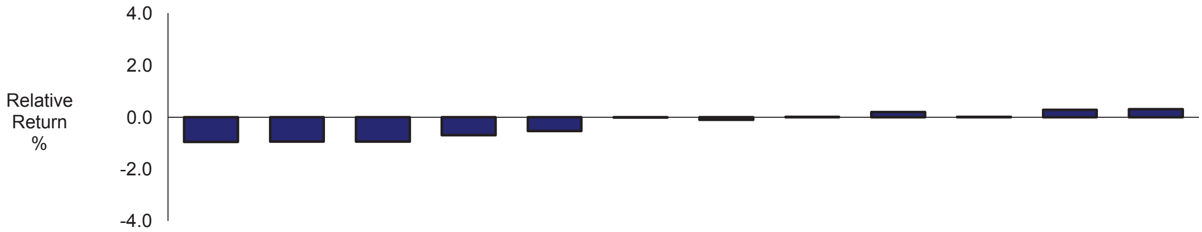
	--------------- 2012 ---------------				--------------- 2013 ---------------				--------------- 2014 ---------------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	794.3	829.5	809.6	829.0	853.8	929.4	930.3	956.0	998.4	1016.2	1035.1	1049.7
Net Investment	-0.2	4.6	1.0	3.9	2.2	3.7	0.8	6.2	7.1	4.2	4.3	4.7
Capital Gain/Loss	35.5	-24.5	18.5	20.9	73.3	-2.7	24.9	36.2	10.8	14.7	10.3	27.0
Final	829.5	809.6	829.0	853.8	929.4	930.3	956.0	998.4	1016.2	1035.1	1049.7	1081.5
Income	2.2	3.2	2.3	1.9	2.3	3.2	2.3	2.1	2.1	3.8	2.3	2.9
Proportion Of Total Fund (%)	100	100	100	100	100	100	100	100	100	100	100	100
Proportions (%) In												
Total Equity	60	59	60	61	63	63	64	65	64	64	63	61
Bonds + IL	17	17	17	17	16	16	15	15	14	14	14	15
Cash/ Alts	12	12	12	12	12	11	11	11	11	11	12	13
Property	11	11	11	11	10	10	10	10	10	11	11	11

Quarterly Returns



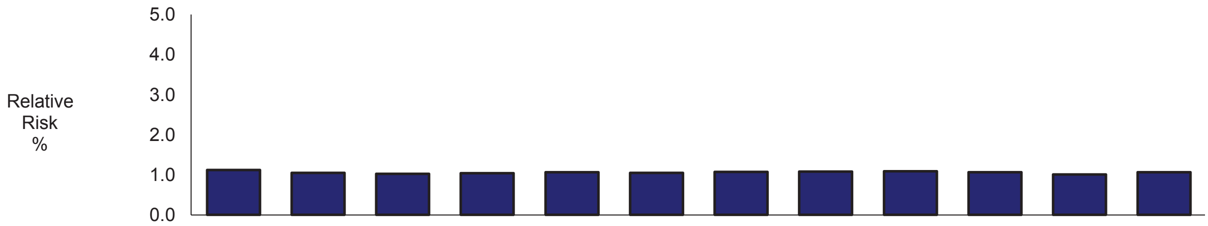
Fund	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	2.8
Benchmark	5.1	-1.9	2.6	2.4	8.4	-0.2	2.5	3.6	0.7	2.1	1.5	2.5
Relative Return	-0.3	-0.6	-0.1	0.3	0.4	0.2	0.4	0.4	0.6	-0.3	-0.3	0.3

Annualised Rolling 3 Year Returns



Fund	12.7	9.9	5.8	5.7	6.6	9.5	7.8	7.1	7.1	7.2	11.2	10.4
Benchmark	13.8	11.0	6.8	6.5	7.1	9.6	7.9	7.1	6.9	7.2	10.9	10.0
Relative Return	-0.9	-0.9	-0.9	-0.7	-0.5	-0.0	-0.1	0.0	0.2	0.0	0.3	0.3

Rolling 3 Year Risk



Relative Risk	1.1	1.0	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.1
Information Ratio	-0.8	-0.9	-0.9	-0.7	-0.5	-0.0	-0.1	0.0	0.2	0.0	0.3	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 December 2014**

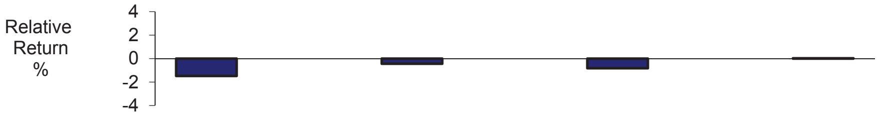
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

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

GMO - TOTAL ASSETS

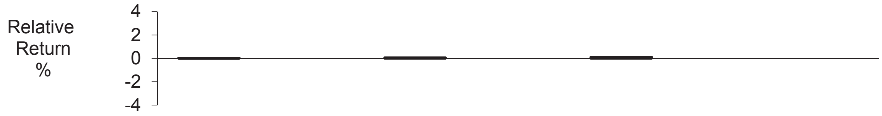
LB TOWER HAMLET - GMO WOOLEY BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.3	6.6	13.0	9.4
Benchmark	2.8	7.1	13.9	9.4
Relative Return	-1.5	-0.5	-0.8	0.0

L&G - TOTAL ASSETS

FTSE All Share TR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.6	1.2	11.2	
Benchmark	0.6	1.2	11.1	
Relative Return	0.0	0.1	0.1	

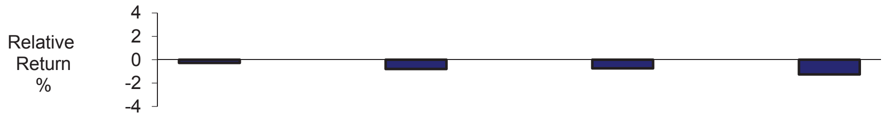
BAILLIE GIFFORD & CO - TOTAL ASSETS

MSCI AC WORLD GDR

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	6.5	11.1	16.8	12.7
Benchmark	4.5	11.2	14.6	10.5
Relative Return	1.9	-0.1	1.9	2.0

SCHRODER INVEST. MGMT. - TOTAL ASSETS

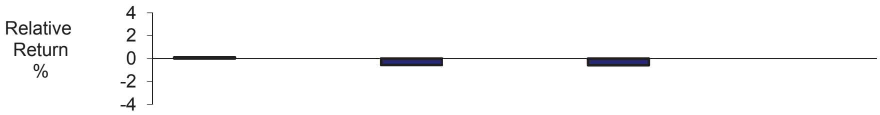
London Borough of Tower Hamlets - Schroders



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	4.3	16.3	7.8	7.4
Benchmark	4.6	17.2	8.6	8.8
Relative Return	-0.3	-0.8	-0.7	-1.3

INVESTEC ASSET MANAGEMENT - TOTAL ASSETS

GBP 3 MONTH LIBOR + 2%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.7	2.0	2.0	
Benchmark	0.6	2.5	2.6	
Relative Return	0.1	-0.6	-0.6	

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

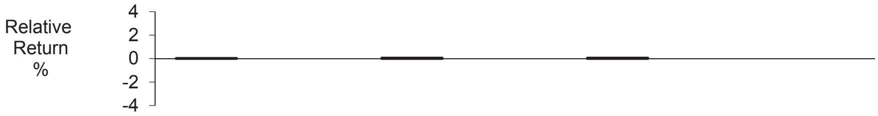
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end December 2014
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Category - TOTAL ASSETS

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

L&G - TOTAL ASSETS

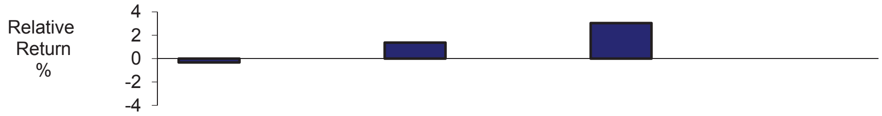
FTSE UK GILTS INDEXED > 5 YRS



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	9.4	21.4	7.1	
Benchmark	9.4	21.4	7.0	
Relative Return	0.0	0.0	0.1	

BAILLIE GIFFORD & CO - TOTAL ASSETS

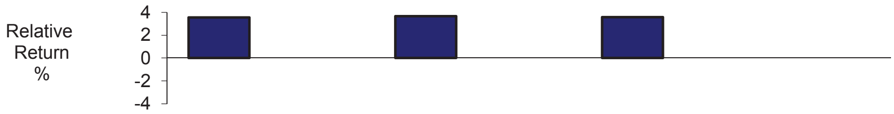
BANK OF ENGLAND BASE RATE + 3.5%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.6	5.4	7.2	
Benchmark	1.0	4.0	4.0	
Relative Return	-0.3	1.4	3.0	

RUFFER INVESTMENT MGMT LTD - TOTAL ASSETS

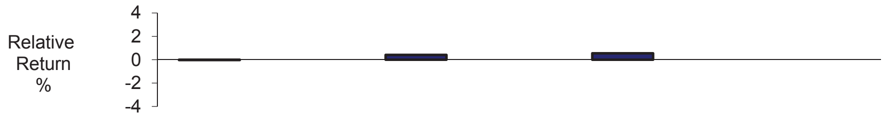
GBP 3 MONTH LIBOR + 2%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	4.2	6.3	6.3	
Benchmark	0.6	2.5	2.6	
Relative Return	3.5	3.7	3.6	

INTERNALLY MANAGED - TOTAL ASSETS

LB TOWER HAMLETS INTERNAL BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.1	0.8	0.9	n/a
Benchmark	0.1	0.3	0.4	0.4
Relative Return	-0.0	0.4	0.5	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 December 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		2.8
Benchmark Return		2.5
Relative Performance		0.3
	attributable to:	
	Strategic Allocation	0.2
	Manager Contribution	0.1
	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
25.4	25.0	-	GMO	-0.4	1.3	2.8
20.4	20.0	-	L&G	-	0.6	0.6
17.8	16.0	-	BAILLIE GIFFORD & CO	0.3	6.5	4.5
10.9	12.0	-	SCHRODER INVEST. MGMT.	-	4.3	4.6
9.4	14.0	0.1	INVESTEC ASSET MANAGEMENT	-	0.7	0.6
5.0	3.0	0.1	L&G	-	9.4	9.4
4.6	5.0	-	BAILLIE GIFFORD & CO	-	0.6	1.0
4.4	5.0	-	RUFFER INVESTMENT MGMT LTD	0.2	4.2	0.6
2.1	0.0	-0.1	INTERNALLY MANAGED	-	0.1	0.1
		0.2		0.1		

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

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

All values are shown in GBP'000s	Asset Allocation								Stock Selection	
	30/09/2014				Gain/		31/12/2014			
	Value	%	Purchases	Sales	Loss	Income	Value	%	Return	B'M
TOTAL EQUITIES	666,211	63	66,236	84,019	15,401	2,018	663,829	61	2.6	2.5
U.K. EQUITIES	237,410	23	5,355	6,209	484	216	237,040	22	0.3	0.6
OVERSEAS EQUITIES	241,526	23	60,774	77,810	2,857	1,803	227,346	21	1.8	3.1
NORTH AMERICA	103,449	10	20,134	23,596	8,074	469	108,060	10	8.6	8.3
TOTAL USA	103,347	10	17,491	23,502	8,139	462	105,475	10	8.7	
CONTINENTAL EUROPE	84,131	8	15,726	38,496	-1,494	199	59,868	6	-2.7	-0.5
EUROLAND TOTAL	75,692	7	12,965	34,636	-808	181	53,213	5	-2.0	
FRANCE	27,450	3	4,956	12,156	-1,165	159	19,085	2	-4.6	
GERMANY	21,865	2	4,269	11,872	902		15,165	1	2.6	
NETHERLANDS	3,786	0	1,070	2,168	339	5	3,027	0	6.7	
ITALY	8,271	1	668	3,112	-996		4,831	0	-14.0	
BELGIUM	960	0	204	406	70	5	828	0	6.6	
FINLAND	2,441	0	157	1,429	-34		1,134	0	-4.2	
AUSTRIA	721	0		53	-62		605	0	-9.0	
SPAIN	8,263	1	1,029	3,255	-124	4	5,913	1	-3.2	
IRELAND	1,359	0	553	93	309	9	2,129	0	19.0	
PORTUGAL	577	0	58	92	-46	-1	497	0	-8.1	
GREECE										
LUXEMBOURG										
NON EUROLAND TOTAL	8,439	1	2,761	3,860	-685	18	6,655	1	-8.1	
SWITZERLAND	2,483	0	1,667	2,059	45		2,135	0	1.2	
DENMARK	1,062	0	47	59	-107		943	0	-9.8	
NORWAY	2,837	0	299	1,127	-625	18	1,384	0	-22.8	
SWEDEN	2,058	0	748	615	2		2,193	0	-0.3	
JAPAN	28,482	3	3,712	10,103	-1,039	68	21,052	2	-4.0	1.6
TOTAL PACIFIC (EX.JAPAN)	271	0	3,723	395	75	2	3,674	0	3.0	2.3
OTHER INTL EQUITIES	25,193	2	17,479	5,220	-2,760	1,065	34,692	3	-4.2	-0.6
GLOBAL POOLED INC UK	187,276	18	107		12,059		199,442	18	6.4	4.5
BG INTERNATIONAL EQUITY FUND	187,276	18	107		12,059		199,442	18	6.4	
INTERNATIONAL										
International Unit Trust 1										
U.K. INDEX - LINKED	52,683	5			4,971		57,654	5	9.4	9.4
POOLED BONDS	98,694	9			800		99,494	9	0.8	0.6
CASH/ALTERNATIVES	121,349	12	419,938	399,090	2,570	21	144,768	13	2.0	0.8
CURRENCY INSTRUMENTS	-496	0	206,739	205,635	-640		-32	0	n/a	
U.K. PROPERTY	106,254	10	5,449	4,705	3,792	990	110,791	10	4.5	4.6
OVERSEAS PROPERTY	5,003	0		198	155		4,961	0	3.2	
TOTAL ASSETS	**1,049,698**	**100**	**698,362**	**693,647**	**27,050**	**2,910**	**1,081,463**	**100**	**2.8**	**2.5**

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 December 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.

	--- 2012 ---				--- 2013 ---				--- 2014 ---				1yr	3yrs	5yrs
Return %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		% pa	% pa
UK Equities	*5.8*	*-2.5*	*4.7*	*3.6*	*10.3*	*-1.5*	*5.8*	*5.7*	*-0.4*	*2.7*	*-1.2*	*0.3*	*1.4*	*11.2*	*8.9*
	(86)	*(37)*	*(50)*	*(75)*	*(78)*	*(48)*	*(52)*	*(46)*	*(33)*	*(12)*	*(68)*				
N. America	*8.5*	*-2.0*	*3.2*	*-0.7*	*14.5*	*1.2*	*-1.8*	*7.4*	*1.4*	*0.5*	*7.0*	*8.6*	*18.5*	*16.3*	*13.3*
	(73)	*(62)*	*(80)*	*(43)*	*(98)*	*(95)*	*(98)*	*(58)*	*(36)*	*(93)*	*(6)*				
Europe ex UK	*5.6*	*-9.0*	*6.7*	*8.7*	*4.3*	*2.9*	*11.6*	*8.0*	*6.5*	*1.6*	*-5.6*	*-2.7*	*-0.5*	*12.7*	*4.4*
	(95)	*(98)*	*(44)*	*(15)*	*(100)*	*(6)*	*(1)*	*(4)*	*(1)*	*(16)*	*(100)*				
Pacific	*11.7*	*-1.1*	*12.6*	*7.2*	*4.2*	*-6.5*	*7.2*	*4.6*	*-0.8*	*4.4*	*0.1*	*3.0*	*6.8*	*15.8*	*11.6*
	(10)	*(7)*	*(2)*	*(9)*	*(96)*	*(17)*	*(4)*	*(3)*	*(75)*	*(13)*	*(66)*				
Japan	*3.0*	*-4.2*	*-3.2*	*2.4*	*18.6*	*6.1*	*2.1*	*-2.4*	*-4.8*	*6.3*	*0.9*	*-4.0*	*-1.9*	*6.4*	*6.7*
	(100)	*(27)*	*(56)*	*(77)*	*(81)*	*(20)*	*(22)*	*(92)*	*(27)*	*(8)*	*(95)*				
Global Eq	*9.9*	*-5.0*	*5.1*	*2.8*	*15.8*	*1.7*	*2.8*	*5.1*	*2.0*	*0.3*	*1.9*	*6.4*	*11.0*	*16.7*	*12.7*
	(36)	*(75)*	*(14)*	*(30)*	*(20)*	*(18)*	*(15)*	*(50)*	*(11)*	*(100)*	*(73)*				
UK IL	*-2.0*	*0.8*	*-3.2*	*5.1*	*9.0*	*-7.3*	*0.6*	*-0.9*	*3.6*	*1.1*	*5.9*	*9.4*	*21.4*	*7.1*	*10.4*
	(61)	*(22)*	*(63)*	*(28)*	*(27)*	*(51)*	*(30)*	*(28)*	*(21)*	*(34)*	*(20)*				
Pooled Bonds	*2.2*	*-0.4*	*0.9*	*1.0*	*0.2*	*0.1*	*-0.3*	*0.5*	*0.1*	*0.0*	*1.2*	*0.8*	*2.2*	*2.1*	
	(50)	*(85)*	*(84)*	*(76)*	*(92)*	*(33)*	*(78)*	*(64)*	*(93)*	*(76)*	*(30)*				
Cash	*-0.2*	*0.5*	*-0.4*	*0.1*	*1.5*	*0.2*	*-1.0*	*-0.2*	*-0.2*	*-0.2*	*0.8*	*0.9*	*1.4*	*0.6*	*0.6*
	(81)	*(27)*	*(87)*	*(39)*	*(22)*	*(37)*	*(81)*	*(70)*	*(80)*	*(72)*	*(23)*				
Alternatives	*3.5*	*-1.3*	*1.7*	*2.8*	*7.4*	*-2.0*	*0.4*	*1.7*	*-0.1*	*1.4*	*2.0*	*2.4*	*5.8*	*6.7*	*-3.0*
	(16)	*(77)*	*(32)*	*(20)*	*(22)*	*(86)*	*(28)*	*(39)*	*(86)*	*(39)*	*(60)*				
Curr Instr	*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*
	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*
Property	*0.3*	*-0.4*	*-0.3*	*0.2*	*1.2*	*1.2*	*2.0*	*3.7*	*2.8*	*4.7*	*3.9*	*4.4*	*16.8*	*8.0*	*7.8*
	(70)	*(78)*	*(66)*	*(54)*	*(36)*	*(77)*	*(51)*	*(58)*	*(61)*	*(36)*	*(54)*				
Total Assets	4.7	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	2.8	7.3	10.4	8.1
	(79)	(82)	(84)	(54)	(60)	(14)	(33)	(32)	(21)	(67)	(86)				

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 December 2014**

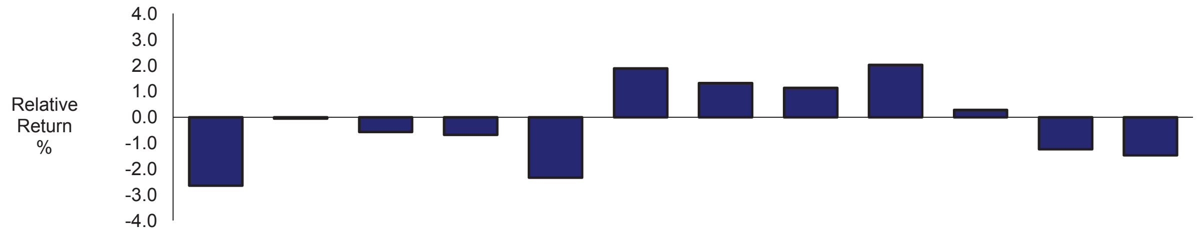
Benchmark - LB TOWER HAMLET - GMO WOOLEY BM — **Pound Sterling**

Category - TOTAL ASSETS

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

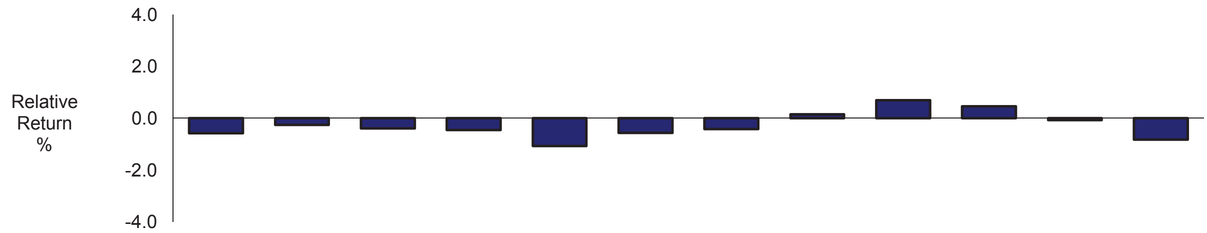
	2012				2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	188.2	199.0	190.8	196.3	203.5	226.3	231.9	241.1	254.8	260.5	267.0	267.8
Net Investment	0.9	2.7	1.0	1.6	0.8	2.7	1.0	1.7	0.9	2.8	1.2	-18.8
Capital Gain/Loss	9.9	-10.9	4.5	5.6	22.0	2.9	8.2	12.0	4.8	3.7	-0.4	1.7
Final	199.0	190.8	196.3	203.5	226.3	231.9	241.1	254.8	260.5	267.0	267.8	250.7
Income	1.5	2.2	1.5	1.1	1.3	2.3	1.3	1.3	1.2	2.7	1.3	1.9
Proportion Of Total Fund (%)	24	24	24	24	24	25	25	26	26	26	26	23

Quarterly Returns



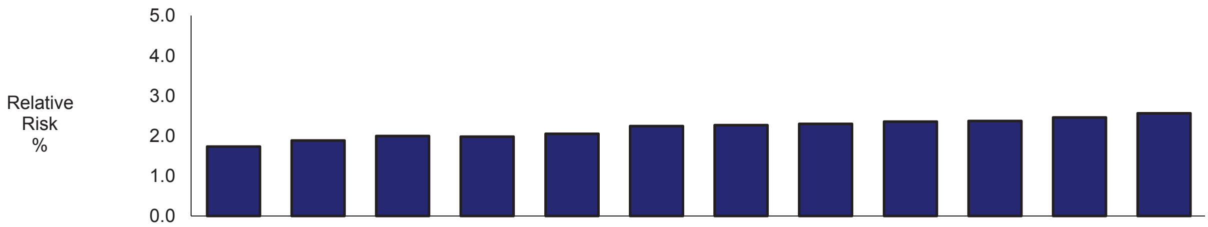
Fund	6.0	-4.3	3.1	3.4	11.4	2.3	4.1	5.5	2.4	2.4	0.3	1.3
Benchmark	8.9	-4.3	3.7	4.1	14.1	0.4	2.7	4.3	0.3	2.2	1.6	2.8
Relative Return	-2.6	-0.0	-0.6	-0.7	-2.3	1.9	1.3	1.1	2.0	0.3	-1.2	-1.5

Annualised Rolling 3 Year Returns



Fund	15.0	10.8	4.9	5.5	6.3	11.4	9.3	8.4	8.5	8.7	14.8	13.0
Benchmark	15.7	11.1	5.3	5.9	7.5	12.0	9.8	8.3	7.8	8.2	14.9	13.9
Relative Return	-0.6	-0.3	-0.4	-0.5	-1.1	-0.6	-0.4	0.1	0.7	0.5	-0.1	-0.8

Rolling 3 Year Risk



Relative Risk	1.7	1.9	2.0	2.0	2.0	2.2	2.3	2.3	2.4	2.4	2.5	2.6
Information Ratio	-0.3	-0.1	-0.2	-0.2	-0.5	-0.3	-0.2	0.1	0.3	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.

Rolling Years with Relative Risk - L&G Equity Uk

LB OF TOWER HAMLETS - L&G | **Periods to end December 2014**

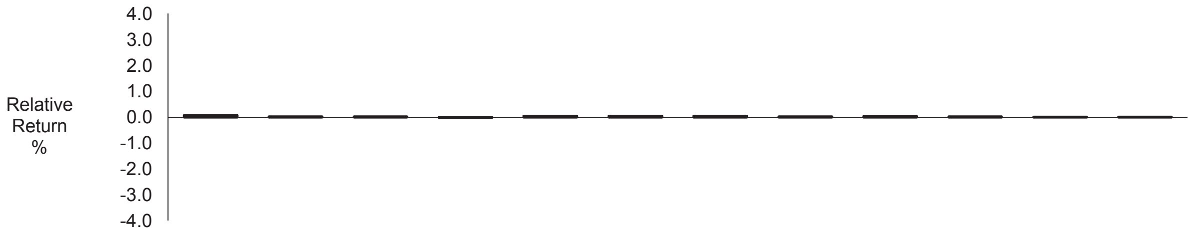
Benchmark - FTSE All Share TR | **Pound Sterling**

Category - TOTAL ASSETS

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

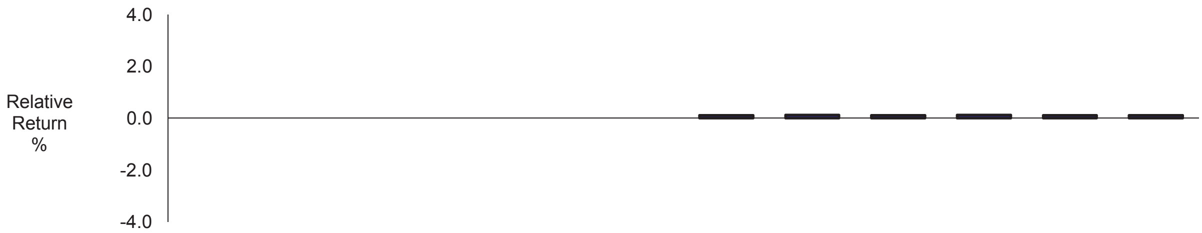
	--------------- 2012 ---------------				--------------- 2013 ---------------				--------------- 2014 ---------------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	156.8	166.5	162.2	169.8	176.3	194.6	191.5	202.3	213.4	212.1	216.9	214.8
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	9.7	-4.3	7.7	6.5	18.3	-3.1	10.8	11.1	-1.3	4.8	-2.1	1.3
Final	166.5	162.2	169.8	176.3	194.6	191.5	202.3	213.4	212.1	216.9	214.8	216.1
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	21	21	21	21	21	21	21	20	20

Quarterly Returns



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



	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Fund	10.2	9.5	8.9	9.0	14.1	11.2
Benchmark	10.1	9.4	8.8	8.9	13.9	11.1
Relative Return	0.1	0.1	0.1	0.1	0.1	0.1

Rolling 3 Year Risk

	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Relative Risk	0.1	0.1	0.1	0.1	0.1	0.0
Information Ratio	1.7	1.9	1.9	2.2	2.2	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

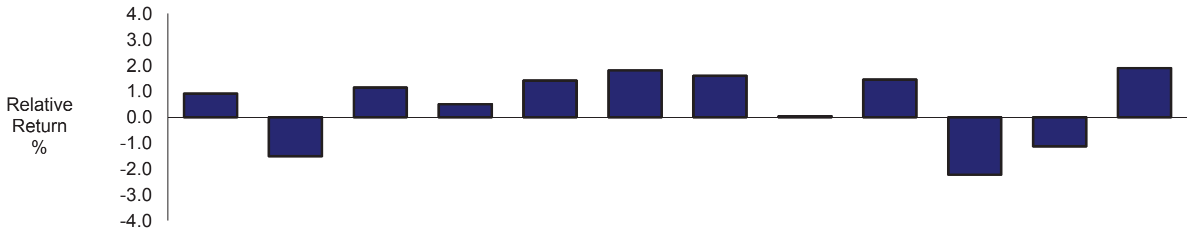
LONDON BOROUGH OF TOWER HAMLETS - BAILLIE GIFFORD & CO	Periods to end December 2014
Benchmark - MSCI AC WORLD GDR	Pound Sterling

Category - TOTAL ASSETS

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

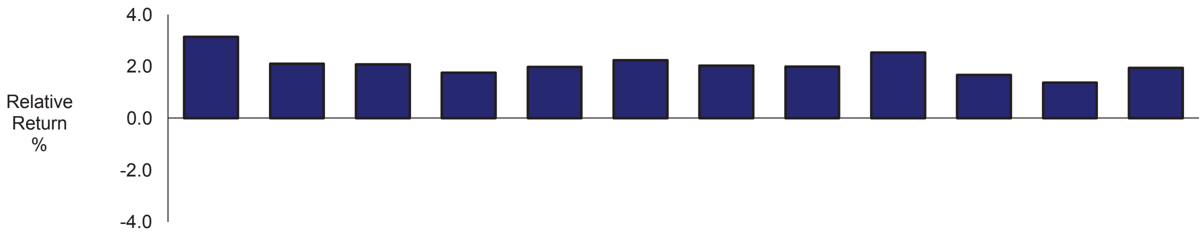
	2012				2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	124.6	137.0	130.1	136.8	140.8	163.1	165.9	170.6	179.4	183.1	183.6	187.3
Net Investment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Gain/Loss	12.4	-6.9	6.6	3.9	22.2	2.8	4.6	8.6	3.6	0.5	3.5	12.1
Final	137.0	130.1	136.8	140.8	163.1	165.9	170.6	179.4	183.1	183.6	187.3	199.4
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Proportion Of Total Fund (%)	17	16	17	16	18	18	18	18	18	18	18	18

Quarterly Returns



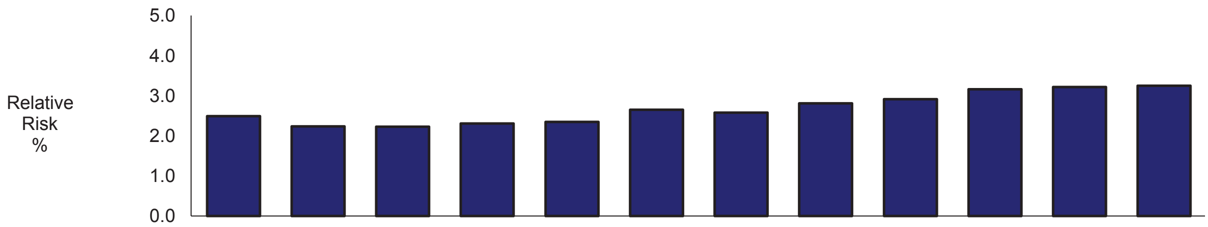
Fund	9.9	-5.0	5.1	2.8	15.8	1.7	2.8	5.1	2.0	0.3	2.0	6.5
Benchmark	9.0	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	2.6	3.2	4.5
Relative Return	0.9	-1.5	1.1	0.5	1.4	1.8	1.6	0.0	1.5	-2.2	-1.1	1.9

Annualised Rolling 3 Year Returns



Fund	20.7	15.6	9.7	8.8	10.5	15.0	12.0	10.4	10.4	10.4	17.3	16.8
Benchmark	17.1	13.2	7.4	6.9	8.3	12.5	9.8	8.3	7.7	8.5	15.7	14.6
Relative Return	3.1	2.1	2.1	1.7	2.0	2.2	2.0	2.0	2.5	1.7	1.4	1.9

Rolling 3 Year Risk



Relative Risk	2.5	2.2	2.2	2.3	2.3	2.6	2.6	2.8	2.9	3.2	3.2	3.2
Information Ratio	1.3	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.9	0.5	0.4	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 - Schroders UK Property

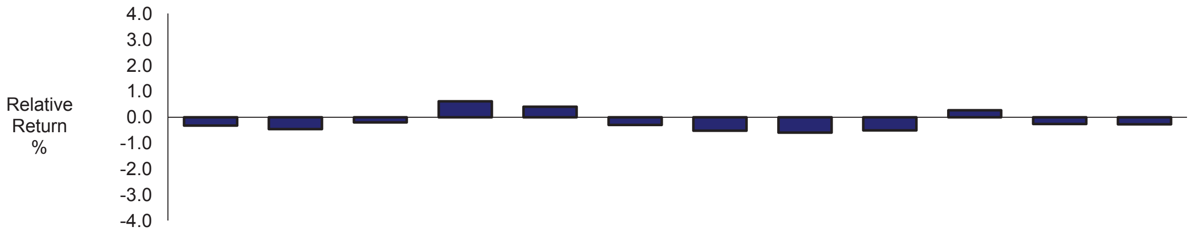
LB OF TOWER HAMLET PROPERTY PORTFOLIO - SCHRODER INVEST. MGMT.	Periods to end December 2014
Benchmark - London Borough of Tower Hamlets - Schroders	Pound Sterling

Category - TOTAL ASSETS

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

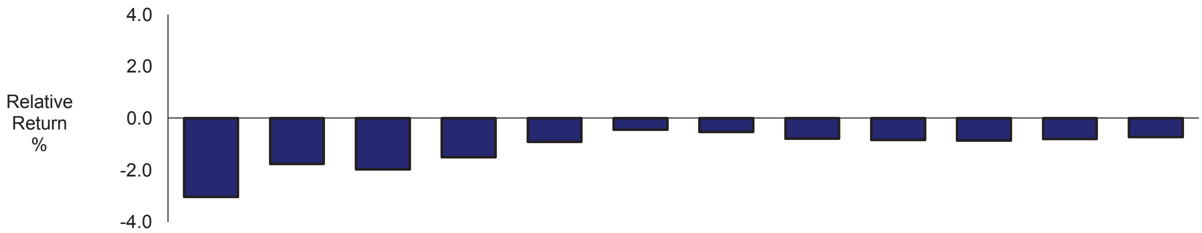
	--- 2012 ---				--- 2013 ---				--- 2014 ---			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	94.9	95.1	94.8	94.5	94.7	95.8	96.8	98.7	102.3	105.2	110.1	114.3
Net Investment	0.7	1.0	0.8	0.8	0.9	0.8	0.9	0.8	1.0	1.1	1.0	1.0
Capital Gain/Loss	-0.4	-1.3	-1.1	-0.7	0.1	0.3	0.9	2.8	1.9	3.8	3.2	3.9
Final	95.1	94.8	94.5	94.7	95.8	96.8	98.7	102.3	105.2	110.1	114.3	119.2
Income	0.7	0.9	0.8	0.8	1.0	0.8	0.9	0.8	0.9	1.0	0.9	0.9
Proportion Of Total Fund (%)	11	12	11	11	10	10	10	10	10	11	11	11

Quarterly Returns



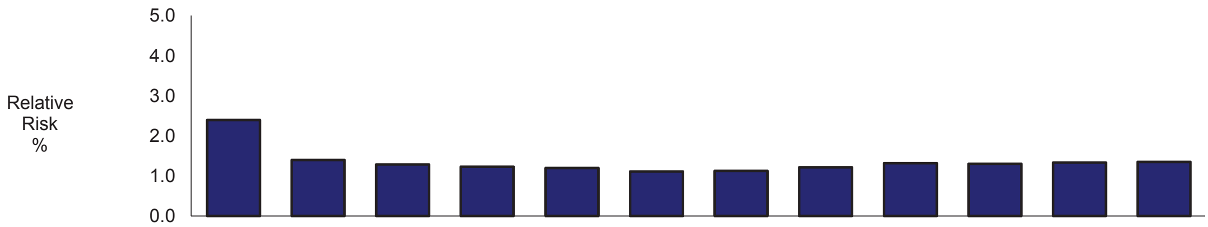
Fund	0.3	-0.4	-0.3	0.2	1.2	1.1	1.9	3.6	2.8	4.6	3.7	4.3
Benchmark	0.6	0.1	-0.1	-0.4	0.8	1.4	2.4	4.3	3.3	4.3	4.0	4.6
Relative Return	-0.3	-0.5	-0.2	0.6	0.4	-0.3	-0.5	-0.6	-0.5	0.3	-0.3	-0.3

Annualised Rolling 3 Year Returns



Fund	5.2	7.8	6.8	4.5	3.8	3.7	3.9	4.4	4.8	5.7	6.6	7.8
Benchmark	8.5	9.7	9.0	6.1	4.7	4.2	4.4	5.2	5.7	6.6	7.4	8.6
Relative Return	-3.0	-1.8	-2.0	-1.5	-0.9	-0.4	-0.5	-0.8	-0.8	-0.9	-0.8	-0.7

Rolling 3 Year Risk



Relative Risk	2.4	1.4	1.3	1.2	1.2	1.1	1.1	1.2	1.3	1.3	1.3	1.4
Information Ratio	-1.3	-1.3	-1.5	-1.2	-0.8	-0.4	-0.5	-0.7	-0.6	-0.7	-0.6	-0.5

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 December 2014**

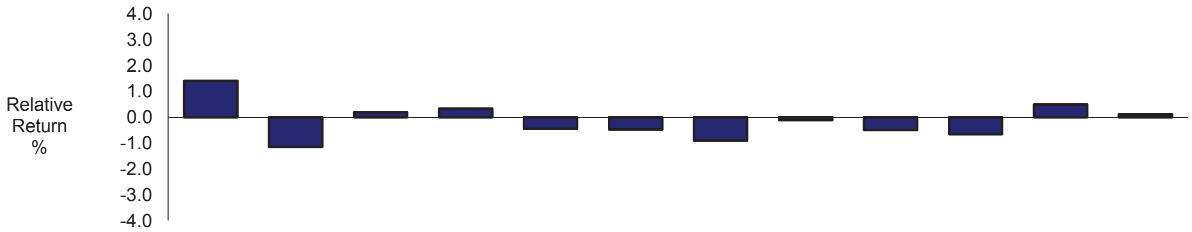
Benchmark - GBP 3 MONTH LIBOR + 2% — **Pound Sterling**

Category - TOTAL ASSETS

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

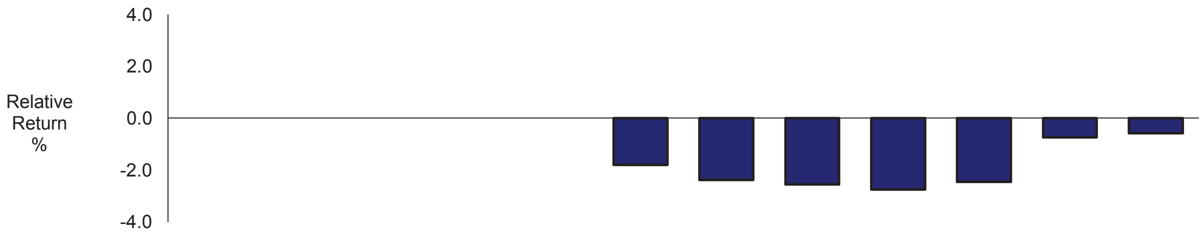
	2012				2013				2014			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Values (GBPm's)												
Initial	93.5	95.5	95.1	96.0	96.9	97.0	97.2	96.9	97.4	97.5	97.5	98.7
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	2.0	-0.4	0.8	0.9	0.2	0.1	-0.3	0.5	0.1	0.0	1.2	0.8
Final	95.5	95.1	96.0	96.9	97.0	97.2	96.9	97.4	97.5	97.5	98.7	99.5
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
Proportion Of Total Fund (%)	12	12	12	11	10	10	10	10	10	9	9	9

Quarterly Returns



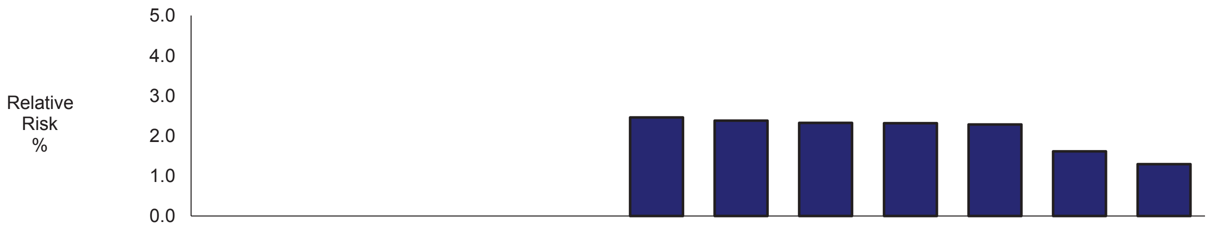
	2012 Q1	Q2	Q3	Q4	2013 Q1	Q2	Q3	Q4	2014 Q1	Q2	Q3	Q4
Fund	2.2	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1	-0.0	1.1	0.7
Benchmark	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Relative Return	1.4	-1.2	0.2	0.3	-0.5	-0.5	-0.9	-0.1	-0.5	-0.7	0.5	0.1

Annualised Rolling 3 Year Returns



	2012 Q1	Q2	Q3	Q4	2013 Q1	Q2	Q3	Q4	2014 Q1	Q2	Q3	Q4
Fund						0.9	0.3	0.1	-0.1	0.2	1.9	2.0
Benchmark						2.8	2.8	2.7	2.7	2.7	2.7	2.6
Relative Return						-1.8	-2.4	-2.6	-2.8	-2.5	-0.7	-0.6

Rolling 3 Year Risk



	2012 Q1	Q2	Q3	Q4	2013 Q1	Q2	Q3	Q4	2014 Q1	Q2	Q3	Q4
Relative Risk						2.5	2.4	2.3	2.3	2.3	1.6	1.3
Information Ratio						-0.7	-1.0	-1.1	-1.2	-1.1	-0.5	-0.5

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 December 2014**

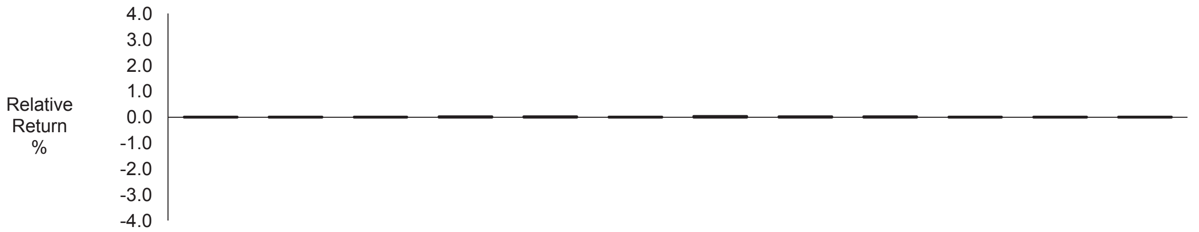
Benchmark - FTSE UK GILTS INDEXED > 5 YRS | **Pound Sterling**

Category - TOTAL ASSETS

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

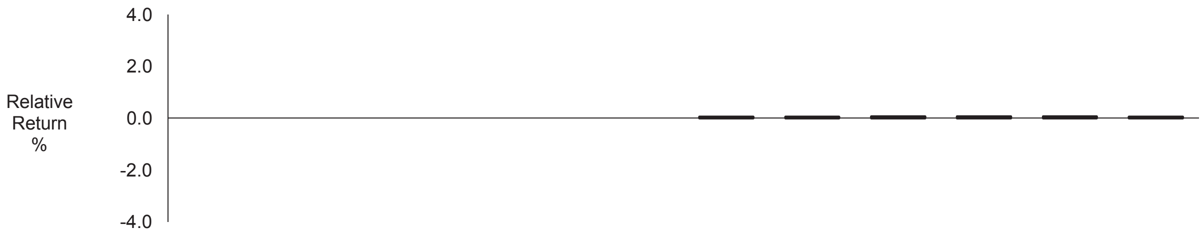
	--------------- 2012 ---------------				--------------- 2013 ---------------				--------------- 2014 ---------------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	46.9	46.0	46.4	44.9	47.2	51.4	47.6	47.9	47.5	49.2	49.7	52.7
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	-0.9	0.4	-1.5	2.3	4.3	-3.8	0.3	-0.4	1.7	0.6	3.0	5.0
Final	46.0	46.4	44.9	47.2	51.4	47.6	47.9	47.5	49.2	49.7	52.7	57.7
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	5	6	6	5	5	5	5	5	5	5

Quarterly Returns



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Fund	-2.0	0.8	-3.2	5.1	9.0	-7.3	0.6	-0.9	3.6	1.1	5.9	9.4
Benchmark	-2.0	0.8	-3.2	5.0	9.0	-7.3	0.5	-0.9	3.6	1.1	5.9	9.4
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



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Fund							8.4	7.7	9.0	7.8	7.2	7.1
Benchmark							8.3	7.6	8.9	7.8	7.1	7.0
Relative Return							0.0	0.0	0.1	0.1	0.1	0.1

Rolling 3 Year Risk

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Relative Risk							0.0	0.0	0.0	0.0	0.0	0.0
Information Ratio							1.5	1.6	2.1	2.5	2.8	2.7

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 - B Gifford Divers Growth

LB OF TOWER HAMLETS - BAILLIE GIFFORD & CO — **Periods to end December 2014**

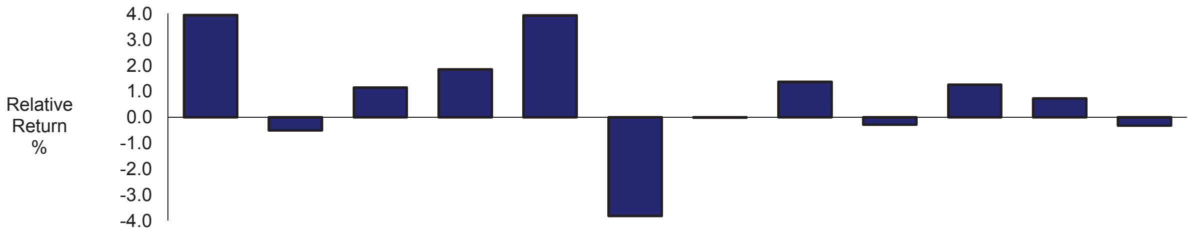
Benchmark - BANK OF ENGLAND BASE RATE + 3.5% — **Pound Sterling**

Category - TOTAL ASSETS

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

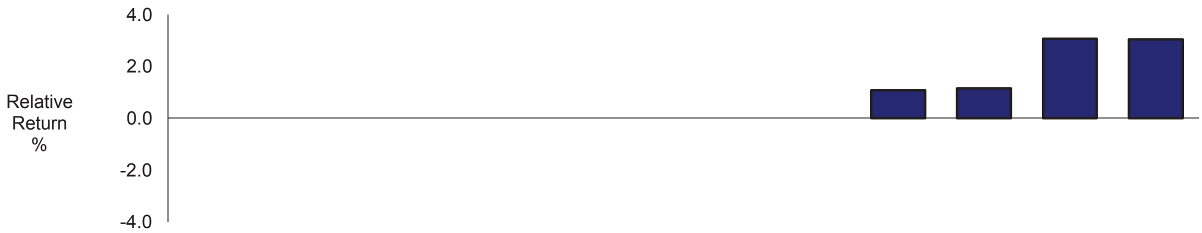
	--------------- 2012 ---------------				--------------- 2013 ---------------				--------------- 2014 ---------------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	39.7	41.7	42.0	42.9	44.1	46.3	45.0	45.5	46.5	46.9	47.9	48.8
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	2.0	0.2	0.9	1.2	2.2	-1.3	0.4	1.1	0.3	1.0	0.8	0.3
Final	41.7	42.0	42.9	44.1	46.3	45.0	45.5	46.5	46.9	47.9	48.8	49.1
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	5.0	0.5	2.1	2.9	5.0	-2.9	1.0	2.4	0.7	2.3	1.7	0.6
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	3.9	-0.5	1.1	1.9	3.9	-3.8	-0.0	1.4	-0.3	1.3	0.7	-0.3

Annualised Rolling 3 Year Returns



Fund									5.1	5.2	7.2	7.2
Benchmark									4.0	4.0	4.0	4.0
Relative Return									1.1	1.2	3.1	3.0

Rolling 3 Year Risk

Relative Risk									4.8	4.8	4.2	4.1
Information Ratio									0.2	0.2	0.7	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

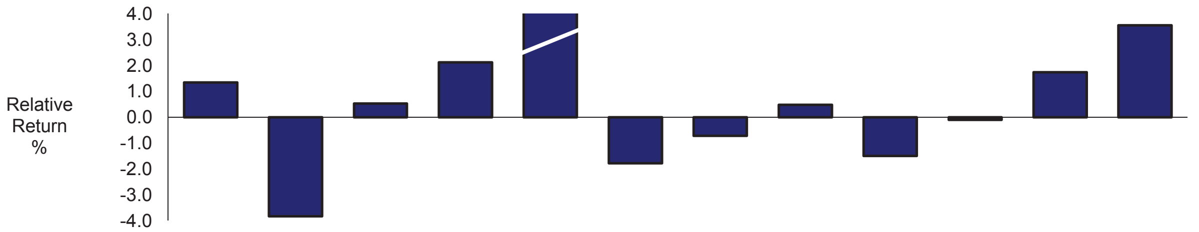
LB OF TOWER HAMLETS - RUFFER INVESTMENT MGMT LTD	Periods to end December 2014
Benchmark - GBP 3 MONTH LIBOR + 2%	Pound Sterling

Category - TOTAL ASSETS

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

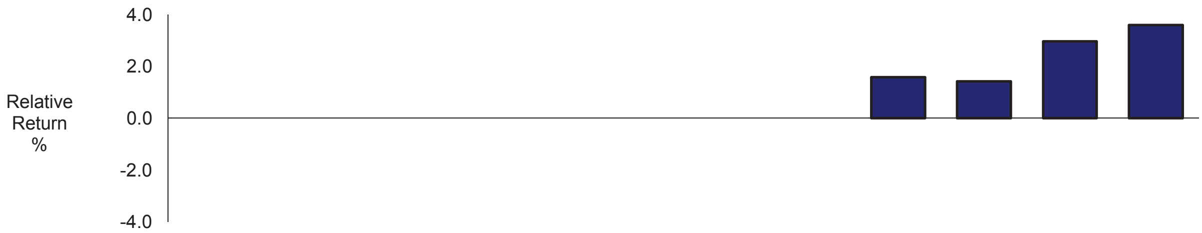
	2012				2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	40.2	41.0	39.8	40.2	41.3	45.5	45.0	44.9	45.4	45.0	45.3	46.3
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.8	-1.3	0.5	1.1	4.2	-0.5	-0.0	0.5	-0.4	0.2	1.1	1.9
Final	41.0	39.8	40.2	41.3	45.5	45.0	44.9	45.4	45.0	45.3	46.3	48.3
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	4	4	4	4

Quarterly Returns



Fund	2.1	-3.1	1.2	2.8	10.1	-1.2	-0.1	1.1	-0.9	0.5	2.4	4.2
Benchmark	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Relative Return	1.3	-3.8	0.5	2.1	9.4	-1.8	-0.7	0.5	-1.5	-0.1	1.7	3.5

Annualised Rolling 3 Year Returns



Fund	4.3	4.1	5.7	6.3
Benchmark	2.7	2.7	2.7	2.6
Relative Return	1.6	1.4	3.0	3.6

Rolling 3 Year Risk

Relative Risk	5.5	5.5	4.9	5.2
Information Ratio	0.3	0.3	0.6	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.

BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund - DG

Report for the quarter ended
31 December 2014

Contents

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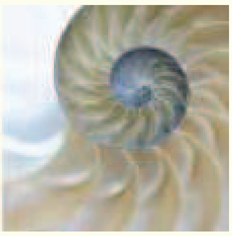
Online Reporting

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



Cross Section detail of a Nautilus Shell.

Performance to 31 December (%)

	Fund	Base Rate +3.5%
Since Inception* (p.a.)	6.0	4.0
Three Years (p.a.)	7.8	4.0
One Year	6.0	4.0
Quarter	0.8	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

News flow in the final quarter of 2014 was dominated by the fall in the oil price and the knock-on effects that this has had on various economies and companies

Monetary policy continues to diverge, with the Bank of Japan embarking on further quantitative easing and the European Central Bank edging towards its own QE programme, while the US Federal Reserve ended its programme and looks to interest rate rises in 2015

Investment markets have seen mixed performance, with government bonds and global equities producing positive returns while commodities fell sharply. Against this backdrop, the Diversified Growth Fund delivered a positive return

Valuation (after net flow of GBP 18,294)

Investment environment

News flow in the final quarter of 2014 was dominated by the fall in the oil price and the knock-on effects this had on various economies and companies. From a peak in the middle of June of $115, Brent oil fell to $93 at the end of September and then to $56 at the end of the year. The price fall reflects both lower demand, due to a weaker global growth outlook, and increased supply. This increased supply is down to continued growth in US shale oil, better than expected production from Libya and Iraq, and the reluctance of OPEC, and Saudi Arabia in particular, to cut supply in order to maintain higher prices.

A lower oil price is generally believed to be good for overall global economic growth, especially when increased supply is the main driver. The International Monetary Fund estimates that the lower oil price should increase global GDP by between 0.3% and 0.7% in 2015. These benefits are likely to be felt most by major oil importers including China, Japan, the United States and the Eurozone. On the other hand, major oil producing economies will be the losers, and have been coming under pressure. Russia in particular has suffered as the fall in the oil price compounded the impact of economic sanctions, with the ruble falling substantially against the US dollar.

Economic news was mixed over the quarter, with weaker data from the Eurozone, Japan and various Emerging Markets outweighing generally good data from the US. This is reflected in the reaction of central banks, with the US, Japan and the Eurozone at differing stages in their monetary easing cycles. With growth gradually picking up, the US Federal Reserve ended its quantitative easing (QE) programme, and attention is now on the timing of the first interest rate rise.

In Japan, the economy fell into recession amid concerns that current economic policies (dubbed 'Abenomics') are not working. The central bank responded by announcing a further round of QE in its attempt to get inflation to the 2% target. In addition, Prime Minister Abe called, and subsequently comfortably won, a snap election in December, taking advantage of his current popularity to consolidate his position and give him more time to carry out reforms.

The Eurozone continues to be a key area of concern as deflationary pressures build. The lower oil price will inevitably add to these deflationary pressures but this could be beneficial in helping European Central Bank (ECB) president Mario Draghi to win over sceptics on the merits of a full-blown QE programme. Whilst the ECB commenced its purchase of asset-backed securities, it is unlikely that this will have a significant impact, and a larger programme involving government bond purchases is likely to be required.

In investment markets, the lower growth and inflation outlook has resulted in a continued fall in developed market bond yields. For example, the ten-year UK Gilt yield fell from 2.4% to 1.8% over the quarter, having started the year at 3.0%. Equity markets have been a bit more volatile than in recent years with global equities falling by more than 5% twice in the past four months. However, despite bouts of short-term volatility, global equities produced a positive return over the quarter. The performance of other asset classes was mixed, with commodities falling sharply, and most other asset classes producing returns close to zero.

Outlook

A number of economies are struggling with high debt burdens and are battling to avoid deflation. As a result, investment markets remain very reliant on the policy of the major central banks. We continue to be of the view that most asset classes are priced to deliver lower returns than in recent years and that risk is not as well rewarded as it has been in the past.

It is generally expected that the ECB will embark on a larger QE programme in the first half of 2015 and this should help to drive markets higher. However, given differing views and complex political issues within the Eurozone, there is a risk this is watered down and is a case of 'too little, too late'. Elections may also prove disruptive as more radical parties, most notably Syriza in Greece, gain increasing influence.

The US economy is expected to continue to do well, although one likely outcome of this is interest rate rises. Easy monetary policy in the US has been one of the key drivers of rising markets over the past five or six years. It is unclear how markets will react once interest rates start to rise.

Positioning

We continue to have a cautiously positioned portfolio with a relatively high weighting to less economically exposed assets such as cash, senior structured finance and gold.

During the quarter we took some opportunities to add to listed equities and high yield credit after market falls. This was somewhat offset by taking profits on investments in US water utilities and German property that had performed very well and where valuations look stretched. The increase in listed equities included an additional allocation to Japan, where we feel that further QE, improving corporate governance and increasing equity allocations from domestic pension funds are all positives for the Japanese market.

Following the rally in government bonds, we sold out of our European Investment Bank holding and our holdings in Australian government bonds. We now have a zero weighing in government bonds.

Performance

The Fund generated a return of 0.8% over the final quarter of 2014, leading to a 6.0% return over the past 12 months. The annualised return for the past five years is 7.9% with a realised volatility of 4.7% per annum (all performance numbers are quoted before fees).

During the past three months, the largest contributors to performance were absolute return, listed equities and property. Most other asset classes were broadly flat over the quarter, with the exception of a negative contribution from active currency.

Over the past 12 months the greatest positive contributors were listed equities, emerging market bonds and absolute return.

Alexis Tsipras during the Resistance Festival 2014, organised by the Syriza Party.

Special Paper: Diversified Growth Client Seminars

We recently hosted a series of Client Seminars, in Manchester, London, Birmingham and Edinburgh. We were delighted that almost 200 people attended, representing more than 100 of our clients.

The purpose of the seminars was to provide our clients with the opportunity to meet each of the four Diversified Growth Fund Managers, and to help clients develop a greater understanding of our philosophy and process, as well as offering a better insight into the various asset classes in which the Fund invests.

The head of the Diversified Growth team, Patrick Edwardson, opened each seminar by emphasising the core values of our approach to Diversified Growth Investing:

— Absolute returns – a focus on making money for our clients
— Long-term big picture thinking – a focus on valuation and macroeconomic issues
— Diversity and flexibility across a broad range of asset classes
— Belief not conviction – a steer away from overconfidence, acknowledging that a wide range of outcomes is possible

During what we cryptically entitled the Asset Class Snorkel, we took a look beneath the surface of a selection of asset classes, taking care not to dive into too much detail!

James Squires explained which factors are most important when researching suitable investments in *government debt markets*, such as demographic trends and the credibility and independence of institutions such as central banks, alongside economic indicators including GDP growth, interest rates and inflation. James also talked about our infrastructure investments with a particular focus on renewable energy.

David McIntyre explained the difference between *high yield loans*, which are typically secured against the company's assets, and unsecured *high yield bonds*. David highlighted that despite their seniority, loans are currently offering higher returns than high yield bonds; hence the Diversified Growth Fund's increased exposure to loans.

Many people associate *structured finance* with the market collapse of 2008. However, David explained how this asset class is safer, more economically useful and a better investment opportunity than many investors would have you believe. Addressing each of these points, David illustrated why the Fund currently has a significant weighting across a spectrum of structured finance deals.

The Asset Allocation Debate provided an opportunity for clients to be a 'fly-on-the-wall' at live extracts from our team discussions.

This unscripted session showcased the nature of the Fund Managers' debate. The session reminded clients that we should expect differences of opinion between the four fund managers, and that the monthly asset allocation debate focuses on coming to agreement on the optimal portfolio positioning. Each session began as it would in the office, with an overview of the global macro-economic outlook. What followed was a discussion between the managers on two asset classes selected by the audience.

In our final session, Mike Brooks explained how all of us act on emotions and as a result our decision making process may not be entirely rational at all times. It is this view that lies at the heart of Behavioural Finance. Posing various questions of the audience, Mike tried to uncover their behavioural biases before explaining how we endeavour to avoid such pitfalls when investing the Diversified Growth Fund.

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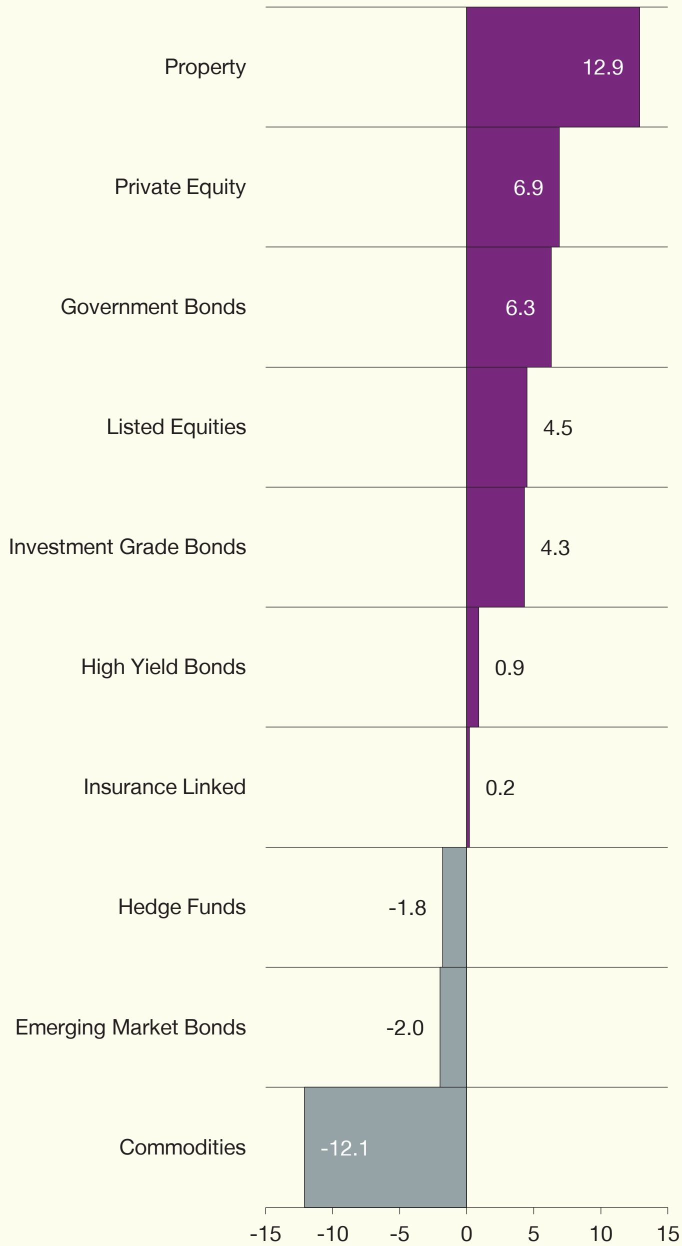
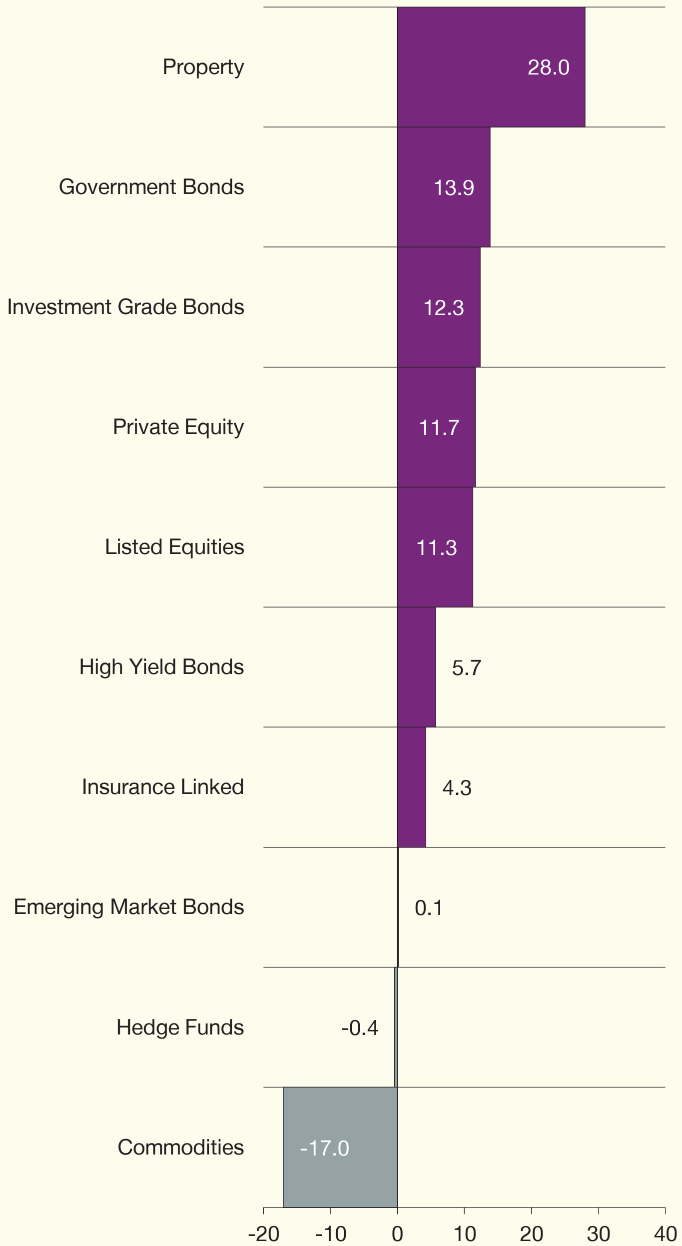
Market Background - Asset Class Returns

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%.

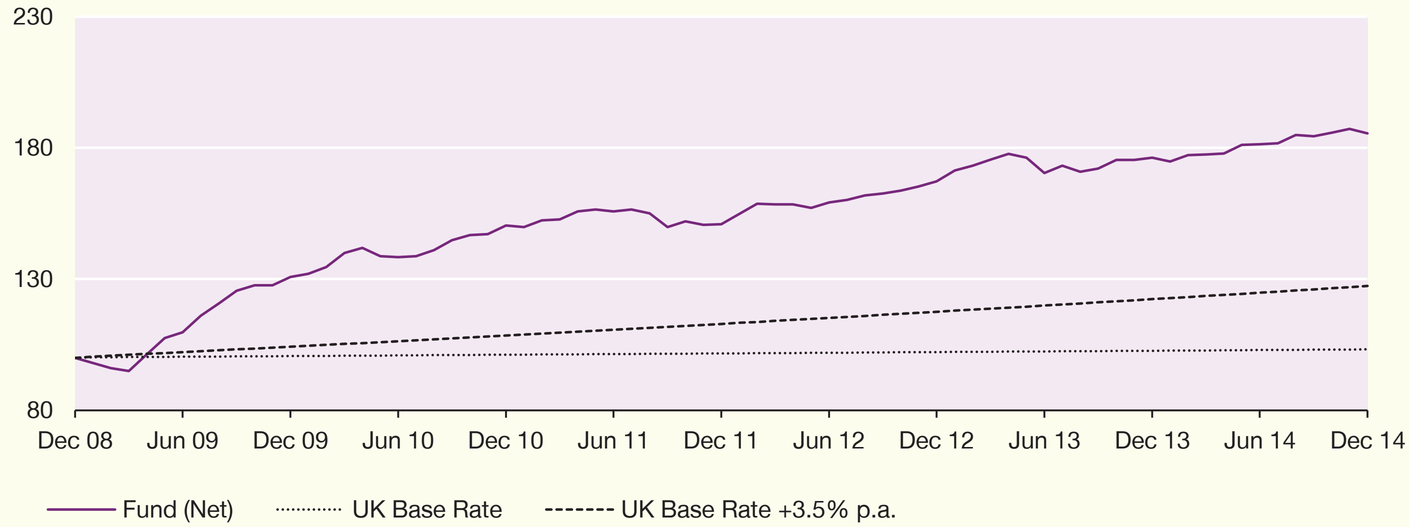
Performance

This table indicates the net performance of the Fund together with the UK Base Rate and the UK Base Rate +3.5%.

	Fund Net (%)	Base Rate (%)	Base Rate (%) +3.5%
Five Years (p.a.)	7.2	0.5	4.0
Three Years (p.a.)	7.1	0.5	4.0
One Year	5.3	0.5	4.0
Quarter	0.6	0.1	1.0

Source: StatPro, Baillie Gifford

Fund, UK Base Rate and UK Base Rate +3.5% 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.

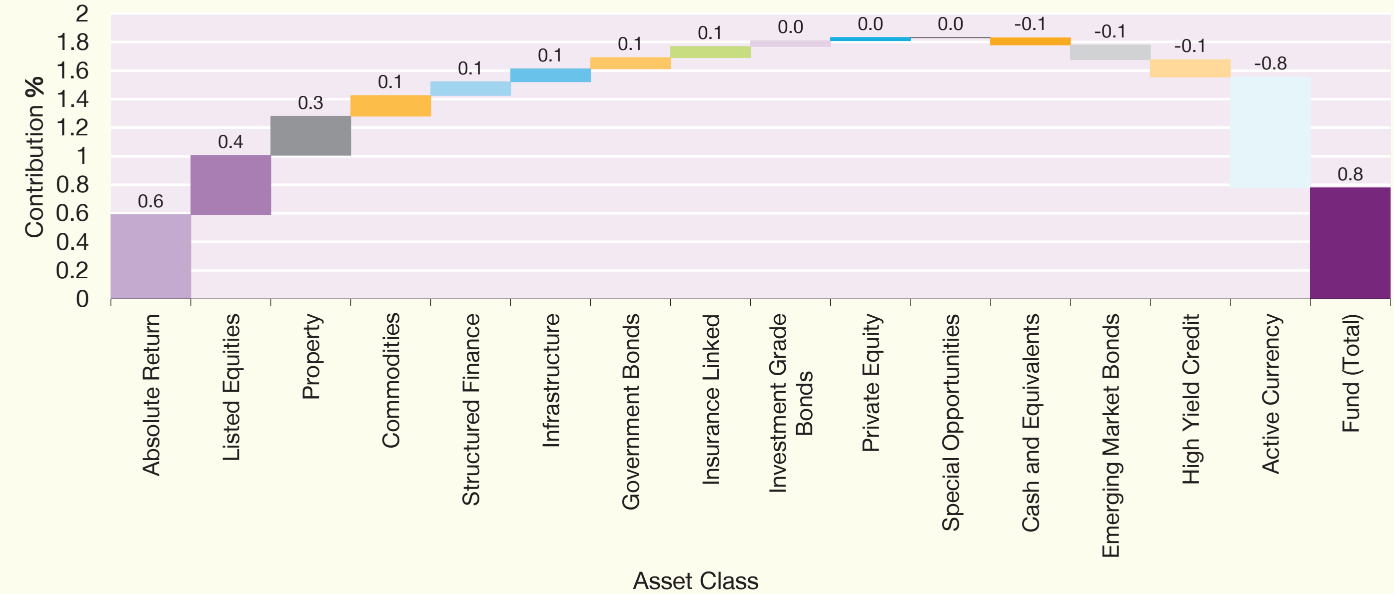
Summary Risk Statistics (%)

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 31 December 2014



Ave. Weight %	7.9	20.6	2.6	4.8	14.1	5.0	1.6	5.0	6.5	1.9	0.6	5.7	13.1	11.0	-0.3	100.0
Return %	7.3	1.7	10.4	2.3	0.3	1.4	3.7	1.2	0.2	0.6	-0.8	-0.9	-1.3	-1.4	-0.8	0.8

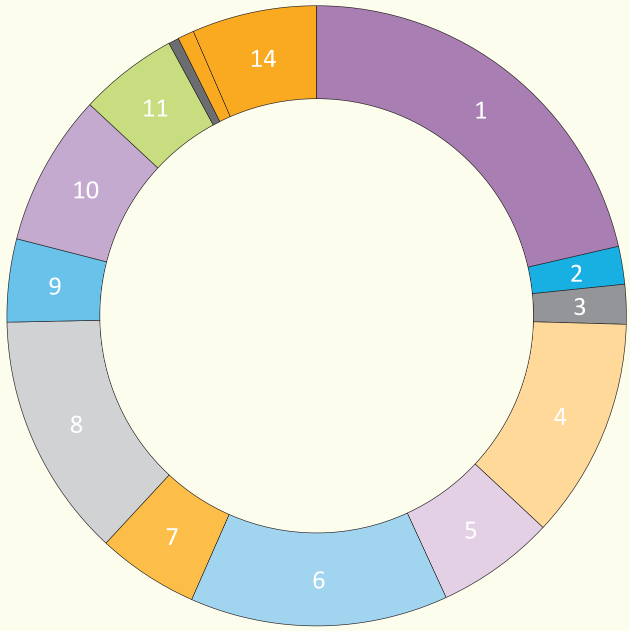
One Year to 31 December 2014

Ave. Weight %	16.9	13.2	6.7	2.2	12.1	8.4	5.1	4.0	4.2	5.7	11.1	2.4	0.6	7.5	0.0	100.0
Return %	6.0	4.1	8.4	31.5	4.9	5.4	8.0	9.8	9.0	5.3	1.4	4.0	4.5	-0.2	-0.1	6.0

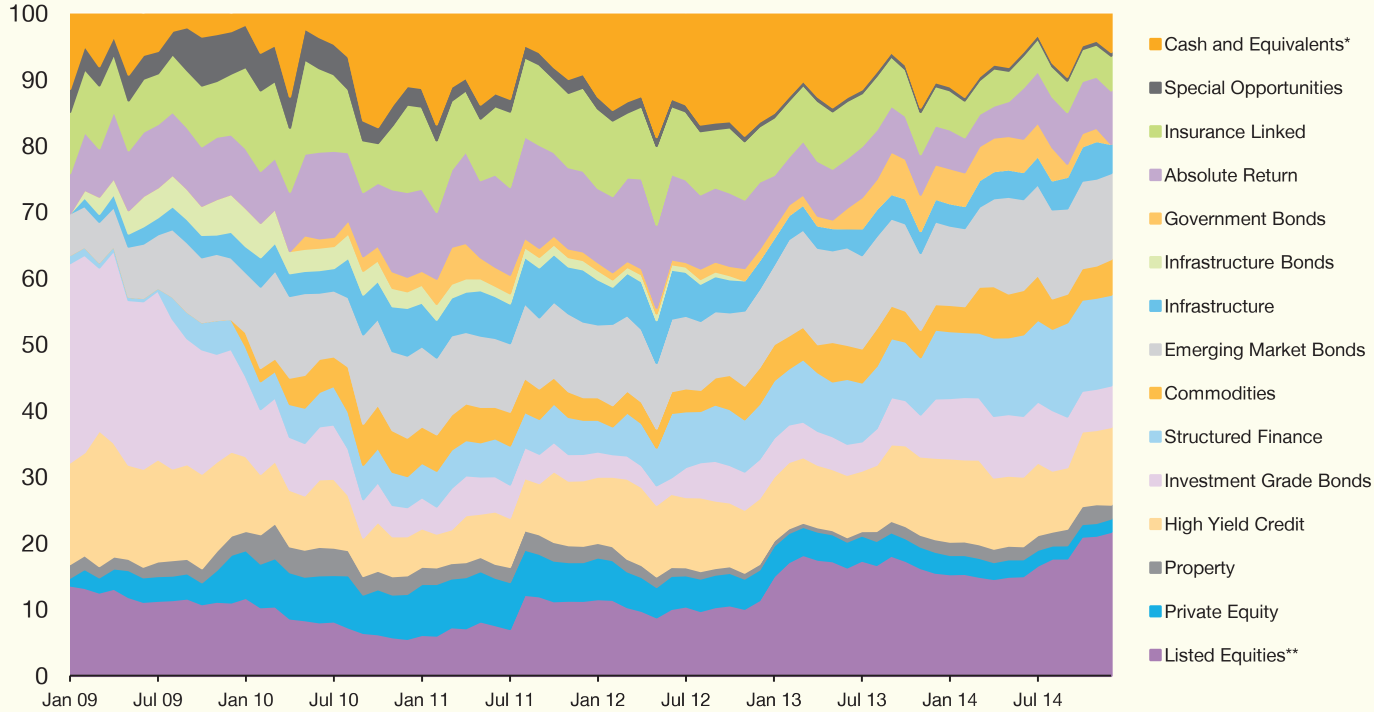
Source: Statpro/Baillie Gifford, gross of fees in sterling. Totals may not sum due to rounding

Asset Allocation at Quarter End

		(%)
1	Listed Equities**	21.8
2	Private Equity	2.0
3	Property	2.1
4	High Yield Credit	11.7
5	Investment Grade Bonds	6.3
6	Structured Finance	13.7
7	Commodities	5.4
8	Emerging Market Bonds	13.0
9	Infrastructure	4.4
10	Absolute Return	8.1
11	Insurance Linked	5.3
12	Special Opportunities	0.6
13	Active Currency	-0.9†
14	Cash and Equivalents	6.6
	Total	100.0



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



† This number shows the unrealised P&L of the Active Currency positions open in the Fund as at 31 December 2014
†† 30 December 2008
* Includes net Active Currency position
** Reflects effective exposure in portfolio, including futures positions; cash adjusted accordingly

Summary Risk Statistics (%)

Predicted Volatility	7.0

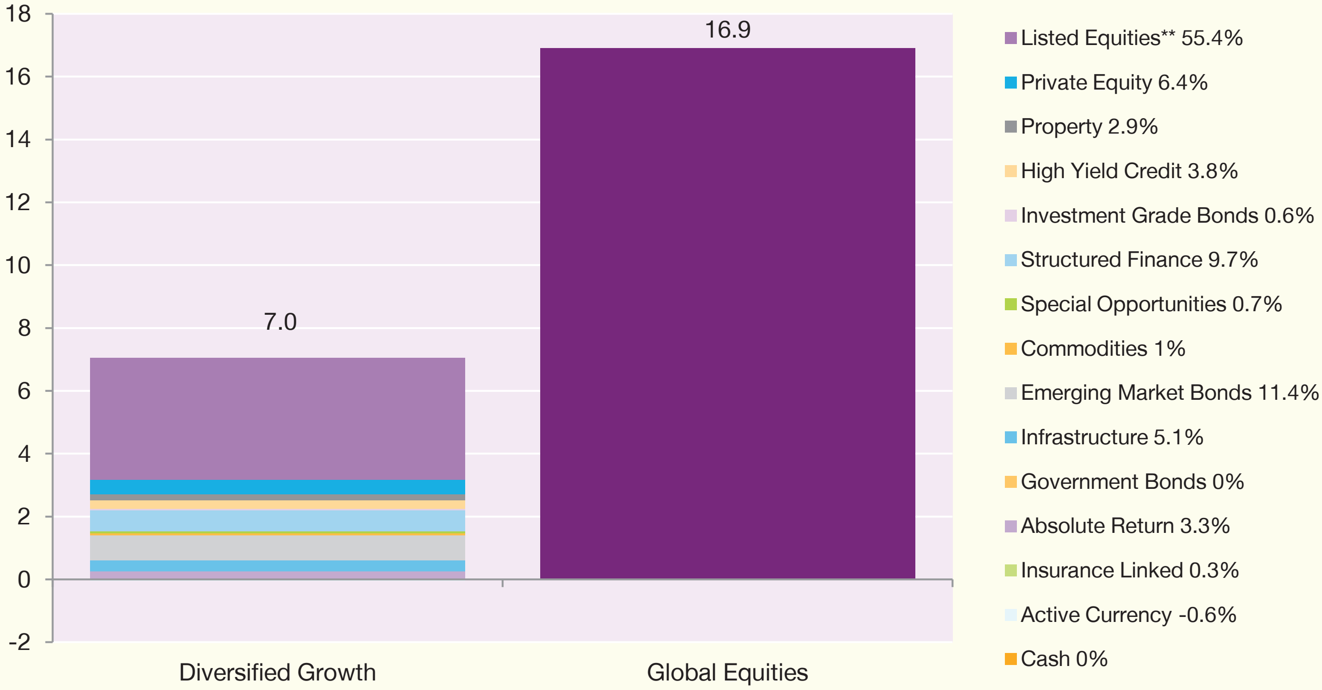
Source: Baillie Gifford, Moody's Analytics UK Limited

Volatility increased during the quarter on concerns over weaker global growth and the negative impacts of the sharply falling oil price on a number of economies and companies

Key risks to markets in 2015 include the uncertain impact of likely US interest rate rises, the threat of deflation in the Eurozone, the increasing prominence of more radical parties in forthcoming European elections and uncertainty over Russia's response to its weakened economic position

We have made small additions to equities on recent market weakness, but in broad terms the Diversified Growth portfolio remains cautiously positioned, reflecting our view that risks are not greatly rewarded

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 Alpha Growth Fund C Acc	5.7
Baillie Gifford Global Income Growth Fund C Accum	5.0
BG Worldwide Japanese C GBP Acc	2.6
Baillie Gifford Pacific Fund C Accum	2.0
Baillie Gifford LTGG Fund C Accum	1.9
Euro Stoxx 50 Future Mar 15	1.0
Euro Stoxx 50 Index Dividend Futures 15	0.6
Euro Stoxx 50 Index Dividend Futures 16	0.6
Euro Stoxx 50 Index Dividend Futures 17	0.6
Euro Stoxx 50 Index Dividend Futures 18	0.6
Fondul Proprietatea	0.5
Euro Stoxx 50 Index Dividend 19	0.4
Euro Stoxx 50 Index Dividend 20	0.3
Damille Investments II	0.0
Total Listed Equities	21.8
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
Electra Convertible 5% 2017	0.1
Dunedin Enterprise Investment Trust	0.1
Total Private Equity	2.0
Property	
LEG Immobilien	0.7
Hammerson	0.5
Tritax Big Box REIT	0.3
LondonMetric Property	0.2
Target Healthcare REIT	0.1
Ediston Property Investment Company	0.1
Japan Residential Investment Company	0.1
Terra Catalyst Fund	0.0
Deutsche Wohnen	0.0
Invista 9% 2016 Pref	0.0
Total Property	2.1

Asset Name	Fund %
High Yield Credit	
Baillie Gifford High Yield Bond Fund C Gross Acc	4.7
Credit Suisse Nova (Lux) Global Senior Loan Fund	1.5
Henderson Secured Loans Fund	1.5
ING (L) Flex Senior Loans Fund	0.9
NB Global Floating Rate Income Fund	0.6
NB Distressed Debt Invest F NPV	0.4
Nuveen Floating Rate Income Fund	0.3
Eaton Vance Floating Rate Income Trust	0.3
Invesco Senior Income Trust	0.2
Voya Prime Rate Trust	0.2
CVC Credit Partners European Opportunities GBP	0.2
BlackRock Floating Rate Income Trust	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
First Trust Senior Floating Rate	0.1
HarbourVest Senior Loans Europe	0.0
Total High Yield Credit	11.7
Investment Grade Bonds	
BG Worldwide Global Credit C USD Acc	6.3
Total Investment Grade Bonds	6.3
Structured Finance	
Galene Fund	4.0
Metreta Fund	3.1
Julius Baer Multibond ABS Fund	3.0
TwentyFour Income Fund	0.4
Sorrento Park CLO A-1	0.4
German Residential Funding 2013-1 D	0.4
Babson CLO 2014-2 A1	0.3
Carlyle CLO 2014-3 A-1A	0.2
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
Carador Income Fund	0.2
German Residential Funding 2013-1 E	0.1
Granite 2007-1 6A1	0.1

Asset Name	Fund %
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
Babson CLO 2014-2 B1	0.1
Carlyle CLO 2014-3 A-2A	0.0
Total Structured Finance	13.7

Commodities	
Source Physical Gold P-ETC	2.0
ETFS Physical Palladium	1.0
Source Physical Palladium P-ETC	0.8
Source Physical Platinum P-ETC	0.6
ETFS Physical Platinum	0.5
ETFS Brent Crude	0.4
Total Commodities	5.4

Emerging Market Bonds	
Baillie Gifford Emerging Mkts Bond Fd C Gross Acc	8.0
Brazil CPI Linked 6% 15/08/2050	1.0
Mexico IL 4% 15/11/2040	0.8
Colombia 10% 24/07/2024	0.7
Brazil CPI Linked 6% 15/08/2022	0.5
Mexico 7.75% 13/11/2042	0.5
Mexico 8.5% 18/11/2038	0.5
Peru 6.85% 12/02/2042	0.3
Brazil CPI Linked 6% 15/05/2045	0.3
Afreximbank 5.75% 2016	0.2
Colombia 7.5% 26/08/2026	0.2
Colombia 7% 04/05/2022	0.1
Total Emerging Market Bonds	13.0

Infrastructure	
EDP Renovaveis	0.7
3i Infrastructure	0.7
OHL México	0.4
Greencoat UK Wind	0.4
Renewables Infrastructure Group	0.4
National Grid	0.3
John Laing Environmental Assets Group	0.3
Foresight Solar Fund	0.2
NextEnergy Solar Fund	0.2
Bluefield Solar Income Fund	0.2

Asset Name	Fund %
Terna	0.2
Snam Rete Gas	0.2
Total Infrastructure	4.4

Absolute Return	
Allianz Merger Arbitrage Strategy	3.0
Aspect Diversified Trends Fund	2.3
Amundi Volatility World Equities	1.1
Ferox Salar Convertible Absolute Return Fund	0.9
Winton Futures Fund	0.6
Boussard & Gavaudan	0.2
Total Absolute Return	8.1

Insurance Linked	
Everglades Re 2014-1 A	0.8
Tar Heel Re 2013-1 A	0.6
Everglades Re 2013-1 A	0.5
Alamo Re 2014-1 A	0.4
Lakeside Re III A	0.4
Embarcadero Re 2012-2 A	0.4
Tradewynd Re 2014-1 3B	0.3
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
Blue Capital Reinsurance Holdings Fund	0.1
East Lane Re V 2012 B	0.1
Blue Capital Global Reinsurance Fund	0.1
Tradewynd Re 2013-2 3B	0.1
MultiCat Mexico 2012-1 B	0.1
Compass Re 2011-1 3	0.1
Skyline Re 2014-1 A	0.1
Tradewynd Re 2014-1 1B	0.1
Tradewynd Re 2014-1 3A	0.0
K1 Life Settlement	0.0
Total Insurance Linked	5.3

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

Asset Name	Fund %
Active Currency	
Total Active Currency	-0.9
Cash and Equivalents	
Cash and UK T Bills	4.7
BG Worldwide Active Cash Plus Fund C Acc	1.9
Total Cash and Equivalents	6.6
Total	100.0

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

Fund Name	Update
Baillie Gifford Diversified Growth Fund	The volatility in markets offered us opportunities to take advantage of more attractive valuations in some asset classes during the quarter. Most notably we increased our exposure to listed equities and high yield credit in mid-October following market falls. These increases were largely funded by selling out of government bonds and from cash. The total addition to listed equities was 4% of fund. A significant proportion of this (1.5%) was an addition to Japanese equities. We believe that there are a number of positive factors supporting Japanese equities including further QE, improving corporate governance and significant increases in equity exposure from Japanese pension funds. The remainder of the increase was into our Global Alpha fund (1.5%) and to a European index future (1%), reflecting our view of relatively attractive valuations in Europe and a belief that a likely QE programme will have a positive impact on European equities. With most developed government bond markets rallying strongly we took profits by selling our Australian government bonds (2%) and European Investment Bank bonds (1.6%). The increase in listed equities was also partially funded by the sale of our basket of US water utility holdings (1% within our infrastructure asset class) and German property (0.7%). These investments had produced strong returns and valuations are now much less attractive. Within commodities we took advantage of falls in the price of platinum and palladium to increase our holdings (1%). We also took a position in an oil ETF (0.5%) towards the end of the quarter. This gives us exposure to the oil price, through oil futures. We believe that the fall in the oil price will prove unsustainable and in the medium to long term we are likely to see price rises in excess of those priced into the futures market. Within structured finance we sold out of our holdings in airplane-backed bonds (1.7%), taking profits as valuations have moved to less attractive levels. Most of the proceeds were invested in the Galene fund, our core exposure to mezzanine structured finance, and the senior tranches of a new European CLO deal, managed by Babson. Elsewhere in the portfolio we continued to add to our renewable infrastructure funds as they raised more capital. Our Emerging Market Bond weighting was largely unchanged but within the asset class we increased our holdings in Mexican and Colombian bonds, following a sell-off driven by concerns over the falling oil price, and funded this through a reduction in our holdings of Peruvian bonds which had performed well.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	14	Companies	1	Companies	1
Resolutions	91	Resolutions	3	Resolutions	4

Climate change is a topic we have thought about frequently over the past ten years. It has been difficult to analyse a company's exposure to climate change risk with any degree of conviction. We are a partner in the Mercer Climate Change and Strategic Asset Allocation Study
Supply chain management for the garment industry is complicated, with many competing priorities
Historically, there has been limited access for non-domestic investors to companies listed on Chinese stock exchanges. This is beginning to change with the opening up of the A-share market via the Hong Kong-Shanghai Stock Connect project

Company Engagement

Engagement Type	Company
Corporate Governance	CyberAgent Inc, Yaskawa Electric Corp.
AGM or EGM Proposals	CyberAgent Inc, Fondul Proprietatea
Executive Remuneration	Rakuten

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

As we have mentioned in previous letters, when incorporating ESG factors into our investment process we have had considerable focus on the 'G' of the term ESG over the past few years. This is understandable, and logical even. Governance is about people, relationships, values, and incentives, and these factors guide corporate attitudes and activities, including social and environmental performance. All of these governance factors will influence the long-term returns of the companies we invest in for our clients.

The difficulty with environmental and social indicators is that they are less clear cut, and are often more relevant to sectors and countries than to individual companies. So, what is interesting and helpful for us is to understand how each company is responding to the broader risks and opportunities from a reputational and business operation perspective.

Two significant 'E' and 'S' projects we are currently working on are climate change and garment supply chains. This is not an easy task because these are complex issues; the more time that is spent understanding the issues, the bigger the challenge seems to be.

Environment – climate change

Climate change is a topic we have thought about frequently over the past ten years, and it is an area where we are seeing an increasing amount of interest from our clients. It has been difficult to analyse a company's exposure to climate change risk with any degree of conviction beyond saying 'oil is more carbon intensive than gas; energy efficiency is a positive idea; and adaptation, remediation and mitigation technologies should be long-term winners'. We have carried out portfolio reviews and looked at renewable energy companies, but there remains a hurdle to answering the 'so what?' question. Many factors interlink to create this uncertainty; lack of regulation, the very low carbon price where one exists; timeframes (climate is a very long-term issue); the inconsistency of subsidies, and the many difficulties in accurately estimating an individual company's carbon footprint. But a shoulder shrugging 'it's difficult' is obviously not a satisfactory answer.

To introduce a different perspective, we are participating in the Mercer Climate Change project. This is a global project involving a number of asset owners together with some investment managers. The report, which examines the potential implications for investors under various climate change scenarios, is expected in the first half of 2015. We hope it will increase knowledge levels, challenge accepted assumptions, and raise the baseline for continued thinking on this topic and for debate with investors and our clients. One of the first insights is that it is an even longer-term issue than one might believe. Climate change happens over hundreds of years. Even though we think we are adopting a long-term view in looking for companies we can hold for ten or even 20 or 30 years, climate change models are looking at 300 years. So, long-term investing and climate aren't easy companions. What is clear though is that the volatility in weather patterns is increasing, and so companies should be looking to be energy efficient and able to adapt to increases in weather volatility.

Social – supply chain management for the garment industry

A number of our strategies have holdings in companies which are involved in the garment industry. Sitting behind a desk in Edinburgh is a very comfortable place to be when analysing garment companies and assessing their approaches to working conditions, pay scales, what the correct minimum age for employees is and whether subcontracting to an unaudited supplier factory is acceptable or not. Companies' sustainability reports tend to describe the issues in black and white terms with a list of actions that are unacceptable and others that require improvement and monitoring. In reality, it is not that simple. And the challenge does not lie simply with the retail companies' policies or the factory owners; order volumes are instantly reduced if there is a contraction of the European or US economies, for example. A member of the Corporate Governance team visited Bangladesh and Myanmar to learn about the realities of the challenges, what responsibilities lie with the brands themselves, the factories and with us. The 2014/15 Governance Review (published in the second quarter of this year) will include a more detailed review of the trip and summarise the insights that we will be applying to our research of existing and potential holdings in the garment industry.

Governance – China 'A' shares

We realise that the evolving opportunities for investment in China are of interest to clients, regardless of whether their portfolio has direct exposure to the region. Historically, there has been limited access for non-domestic investors to companies listed on mainland Chinese stock exchanges. This is beginning to change with the opening up of the A-share market via the Hong Kong-Shanghai Stock Connect project, which will significantly increase the number of investible companies for foreign investors. In conjunction with greater research efforts from our equity teams, we are increasing our focus on what arguably is one of the more inefficient markets that we will be able to invest in for our clients. Indeed, given the inefficiencies, China could be very rewarding for investors, such as Baillie Gifford, who have rigorous bottom-up research processes, and lead to significant opportunities for clients. However, opportunity comes with its own challenges. Information is limited in inefficient markets, bribery and corruption is a visible risk in the country, and the prospect of inaccurate, exaggerated disclosures from companies exists. The regulators have good laws but enforcement is often half-hearted, albeit this is improving. Assessments of governance structures, management quality and motivations are therefore a key component of the investment research for this market. This is something the investment and Corporate Governance teams look forward to cooperating on as opportunities for investment become available.

These three topics are increasingly relevant to listed companies, regardless of where they are listed or the sector in which they operate. Climate change is a global issue, every company has a supply chain in some form and China is an increasingly important market for investors and investee companies.

Image: © iStockphoto.com/ArtBoyMB

Company	Engagement Report
CyberAgent Inc	CyberAgent is a Japanese corporation that invests in companies with internet-related business in the advertising and gaming sector. We had a call with investor relations to discuss the company's approach to governance. In line with changes in the governance landscape in Japan, CyberAgent is keen to improve its practices as part of supporting its long-term performance. Accordingly, the company recently removed its poison pill and is recruiting an independent outside director. We also discussed changes to the compensation policy and how the company structures incentives for its employees. This was an informative call which we will look to build upon in the future.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
HarbourVest Senior Loans Europe	EGM 27/11/14	1	We supported the voluntary liquidation of the company.

Companies	Voting Rationale
Bluefield Solar Income Fund, Doric Nimrod Air Two, Eaton Vance Senior Income Trust, Fondul Proprietatea, Foresight Solar Fund, Greencoat UK Wind, HarbourVest Senior Loans Europe, Julius Baer Multibond ABS Fund, NextEnergy Solar Fund, Nuveen Floating Rate Income Fund, Nuveen Senior Income Fund, Renewables Infrastructure Group, Snam Rete Gas, Target Healthcare REIT	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Electra Private Equity	OGM 06/10/14	1, 2	We opposed a shareholder resolution to elect a board nominee as we do not believe it is in shareholders' long-term interests.
Electra Private Equity	OGM 06/10/14	3	We opposed a shareholder resolution to remove an existing non-executive director from the board as we do not believe it is in shareholders' best interests.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Julius Baer Multibond ABS Fund	AGM 20/10/14	1-3, 6	We abstained as the relevant documents were not publically available at the time of completing the vote.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
Amundi Volatility World Equities, 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	113,636,963	0.0	76.5	23.5	113,637	86,951	26,686	90,910	0	22,727	0
FundSettle	90,031,370	0.0	0.0	100.0	0	0	0	0	0	0	0
UBS AG	51,875,655	0.0	0.0	100.0	17,670	0	17,670	17,670	0	0	0
Royal Bank of Canada	40,965,564	11.2	0.0	88.8	32,030	0	32,030	32,030	0	0	0
Citigroup Inc	32,083,799	0.0	100.0	0.0	32,084	32,084	0	16,042	0	16,042	0
ITG Europe Ltd (POSIT-MTP) (Crossing Network)	31,910,267	0.0	0.0	100.0	17,398	0	17,398	17,398	0	0	0
JP Morgan Chase Bank NA	13,199,753	0.0	100.0	0.0	13,200	13,200	0	10,560	0	2,640	0
Investec Bank plc	12,264,156	0.0	100.0	0.0	12,264	12,264	0	8,585	0	3,679	0
Jefferies International (Holdings) Ltd	10,759,048	74.3	25.7	0.0	7,734	7,734	0	5,248	0	2,486	0
Canaccord Genuity Limited	6,230,000	100.0	0.0	0.0	0	0	0	0	0	0	0
Other Brokers *	18,524,176	58.6	9.4	32.0	6,208	1,749	4,460	5,684	0	525	0
Total	421,480,750	7.0	35.4	57.6	252,225	153,982	98,243	204,126	0	48,099	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 Diversified Growth Fund	100.0	7.0	35.4	57.6	100.0	61.0	39.0	80.9	0.0	19.1	0.0
BG Average *	100.0	4.8	27.6	67.6	100.0	44.6	55.4	88.7	0.0	11.3	0.0

Baillie Gifford Diversified Growth Fund Average Commission Rate	0.0598 %
BG Average *	0.0449 %
Total commission paid as a percentage of the value of the fund	0.0045 %

* 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

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
Global Income Growth Fund	46,523,436	0.0	46.1	53.9	36,098	26,697	9,401	29,341	0	6,756	0
Global Alpha Growth Fund	111,945,496	0.0	8.8	91.2	33,801	5,600	28,201	33,269	0	531	0
Worldwide Japanese Fund	17,020,066,025	0.2	0.8	99.1	3,520,086	129,470	3,390,616	3,499,593	0	20,493	0
Pacific Fund	60,455,739	0.0	43.7	56.3	111,919	95,429	16,491	69,571	0	42,349	0
Long Term Global Growth Fund	27,512,654	8.0	42.1	49.9	4,131	2,323	1,808	4,131	0	0	0

Comparative Analysis

Fund	Average Commission Rate
Global Income Growth Fund	0.08
Global Alpha Growth Fund	0.03
Worldwide Japanese Fund	0.02
Pacific Fund	0.19
Long Term Global Growth Fund	0.02

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

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
Barclays Bank plc	0	3,523,557,812	3,523,557,812
Deutsche Bank AG London	0	2,979,798,587	2,979,798,587
HSBC	0	2,542,023,436	2,542,023,436
National Australia Bank	0	2,473,132,076	2,473,132,076
Royal Bank of Scotland plc	0	1,854,154,651	1,854,154,651
Royal Bank of Canada	0	1,830,145,133	1,830,145,133
Bank of New York Mellon (Custodian)	775,163,907	0	775,163,907
UBS	60,047,593	0	60,047,593
Brown Brothers Harriman	13,118,233	0	13,118,233
Mellon Trust	3,443,700	0	3,443,700
Northern Trust Company	1,390,788	0	1,390,788
Total	853,164,221	15,202,811,695	16,055,975,916

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

Direct Bond Transactions

Counterparty	Trading Value (GBP)
HSBC Bank Plc	160,126,776
National Australia Bank	110,700,482
Royal Bank of Scotland plc	90,009,000
Merrill Lynch International	71,030,200
Citigroup Inc	64,011,017
BBVA Banco Bilbao Vizcaya Argentaria S.A	54,441,388
Goldman Sachs & Co	30,759,871
Banco Santander SA	28,079,782
JP Morgan Chase Bank NA	27,505,714
Swiss Re	22,610,025
Nomura Holdings	8,339,506
Total	667,613,760

Bond Trading is on net basis; no commission paid.

Direct Futures Transactions

Counterparty	Consideration Paid*	Commission Paid
UBS AG London	0	19,068
Total	0	19,068

*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

The Alternative Investment Fund Managers Directive (AIFMD) creates a regulatory and supervisory framework for alternative investment fund managers within the European Union. The scope of the Directive captures the management and the marketing of all non-UCITS funds; the Baillie Gifford Diversified Growth 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, and relatively minor amendments were made to the Fund's prospectus to comply with the regime. A copy is available to all investors on request.

Leverage

The term "leverage" is defined under AIFMD as any method by which the AIFM increases the exposure of a Fund whether through borrowing of cash or securities, or leverage embedded in derivative positions such as currency forward positions, or by any other means.

The AIFM must set a maximum level of leverage which the Fund is entitled to employ. AIFMs must employ two methods for calculating the amount of leverage employed: (i) the Gross Method and (ii) the Commitment Method. The overall leverage of a Fund should be expressed as a ratio between the exposure of the Fund and its net asset value. The Gross Method, generally speaking, takes account of the absolute exposure of the Fund while the Commitment Method takes into account netting or hedging arrangements put in place.

We believe that the methodology results in the disclosure of figures that do not represent a typical definition of leverage within the Fund. The Diversified Growth Fund does not borrow money to leverage our investments. The Fund does take matching long/short currency positions in order to generate returns and to hedge currency exposure, and these currency positions have a material impact on leverage as defined under AIFMD. Typical types and sources of leverage which the Fund employs include: (i) derivatives for efficient portfolio management purposes (including hedging), and (ii) use of derivatives for investment purposes.

The maximum level of exposure to be employed by the Diversified Growth Fund, calculated in accordance with the Gross Method, is 1,000%. The total amount of leverage employed at 31 December 2014 under the Gross Method was 354%.

The maximum level of exposure to be employed by the Diversified Growth Fund calculated in accordance with the Commitment Method is 300%. The total amount of leverage employed at 31 December 2014 under the Commitment Method was 177% (i.e. incremental leverage of 77%).

Any changes to these maximum levels will be advised to clients.

	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	0.23	0.88	0.00	0.02	0.90

You are invested 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 Fund on a historical rolling 12 month basis.

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 you. Please refer to your Policy Terms or Management Agreement.

Other expenses will include custody charges unless separate provision is made for custody fee payment in your 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 you 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		18,294	
Accrued Interest		0	
		18,294	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			18,294
Net Accrued Interest			0
Total			18,294

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							
24/10/14 24/10/14	Baillie Gifford Diversified Growth Pension Fund B3CRJ02	9,851.780 GBP 1.86		18,294		26,141,908.386	40,236,754
Total Purchases				18,294			
Total Net Investment/Disinvestment UK							18,294
Total Net Investment/Disinvestment Diversified Growth							18,294
Total							18,294

Asset Name	Nominal Holding	Market Price	Book Cost (GBP)	Market Value (GBP)	Fund (%)
Diversified Growth					
Baillie Gifford Diversified Growth Pension Fund	26,141,908.386	GBP 1.88	40,236,754	49,084,047	100.0
Total Diversified Growth			40,236,754	49,084,047	100.0
Total			40,236,754	49,084,047	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 September 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 31 December 2014 (GBP)
Diversified Growth				
Baillie Gifford Diversified Growth Pension Fund	48,767,644	18,294	298,109	49,084,047
Total Diversified Growth	48,767,644	18,294	298,109	49,084,047
Total	48,767,644	18,294	298,109	49,084,047

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 30 September 2014			
Diversified Growth		40,218,459.96	48,767,644.04
		40,218,459.96	48,767,644.04
Income			
Management Fee Rebate	18,293.77		
	18,293.77		
Net Total Income and Charges		18,293.77	18,293.77
Change in Market Value of Investments		0.00	298,109.38
As at 31 December 2014		40,236,753.73	49,084,047.19
Of which:			
Diversified Growth		40,236,753.73	49,084,047.19
Total		40,236,753.73	49,084,047.19

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BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund

Report for the quarter ended
31 December 2014

Contents

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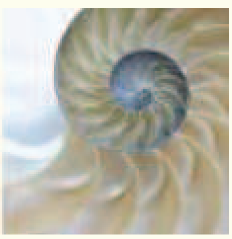
Online Reporting

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



Cross Section detail of a Nautilus Shell.

Performance to 31 December (%)

	Fund Gross	Fund Net	Benchmark
Since Inception* (Cumulative)		84.6	59.9
Since Inception* (p.a.)	9.0	8.5	6.5
Five Years (p.a.)	13.4	12.9	10.5
One Year	11.7	11.2	11.2
Quarter	6.6	6.5	4.5

*05 July 2007
Net performance now calculated using the client's own fee schedule
Source: StatPro

The plummeting oil price caught the headlines with Russia being the highest profile casualty. For many companies lower energy costs should be beneficial

A planned research focus during the year was on Japan, visits by our investors have led to initial purchases of two interesting companies

We will continue to concentrate on company fundamentals which remain good for most of the companies in your portfolio

Valuation (after net flow of GBP 107,173)

A violent plunge in the oil price was caused by OPEC's late-November meeting when the cartel of oil producing nations failed to cut production targets. This, and the flood of US shale, led to an imbalance of supply and demand and the oil price lurched sharply downward. Brent finished the year at $56, a drop of $39 on the level at the start of October. The negative ramifications are being felt most acutely in Russia, the economy of which remains precariously reliant upon its oil and gas exports. A leap in interest rates to 17% failed to shore up the crumbling ruble; these rates of interest were last seen in 1998, when the Russian government defaulted on its debt. On the positive side, the precipitous fall in the oil price is estimated to represent at least 0.5% boost to global GDP in 2015.

By comparison to the gyrations in the energy market, the stumbling recovery in Europe, another Japanese recession and robust job growth in the US seem mundane. The global index fell sharply early in the quarter, recovered and then stepped back before recovering once more as volatility, as measured by the VIX index, rose to levels last seen in late 2012.

Portfolio positioning

Whilst Russia was capturing the world's attention, we stuck to the path laid out in our 2014 Research Agenda. Part of our research effort was focused on Japan and, with this front of mind, both Malcolm (in August) and Charles (in November) headed east.

Japan is highly indebted, bureaucratic, nepotistic, unwilling to embrace new ideas and heavily reliant on an ageing customer base. In addition, it has had six different leaders in seven years. It is ripe for change. Prime Minister Abe's three arrows are starting to change behaviour, and his decision to call a snap general election, which subsequently saw him returned to power with a landslide victory, will give him a whole term to complete his reforms.

His first arrow, currency devaluation, has seen Japanese exports become more than 20% cheaper in euros and nearly 30% cheaper in US dollars and Chinese yuan. His second, a more flexible fiscal policy, has had mixed results thus far though we see a U$80 billion (or 2% of GDP) infrastructure stimulus as very promising.

The consensus remains sceptical of Abe's policies, notably the third arrow – Reform. Following our visits we are inclined to take a different view and we have an increasing belief in the reform agenda which we think will help both traditional Japanese companies, and those who are prospering by rejecting the norms of Japanese orthodox corporate culture.

We are excited to have unearthed one of Japan's leading disruptors, CyberAgent. In 1998, a year after graduating from Aoyama Gakuin University, Susumu Fujita founded what was to become CyberAgent in which we have just taken a holding for your portfolio. Mr. Fujita rejected the norms of Japanese business, noting he didn't "want to become a salaryman[1]". Two years later, aged 26, he became the youngest President of a company listed on the Mothers TSE index. CyberAgent proves what the world often forgets, that Japan still has a kernel of highly entrepreneurial businesses. Its largest business unit is now the leading digital advertising agency in Japan, having successfully fought off traditional advertising incumbents such as Dentsu.

CyberAgent combines a strong core franchise and a culture that supports the development of new businesses. In addition to the digital advertising business, its companies encompass a blogging platform and social gaming. On top of this, it has a venture capital unit with a portfolio of dynamic early stage technology companies in Japan, other parts of Asia and the US. We have invested previously in companies with an entrepreneurial culture that are willing to direct resources into new start ups – our successful investment in Naspers being the prime example with its online investments, and Schibsted which we hope may follow suit with its own e-commerce businesses.

[1] http://info.japantimes.co.jp/info/100-next-era-ceos/2010/contents/093.html

If CyberAgent represents the new Japan, then MS&AD represents the old. Having previously owned this insurance company (formerly known as Mitsui Sumitomo Insurance), we decided to re-initiate a position towards the end of the quarter. MS&AD should benefit from Japanese reform in two ways. It has its own self help plans – improving underwriting profits through a re-pricing of policies, and increasing overseas earnings through organic growth. It can also benefit from reform by proxy, through its ownership of Japanese equities within its insurance portfolio as traditional companies sharpen their focus on shareholder value. Some of its larger holdings include Toyota, Honda, Panasonic, and Sharp.

Maintaining this theme of 'change', we have purchased another reforming company in Fiat Chrysler Automobiles which has ambitious plans to grow through leading automotive brands such as Maserati, Jeep, Chrysler and Alfa Romeo. Evidence of the appetite for change occurred shortly after our initial investment when the group announced it would spin off its premier marque, Ferrari, to shareholders. We also bought Monsanto, the global leader in seeds, plant biotechnology and crop protection, the future of which is less dependent on US corn than its past. We think that Monsanto can enjoy profitable growth from Intacta (a soybean product which meets Latin American climatic and insect conditions), and Precision Agriculture (supplying micro climate data to farmers) which we think could be the next leg in agricultural productivity.

As well as the new purchases highlighted above, we added to your position in TripAdvisor which continues to grow quickly in its chosen market of online travel and experience recommendations.

We sold three long-term holdings from your portfolio to fund these purchases. The shares of China Mobile have enjoyed a re-rating this year but we think the longer-term prospects are increasingly dull. We have owned Investor since the fund's inception in 2005. Whilst the guiding hand of the Wallenberg family is still firmly on the tiller of this Swedish holding company, the discount to net asset value has narrowed and we have become increasingly underwhelmed by some of its largest holdings (such as SEB, AstraZeneca, Ericsson and Electrolux). We also sold New York Community Bank, whose performance has been lacklustre in the past few years. We hoped it would regain market share in its core business of rent-regulated, multi-family housing units in metropolitan New York and that net interest margins would recover. However, neither scenario has played out as we would have hoped and the company's earnings power has not recovered substantially.

In 2014, Global Alpha's portfolio turnover has remained low and for the sixth year in a row it has been below the long-term average of 20%.

Outlook

In the early days of the quarter, when markets were once again under stress, we were continuing to find that the majority of the companies we own on your behalf were still reporting strong growth and many were seeing earnings upgrades just as share prices were falling sharply.

Equities are a high volatility asset class, and markets are not always logical so it is reasonable to conclude that, looking forward to 2015, there will be further periods when fundamentals and share prices become disconnected. Short-term or even inconsequential news flow will inevitably be extrapolated and exaggerated by Mr. Market. Guarding against this myopic short-termism, our job is to closely monitor the fundamentals of the businesses we own on your behalf, and keep a check on the progress they are making towards the goals we think they can achieve.

In a few weeks time we will share with you our 2015 Research Agenda. We have used the preceding agendas successfully over the past three years to drive forward our efforts to unearth some exciting new growth ideas. Our optimism can usually be measured by how many new stocks are emerging for consideration, and there has been an uptick in this metric in recent months. The headlines will once again be filled with seemingly important macro-economic news, but we think that long-term corporate value lies in fundamentals. It is our adherence to this philosophy that gives us confidence that we can continue to deliver very worthwhile active equity returns.

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	99
Number of Countries	25
Number of Sectors	8
Number of Industries	40
Active Share	92%
Rolling One Year Turnover	15%

Top Ten Holdings

Asset Name	% of Portfolio
Royal Caribbean Cruises	4.1
Prudential	3.4
Naspers	3.4
TSMC ADR	2.3
Ryanair	2.2
TD Ameritrade Holding Corp	2.1
Roche	2.1
Anthem Inc	1.9
Moody's	1.8
Amazon.com	1.8

New Purchases During Quarter

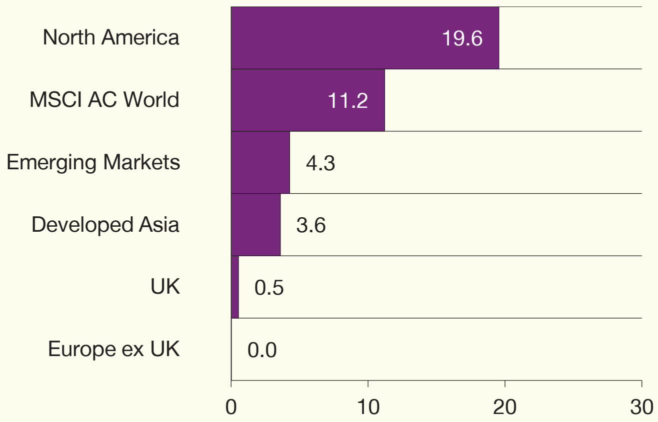
Asset Name
CyberAgent Inc
Fiat Chrysler Automobiles
Leucadia National
Monsanto Company

Complete Sales During Quarter

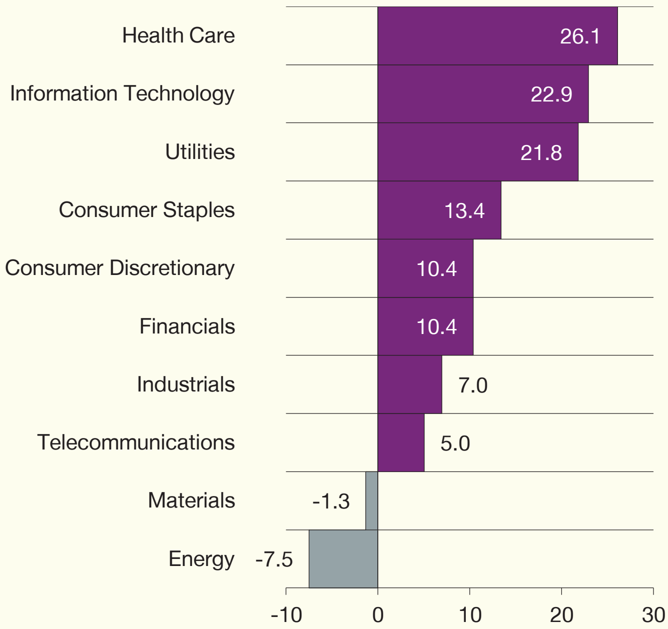
Asset Name
China Mobile (Hong Kong)
Investor B
Namco Bandai Holding
New York Community Bancorp

Index Information

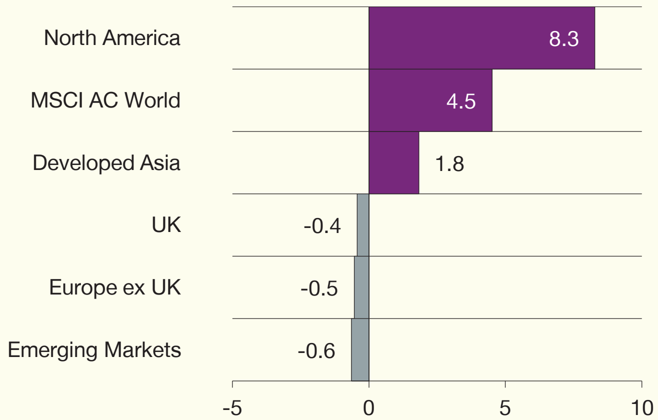
Regional Returns Over One Year (%)



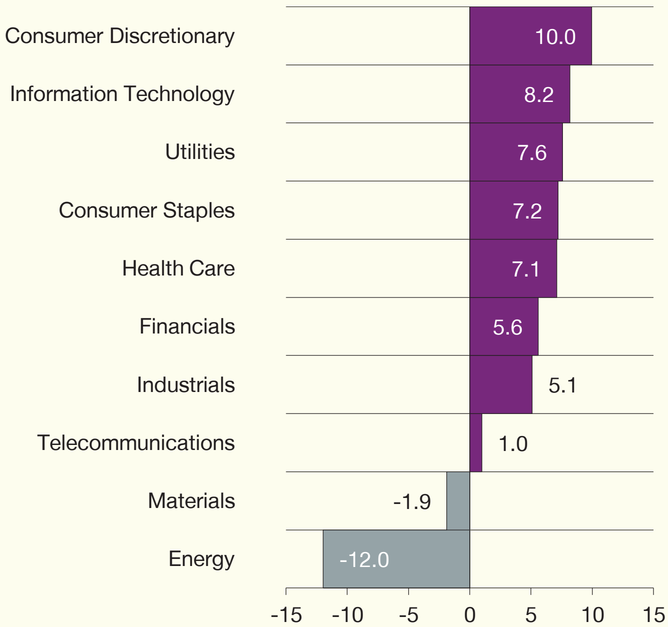
Sector Returns Over One Year (%)



Regional Returns During Quarter (%)



Sector Returns During Quarter (%)



% Change in GBP
Source: Baillie Gifford

Performance Objective

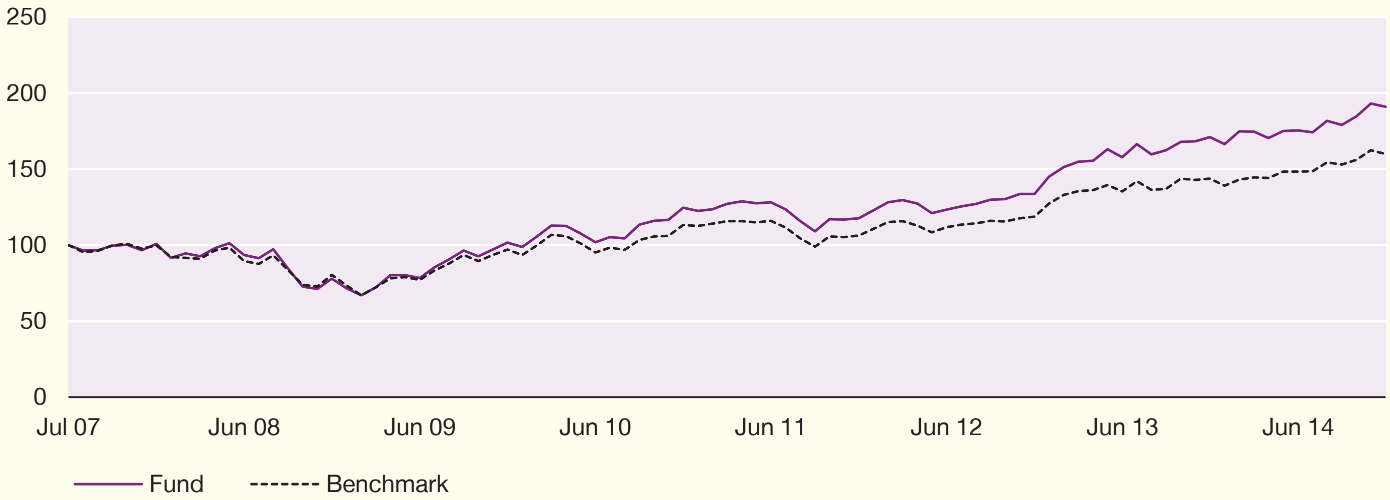
To outperform the MSCI AC World Index by 2.0 - 3.0% per annum (gross) over rolling five year periods.

Relative Performance

This table indicates the performance of the portfolio relative to the benchmark before fees.

	Fund (%)	Benchmark (%)	Difference (%)
Since Inception* (Cumulative)	90.9	59.9	31.0
Since Inception* (p.a.)	9.0	6.5	2.5
Five Years (p.a.)	13.4	10.5	2.9
One Year	11.7	11.2	0.4
Quarter	6.6	4.5	2.1

Returns Since Inception*



*05 July 2007
Source: StatPro

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Since Inception* to 31 December 2014

Asset Name	Contribution (%)
Naspers	3.6
Royal Caribbean Cruises	2.1
Schindler	1.8
Prudential	1.5
Amazon.com	1.4
Richemont	1.4
Tesla Motors	1.3
Genentech	1.3
Svenska Handelsbanken	1.3
Baidu.com ADR	1.2
Apple	-1.5
OGX Petroleo E Gas Participa	-1.0
Q-Cells	-1.0
Celesio AG	-0.9
Ultra Petroleum Corp	-0.8
Coca Cola HBC (CDI)	-0.7
Northern Rock	-0.7
Man Group	-0.7
Johnson & Johnson	-0.7
Yamaha Motor	-0.6

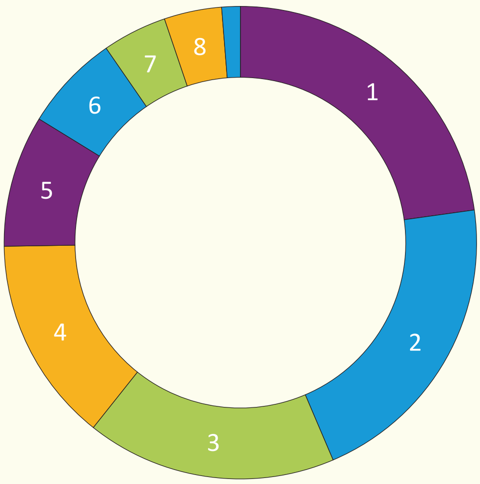
One Year to 31 December 2014

Asset Name	Contribution (%)
Royal Caribbean Cruises	1.7
Naspers	0.5
Ryanair	0.5
ICICI Bank	0.4
Wellpoint	0.4
CarMax Inc	0.4
Tesla Motors	0.3
Moody's	0.3
TSMC	0.3
Baidu.com ADR	0.3
Rolls-Royce	-0.6
Ultra Petroleum Corp	-0.5
Coca Cola HBC (CDI)	-0.5
Apple	-0.5
Amazon.com	-0.4
Sberbank	-0.4
Carlsberg	-0.3
China Resources Enterprise	-0.3
Mindray Medical International	-0.3
Dia	-0.2

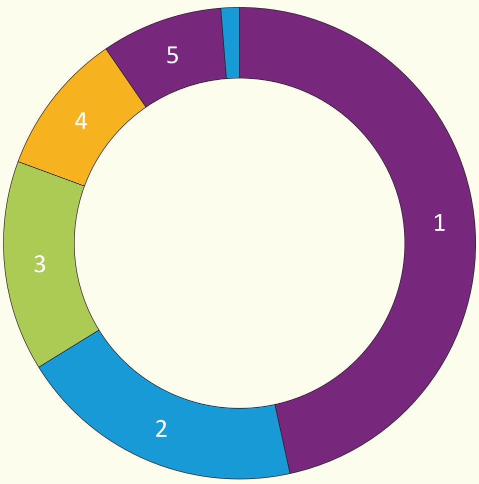
*05 July 2007
Source: StatPro

Top Ten Holdings

Asset Name	Description of Business	% of Portfolio
Royal Caribbean Cruises	Global cruise company	4.1
Prudential	Life insurer	3.4
Naspers	Media and e-commerce company	3.4
TSMC ADR	Semiconductor manufacturer	2.3
Ryanair	Irish based low cost airline	2.2
TD Ameritrade Holding Corp	Online brokerage firm	2.1
Roche	Pharmaceuticals	2.1
Anthem Inc	Healthcare insurer	1.9
Moody's	Credit rating agency	1.8
Amazon.com	Online retailer	1.8
Total		25.1



Sector Weights		(%)
1	Financials	22.8
2	Information Technology	20.8
3	Consumer Discretionary	17.1
4	Industrials	14.1
5	Health Care	9.0
6	Consumer Staples	6.6
7	Energy	4.4
8	Materials	3.9
9	Cash	1.3
	Total	100.0



Regional Weights		(%)
1	North America	46.6
2	Europe (ex UK)	19.6
3	Emerging Markets	14.4
4	Developed Asia Pacific	9.8
5	UK	8.3
6	Cash and Deposits	1.3
	Total	100.0

New Purchases

Stock Name	Transaction Rationale
CyberAgent Inc	CyberAgent is an internet holding company with exposure to internet advertising, online gaming and social media. The company is benefitting from a shift in advertising budgets online, and has built a particularly strong position in mobile. We like the company's dynamic, entrepreneurial culture and believe that it has the potential to emerge as a major force in the Japanese internet landscape.
Fiat Chrysler Automobiles	Fiat Chrysler owns a portfolio of brands, including some undervalued gems. There is a significant opportunity to increase volumes at the likes of Jeep and Maserati, and a strategy to revive the Alfa Romeo brand. We are also intrigued by the industrial improvements underway at Chrysler, and while we are under no illusions about the challenges facing the US auto industry, the advances taking place here could also lead to a material improvement in the company's performance. Supporting both these trends is our confidence in the abilities of CEO Sergio Marchionne and Chairman John Elkann, who together are driving a deep organisational and cultural change through the entire company.
Leucadia National	Leucadia is an investment holding company which owns the investment bank Jefferies. This company offers the potential combination of an undervalued investment capability (at a big discount to the underlying Net Asset Value) with an under-earning investment bank that has been investing counter-cyclically as others retreat. We have purchased a new holding for your portfolio.
Monsanto Company	Monsanto is the leading producer of genetically modified (GM) seeds with the largest research and development budget in the industry. Its products allow higher crop production at lower unit cost and we expect Monsanto's business to continue to grow rapidly as more farmers plant GM seeds and as the company introduces higher priced seeds with additional modifications. It should be a long-run beneficiary of the need to provide more food globally whilst controlling agricultural inflation.

Complete Sales

Stock Name	Transaction Rationale
China Mobile (Hong Kong)	China Mobile is the largest mobile phone company in China. The factors behind the investment case included subscriber growth via a more level playing field for China Mobile as the industry shifted to 4G technology (after the company was disadvantaged in 3G) and the growth opportunity in data. However, voice revenues have been hit hard by the rapid progress of OTT (over-the-top) services which bypass mobile operators; this is a threat that we had underestimated. In addition, the latest acquisition, of a stake in the third player in the Thai mobile market, brings into question the true value of the sizeable cash pile.
Investor B	We have sold your holding in Investor following a period of good performance that saw the discount to Net Asset Value diminish. The underlying holdings still promise to compound net asset growth, but with the discount narrowed the upside is reduced.
Namco Bandai Holding	Namco Bandai makes toys and computer games. The company has taken advantage of its strong library of content to grow its earnings and cash flows over the last few years and the share price has responded positively. While we still admire the underlying strengths of this company we no longer believe that we have a significantly differentiated view from the market on the future potential for value creation at Namco Bandai and we have therefore sold the holding.
New York Community Bancorp	New York Community Bancorp is a bank which specialises in lending to the owners of rent-stabilised apartment buildings in metropolitan New York. Despite impressive through-cycle asset quality, the opportunity to grow its high-quality loan book has not materialised to the degree we expected, as competitors have not exited the market. The company has consequently paid out a greater proportion of its earnings, lowering growth expectations. We have sold your holding.

Portfolio Characteristics

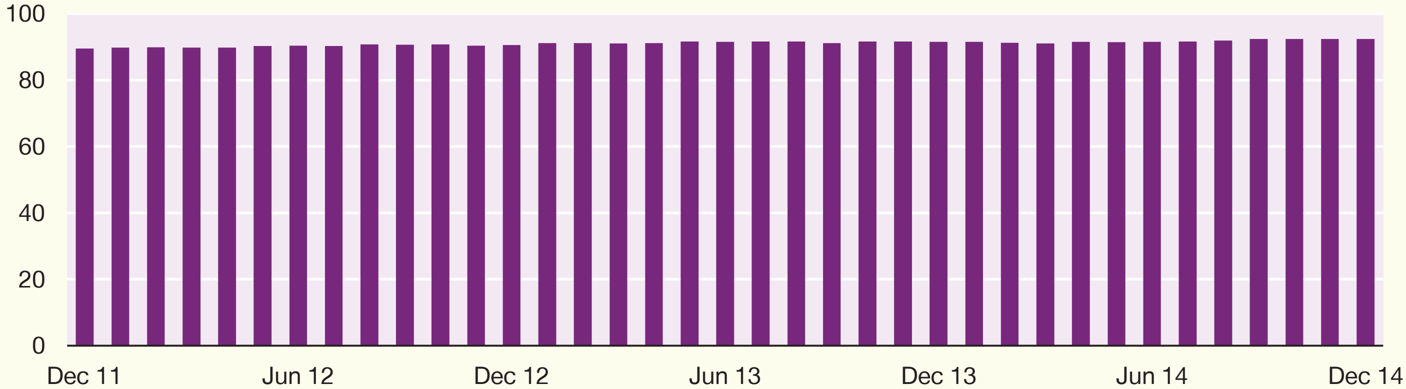
Key Statistics	
Number of Holdings	99
Number of Countries	25
Number of Sectors	8
Number of Industries	40
Active Share	92%
Rolling One Year Turnover	15%

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

Overweight positioning in semiconductor companies comprises one of the largest active positions at the industry level. Your portfolio continues to exhibit a bias away from traditionally defensive sectors such as telecommunications and utilities

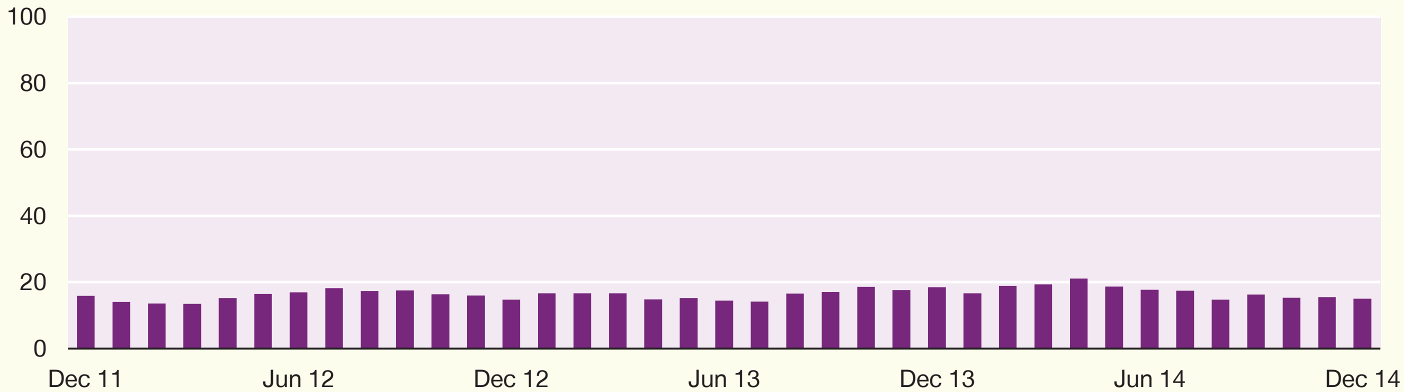
High active share and low turnover are consistent features in your portfolio and underpin our active stock-picking approach and long-term investment horizons

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	4.13
Prudential	3.39
Naspers	3.37
TSMC ADR	2.32
Ryanair	2.18
TD Ameritrade Holding Corp	2.09
Roche	2.08
Anthem Inc	1.88
Moody's	1.83
Amazon.com	1.82
Google Inc Class C	1.79
Nestle	1.76
AIA Group	1.62
Markel	1.58
M&T Bank	1.57
Samsung Elec. Common GDR Reg S	1.57
Baidu.com ADR	1.57
Harley-Davidson	1.53
First Republic Bank	1.53
CarMax	1.51
EOG Resources	1.40
Wolseley	1.34
Svenska Handelsbanken	1.32
eBay	1.30
Visa Inc-Class A Shares	1.24
Schibsted	1.23
Mastercard	1.23
FLIR Systems	1.17
ICICI Bank Ltd	1.14
Tokyo Electron	1.14
Atlas Copco B	1.11
Dolby Laboratories	1.09
Schindler	1.08
Colgate-Palmolive	1.07
Waters	1.04
Fairfax Financial NYC	1.04
Monsanto	1.04
INPEX	1.02
Myriad Genetics Inc	1.00
Rolls-Royce	0.99
Lincoln Electric Hdg.	0.98
Bank of Ireland	0.96

Asset Name	Fund %
American Express	0.96
SMC	0.93
Teradyne	0.92
Qualcomm	0.92
Brambles	0.89
SAP	0.87
Bunzl	0.87
Martin Marietta Materials	0.85
Xilinx	0.85
THK	0.84
Tesla Motors	0.83
Praxair	0.80
DistributionNOW	0.79
CRH	0.79
Jardine Matheson	0.79
Coca Cola HBC (CDI)	0.79
Richemont	0.76
Carlsberg	0.73
Mindray Medical International ADR	0.73
Olympus	0.72
TripAdvisor	0.69
Dia	0.68
Ultra Petroleum	0.66
Rohm	0.64
Deutsche Boerse	0.64
British American Tobacco	0.63
Fiat Chrysler Automobiles	0.60
Hays	0.59
Ritchie Bros Auctioneers (USA)	0.59
Volvo	0.57
Alibaba Group Holding Ltd	0.57
Facebook	0.54
Jyske Bank	0.52
China Resources Enterprise	0.51
Leucadia National	0.50
SK Hynix Inc	0.49
Qiagen	0.48
CyberAgent Inc	0.47
Norsk Hydro	0.46
Seattle Genetics	0.46
Tsingtao Brewery 'H'	0.45
Japan Exchange Group	0.44
BM&F Bovespa	0.43

Asset Name	Fund %
Howard Hughes	0.41
Teradata	0.38
Dragon Oil	0.33
Shandong Weigao	0.33
Intuitive Surgical	0.30
MS&AD Insurance	0.30
Aggreko	0.29
Sberbank Spon ADR	0.25
Tullow Oil	0.20
Twitter Inc	0.19
Arcos Dorados	0.19
Bank Negara Indonesia	0.19
Financial Engines	0.09
Rolls Royce C Preference	0.01
Total Equities	98.73
Total Cash and Deposits	1.27
Total Fund	100.00

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	9	Companies	1	Companies	None
Resolutions	68	Resolutions	1	Resolutions	None

Climate change is a topic we have thought about frequently over the past ten years. It has been difficult to analyse a company's exposure to climate change risk with any degree of conviction. We are a partner in the Mercer Climate Change and Strategic Asset Allocation Study

Supply chain management for the garment industry is complicated, with many competing priorities

Historically, there has been limited access for non-domestic investors to companies listed only on mainland Chinese stock exchanges. This is beginning to change with the opening up of the A-share market via the Hong Kong-Shanghai Stock Connect project

Company Engagement

Engagement Type	Company
Corporate Governance	CyberAgent Inc, DIA, Shandong Weigao Group Medical 'H'
AGM or EGM Proposals	CyberAgent Inc, Mindray Medical International Limited, Myriad Genetics Inc, Ryanair Holdings PLC, Tesla Motors, Wolseley PLC
Executive Remuneration	Prudential, Tesla Motors

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

As we have mentioned in previous letters, when incorporating Environmental, Social and Governance (ESG) factors into our investment process we have had considerable focus on the 'G' of the term ESG over the past few years. This is understandable, and logical even. Governance is about people, relationships, values, and incentives, and these factors guide corporate attitudes and activities, including social and environmental performance. All of these governance factors will influence the long-term returns of the companies we invest in for our clients.

The difficulty with environmental and social indicators is that they are less clear cut, and are often more relevant to sectors and countries than to individual companies. So, what is interesting and helpful for us, as bottom-up stock-pickers, is to understand how each company is responding to the broader risks and opportunities from a reputational and business operation perspective.

Two significant 'E' and 'S' projects we are currently working on are climate change and garment supply chains. This is not an easy task because these are complex issues; the more time that is spent understanding the issues, the bigger the challenge seems to be.

Environment – climate change

Climate change is a topic we have thought about frequently over the past ten years, and it is an area where we are seeing an increasing amount of interest from our clients. It has been difficult to analyse a company's exposure to climate change risk with any degree of conviction beyond saying 'oil is more carbon intensive than gas; energy efficiency is a positive idea; and adaptation, remediation and mitigation technologies should be long-term winners'. We have carried out portfolio reviews and looked at renewable energy companies, but there remains a hurdle to answering the 'so what?' question. Many factors interlink to create this uncertainty; lack of regulation, the very low carbon price where one exists; timeframes (climate is a very long-term issue); the inconsistency of subsidies, and the many difficulties in accurately estimating an individual company's carbon footprint. But a shoulder shrugging 'it's difficult' is obviously not a satisfactory answer.

To introduce a different perspective, we are participating in the Mercer Climate Change project. This is a global project involving a number of asset owners together with some investment managers. The report, which examines the potential implications for investors under various climate change scenarios, is expected in the first half of 2015. We hope it will increase knowledge levels, challenge accepted assumptions, and raise the baseline for continued thinking on this topic and for debate with investors and our clients. One of the first insights is that it is an even longer-term issue than one might believe. Climate change happens over hundreds of years. Even though we think we are adopting a long-term view in looking for companies we can hold for ten or even 20 or 30 years, climate change models are looking at 300 years. So, long-term investing and climate aren't easy companions. What is clear though is that the volatility in weather patterns is increasing, and so companies should be looking to be energy efficient and able to adapt to increases in weather volatility.

Social – supply chain management for the garment industry

A number of our strategies have holdings in companies which are involved in the garment industry. Sitting behind a desk in Edinburgh is a very comfortable place to be when analysing garment companies and assessing their approaches to working conditions, pay scales, what the correct minimum age for employees is and whether subcontracting to an unaudited supplier factory is acceptable or not. Companies' sustainability reports tend to describe the issues in black and white terms with a list of actions that are unacceptable and others that require improvement and monitoring. In reality, it is not that simple. And the challenge does not lie simply with the retail companies' policies or the factory owners; order volumes are instantly reduced if there is a contraction of the European or US economies, for example. A member of the Corporate Governance team visited Bangladesh and Myanmar to learn about the realities of the challenges, what responsibilities lie with the brands themselves, the factories and with us. The 2014/15 Governance Review (published in the second quarter of this year) will include a more detailed review of the trip and summarise the insights that we will be applying to our research of existing and potential holdings in the garment industry.

Governance – China 'A' shares

We realise that the evolving opportunities for investment in China are of interest to clients, regardless of whether their portfolio has direct exposure to the region. Historically, there has been limited access for non-domestic investors to companies listed only on mainland Chinese stock exchanges. This is beginning to change with the opening up of the A-share market via the Hong Kong-Shanghai Stock Connect project, which will significantly increase the number of investible companies for foreign investors. In conjunction with greater research efforts from our equity teams, we are increasing our focus on what arguably is one of the more inefficient markets that we will be able to invest in for our clients. Indeed, given the inefficiencies, China could be very rewarding for investors, such as Baillie Gifford, who have rigorous bottom-up research processes, and lead to significant opportunities for clients. However, opportunity comes with its own challenges. Information is limited in inefficient markets, bribery and corruption is a visible risk in the country, and the prospect of inaccurate, exaggerated disclosures from companies exists. The regulators have good laws but enforcement is often half-hearted, albeit this is improving. Assessments of governance structures, management quality and motivations are therefore a key component of the investment research for this market. This is something the investment and Corporate Governance teams look forward to cooperating on as opportunities for investment become available.

These three topics are increasingly relevant to listed companies, regardless of where they are listed or the sector in which they operate. Climate change is a global issue, every company has a supply chain in some form and China is an increasingly important market for investors and investee companies.

Company	Engagement Report
CyberAgent Inc	CyberAgent is a Japanese corporation that invests in companies with internet-related business in the advertising and gaming sector. We had a call with investor relations to discuss the company's approach to governance. In line with changes in the governance landscape in Japan, CyberAgent is keen to improve its practices as part of supporting its long-term performance. Accordingly, the company recently removed its poison pill and is recruiting an independent outside director. We also discussed changes to the compensation policy and how the company structures incentives for its employees. This was an informative call which we will look to build upon in the future.
DIA	Dia is a Spanish-listed hard discount retailer. We had a video conference call with the chairwoman and chief operating officer to discuss governance issues, find out more about the company's long-term strategy and build on the relationship we have established with Dia. We discussed a wide range of issues which included: board composition, remuneration, the company's franchise model and the board's long-term focus. Through engaging with the chairwoman we were able to find out more about the board's views on these issues which we found insightful and helpful. We are following up our engagement by meeting the head of the remuneration committee and we will be meeting the CEO in the first half of next year as part of the company's investor roadshow.
Tesla Motors	Tesla Motors designs, manufactures, and sells high-performance electric vehicles and electric vehicle powertrain components. We abstained on the executives' compensation at the 2014 AGM due to the stock option plan allowing the company to reprice previous awards which had suffered because of a falling share price. Although this is not the case with outstanding awards, and the company has never used this provision, we do not believe it is aligned with shareholders' best interests and therefore we communicated our concerns to the company. We were pleased that the company contacted us to explain its decision to remove the repricing provision from the stock option plan, as well as outlining other improvements to its governance and compensation policies. Tesla's willingness to engage with its shareholders on these issues is encouraging.

Votes Cast in Favour

Companies	Voting Rationale
Anthem Inc, Brambles, Hays, ICICI Bank Ltd, Mindray Medical International ADR, Myriad Genetics Inc, Ryanair, Shandong Weigao, Wolseley	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Companies	Voting Rationale
Wolseley	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.

Correction

Companies	Rationale
Bank Negara	At Bank Negara's AGM on 1 April 2014 we intended to oppose two management resolutions which proposed amending the Articles of Association and to change the bank's management structure. Our intention to vote against both of these proposals was due to a lack of disclosure regarding the specific changes. However, owing to an administrative error we supported the amendments to the Articles, whilst opposing the change in the management structure. We have advised the company of the error. We have subsequently introduced a new proxy voting system which has increased functionality and should minimise the potential for future mistakes.

	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)
Total Purchases		107,173	
Accrued Interest		0	
		107,173	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			107,173
Net Accrued Interest			0
Total			107,173

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							
24/10/14 24/10/14	Baillie Gifford Global Alpha Pension Fund B1C4T87	54,652.035 GBP 1.96		107,173		94,276,649.152	109,736,996
Total Purchases				107,173			
Total Net Investment/Disinvestment International							107,173
Total Net Investment/Disinvestment Other							107,173
Total Net Investment/Disinvestment Pension Funds							107,173
Total							107,173

	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	0.03	0.02	0.71

You are invested 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 Fund on a historical rolling 12 month basis.

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 you. Please refer to your Policy Terms or Management Agreement.

Other expenses will include custody charges unless separate provision is made for custody fee payment in your 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 you 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
UBS AG	74,623,125	0.0	1.8	98.2	18,362	413	17,949	18,362	0	0	0
Morgan Stanley	63,547,856	0.0	20.3	79.7	25,876	6,450	19,426	25,876	0	0	0
Credit Lyonnais	28,382,772	0.0	0.0	100.0	18,746	0	18,746	18,746	0	0	0
Allen & Co LLC	18,433,301	0.0	13.9	86.1	9,217	1,282	7,935	9,217	0	0	0
Merrill Lynch International	14,742,106	0.0	94.6	5.4	9,168	8,817	351	8,535	0	633	0
Deutsche Bank AG	7,687,176	0.0	0.0	100.0	5,381	0	5,381	5,381	0	0	0
William Blair & Co LLC	6,269,643	0.0	100.0	0.0	2,607	2,607	0	2,300	0	308	0
Weeden & Co	4,869,622	0.0	40.5	59.5	2,435	987	1,448	2,435	0	0	0
Instinet Europe Ltd (Crossing Network)	2,801,968	0.0	0.0	100.0	1,402	0	1,402	1,402	0	0	0
Robert W Baird Ltd	2,673,282	0.0	100.0	0.0	1,337	1,337	0	1,337	0	0	0
Other Brokers *	6,616,596	0.0	47.3	52.7	4,873	3,130	1,743	4,198	0	675	0
Total	230,647,447	0.0	19.4	80.6	99,403	25,023	74,380	97,788	0	1,615	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	0.0	19.4	80.6	100.0	25.2	74.8	98.4	0.0	1.6	0.0
BG Average *	100.0	4.8	27.6	67.6	100.0	44.6	55.4	88.7	0.0	11.3	0.0

Baillie Gifford Global Alpha Pension Fund Average Commission Rate	0.0431 %
BG Average *	0.0449 %
Total commission paid as a percentage of the value of the fund	0.0029 %

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

Some of the information on this page is confidential and is therefore not for public disclosure.

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
Bank of New York Mellon (Custodian)	82,990,404	0	82,990,404
Northern Trust Company	34,425,300	0	34,425,300
Brown Brothers Harriman	8,305,634	0	8,305,634
Total	125,721,338	0	125,721,338

*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	94,276,649.152	GBP 2.12	109,736,996	199,442,251	100.0
Total Pension Funds			109,736,996	199,442,251	100.0
Total			109,736,996	199,442,251	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 September 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 31 December 2014 (GBP)
Pension Funds				
Baillie Gifford Global Alpha Pension Fund	187,275,641	107,173	12,059,437	199,442,251
Total Pension Funds	187,275,641	107,173	12,059,437	199,442,251
Total	187,275,641	107,173	12,059,437	199,442,251

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 30 September 2014			
Pension Funds		109,629,823.41	187,275,641.47
		109,629,823.41	187,275,641.47
Income			
Management Fee Rebate	107,172.64		
	107,172.64		
Net Total Income and Charges		107,172.64	107,172.64
Change in Market Value of Investments		0.00	12,059,437.17
As at 31 December 2014		109,736,996.05	199,442,251.28
Of which:			
Pension Funds		109,736,996.05	199,442,251.28
Total		109,736,996.05	199,442,251.28

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BAILLIE GIFFORD

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GMO

London Borough of Tower Hamlets
Quarter Ending 31 December 2014

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Investment Management Review

London Borough of Tower Hamlets

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Quarter Ending 31 December 2014

London Borough of Tower Hamlets

Performance Gross of Management, Operating, Incentive Fees in GBP

Periods Ending 31 December 2014

				Annualised				
Investment	**Month**	**Quarter**	**YTD**	**1 Year**	**3 Year**	**5 Year**	***Since Inception**	**Market Value (000)**
Global Developed Equity Allocation Separately Managed (GBP) (29/04/2005)	-2.94 %	1.52 %	6.84 %	6.84 %	13.03 %	9.42 %	9.19 %	251,751
London Borough of TH Custom Benchmark	-1.50	3.09	7.35	7.35	14.05	9.40	9.26	
Value Added	-1.44	-1.57	-0.51	-0.51	-1.02	0.02	-0.07	

** Periods of less than a year are not annualised*

Note:

The London Borough Custom Benchmark was 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 through 17/11/2014 and MSCI ACWI thereafter.

London Borough of Tower Hamlets

Performance Net of Fees and Expenses in GBP

Periods Ending 31 December 2014

Investment	Month	Quarter	YTD	Annualised 1 Year	Annualised 3 Year	Annualised 5 Year	Annualised *Since Inception	Market Value (000)
Global Developed Equity Allocation Separately Managed (GBP) (29/04/2005)	-2.96 %	1.47 %	6.61 %	6.61 %	12.69 %	9.02 %	8.73 %	251,751
London Borough of TH Custom Benchmark	-1.50	3.09	7.35	7.35	14.05	9.40	9.26	
Value Added	-1.46	-1.62	-0.74	-0.74	-1.36	-0.38	-0.53	

** Periods of less than a year are not annualised*
Note:
The London Borough Custom Benchmark was 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 through 17/11/2014 and MSCI ACWI thereafter.

London Borough of Tower Hamlets

Change in Market Value, Account Detail in GBP

QTD Ending 31 December 2014

Fund	Market Value 30/09/2014	Cash Flows	Gains/ Losses	Market Value 31/12/2014
London Borough of Tower Hamlets Pension Fund	268,708,444	-20,803,789	3,846,587	251,751,242
Total	**268,708,444**	**-20,803,789**	**3,846,587**	**251,751,242**

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		
19/11/2014	Redemption	-5,374,168.88
02/12/2014	Redemption	-4,077.36
02/12/2014	Redemption	-600.00
12/12/2014	Redemption	-15,424,831.12
16/12/2014	Redemption	-111.72

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Investment Review

Quarter Ending 31 December 2014

Global Developed Equity Allocation Strategy

Overview:

- The Strategy seeks total return greater than that of its benchmark.
- The Strategy uses multi-year forecasts of returns among asset classes to build a portfolio that primarily provides exposure to non-U.S. and U.S. equity markets.

With the exception of the U.S. market, global equities generally posted weak results during the fourth quarter amidst heightened volatility and increased dispersion across regional markets around the world. Concerns about global economic growth, plunging oil prices, and continuing geopolitical tensions weighed on markets. By quarter end, the MSCI All Country World index had eked out a gain of 0.4%, masking most of the excitement along the way. Within major regional markets, the U.S. delivered the best performance for the quarter while Europe, the U.K., and Emerging Markets battled it out for the weakest quarterly performance in U.S. dollar terms. The S&P 500 returned +4.9% for the quarter, MSCI Europe was down 4.4%, MSCI Emerging lost 4.5%, MSCI U.K. lost 4.2%, and MSCI Japan was down 2.4% during the quarter. A strong dollar further dampened international returns for dollar-based investors. In local terms, EAFE returned +1.8% for the quarter.

Muted to weak returns for equity markets around the world during the fourth quarter generally resulted in small adjustments to GMO's assessment of equity market opportunities. In the U.S., we continue to favor high quality stocks, which modestly outperformed the U.S. broad market in the fourth quarter. Our 7-Year real return forecast for U.S. high quality stocks at the end of the quarter was +0.4%. Among international developed equities, we continue to favor European and U.K. value stocks. Our forecast for European value stocks (excluding financials) was +3.9%. We also continue to favor value stocks within Emerging Markets. Our forecast for value within Emerging Markets was +7.2%.

Over the quarter, we made incremental changes to the portfolio's allocations primarily oriented toward rebalancing as the relative opportunities remained little changed. U.S. high quality, European value stocks, emerging markets, and Japan were the major positions driving returns relative to the MSCI ACWI during the quarter.

The forecasts described above are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements.

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Profile Summary

As of 31 December 2014

Top Ten Holdings [3]

Amazon.com Inc.	5.0%
Philip Morris International Inc.	4.1%
Express Scripts Holding Co	3.9%
LukOil OAO	3.4%
Oracle Corp.	2.2%
Apple Inc.	1.7%
Microsoft Corp.	1.6%
Total S.A.	1.5%
AstraZeneca PLC	1.4%
Nissan Motor Co. Ltd.	1.4%
Total	**26.2%**

Risk Profile Since 30/04/2005 [4]

	Portfolio	Benchmark [2]
Alpha	-.43	.00
Beta	.99	1.00
R-Squared	.98	1.00
Sharpe Ratio	.50	.54

Group Exposures [5]

US Quality	34.2%
US Opportunistic Value	5.7%
Europe Value	31.0%
Japan	8.2%
Other Int'l Opportunistic Value	1.6%
Emerging Markets	16.1%
Cash & Cash Equiv.	3.3%

Characteristics

	Portfolio	Benchmark [1]
Price/Earnings - Hist 1 Yr Wtd Median	16.9x	18.3x
Price/Cash Flow - Hist 1 Yr Wtd Median	10.7x	13.7x
Price/Book - Hist 1 Yr Wtd Avg	1.6x	2.1x
Return on Equity - Hist 1 Yr Med	14.1%	15.3%
Market Cap - Weighted Median -Bil	33.8 GBP	25.1 GBP
Number of Equity Holdings	1360	2470
Dividend Yield - Hist 1 Yr Wtd Avg	3.0%	2.5%

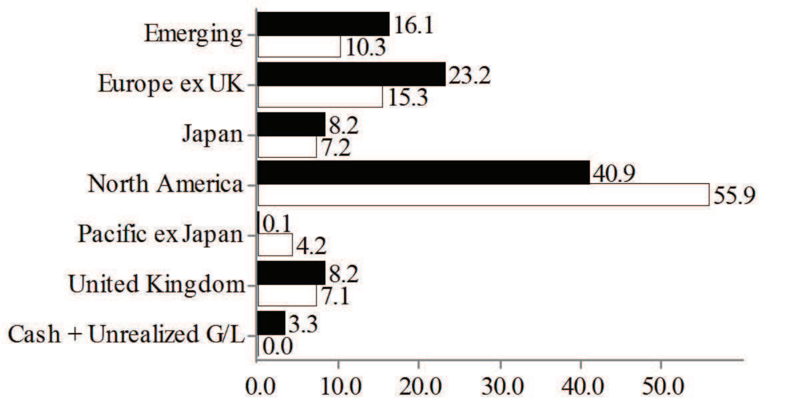
[1] *MSCI ACWI*
[2] *London Borough of TH Custom Benchmark*
[3] *Portfolio holdings are a percent of equity. They are subject to change and should not be considered a recommendation to buy individual securities.*
[4] *Alpha is a measure of risk-adjusted return; Beta is a measure of a portfolio's sensitivity 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.*
[5] *The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time.*

London Borough of Tower Hamlets

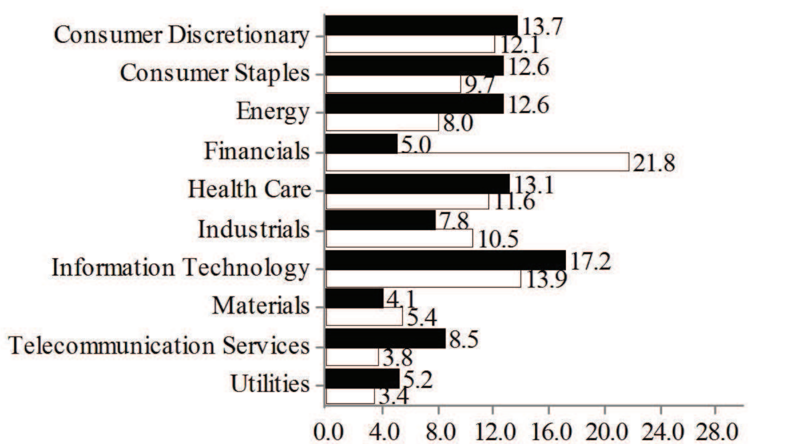
Global Developed Equity Allocation Strategy - Profile Summary

As of 31 December 2014

Regional Weights

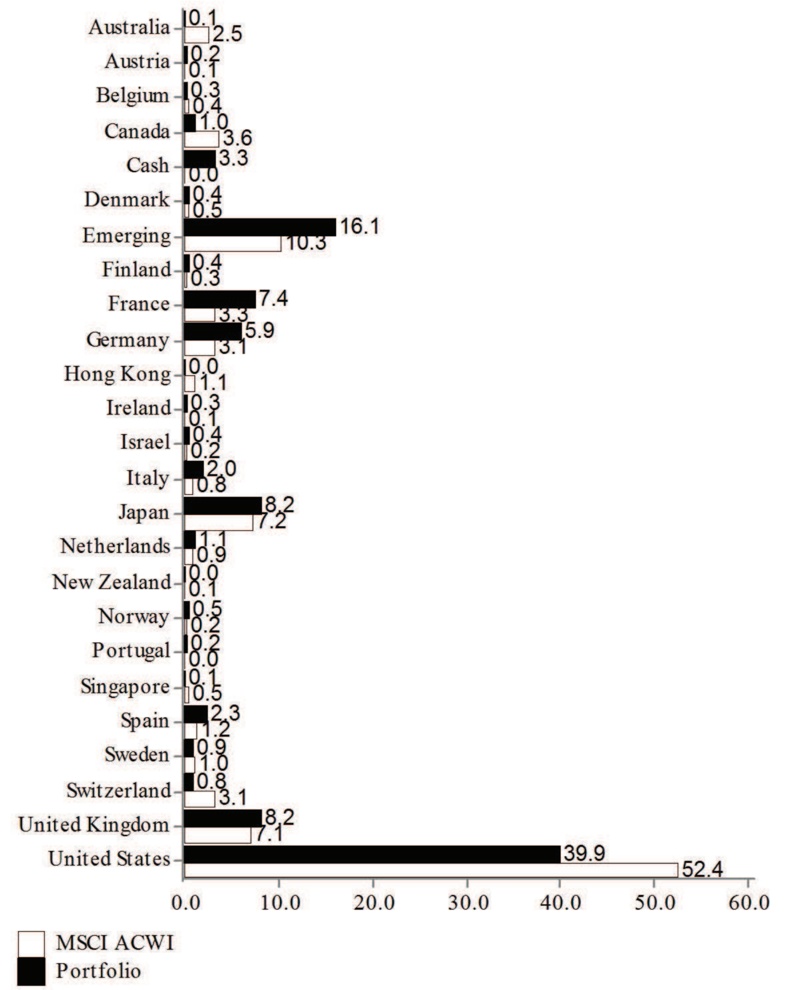


Sector Weights



GICS Sectors

Country Allocation



Global Developed Equity Allocation Strategy - Attribution Overview

Quarter Ending 31 December 2014

Performance (%)	
Net of Fees, USD (Rep Account)	-2.24
Gross of Fees, USD (Rep Account)	-1.87
MSCI World	+1.01
Value Added	**-2.88**

GROUP ALLOCATION: -2.3%

U.S. ↑ | Int'l ↓ | EM ↓

SECURITY SELECTION: -0.6%

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 29% of our total portfolio weight during the quarter.

Results: Our position in U.S. high quality produced a positive selection impact during the quarter. High quality stocks outperformed the U.S. market during the period as U.S. investors generally favored a mix of less cyclical sectors including Health Care and Consumer Staples. Quality's light concentration in energy stocks also contributed to relative returns for the quarter.

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 and Brazil Materials.

Positioning: Emerging markets accounted for approximately 9% of our total portfolio weight during the quarter.

Results: Our emerging markets position produced negative allocation and selection impacts during the quarter. The largest detractor was Russia Energy as investors reacted to the oil price drop and continued concern around Russia/Ukraine. Our position in China Financials was the biggest contributor and offset some of the shortfall.

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 Developed Equity Allocation Strategy - Attribution Overview

Quarter Ending 31 December 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 negative allocation and selection impact during the quarter. The largest detractor was our overweight in Japan Autos, specifically Nissan and Honda, which underperformed during the quarter.

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 38% of our total portfolio weight during the quarter.

Results: Our position in European value produced a negative allocation impact during the quarter, as European value stocks trailed the broader market. Slightly positive stock selection from our valuation-based process did little to offset the allocation impact. Allocation within France and Italy was the leading detractor from returns.

Global Developed Equity Allocation 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

GMO UK Limited
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Investment Report

London Borough of Tower Hamlets Pension Fund
Investment Report for the
Quarter ended 2 January 2015

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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 September 2014		Net Transactions	Value and Distribution at 31 December 2014		Benchmark Distribution
	GBP (Mid)	%	GBP	GBP (Mid)	%	%
UK Equity Index	214,801,995	80.3	-	216,077,750	78.9	83.0
Over 5y Index-Linked Gilts	52,683,001	19.7	-	57,653,555	21.1	17.0
Total Assets	**267,484,996**	**100.0**	**-**	**273,731,305**	**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 31 DECEMBER 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	+0.6	+0.6	+0.0	+1.3	+1.2	+0.1	+11.3	+11.1	+0.2	+9.9	+9.8	+0.1
Over 5y Index-Linked Gilts	+9.4	+9.4	+0.0	+21.4	+21.4	+0.0	+7.1	+7.1	+0.0	+11.6	+11.5	+0.1
Total Assets	**+2.3**	**n/a**	**n/a**	**+4.9**	**n/a**	**n/a**	**+10.3**	**n/a**	**n/a**	**+10.2**	**n/a**	**n/a**

Dealing Costs

Investment Association's Pension Fund Disclosure Code

The voluntary Code (Third Version) which has been adopted by the Investment 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

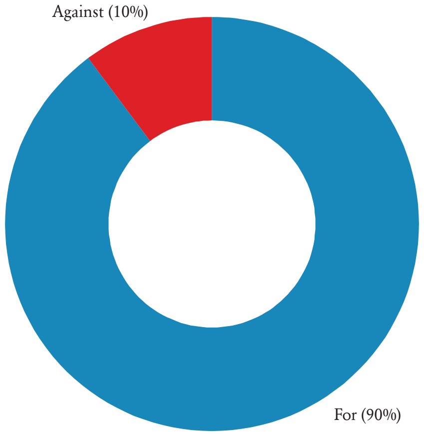
We aim to maximise and protect shareholder value on behalf of our clients by exercising their voting rights. We also engage with companies both directly and collaboratively with other investors to reduce risks of corporate failure and promote best practice. We comply with the principles set out in the 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.

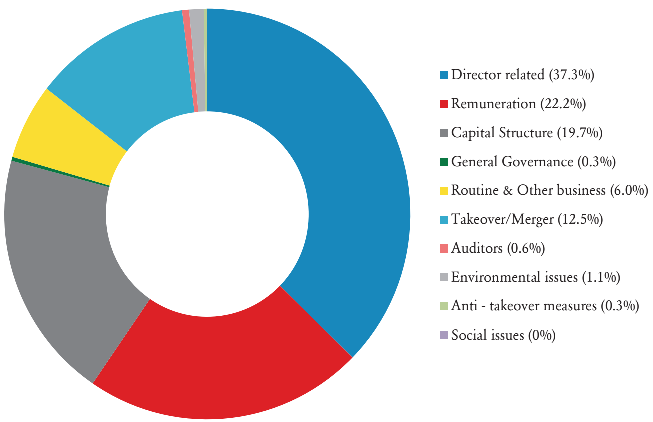
We have extended our public voting disclosure to cover the North American and Japanese markets. These can also be found on our webpage.

LGIM votes in all major developed markets including: Europe, North America, Japan and Asia Pacific, and continue to minimise abstentions. We also vote in the major emerging markets and have started reporting on our activities in this region.

Voting Decisions



Against/Abstain Votes by Topic



Latest News and Development

Press Coverage

During the year we have been in nearly every major national newspaper on various governance topics. This quarter, we continued to promote key issues such as cyber security, board diversity, board effectiveness reviews, auditor independence and were quoted on remuneration relating to BG Group which faced opposition from various stakeholders.

Diversity in FTSE 250

We met with several of the remaining FTSE250 companies with all male boards after writing to each of them to request meetings and discuss the issue of diversity. The companies we engaged with included Brit plc, Personal Assets Trust, Synthomer and Telecom Plus. All the companies recognised the challenge of increasing diversity and talent management in their organisations. We will continue to push for more progress in the area of diverse boards.

Institute of Chartered Secretaries Association (ICSA) and NAPF Stewardship Conference

Our Director was a panel member at the ICSA conference presenting to a large group of company secretaries discussing governance from an investor perspective. We highlighted the importance of the company secretarial role in maintaining good governance standards. A presentation by the LGIM CEO was also given to NAPF members on how index funds act as long term and active owners.

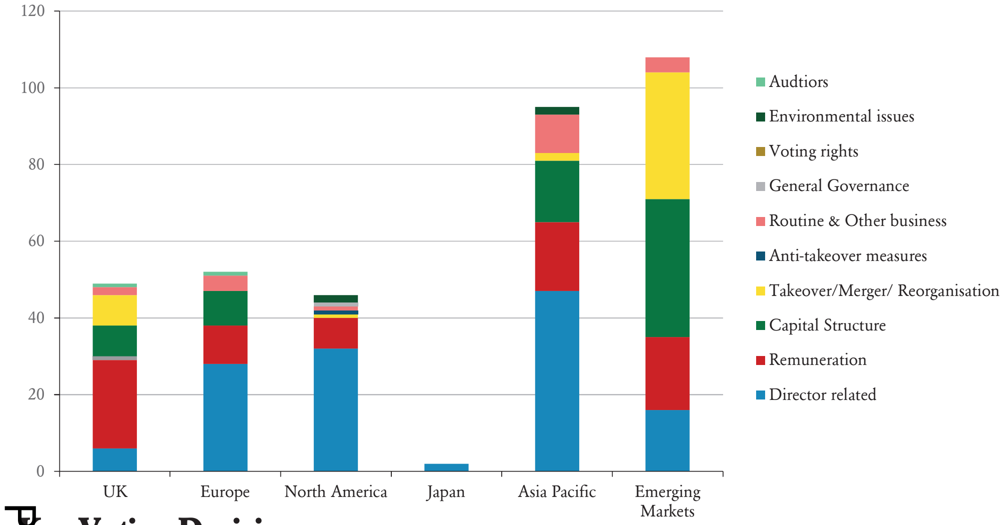
China and Hong Kong visit

We visited China and Hong Kong to attend a corporate governance (CG) conference and meet several Chinese companies. Issues in China are dominated by large stakes held by the state and its influence on board composition and minority shareholder rights. CG requirements can vary between Hong Kong and the mainland, but with the new Shanghai-Hong Kong connect, there will be greater access to Chinese listed companies for global investors. This will increase the need to push for further governance awareness and disclosure in China. Additionally, we met with industry leaders in the energy and climate change space to understand the latest attitude to energy transition (from coal to gas to renewables) and the impacts of pollution on energy consumption.

FCA consultation on sponsor conflicts

LGIM continued to push for change in the regulatory space regarding the role of sponsors and investment banks in the listing process and the conflicts that may occur. Our views on better disclosure and conflict management were submitted to the FCA.

Regional Breakdown of AGAINST Votes by Topic



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Key Voting Decisions

United Kingdom

Sky Plc	M.Cap: £15bn	Media	UK

LGIM voted against the remuneration report due to the complexity of the LTIP, concerns with the performance measures and the lack of transparency surrounding discretion applied. 11.2% of investors voted against and 19% abstained.

Dairy Crest (EGM)	M.Cap: £682.5m	Food Processing	UK

At the EGM in December to approve the disposal of the company's Dairies business and operations, we voted against the resolution to provide an additional one-off award to the CEO which is on top of an existing LTIP award and outside the scope of the Remuneration Policy. At the meeting, 35.7% of shareholders voted against.

Balfour Beatty (EGM)	M.Cap: £1.46bn	Construction	UK

We voted against the sale of Parsons Brinkerhoff subsidiary. We felt the timing for the sale of this cash generative business was not in line with long term shareholders' interests. This is because of the arrival of a new CEO and departure of key directors leaving the company. Shares have underperformed the market significantly during 2014.

Europe

EDF	M.Cap: €42.7bn	Utilities	France

LGIM voted against four resolutions related to the amendment of company bylaws. In particular, the company proposed to maintain in its bylaws mandatory combination of the duties of Chairman and CEO while the new French legislative framework provides for the possibility to separate the roles. We also voted against the election of all the nominated Directors because the proposed duration is in excess of recommended guidelines and there is a lack of independence at the board level (17%).

US

Microsoft	M.Cap: $382.88bn	Technology	US

We engaged with the Chairman ahead of the AGM to discuss the succession process of the new CEO and their new remuneration structure. We highlighted our concerns with the practice of making discretionary payments and the high quantum of award to the new CEO. Furthermore, we explained that remuneration should be examined more closely alongside succession going forward to ensure that large discretionary awards are not made. LGIM voted against the remuneration report as did 72% of shareholders. We will continue to engage with the company.

Oracle	M.Cap: $197.48bn	Technology	US

Our engagement with the company has been on-going and despite the reduction in equity awards for the CEO, the company suffered a third failed say on pay vote. We voted against the plan because we have continual concerns that pay is not sufficiently linked to the performance and the quantum is excessive. We also voted in favour of the proxy access proposal as we feel that the board composition remains an issue due to the CEO's historical role at the company, despite the recent changes of appointing a co-CEO and him stepping down to Executive Chairman. This proposal received 44.6% support from shareholders.

News Corporation	M.Cap: $8.98bn	Media	US

We continue to be concerned with the board structure at the company and the protection for minority shareholders as there is a dual class share structure. LGIM voted against all directors due to a poison pill being put in place without shareholder approval. Given the voting power is already concentrated with Rupert Murdoch and his family, this continues to block outsiders who wish to increase their voting rights and have a greater say in the company's governance structure. At the meeting, Directors received between 63% and 73% support from shareholders. We also voted in favour of the elimination of the company's dual class capital structure which received 47% support from shareholders.

Asia –Pacific

Hopewell Highway Infrastructure Ltd	M.Cap: HKD11.96bn	Construction	Hong Kong

We opposed the election of two directors because we have concerns with the board composition and there is a conflict of interest. Moreover, board independence is below one-third and the company has failed to set up a nominations committee which is not in compliance with the Hong Kong Stock Exchange listing rules.

Ramsay Health Care Ltd	M.Cap: AUD11.69bn	Healthcare Services	Australia

LGIM voted against the re-election of two independent directors, as both have been serving on the board of the company for 17 consecutive years and, hence, cannot be considered independent due to their length of tenure. In addition, the board is not comprised of a majority of independent directors. Although we appreciate that the company is actively looking to introduce an appropriate succession planning system, this has not materialised and significant time has passed.

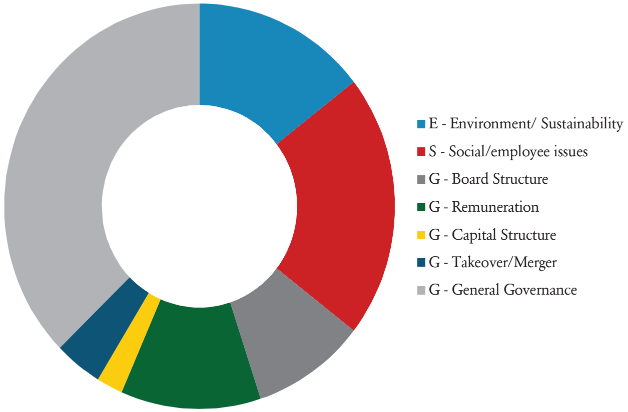
LGIM Voting Summary by Topic and Region

Between 01/10/2014 and 31/12/2014		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	439	2	83	27	307	29	20	2	281	41	94	15	1340
	Remuneration	160	23	11	9	52	8			149	18	36	19	485
	Capital structure	252	8	26	9	8				29	16	221	36	605
	Auditors	133	1	7	1	36				29		1		208
	Voting rights													
	General governance													
	Routine and company business	183	2	54	4	3	1	2		49	10	75	4	387
	Anti-takeover related	41				8	1			7				57
	Takeover/merger/reorganisation	26	8	16		10	1	2		24	2	146	33	268
	Social issues													
Shareholder Proposals	SP – Anti-takeover measures													
	SP – Director related		4	2	1	15	3				6	40	1	72
	SP - Remuneration				1	2								3
	SP - Capital structure													
	SP - Voting rights													
	SP – Corporate Governance					1	1					2		4
	SP - Routine and company business											17		17
	SP – Health/Environment						2				2			4
	SP - Social issues													
	SP - Other			1		3	3							7
Total Votes		1234	48	200	52	445	49	24	2	568	95	632	108	
Total number of resolutions		1282		252		494		26		663		740		3457
Annual General Meetings (AGM)		79		9		35		3		90		40		256
Extraordinary General Meetings (EGM)		48		19		14		1		23		137		242
Number of companies voted at		119		28		49		4		113		148		461

*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 six in North America

Engagement Topics & Frequencies



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Meetings covering one or more of ESG and F topics*				Number of meetings
E	S	G	F	216
40	58	178	75	

Environment/ Sustainability	40
Social/employee issues	58
Board Structure	26
Remuneration	32
Capital Structure	6
Takeover/Merger	11
General Governance**	103

*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: £15.3bn	Retail	UK	GF

Subject: Financial performance, Audit and Risk Management

During the quarter, Tesco uncovered accounting irregularities that led to profits being overstated by over £260m. This was shortly followed by another profit warning. We met the SID to discuss the accounting issues and the dismissal of key employees. Furthermore, we met the new CEO to hear his strategy for turning around the business. Subsequently, the Chairman has offered to resign once a replacement has been found. LGIM has made its views known to the Board and will be consulted on the succession of the Chairman.

BG Group	M.Cap: £29.5bn	Oil and Gas	UK	G

Subject: Succession and Remuneration

Over the past few years, the Company has had numerous profit warning and management changes. This included the last CEO announcing in April that he was leaving after 16 months in the job. In May, we engaged with the company extensively on its new 2014 pay policy. However later in November, the company announced its intention to hold an EGM to approve a package outside its policy even though it was renewed six months ago. We spoke to the company extensively on pay and there was collaboration between investors. Subsequently the Company announced that it was withdrawing the EGM with the new CEO still joining on the same date and will ensure that the recruitment package is in line with their newly approved policy. We will continue to engage with the company on governance, succession and performance issues.

Apple	M.Cap: $647.4bn	Technology	US	ESG

Subject: Sustainability and Remuneration

LGIM visited the company's offices in California to discuss various ESG issues. The company has worked hard around its sustainability framework, particularly in terms of management of its supply chain. In addition, the Company has made a transition towards a structure that is more socially responsible. LGIM will encourage the company to continue this improvement and to communicate this story more widely. We also had an open discussion on remuneration and will follow up with the company's Chair of the Compensation Committee to discuss these issues in more detail.

Cisco Systems	M.Cap: $142.3bn	Technology	US	G

Subject: Board composition

We spoke to the company to discuss board structure, remuneration and governance issues. The company received a proxy access proposal at its AGM and we encouraged the company to think more about board turnover as there are several long-serving directors, including the Chairman & CEO. Although we feel the company should refresh its board, we did not support this proposal as it would have enabled shareholders to replace 40% of the board which we felt would be too disruptive to the business. The proposal gained 5% support from shareholders.

KAZ Minerals	M.Cap: £1.1bn	Mining	UK	ES

Subject: Sustainability

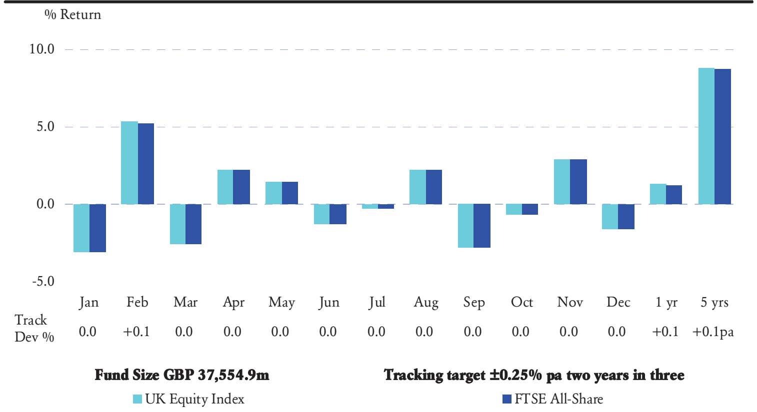
LGIM engaged with KAZ Minerals, focusing primarily on health and safety issues, considering the high rate of fatalities experienced by the company in the past. The company, as a result of its restructuring plan, is modernising its equipment, as well as providing extensive training to its employees and linking health and safety to management compensation. Despite considerable reductions in fatality rates – from 32 in 2010 to 14 in 2014 – the goal of zero fatalities remains far away and the company is still considered a laggard among its peers. Hence, we will continue to monitor their performance and intend to meet the Company in 2015 to assess its progress and discuss other important areas related to the sector, such as water management.

Fund Activity & Performance

UK Equity Index

- The Fund returned 0.6% matching the index return over the quarter
- At the quarterly index review there were two additions, NextEnergy Solar Fund and Jimmy Choo, and four deletions, BlueCrest Bluetrend (GBP), Petropavlovsk, JKX Oil & Gas and Asia Resource Minerals
- Other corporate activity included Reckitt Benckiser demerging its addiction unit Indivior; TUI Travel merging with German group TUI AG; and engineer Amec acquiring US group Foster Wheeler AG to become AMEC. Cash takeovers were completed for Hyder Consulting and Perform Group. UBM, Consort Medical, RPC and Connect Group all raised cash via rights issues to fund expansion. TSB Banking Group increased its free float to 50% following a secondary share placing by Lloyds Banking Group

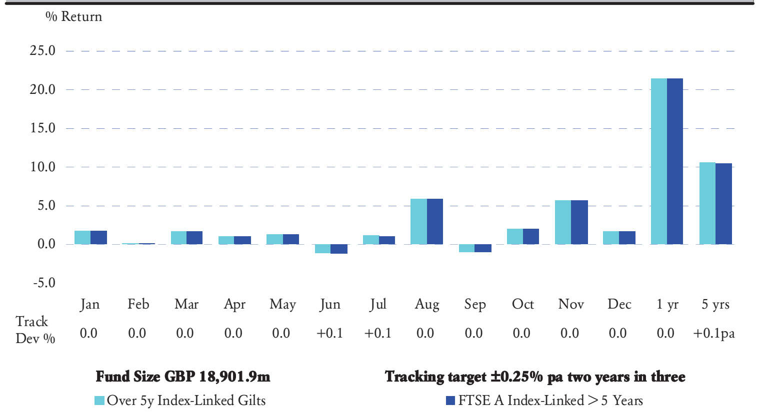
UK EQUITY INDEX - FUND AND INDEX MOVEMENTS - 2014



Over 5y Index-Linked Gilts

- The Fund returned 9.4% matching the index return over the quarter
- UK GDP registered 2.6% year-on-year growth in Q3 2014. The debate over the first base rate increase is becoming more balanced with the fall in the oil price bringing the RPI level of inflation down to 2.0% in November
- During the final quarter there were auctions of 2024, 2034, 2042 and 2050 being tapped. These raised approximately £5.7bn. The 2019 maturity bond fell out of the index as its remaining maturity fell below five years
- The Fund held all 21 stocks contained within the benchmark index. The Fund and index both had a modified duration of 22.51 years at the end of the quarter and the real yield was -0.74% (yield curve basis)

OVER 5Y INDEX-LINKED GILTS - FUND AND INDEX MOVEMENTS - 2014

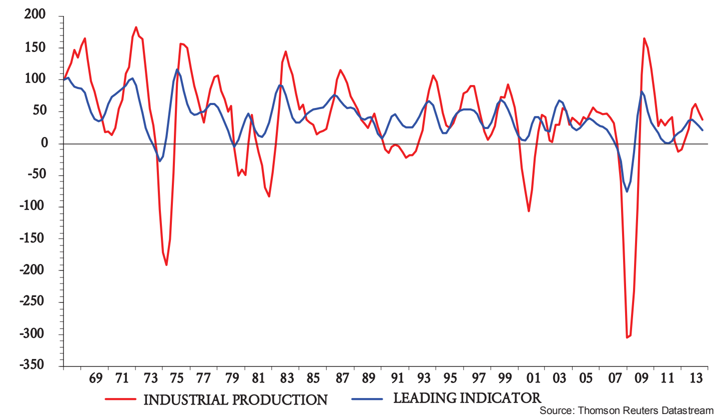


Market Background

Economies

- The firm performance of the US and UK economies remained in stark contrast to that of their euro zone and Japanese peers. Although sliding oil prices increasingly impacted on the Russian economy as OPEC failed to implement production cuts, hopes grew that lower energy costs could act as a fillip to global growth
- The US economy grew by a stronger-than-expected 5.0% on an annualised basis in Q3, helped by firmer consumer spending. Against this backdrop, comments from Federal Reserve Chair Yellen raised expectations that interest rates could rise as soon as Q2 2015
- The UK economy grew by 0.7% in Q3. Amid sporadic signs that activity moderated slightly in Q4, headwinds from the euro zone and further weakness in inflation, investors pushed back forecasts for the first rise in Bank Rate to around the middle of 2015
- With economic activity continuing to disappoint across the euro zone and Greek political concern reappearing ahead of January elections that could see anti-euro politicians gain power, speculation grew that the European Central Bank could yet introduce quantitative easing

OECD G7 LEADING INDICATOR & INDUSTRIAL PRODUCTION - YoY



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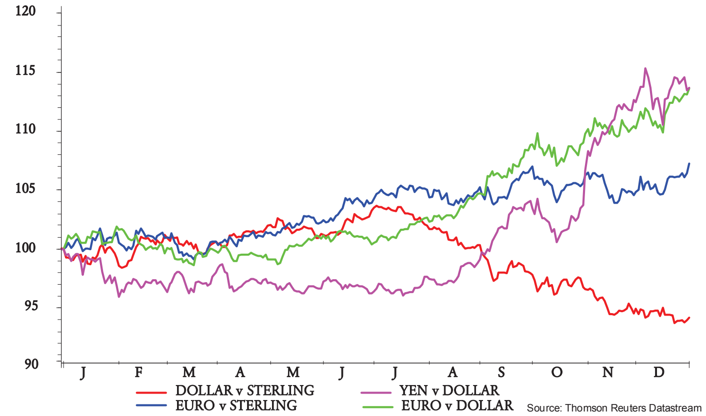
Currencies

- The US dollar made further gains during Q4, recording double-digit gains against the yen but also gaining against sterling and the euro over the second half of 2014. With the US recovery picking up pace during Q3, comments from the Fed's Janet Yellen raised the prospect that US interest rates could rise, boosted the dollar
- The dollar leapt against the yen over Q4 as the robust US economic backdrop contrasted with Japan's return to recession. Following the Japanese economy's surprise 0.5% Q3 shrinkage, speculation rose that the second leg of the sales tax increase could be delayed. Meanwhile, the BoJ announced a large expansion of its stimulus programme
- The euro weakened against the dollar in Q4. With falling oil prices set to put renewed downward pressure on already-weak euro zone inflation, sluggish economic growth and rising political risks in Greece raised speculation that quantitative easing could yet be introduced
- Sterling slipped against the dollar but rose versus the euro over Q4. Despite continued softness in UK inflation and sporadic signs that the pace of the recovery could cool further, speculation indicates that the Bank Rate could rise in mid-to-late 2015

EXCHANGE RATES



Bonds

- Government bond yields extended their year-long downtrend in Q4. With global inflation still subdued, the near-halving of oil prices since July added to government debt's appeal

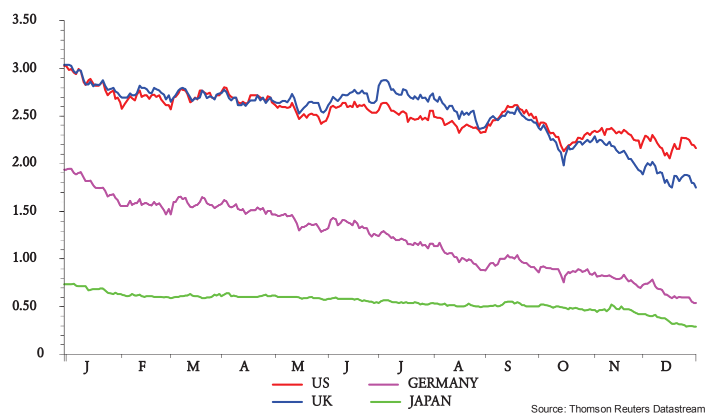
- Ten-year gilt yields tumbled from 2.5% to 1.8% over Q4. UK GDP grew by 0.7% in Q3, compared to a downwardly-revised 0.8% in Q2. With the housing market cooling slightly and the sluggish euro zone acting as a headwind to growth, a fall in inflation to just 1.0% saw investors push back their timescale for higher interest rates to the second half of 2015

- US ten-year bond yields fell from 2.5% to 2.2%. Despite quantitative easing (QE) ending in October, the US economic recovery remained robust, as annualised growth picked up to 5.0% in Q3. With Fed chair Yellen downplaying the significance of Russia-related turmoil on the US economy, speculation rose that interest rates could rise as soon as Q2 2015

- Given the anaemic euro zone economic backdrop and rising Greek political risk, speculation rose that the ECB's planned bond repurchase plan could yet morph into QE. German ten-year yields fell from 1.0% to 0.6% and Italian yields fell from 2.4% to 1.9%

- Japanese yields fell from from 0.5% to 0.3%. With the economy's 0.5% Q3 contraction pushing the country back into recession, the Bank of Japan extended its stimulus package

10 YEAR GOVERNMENT BOND REDEMPTION YIELD



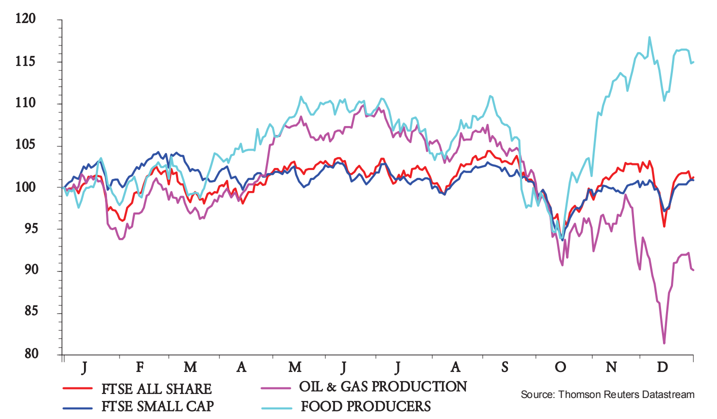
UK Equities

- The FTSE All-Share index rose by 0.6% in sterling total return terms over Q4, underperforming its global counterparts and significantly underperforming its US peers. On a total return basis, the FTSE 100 index fell by 0.2%, partly reflecting the underperformance of leading oil stocks. However, the FTSE 250 climbed by 5.2% as mid caps returned to favour whereas the FTSE Small Cap (ex investment trusts) index only rose 0.3%

- Although the UK economy continued to outpace its struggling euro zone peers, UK growth eased from 0.8% in Q2 to 0.7% in Q3. Private consumption and government spending remained strong but business investment and exports shrank amid concerns over the demand outlook from the Euro zone. Although inflation fell to 12-year low of 1.0%, far below the official 2.0% target, a minority of Bank of England's Monetary Policy Committee continued to vote for higher interest rates as wages finally outpaced inflation. According to consensus forecasts, Bank Rate is set to rise around mid-2015

- In sector terms, energy suffered steep falls, reflecting the slide in oil prices, while mining stocks also underperformed amid falls in commodity prices. Food & beverages producers

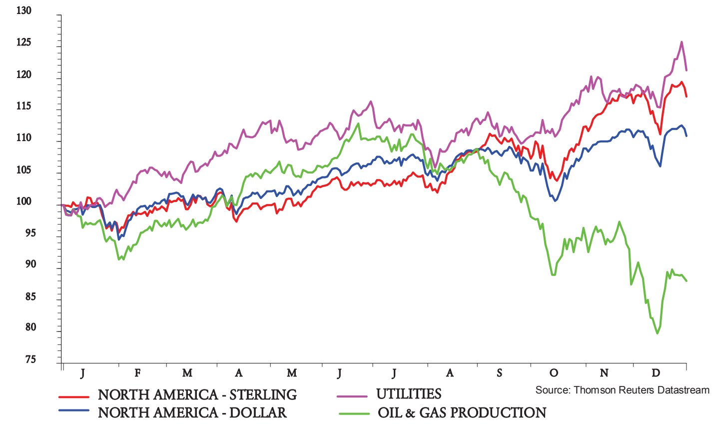
UK EQUITY PRICE INDICES



North American Equities

- US equities rose by 4.1% and 8.3% in local and sterling terms during the quarter, outperforming their Japanese, UK, Europe ex UK counterparts. Having risen for eight consecutive quarters, the S&P 500 index set a new all-time high in December
- Despite the ending of quantitative easing, the US economic recovery gained further momentum, with growth rising from 4.6% in Q2 on an annualised basis to 5.0% in Q3, the highest pace since the third quarter of 2003, helped by rising consumer spending and investment
- With Fed Chair Janet Yellen downplaying the effect of Russia-related turmoil on the US economy, speculation grew that US interest rates could rise as soon as the second quarter of 2015
- In sector terms, the near-halving of crude oil prices since July as OPEC declined to cut production despite rising US shale supplies - weighed heavily on the energy sector during Q4. The materials sector also underperformed against the backdrop of weak global commodity prices. However, the utilities and consumer discretionary sectors produced strong returns during Q4

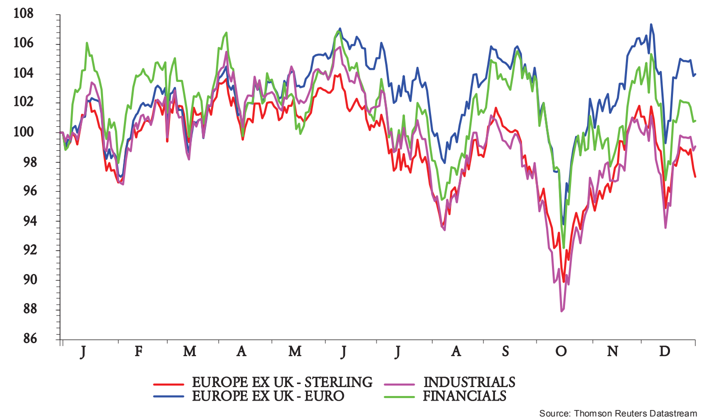
FTSE NORTH AMERICA PRICE INDICES



Continental European Equities

- Continental European stocks posted falls in euro terms in Q4, underperforming their global peers amid concerns over the region's disappointing economic environment. The FTSE World Europe (ex UK) total return index shed 0.1% in euro terms and 0.5% in sterling terms
- Although Germany avoided a return to recession with Q3 growth of 0.3%, concerns over the export outlook to crisis-hit Russia deepened as oil prices and the rouble slumped. Euro zone inflation fell to just 0.3% while the near 50% slide in oil prices during the second half of the year raised further concerns over the deflationary risks facing the region
- Euro zone economic data continued to disappoint – despite record-low interest rates – and speculation grew that the European Central Bank's planned private asset repurchase programme could yet morph into full quantitative easing should political resistance from Germany be overcome
- Germany, Ireland and the Netherlands performed relatively well but Norway fell sharply, reflecting its high energy exposure. Greek equities also underperformed amid political risks ahead of the January elections

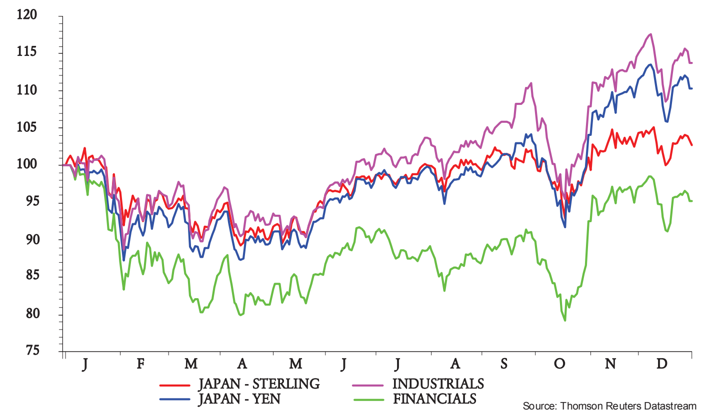
FTSE EUROPE (EX UK) PRICE INDICES



Japanese Equities

- Following an initial setback on global economic growth concerns, Japanese equities subsequently rallied on news that the Bank of Japan was expanding its massive economic stimulus package
- Despite the Japanese market's modest gains in local terms, further yen weakness equated to negative returns for US dollar, sterling and euro based investors
- Japan slipped back into recession as the economy contracted by 0.5% during the third quarter, weighed by a fall in business spending
- With surveys suggesting that confidence among manufacturers weakened in late Q4, despite the weak yen, optimism remained that the Bank of Japan's expansion of its monetary stimulus package, from ¥60-70 trillion to ¥80 trillion per year, would underpin economic activity
- Although Prime Minister Abe won a new term at December's snap elections, some analysts suggested that the surprise weakness in the Japanese economy is partly due to April's sales tax increase, raising doubts over the further sales tax rise planned for 2015

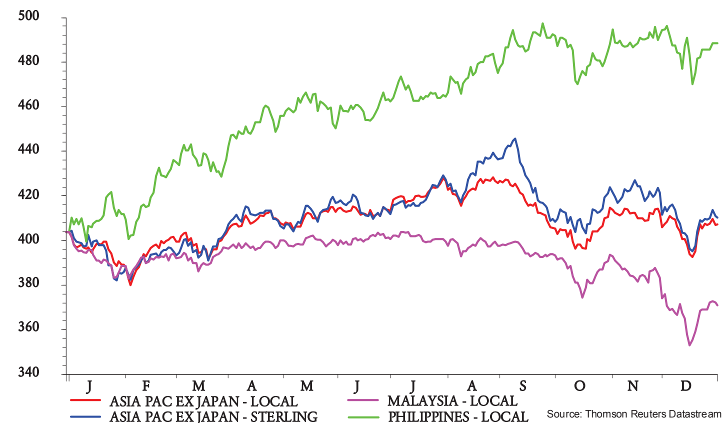
FTSE JAPAN PRICE INDICES



Asia Pacific (ex Japan) Equities

- The region's markets produced positive returns in local terms during Q4, underperforming US equities but outperforming European markets. The FTSE World Asia-Pacific (ex Japan) total return index ended the quarter 1.0% higher in local terms and 0.7% ahead in sterling terms as the UK currency made gains relative to its Asian peers
- Disappointing economic data from the Asia Pacific region's major economies and investors' subdued appetite for risk weighed on sentiment to some extent during Q4
- Having grown by 7.5% on an annualised basis in Q2, Chinese economic growth dipped to 7.3% in Q3, the slowest growth in 5 years. Disappointing levels of industrial production, slowing property investment and softer growth in credit weighed on economic activity
- For sterling-based investors, China, Philippines and Indonesia were among the better-performing markets
- Malaysia was among the main underperformers, hit by weak palm oil prices against the backdrop of falling global commodities prices. Thailand and Korea also underperformed

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

Fund Name Change
With effect from 2 January 2015 the following funds will be renamed:
PF Section YAAG; "Euro Liquidity (2012) Fund" will be renamed the "Sterling Liquidity (Euro Hedged) Fund", PF Section YAAC; "Euro Liquidity (2012) Fund (charges included)" will be renamed the "Sterling Liquidity (Euro Hedged) Fund (charges included)", PF Section YAAH; "Euro Liquidity (2012) Fund (scheme & investment charges included)" will be renamed the "Sterling Liquidity (Euro Hedged) Fund (scheme & investment charges included)". These name changes are being implemented to more accurately reflect the PF Section's underlying investment fund which is the LGIM Sterling Liquidity Fund. For further information please refer to the Description of Funds.

PF Section HS; "Middle East/Africa Equity Index Fund" will be renamed the "Middle East/Africa Developed Equity Index Fund", PF Section TR; "Middle East/Africa Equity Index Fund – GBP currency hedged" will be renamed the "Middle East/Africa Developed Equity Index Fund – GBP currency hedged". These name changes are being implemented to better reflect the investment objective of the fund and the criteria for inclusion in the index.

PF Section AABC; "Property Unit Trust (PMC)" will be renamed the "UK Property Fund (PAIF)". The name change is being implemented following the recent conversion of the vehicle within which the PF Section's underlying investment is held from a property authorised Unit Trust into a Property Authorised Investment Fund (PAIF).

PF Section CSAE; "Active Corporate Bond – Over 10 Year – Fund (charges included 2011)" will be renamed "Active Corporate Bond – Over 10 Year – Fund (charges included)", PF Section CSAD; "Active Corporate Bond – All Stocks – Fund (charges included 2011)" will be renamed "Active Corporate Bond – All Stocks – Fund (charges included)".

These changes do not impact the objectives of the above mentioned PF Sections

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LONDON BOROUGH OF TOWER HAMLETS PENSION FUND

REPORT TO

31 DECEMBER 2014

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PERIOD UNDER REVIEW 30 SEPTEMBER 2014 – 31 DECEMBER 2014

Portfolio value	**£48,290,168**

Performance (net of fees) to 31 December	**%**
3 months	**+4.2**
12 months	**+6.3**
Since inception (28 February 2011)	**+20.7**

Summary

The fourth quarter of 2014 was nothing if not eventful. October's 'flash crash' briefly took equities down 7% from their September highs, while that month also witnessed the end of quantitative easing (QE) in the US, and a surprise expansion of Japanese QE. Elsewhere oil prices, as measured by Brent crude, slumped by 40%, ending the quarter at $57 per barrel, driving the rouble down over 30% against the US dollar. Eurozone risks returned in the form of the failure to elect a new Greek president, meaning an early general election in January, although there was a partial offset as hopes rose of full-blown QE from the ECB. Further afield Chinese equities surged by 37% as the authorities gave extra stimulus to the equity market with rate cuts.

Against this background the portfolio performed very encouragingly, rising by nearly 4%, and taking the gain for the year to just over 6%, a reasonably pleasing outcome given the significant variation in market returns. Our option positions helped us weather October's storm, while the promise of further low inflation readings, via weak commodity prices, caused government nominal and real bond yields to fall. Perhaps slightly paradoxically this produced strong gains in the portfolio's UK index-linked stocks, especially the longer-dated issues. Other helpful developments were further strength in the US dollar and the continued rehabilitation of Japanese equities, which rose by 6% in yen.

Factors that helped performance

UK index-linked bonds Continued low inflation readings, collapsing commodity prices, further Japanese QE and hopes of full-blown eurozone QE all drove global yields lower, thus raising bond prices. The quest for duration drove the 2062 UK index-linked bond up 36% during the year.

US dollar The end of QE from the US Federal Reserve, and a final estimate of 5% annualised GDP growth for the US in Q3 2014 drove the US dollar higher against all major currencies.

China Life Chinese equities rose strongly as investors took heart from the authorities' measures aimed at liberalising financial markets and diverting savings towards financial assets.

Factors that hurt performance

Gold and gold equities The gold price was adversely impacted both by the sell-off in commodities and the rise in the US dollar.

Oil and gas equities With the oil price slumping 40% in US dollar terms the portfolio's small positions in oil and gas equities had a negative impact.

Summary performance attribution

Five largest positive contributions	%
UK index-linked bonds	+1.7
US dollar	+1.1
China Life Insurance	+0.3
Oracle	+0.2
Texas Instruments	+0.1

Five largest negative contributions	%
Gold and gold equities	-0.3
Options	-0.1
BP	-0.1
Canadian Natural Resources	-0.1
Qualcomm	-0.1

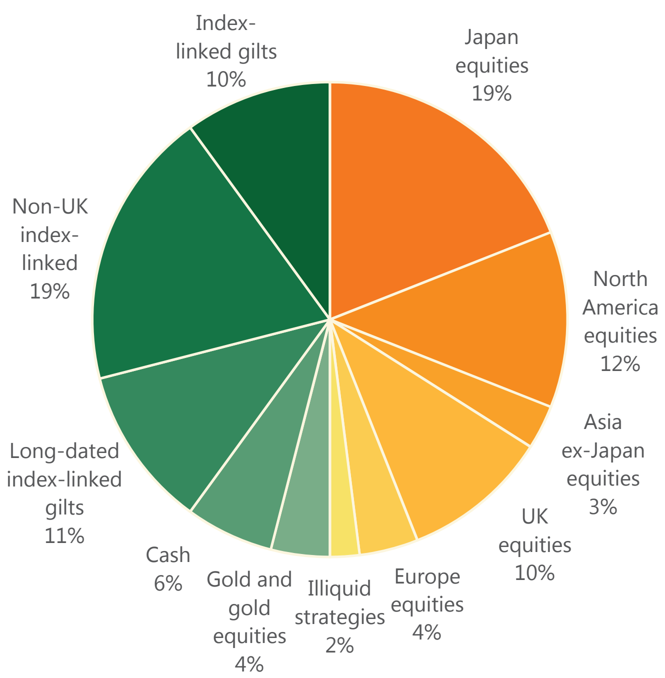
CURRENT INVESTMENT STRATEGY

As Jonathan Ruffer explains in his investment review below, the world's central banks have reached a crossroads in terms of policy. Despite six years of rock-bottom interest rates, and large-scale 'money printing' via quantitative easing (QE), the world's economies have not reached escape velocity. In the erstwhile language of British Rail, RIP, the authorities have created the wrong sort of money, 'voucher money,' exchangeable and usable by financial institutions but not available for spending by the general public. In the desperate desire for growth such extraordinary measures might become even more extraordinary, with fiscal stimulation in the form of tax cuts or government spending. We thus remain utterly convinced of the need to retain our inflation-linked bonds, despite their egregious valuations and recent very strong gains.

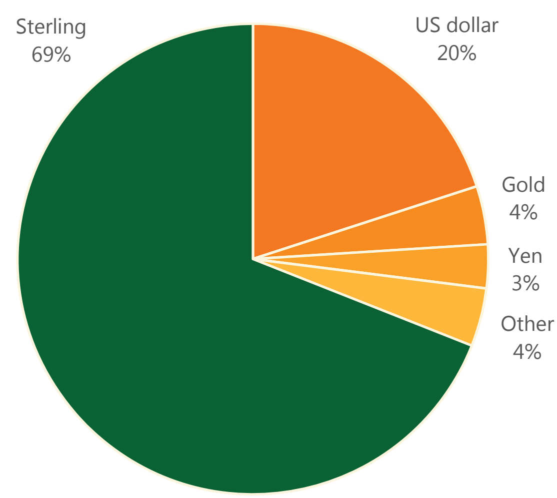
Some might argue that the asset allocation of our portfolios has recently exhibited few significant changes. First off we find succour in inverting Keynes's observation, namely that the facts have not changed sufficiently for us to change our minds. We have dealt above with the need to retain inflation protection. Elsewhere Japan remains our most favoured equity market, a belief spurred on by the expansion of Japan's QE programme announced at the end of October, Prime Minister Abe's convincing victory in the snap election of December, and enhanced competitiveness via the falling yen. There have nonetheless been other changes. We took some profits on our US dollar exposure in November, but have retained a position of around 20%; while the US currency risks becoming a crowded trade, we feel this position might give us two ways to benefit, either from safe haven demand, or stronger relative US growth. During the quarter we added to Chinese equities and purchased eBay, a further representative of 'old technology'.

Lest this seem too pat, clear and present risks abound. The investment review highlights the benign economic effects of the collapsing oil price; it equally points out the malign financial risks in terms of the exposure of high yield debt markets to the energy sector. In this and other contexts the US Federal Reserve has recently been voicing concerns over the risk of dislocation from a lack of liquidity in certain pockets of the financial system. Elsewhere this month's Greek election has the potential to set up another high stakes arm-wrestling contest between eurozone creditors and debtors. Combined with an equity bull market now almost six years old, these factors emphasise the need to keep our primary aim of capital preservation firmly in view.

Asset allocation



Currency allocation



The last year has been interesting in a number of ways. We have seen, at uncomfortably close hand, two of the Four Horsemen of the Apocalypse. The outbreak of Ebola has reminded us that disease has been a greater killer than war: (my 1912 manual of military hygiene tells me that in the 1895 Madagascar campaign, 5,600 people died from disease, as against seven killed in action). The Ukraine shows that Putin's style of leadership has a long pedigree. Plucky North Korea illustrates the 'woodlouse which bites' phenomenon – objects of fun which need to be taken seriously. Our prediction for 2015? Don't hold your breath for a film called 'The Interview II'. The horse named 'famine' was held at bay this year – commodity prices slumped.

Commodity prices illustrated the relentless power of the deflationary conditions which are as strong as ever – and which, indeed, have gathered strength in 2014. There is now an articulated fear that the inflation rate, which has been dropping towards the zero level, might go negative, representing real deflation. Those who control monetary policy around the world are genuinely fearful that this deflationary force is unrelenting. Before addressing this interesting question, let me deal with an inevitable question – are we admitting that Ruffer have made a wrong call by predicting a coming inflation, and owning long dated inflation-linked bonds? The second part is best dealt with arithmetically – the longest such bond in the UK is up by 50 per cent in 2014, and the US equivalent (which we also own) is up by around 30 per cent. Both were comfortably ahead of the Portuguese bond market – the 'best' bond market in the world. We also held gold bullion and gold shares to protect the portfolios from deflation – both bad investments, notwithstanding the deflationary conditions. Investment is not as straightforward as it looks!

When the central authorities think of deflation, they think primarily of America in the 1930s, and, less often, of Japan in the 1990s; it is, rather, the 1880s which provide the more authoritative parallel. The years 1873 to 1896 saw consistently falling prices, low profitability, low wages, fullish employment, and a world of opportunity to all; it was the period when Andrew Carnegie became the richest man the world has ever seen – a phenomenon one would intuitively associate with boom conditions. It was a world of white bread for all, of sugar in the workman's tea. Its key feature was 'winner takes all' – in the 1880s, changing technologies saw the Western hemisphere's sugar-refining industry move no less than five times, ending up in Puerto Rico. The earlier iterations were left with almost modern plants, scarcely depreciated – but utterly useless. When the winds of change blow, they can destabilise even the most conservative of business models: a graphic example is food-retailing in the UK. When a hitherto profitable model breaks down, the ramifications are wide; the retailers try to protect themselves by squeezing suppliers – it is estimated that some 30 per cent are underwater, including the whole of the milk producing industry, where prices are running at less than the cost of production. Its mischief stretches out into real estate – who would regard a 25 year upwards only rent on a Tesco warehouse with quite the same benign complacency as in days gone by? Aldi and Lidl may look like giant-killers, but they are entering an arena inherently compromised in terms of overall profitability – the very hallmark of 1880s-style deflation.

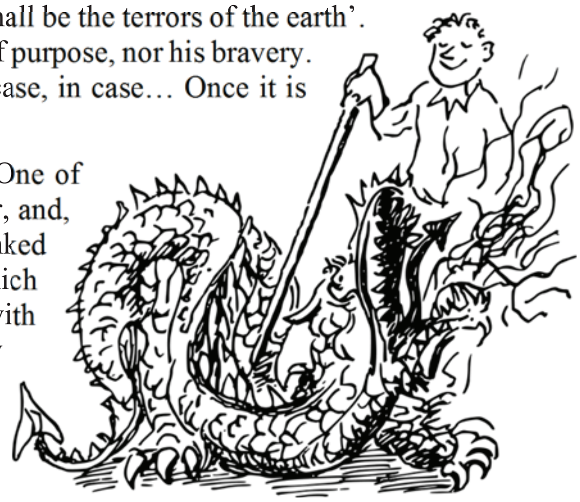
More recently, the world of central-bank economists has made a series of wrong calls – the humiliating thing for them is that it hasn't really mattered. There was an assumption that economies could be declared robust again when unemployment fell; when Mark Carney, the new Governor of the Bank of England, drew his inaugural line in the sand as to when interest rates would rise, the employment figures on which he had hung his cap immediately signalled 'time for a rise'. He wisely retracted his position on this. There were misgivings, though – perhaps interest rates would be held low too long, and inflation would erupt? But no, the inflation rate has continued down. This accounts for the rather odd situation of the fall in the oil price being treated as a solemn warning of deflation – when it was obvious to every cab driver and shoe-shine boy that this was manna from heaven to all except those in the oil industry.

This is the background character of the world in which we live. One last aspect remains to be considered; it explains why the authorities have been seemingly powerless to combat these elemental deflationary forces. It is clear that quantitative easing (QE) is not enough to stop mother nature – and the effect on government balance sheets has been sufficiently damaging to bring this money-creating initiative to a halt. Why hasn't it reversed the primary dynamic, even in Japan, where the target of doubling the money supply, accompanied by a sharp fall in the yen's value, has not worked? The answer in layman's language is that QE did not create fully-effective money, so much as vouchers which were only valid in the financial system. It did a great job in improving the finances of the banking system, but it did not go further than that, because the financial institutions did not remit it further – into the real world of corporations and consumers. It is partly a result of that 'winner take all' dynamic that we have already visited – corporations are not at all sure that they would be the winner in the present climate, so are disinclined to borrow. Bank regulators, ruthlessly pursuing the problems of yesteryear, have reinforced this tendency by making it more expensive for banks to take risks on their balance sheets. In times of stability, this shows itself in subdued borrowing figures; if and when unstable markets appear, there will be an alarming lack of liquidity in the system, since the natural counterparties to frightened sellers are market makers accommodating them, and the banks have curtailed the size of their books. As things stand, no weapons have been fired against this deflation – but these weapons exist, and we believe that they will be used, early in 2015 in Japan. When it is established as effective, it will be used elsewhere – and the inflation we wait for will have arrived.

To repeat, quantitative easing is a voucher, and not money – and, crucially, it is not available to consumers, who alone are capable of expanding the stock of money enough to create a rise in prices. The insight is to see that a drop in taxation has precisely that effect. We have seen that money to banks, coupled with an injunction to pass it on by way of loans does not work – the banks are 'frit'. An increase in spending power through lower taxation is the way to achieve it. (Parenthetically, the drop in the price of oil might just have a similar multiplier, and end up as an inflationary force.) Governments are reluctant to do this, because through their central banks, their balance sheets are already compromised by QE, by having transferred the burden of debt from the financial sector to themselves. Economists have coined a word for extra borrowing without any balancing factor – they call it 'monetising' the debt. It's a pretty uninteresting word, combining sleep inducement and opacity, but it's a dog whistle in such circles for rampant inflation.

We have an almost comical situation; the forces of deflation are seemingly irresistible, there's one solution, which mustn't be used because it would bring about inflation. The author of this review once complimented Sir Geoffrey Howe on his boldness and insight in breaking the inflationary spiral with policies deemed reckless at the time (1979/1980). He laughed and said that everything else had been tried and had failed; it was merely common sense to try it. So it is today. As deflation looms larger, tax cuts increasingly look like common sense. And we believe that Japan is already set on a dramatic course to achieve this, with corporation tax changes linked to wage hikes, and a supplementary budget. There are, of course, the usual moans of 'too little, too late,' but these would continue even if the Abe government posted a bundle of banknotes to every Watanabe in Tokyo. Consider the facts. The country knows what a generation of falling prices does for an economy, and the strains it puts on a society. Shinzo Abe was elected Prime Minister in 2012, and promptly declared war on deflation, promising to double the supply of money in Japan in three years. He is on course to deliver that – the currency has dropped from 75 yen against the dollar, to 120 since then – and yet there is still no inflation: the steps, radical as they were, turned out to be voucher-like in their effect. Government indebtedness is at seemingly impossible levels, at 250 per cent of GDP – but we have reason to believe that they are considering this course of action – providing the soap which will transform the behaviour of the unwashed consumer. Abe called a snap election in December, promising a delay of the consumption tax (VAT) to be introduced next year; he won, effectively unopposed. His radical agenda is treated by the rest of the world as the ravings of Shakespeare's King Lear: 'I will do such things – what they are yet I do not know – but they shall be the terrors of the earth'. He has the mandate. From 2012, we need not doubt his sincerity of purpose, nor his bravery. The rest of the central banks are reluctant to think like this, in case, in case… Once it is seen to work, others will join.

Inflation, deflation are both symptoms of monetary instability. One of the by-products of deflation is that asset-prices are driven higher, and, alas, the opposite is true of inflation – hence our inflation-linked bonds. If this analysis is right, the onset of inflation in Japan, which is a generation ahead of the rest of the world, will be treated with euphoria; the deflation dragon is slain! Time enough to worry about the next mischief! Japan, which missed out in the bull market of the last 25 years, could miss out on at least the initial stages of the next global bear market, which is why we favour that region for our equity exposure.



Jonathan Ruffer
January 2015

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.

Q4 2014 Investment Report

For professional investors only

Schroders

London Borough of Tower Hamlets Superannuation Fund

Investment Report - Schroder Real Estate Capital Partners

Schroders

Q4/2014

Schroders

London Borough of Tower Hamlets Superannuation Fund

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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 Sep 2014	GBP	114,272,725
Net cash flow	GBP	-
Value at 31 Dec 2014	**GBP**	**119,210,385**

Performance Periods to 31 Dec 2014

Total returns GBP	3 months %	12 months %	3 years % pa	5 years % pa
Portfolio (gross)	4.3	16.5	7.8	7.4
Portfolio (net)	**4.3**	**16.2**	**7.6**	**7.2**
AREF/IPD UK Quarterly Property Fund Index All Balanced Funds Weighted Average	4.6	17.2	8.6	8.8
Difference	**-0.3**	**-1.0**	**-1.0**	**-1.6**

Breakdown of performance

UK Investments (Gross)	4.5	18.6	9.5	9.2
European Investments (Gross)	3.2	-11.4	-11.3	-8.3

Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 31 Dec 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 recorded its seventh consecutive quarter of GDP growth in the third quarter (Q3), rising 0.7%. Though this represented a slowing rate of expansion (from 0.9% in the second quarter), the UK looks set to be the fastest-growing advanced economy in 2014, with growth of around 3%. Annual UK inflation, as measured by the Consumer Prices Index (CPI), fell to just 0.5% in December, its lowest level since May 2000, driven by the sharp drop in global energy prices. While a low headline inflation rate would ordinarily be seen as a sign of weakness in the economy, the external shock of low oil prices is likely to boost the disposable income of households, encourage greater spending and raise economic growth for 2015. As a result, Schroders continues to expect the Bank of England to raise interest rates in 2015.

2014 has been a good year for UK commercial real estate. The recovery in the economy, combined with low levels of development, has seen strong capital returns. Growing occupational demand is radiating out from the capital into the regions, supporting rental growth. Schroders is forecasting double digit returns for the asset class in 2015.

There were a number of transactions in the final quarter, with £3.2 million of property purchases and £2.7 million returns of capital. Notable purchases included: Schroder Property Real Income Fund (£1.0m), Schroder UK Property Fund (£0.9m), Hermes PUT (£0.8m) and Multi-Let Industrial PUT (£0.5m). There were two returns of capital over the quarter: Columbus UK Real Estate Fund (£2.5m) and Schroder Continental European Fund I (£0.2m).

The portfolio returned 4.3% over the quarter and 16.2% for the past 12 months. This is below the benchmark at 4.6% and 17.2% respectively, predominantly due to the impact of continental European investments.

UK investments (96% portfolio value) have out-performed over the past one, three and five year periods. Over the past three months UK assets marginally underperformed the benchmark (4.5%) largely due to cash held pending investment.

Portfolio Strategy

We are reducing exposure to central London offices, with a view to locking in the positive returns received from this sector over the past three years.

Industrials and alternative sectors remain favoured for their attractive levels of income and genuine rental growth potential.

We are focussed on reducing exposure to continental Europe, subject to pricing and liquidity.

UK Property Market Summary

Economy

Schroders expects the UK economy to continue to grow by a healthy 2.5% per annum through 2015-2016. The main driver is likely to be consumer spending, which should be supported by both the fall in energy prices and by an upturn in productivity and higher wage increases. Productivity has stagnated since 2008, but should now improve, following the recent recovery in business investment. By contrast, government spending and net exports are likely to remain weak. Despite the slowdown in inflation to 0.5%, Schroders expects that the Bank of England will start to raise interest rates this autumn.

Occupational Market

Strong consumer spending meant that in-store retail sales (as distinct from on-line sales) grew in 2014 for the first time since 2010. However, while this is positive for retail property, we remain concerned that most retail prices are either flat or falling and that many towns have a structural over-supply of space. Our retail strategy is to focus on convenience stores in cities and affluent towns and on retail parks with open consents, which are benefitting from the growth in chain restaurants and click & collect sales.

In the industrial sector, the combination of a normal cyclical upturn in demand and the rapid growth in express parcels to fulfil on-line retail orders has resulted in steady rental growth of 2% per annum. The strongest parts of the market are industrial estates in London, the South East and Midlands, reflecting the lack of new building and the gradual loss of space to housing over the last 10-20 years.

Investment Market

Early estimates suggest that investment transactions amounted to £56bn in 2014, maintaining the high level seen in 2013 (source: Property Data). The main net buyers were UK institutions, retail funds and foreign investors, while the main sellers were private property companies. Although the fall in oil prices is likely to restrain Middle Eastern and Russian buyers, the most active foreign investors over the last twelve months have been from Asia and the US.

As a result of strong competition in the investment market, the IPD all property initial yield fell to 5.4% at the end of November, 0.7% below its level at the start of 2014. While this rapid rate of yield compression has unfortunate echoes of 2005-2006, we think that UK real estate is still fairly priced at present, given the prospects for rental growth and the large gap of more than 3% over 10 year gilt yields. We also take comfort from the fact that unlike in 2005-2006 there is still a significant spread between prime and secondary yields, meaning that investors continue to discriminate between properties with different risks.

Outlook

We expect to see another solid performance from UK commercial real estate in 2015. The latest IPF Consensus Forecast suggest offices and industrials will achieve total returns of 12% in 2015, followed by retail with total returns of around 10%. Our view is that total returns in 2015 will probably be closer to 15%, although the more yields fall this year, the greater the risk there is of a potential correction as interest rates start to rise.

The other risk is the general election in May and the uncertainty which would arise if the next government decided to hold a referendum on EU membership in 2017. That could be problematic, particularly for London, if multi-nationals started to defer their expansion plans until after the result and it might also jeopardise the city's haven status with foreign investors.

Continental European Property Market Summary

Economy

We expect the eurozone economy to continue to grow in 2015, although growth will be modest and uneven. Several countries have high levels of outstanding government debt, and France and Italy need to implement further supply-side reforms to improve their competitiveness, tempering growth prospects. Moreover, the Ukraine crisis and political uncertainty in Greece have depressed business confidence and investment. However, there are also several positives. Consumers are benefiting from the fall in energy and food prices, exporters should start to gain from the euro's depreciation, the eurozone's big banks have been re-capitalised and Portugal and Spain are now seeing growth in employment following earlier supply-side reforms. We expect Germany and Spain to grow by 1.0-1.5% p.a. through 2015-2016, while growth in France and Italy is likely to be weaker at 0.5-1.0% p.a.

Occupational Market

After a strong first half, office take-up in most European cities weakened in the third quarter of 2014, as the Ukraine crisis hit business confidence. The exception was Brussels which was insulated by a number of lettings to the EU and to embassies. While office demand will probably stay subdued in the early part of 2015, we expect it to revive later this year as employment in technology, media and telecommunications and professional services in the big cities expands. Furthermore, office rents in many cities will be supported by low levels of new building and by the conversion of obsolete space into apartments and hotels. We expect Berlin, Frankfurt, Munich, Oslo and Stockholm to lead the upturn in office rents this year, followed by Brussels, Paris central business district and the other big German cities in 2016.

The boost to real incomes from marginal deflation has lifted retail sales across the eurozone. However, demand for retail space remains patchy, because many retailers are focusing investment on their on-line services. The strongest parts of the market are flagship stores in big cities and large dominant shopping centres, which continue to attract those chains that are in expansion mode (e.g. Desigual, Primark). In addition, some small centres with a strong food and convenience offer and certain big box schemes continue to trade well. By contrast, many medium sized centres and smaller towns are struggling, as multiple retailers close under-performing stores.

The upturn in retail sales and rapid growth in on-line sales and parcels has sustained demand for big warehouses in western Europe. However, development is now picking up and while most of this space is pre-let, the transfer of occupiers is likely to mean that quite a lot of older distribution units will fall vacant. Accordingly, we favour smaller units close to big cities, where supply is restricted.

Investment Market

Provisional figures suggest the value of investment transactions in continental Europe grew by 15% last year to around €150 billion (source: JLL, Schroders). While Germany and France were once again the biggest investment markets in absolute terms, the biggest percentage growth was seen in the Netherlands and Spain which had previously been relatively illiquid markets. Although the fall in oil prices is likely to restrain Middle Eastern and Russian buyers, the most active foreign investors over the last twelve months have been from Asia and the US.

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 perhaps are just outside the central business district, have a short lease, 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 out-perform over the medium-term, assuming the eurozone economy continues to grow and rental growth becomes more widespread.

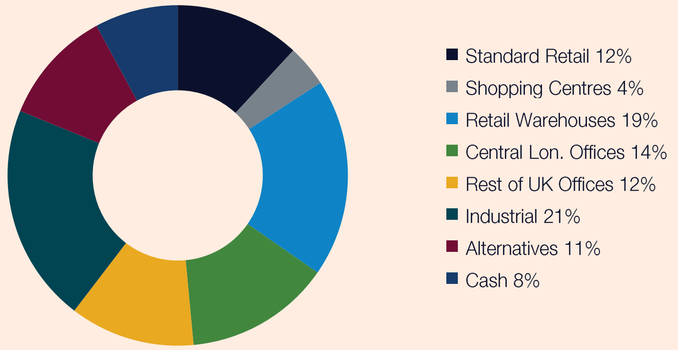
Outlook

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

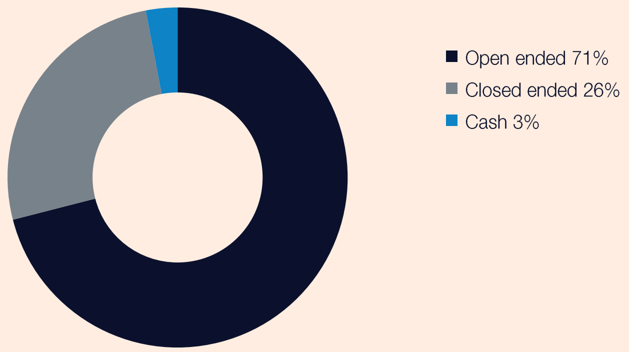
The main upside risk in the short-term is that the inflow of capital from Asia and the USA could trigger a widespread fall in property yields, which would push annualised total returns over 10% per annum for a limited period. The main downside risk is that the sovereign debt crisis could re-ignite, either because the next Greek government decides to re-negotiate its debts, or because deflation in the eurozone becomes entrenched.

Portfolio Analysis

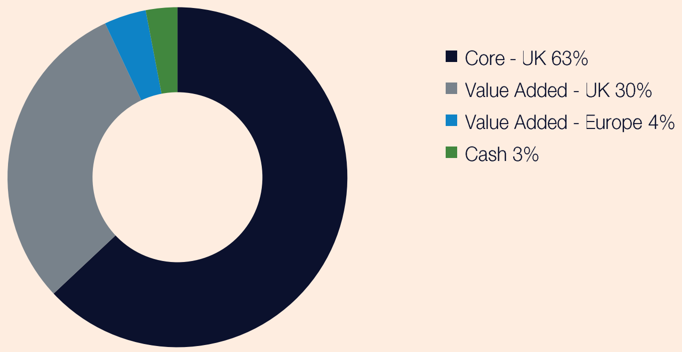
UK Portfolio sector exposure (including cash held by underlying property funds)



Open/closed-ended exposure



Fund style exposure



Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 31 Dec 2014. Totals subject to rounding. Cash included looks through cash in underlying holdings in the top chart.

Largest Stock Positions
at 31 Dec 2014

Largest Positions	Style	% of NAV
SCHRODER UK PROPERTY FUND GBP I INCOME (GROSS)	Core	12.7
BLACKROCK UK PROPERTY FUND	Core	12.1
STANDARD LIFE POOLED PENSION PROPERTY FUND	Core	10.3
HERMES PROPERTY UNIT TRUST	Core	8.6
AVIVA INVESTORS PENSIONS	Core	8.4
MAYFAIR CAPITAL PROPERTY UNIT TRUST	Core	6.7
INDUSTRIAL PROPERTY INVESTMENT FUND	Value-added	6.1
SCHRODER PROPERTY REAL INCOME FUND A UNITS	Value-added	5.8
WEST END OF LONDON PROPERTY UNIT TRUST	Value-added	4.7
METRO PROPERTY UNIT TRUST	Core	4.5

Full details of holdings can be found in the Appendix

Performance Review

The portfolio returned 4.3% over the quarter and 16.2% for the past 12 months. This is below the benchmark at 4.6% and 17.2% respectively, predominantly due to the impact of continental European investments.

UK assets out-performing over one, three and five years

UK investments (96% portfolio value) have out-performed by 1.4% over the past 12 months and 0.9% over three years. The UK portfolio marginally underperformed the benchmark over the quarter (4.5%) due in part to cash held on account pending investment.

Industrial and central London assets driving returns

In general UK funds with industrial or central London office exposure fared well, whilst UK funds with alternative assets underperformed the benchmark (whilst still providing good absolute returns). Over the quarter, Industrial Property Investment Fund (IPIF) and Columbus UK Real Estate Fund (a seller of a large industrial portfolio at a premium price) were the strongest performers. These were followed by Hermes PUT and Standard Life Investments Pooled Pensions Property Fund – both of which hold central London assets.

Conversely, Hercules Unit Trust, a UK sector specialist retail warehouse fund, had the largest negative impact on relative returns. Other negative contributors included the Real Income Fund and BlackRock, where performance was held back by their exposure to alternative sectors such as student accommodation and healthcare. The drivers of performance in these sectors are less cyclical than mainstream property and values are more stable as a result. We expect these investments to contribute more positively as yield compression in the wider market moderates and income becomes the principal driver of returns.

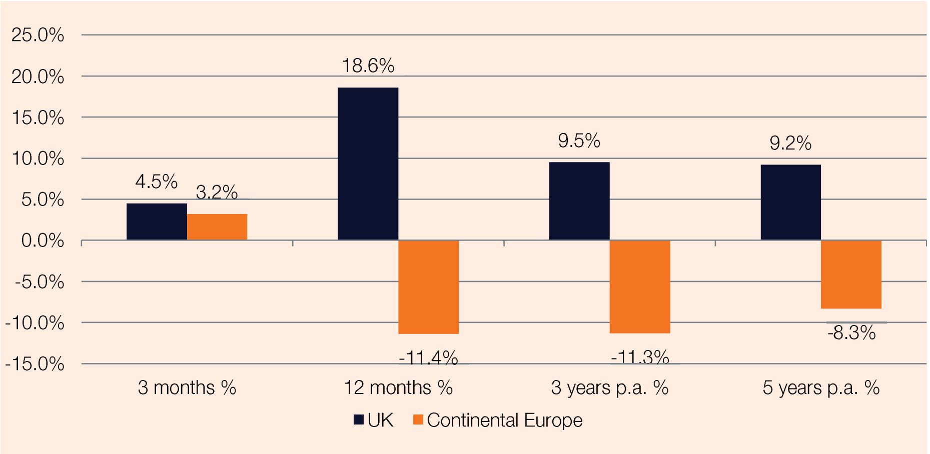
Positive returns from Europe over the quarter

The Continental European Fund I (CEF I) produced a positive return in the fourth quarter of 2014 (3.2%), reducing the negative impact on overall portfolio performance. There have been encouraging developments within the portfolio over recent months, notably the agreed sale of the largest asset, Neinver – Irus Pan European Retail Property Fund, at a premium of 7.6% to its latest valuation.

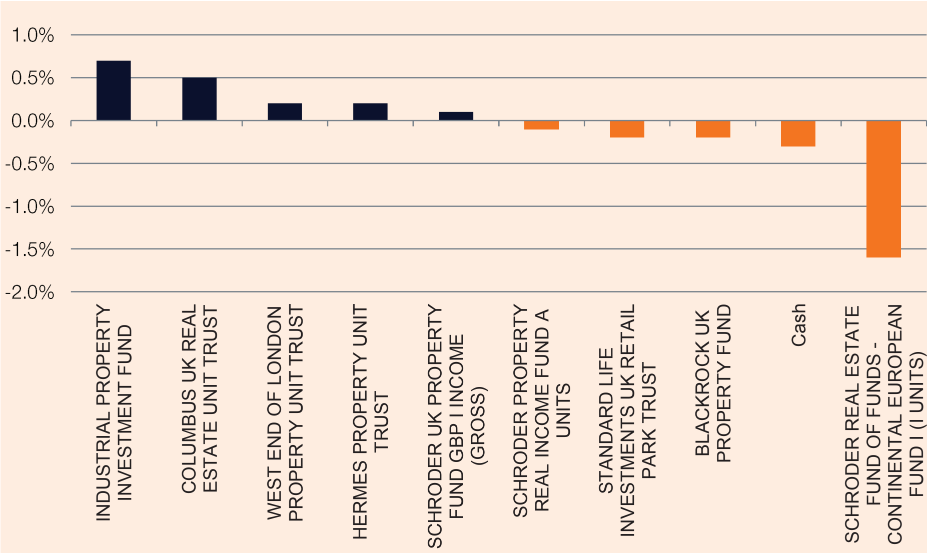
The charts overleaf illustrate the key drivers of performance in further detail.

Schroders London Borough of Tower Hamlets Superannuation Fund

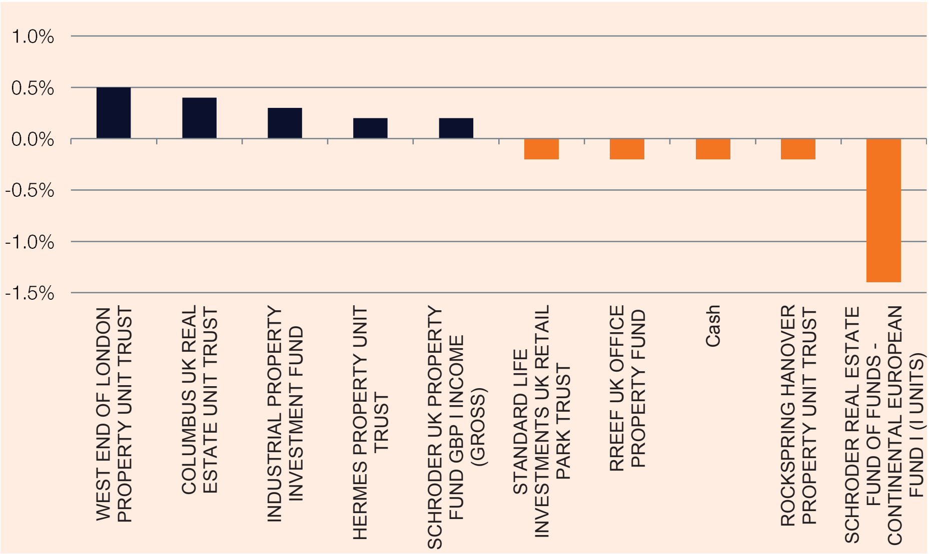
Total return by region
Periods to end 31 Dec 2014



Total return attribution relative to benchmark top & bottom five contributors
12 months to 31 Dec 2014

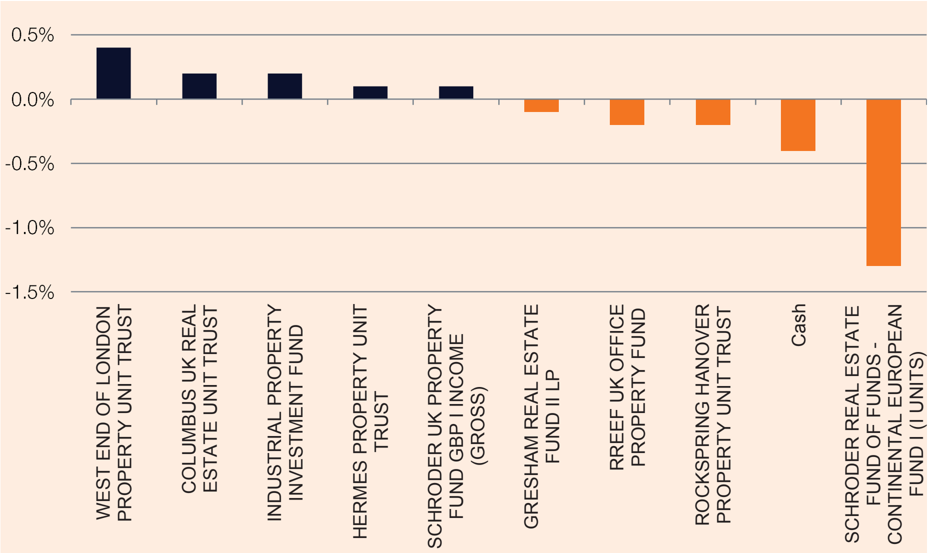


Total return attribution relative to benchmark top & bottom five contributors
3 years to 31 Dec 2014



Total return attribution relative to benchmark top & bottom five contributors

5 years to 31 Dec 2014



Benchmark is AREF/IPD UK Quarterly Property Fund Index All Balanced Funds Weighted Average
Source: Schroders & AREF/IPD UK Quarterly Property Index
Note: Stock and fund style attribution is presented gross of fees. Periods over 12 months are annualised. Totals may be subject to compounding.

Portfolio Activity

Six separate transactions were completed in the final quarter of 2014 including the return of £2.7 million capital from two funds and £3.2 million acquisitions.

Purchases

Fund	Investment GBP	No. of units	Entry cost/(discount) (%)
MULTI-LET INDUSTRIAL PUT	306,184	306	3.4
MULTI-LET INDUSTRIAL PUT	122,873	123	3.4
SCHRODER UK PROPERTY FUND	881,200	22,736	1.9
SCHRODER PROPERTY REAL INCOME FUND	984,190	826	-1.4
HERMES PROPERTY UNIT TRUST	804,948	146,121	4.1
MULTI-LET INDUSTRIAL PUT	59,108	59	3.4
MULTI-LET INDUSTRIAL PUT	59,108	59	3.4

Sales

Fund	Investment GBP	No. of units	Realised loss/gain GBP
COLUMBUS UK REAL ESTATE UNIT TRUST	411,595	n/a	n/a
COLUMBUS UK REAL ESTATE UNIT TRUST	2,061,444	n/a	n/a
SCHRODER REAL ESTATE FUND OF FUNDS - CONTINENTAL EUROPEAN FUND I	197,798	-	(13,854.71)

Commentary on Activity

Purchases	
Hermes Property Unit Trust	This fund currently has a queue of subscribers in the region of £170 million. Nevertheless, we were able to gain access to the fund by sourcing units on the secondary market at the prevailing offer price, increasing the portfolio's existing exposure to this favoured holding.
Multi-Let Industrial PUT	The first transactions for Multi-Let Industrial PUT were completed in the final quarter. Commitments were drawn to fund the purchase of a three property portfolio in Bournemouth (two assets) and Rochester. The Brookshire Portfolio was purchased for £13.8 million. Further purchases are under consideration.
Schroder Property Real Income Fund	The Schroder Property Real Income Fund drew down capital to permit the purchase of additional units in the Local Retail Fund. In turn, the Local Retail Fund used the drawn cash to acquire a convenience store in Canning Town, London.
Schroder UK Property Fund	Investment income and sale proceeds received by the portfolio over the reporting period were recycled into Schroder UK Property Fund on the primary market.

Sales
None

Return of Capital	
Columbus UK Real Estate Fund	Further proceeds were received this quarter following the sale of the Fund's industrial assets. Further proceeds are expected over the next six to nine months as the Fund moves towards wind down.
Schroder Real Estate Fund of Funds - Continental European Fund I	A distribution equivalent to c4% of net asset value was paid during the quarter following capital distributions from various funds including Corestate German Residential Fund and FREO Germany II Partners. This is in line with the fund's strategy of returning capital to investors at the earliest opportunity, subject to maximising total returns, market circumstances and fund liquidity requirements.

Redemptions Outstanding

Fund	Curr	Est. proceeds	No. of units	Date proceeds expected	Notice date
Standard Life Investments Retail Warehouse Fund	GBP	4,185,024	4,327	Mar 2015	Sep 2014

Portfolio Commitments

Fund	Curr	Initial commitment	Drawn	Balance	Latest possible drawdown
Multi-Let Industrial PUT	GBP	1,500,000	547,274	952,726	Feb 2015
Schroder Property Real Income Fund	GBP	700,000	0	700,000	n/a

Strategy

Positive outlook for returns in 2015

We are optimistic about the outlook for returns, forecasting further capital and rental appreciation in 2015.

We have actively reduced our exposure to central London offices over the past twelve months, locking in the positive returns received from this sector over the past three years.

We are adding to industrials where yields are attractive and where supply/demand fundamentals are positive. In addition to traditional occupiers, there is continuing demand from distribution companies, servicing e-commerce operations.

Central London office exposure reduced. Alternatives and industrials remain in favour

To this end, in 2014 we launched the Multi-Let Industrial Property Unit Trust to provide access to this sector. The fund is focused on investing in the small lot-size (sub £10 million) multi-let sector and is in the process of building the portfolio.

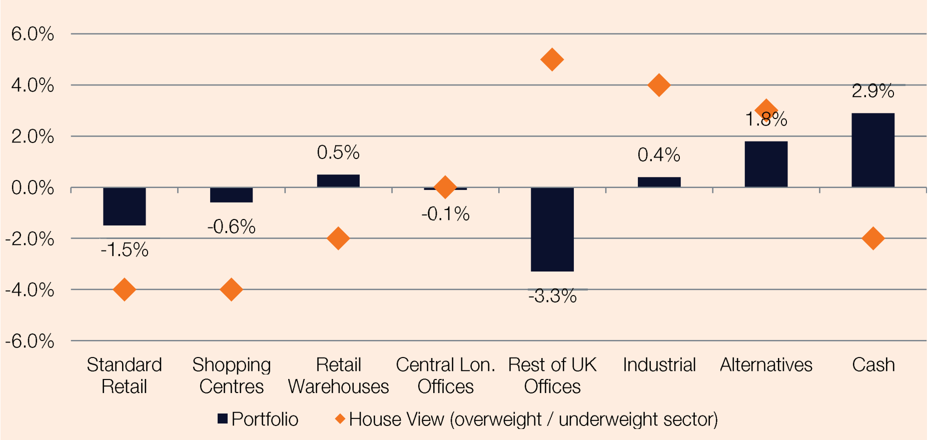
Alternative sectors remain favoured despite our expectation that returns in most niche sectors won't keep pace with the strong, capital growth driven performance of the wider property market in the near term. However, as yield compression moderates, the attractive levels of income and genuine rental growth potential provided by alternatives are expected to reassert themselves.

In the retail sector our focus continues to be on local convenience retail which is benefitting from the switch to 'small basket shopping' and open-A1 consent retail warehouses, which are benefiting from the growth in chain restaurants and click & collect sales.

Continental European investments returning capital

We remain focussed on reducing exposure to continental Europe, subject to pricing and liquidity. Three distributions were paid by CEF I in 2014 returning surplus capital and income. This amounted to around 11% net asset value. Subject to the timing of receipt of the proceeds of sale of Irus and capital distributions from other funds further distributions are expected in the first half of 2015.

UK portfolio sector weightings relative to benchmark



Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 31 Dec 2014

Governance

Investment Resolution	Date	Voting Recommendation
IPIF	**21 Oct 2014**	**For**
To approve the replacement of the current trust manager (State Street Global Services) and the current Trustee (Pavilion Trustees Limited) to be replaced by JTC Group performing both functions.		

Appendix

Investment Restrictions

Parameters	Restriction	Current status
Max. exposure to any common investment fund (CIS)	30%	12.7%
Max. in Schroder in-house funds (Manager & Adviser)	60%	18.8%
Min. exposure to open-ended funds	45%	74.3%
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%	4.2%

Source: Schroders, to 31 Dec 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 Sep 2014 GBP	Value at 31 Dec 2014 GBP	Portfolio Value %
AVIVA INVESTORS PENSIONS	Core	9,632,946	10,011,486	8.4
BLACKROCK UK PROPERTY FUND	Core	14,071,571	14,461,291	12.1
HERMES PROPERTY UNIT TRUST	Core	9,041,236	10,247,420	8.6
MAYFAIR CAPITAL PROPERTY UNIT TRUST	Core	7,823,255	7,960,320	6.7
METRO PROPERTY UNIT TRUST	Core	5,165,945	5,339,001	4.5
SCHRODER UK PROPERTY FUND GBP I INCOME (GROSS)	Core	13,830,110	15,189,158	12.7
STANDARD LIFE POOLED PENSION PROPERTY FUND	Core	11,664,494	12,270,570	10.3
Sub total Core		**71,229,557**	**75,479,245**	**63.3**
ASHTENNE INDUSTRIAL FUND UNIT TRUST	Value Add	1,007,019	990,149	0.8
COLUMBUS UK REAL ESTATE UNIT TRUST	Value Add	4,439,380	2,245,804	1.9
HERCULES UNIT TRUST	Value Add	5,097,235	5,140,009	4.3
INDUSTRIAL PROPERTY INVESTMENT FUND	Value Add	6,869,800	7,324,157	6.1
LOCAL RETAIL FUND	Value Add	2,142,688	2,152,993	1.8
MULTI-LET INDUSTRIAL PUT	Value Add	0	525,769	0.4
SCHRODER PROPERTY REAL INCOME FUND A UNITS	Value Add	5,836,294	6,960,026	5.8
STANDARD LIFE INVESTMENTS UK RETAIL PARK TRUST	Value Add	4,213,400	4,270,433	3.6
WEST END OF LONDON PROPERTY UNIT TRUST	Value Add	5,406,720	5,628,058	4.7
Sub total Value Add		**35,012,536**	**35,237,397**	**29.4**
GRESHAM REAL ESTATE FUND II LP	Opportunity	11,717	11,889	0.0
Sub total Opportunity		**11,717**	**11,889**	**0.0**

Schroders London Borough of Tower Hamlets Superannuation Fund

Portfolio Valuation

MID and NAV values

Fund	Description	Value at 30 Sep 2014 GBP	Value at 31 Dec 2014 GBP	Portfolio Value %
SCHRODER REAL ESTATE FUND OF FUNDS - CONTINENTAL EUROPEAN FUND I (I UNITS)	Europe	5,003,184	4,960,812	4.2
Sub total Europe		**5,003,184**	**4,960,812**	**4.2**
GBP Cash	Cash	3,015,733	3,459,031	2.9
GBP Income Receivables	Cash	0	62,011	0.1
Sub total Cash		**3,015,733**	**3,521,042**	**3.0**
Total		**114,272,725**	**119,210,385**	**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 31 Dec 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.

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Schroders

COMMITTEE: Pensions Committee	DATE: 24 February 2015	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Acting Corporate Director of Resources ORIGINATING OFFICER(S): Kevin Miles – Chief Accountant		TITLE: Investment in London LGPS Collective Investment Vehicle – Joint Committee Meeting 17th December 2014 Ward(s) affected: N/A		

1. SUMMARY

1.1 In an attempt to reduce pension fund administration costs, the creation of a London wide collective investment vehicle is being created through London Councils.The fund would allow pension fund investments to be pooled for the purpose of reducing fund manager's fees as a lower fee is charged the larger the investment.

1.2 At the moment, the scheme is in its early stages of development. This report summarises the business of a Pensions CIV Sectoral Joint Committee meeting on the 17th December 2014.

1.3 At the meeting, a further investment of £50,000 (in two instalments of £25,000) was requested to cover the set up costs of the CIV, plus an element of initial running costs. If the scheme is created as expected, the reduced management fees would more than offset these costs.

1.4 Any decisions to transfer pension fund investments to the Collective Investment Vehicle would need to be approved by this committee. The investments available within the Investment Vehicle would need to match the council's investment strategy.

2. DECISIONS REQUIRED

2.1 Members are recommended to agreethe further investment of £50,000 into the CIV that will be used to contribute towards the setup and initial running costs of the fund.

2.2 Note the progress made to date in the creation of the CIV as outlined at the Pensions CIV Sectoral Joint Committee.

3. REASONS FOR DECISIONS

3.1 Members are being asked to agree that the Council continues to participate into the CIV scheme as it is expected that the improved bargaining power of the larger scheme will mean management fees for CIV investments will be significantly lower for the Council's pension scheme than at present. All but three London Boroughs have agreed to participate in the scheme. The three Boroughs that are not participating yet may join at a later date. The current CIV members would need to decide if late investors would be asked to pay a fee for late investing.

4. ALTERNATIVE OPTIONS

4.1 The theory of the CIV is that fund managers will charge a lower management fee on pooled investments managed. If the CIV investment proves to be a popular fund, then if the Tower Hamlets fund was outside the scheme it would not have the potential to benefit from economies of scale.

4.2 If the Pensions Committee did not approve the further payments totalling £50,000, this could mean that other Councils who have contributed £50,000 will question this Council's participation in the CIV.

5. BACKGROUND

5.1 A joint London Borough Pension Working Group initiative is looking at ways in which pension schemes can work together to get financial benefits and efficiencies of scale from joint working.

5.2 A pensions working group led by London Councils launched a Collective investment vehicle to enable London Boroughs to participate in a scheme of joint pension fund investing. It will be an Authorised Contractual Scheme (ACS). This scheme will require FCA (Financial Conduct Authority) approval – this approval is being sought. It is currently planned that the scheme will be launched in February 2015, though this date may slip to later in the year. Details of the proposed scheme are shown in the attached London Councils report.

5.3 This work is partly in response to the Government's review of Local Government Pension Schemes. Further Government announcements may be made to request more joint working by councils to reduce administration costs.

5.4 Tower Hamlets Council agreed to participate in the CIV at Full Council in 2014 following recommendation by Pension Committee and Cabinet. The Council has invested £1 capital in the scheme. If the investments available are in line with the pension investment strategy and will offer reduced costs to the fund. So far the organisers are interviewing potential fund managers. At least one of the pension fund managers, Legal and General is likely to be involved in the scheme from inception. Northern Trust has been appointed as the fund's custodian.

5.5 In theory, the Council could move an unlimited amount of its investments into the scheme if they were in line with the investment strategy and offered reduced fees. The Council pension scheme has around £1 billion of investments with annual management fees total around £2.3 million. Investments within the fund are likely to be unitised fund type investments.

5.6 To maximise the value of pension schemes, ways to reduce the volume of management fees charged to pension schemes are being explored. This Collective Investment Vehicle approach has been designed by London Councils as a way in which similar investment types within different London Boroughs can be combined to benefit from smaller fee charges. Fund manager's fees are based on the size of the fund and are based on a percentage of the amount managed. The larger the fund, the lower the percentage fee charged.

6PENSIONS CIV SECTORAL JOINT COMMITTEE

6.1 London Councils held the first Pensions CIV Sectoral Joint Committee on 17th December 2014. Councillor Harrisson attended on behalf of the Council following Pension Committee agreement that Cllr Harrisson was to be the Council's first representative at these meetings.

6.2 The papers for the meeting are enclosed as an appendix. The initial business concerned the election of meeting Chairs, agreeing the terms of reference, an update on progress made in creating the CIV, a fund manager analysis of current London Borough funds, the procurement of managers to the CIV and the dates of future meetings.

6.3 **Terms of Reference** – draft terms of reference were tabled, they are included as the appendix to this report). The Pensions CIV Joint Committee will meet at least once a year and will appoint directors, auditors, agree the Articles of Association, Accounts and Annual Report. The report included the appointedMember representatives from each participating Borough.

6.4 **Background and Progress Update** - So far 30 London Councils have signed up to participate. Those London Boroughs who are not participating might sign up in future, but the terms will need to be agreed. The scheme might also admit non London based Councils in the future. If the non-participating authorities wish to invest in the future the terms of their admission would need to be agreed by the group.

6.5 **Governance** - The governance of the scheme was outlined – the intention is that the wishes and needs of the Boroughs are fulfilled (probably through an investment committee structure featuring experts from across the Boroughs), however the governance arrangements will need to be practical and follow best practice – the operation of these will need to be determined (i.e. how many representatives be at participating investment managers performance review meetings?). Robust systems of managementwill need to be put into place.

6.5 **FCA Regulated** - The scheme will be a Financial Conduct Authority (FCA) regulated UK domiciled Authorised Contractual Scheme (ACS). This requires the scheme to operate in a transparent manner and is likely to provide some international tax advantages (i.e. to increase recoverable tax where possible).

6.6 **Procurement arrangements** – Counsel advice is being sought to see if investment manager procurement can be conducted outside the OJEU procurement regime. Procurement arrangements will be critical to the operation of the scheme. The final legal advice will be reported back to this committee once known.

6.7 **CIV Budget** – So far, each participating Council has contributed £25,000 towards costs exploring the CIV proposal. Two further contributions totalling £50,000 for set up and initial business as usual costs have been proposed to contribute towards £1.73m of costs of the scheme up to April. At the time of writing, the request for the first £25,000 has been received. Committee members expressed some concerns on the escalation of the costs of setting up and running the CIV, but the organisers commented that costs would be more than offset by reductions in manager fees (likely to be in excess of £2.8m per paragraph 6.9).

Organisers commented that investment manager fees were being negotiated down below those currently being charged. This Committee is asked to approve the further payment of £50,000 towards the CIV.

6.8 **Investment Manager Review** – The technical sub-group are reviewing existing London Borough pension fund investments to see if there are common investments, strategies and fund managers between funds.

6.9 The sub-group are liaising with 14 investment managers who control over £14.5bn of Borough assets. This will include Legal & General. An initial review has identified up to £9.9bn of investments with eleven managers that could potentially be combined by the launch of the CIV. Though still subject to negotiation, the management fee could on average be reduced by 20% (£2.8m per annum across the fund). LBTH's level of benefit will depend on how its current fee compares to the new fees proposed.There is an expectation of fund managers that they will publish full information on investments held to participating investors.

6.10 More precise estimates of savings will be known as the technical group continue discussions with fund managers. As active manager fees are higher than passive managers, active manager fees are likely to have savings potential. The CIV committee will report back as discussions continue. Any infrastructure investments will be considered later in the CIV establishment process after more straightforward asset mandates have been combined.

6.11 **Asset Services Procurement**–a report outlining how the CIV was procuring a custodianfor the fund. Since the meeting in December, the appointment of Northern Trust has been announced. Northern Trust is an established custodian for Local Authority pension investments.

6.12 **Future meeting dates**. A list of proposed future meeting dates was circulated. The next meeting was planned for 25th February 2015.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

7.1. The comments of the Corporate Director Resources have been incorporated into the report.

8. LEGAL COMMENTS

8.1 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 must be formulated with a view –

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

(b) to 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 covers 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.

In accordance with Regulation 11(5), The Council is required to take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

8.2 It is desirable for the Council to take steps to reduce the costs of administering its pension fund. The proposal to create a Collective Investment Vehicle appears to be viable way to achieve savings.

8.3 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 don't (the public sector duty).

9. ONE TOWER HAMLETS CONSIDERATIONS

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

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

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 Any form of investment inevitably involves a degree of risk.

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

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no 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 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***
Pensions CIV Sectoral Joint Committee agenda papers	

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**24 February 2015**	**Unrestricted**		

REPORT OF:	TITLE:
Interim Corporate Director of Resources ORIGINATING OFFICER(S): Kevin Miles – Chief Accountant	**Tower Hamlets Pension Scheme-Social, Environmental and EthicalInvestment** Ward(s) affected: N/A

1. SUMMARY

1.1 Following a request for information at a previous committee, this report informs Members of the Pensions Committee of the pension fund's approach to Socially Responsible Investments.

2. DECISIONS REQUIRED

Members are recommended to note the contents of the report

3. SRE INVESTMENTS

3.1 The pension fund's statement of investment principles (contained within the annual report) includes the following statement on Social, Environmental and Ethical Considerations:

3.2 **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 or pensions committee will monitor the managers' statements and activities in this regard.

3.3 As a Local Government Pension scheme (LGPS), the pension fund managers are aware that SRE is of particular interest to members of the pension fund.London Borough of Tower hamlets (LBTH) pension fund approach is to ensure managers consider SRE issues as part of their overall investment strategy rather than have separate SRE investments.

3.4 The following paragraphs make reference to comments and reports fromLBTH pension fund main equity managers in recent months. Excerpts of the reports are included in the appendix. The full reports have been circulated to committee members by email to reduce the length of the printed agenda.

3.5 Baillie Gifford has included a summary of their approach in their December quarter report. They make reference to visits to garment factories to monitor acceptable working environments, they also refer to climate change and as part of the Mercer Climate change project, consider if companies can adapt to increased weather volatility. They have also supplied copies of their environmental, social and governance policy and their latest Corporate Governance Annual Review at the last committee.

3.6 Legal and General have provided their "Sharing Our Views" report on their approach to environmental, social and governance matters. This report covers a number of subjects including sustainability on areas such as mining, voting activity and executive pay. They also summarise work with international corporate governance organisations such as the International Corporate Governance Network (ICGN) and the Asian Corporate Governance Association (ACGA).

3.7 GMO – GMO's investment strategy is based with less emphasis on SRE investment and engagement with company management, especially as pooled funds are used widely. GMO do address sustainability issues as part of their decision making. They vote at company meetings via a proxy voting organisation, ISS. GMO Renewable Resources (GMORR), a joint venture of GMO is a signatory of UN PRI (principles for responsible investment), though GMO are not signatories as they will only sign up when they know that they can meet all of the reporting requirements. GMO's investment strategy is intended to be different to that of Baillie Gifford, so where one manager underperforms one period, the other manager is likely to outperform (but be beneficial to the fund overall). GMO act as a contrast to GMO.

3.8 In addition, LBTH is a member of the Local Authority Pension Fund Forum. This service highlights items of concern regarding the management of companies and suggests how general meeting votes should be cast. LAPFF consider shareholder action to vote against boards at AGMs as a last resort, they prefer to have constructive dialogue with company management on issues of concern.

3.9 Where companies are aware of and consider factors that affect their environment (not necessarily "green" environmental issues), then this demonstrates that the company is monitoring the potential for changes in circumstances that might require action to protect the company's long term interests, so in theory provide long term benefits for the pension fund.

3.10 At a recent "Future of LGPS" conference, Dresdner Kleinwort presented an environmental equity fund that concentrates on investments to supply fundamental services, such as water, energy and increasing food production from limited resources. This kind of fund is likely to be outside the Council's mainstream investment strategy, so would only warrant a relatively small investment, however the creation of the CIV may give scope for a number of Boroughs to each contribute a relatively small investment to make a larger fund. This kind of investment is likely to be considered as part of a later tranche of investments once the CIV has organised the first batch of investment consolidations as part of its launch later this year. Before investment is made, there are likely to be other similar fund managers who will need to be considered. Also, the same conference outlined the risk of Government intervention into how LGPS funds invest assets; this could limit future investment opportunities.

4. COMMENTS OF THE CHIEF FINANCIAL OFFICER

There are no specific comments arising from the recommendations in the report.

5. LEGAL COMMENTS

There are no specific legal comments arising out of this report. However 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 don't (the public sector duty).

6. EQUAL OPPORTUNITIES IMPLICATIONS

There are no specific equalities considerations arising from the recommendation in the report.

7. ANTI-POVERTY IMPLICATIONS

There are no specific anti-poverty implications arising from this report though SRE does consider factors such as employment conditions.

8. RISK MANAGEMENT IMPLICATIONS

There are no specific risk management implications arising from the recommendations in the report.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

There are no specific environmental decisions implications arising from this report; however the report considers how the pension fund approaches socially responsible investment so might affect future investment strategies.

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

Brief description of "background paper"	If not supplied Name and telephone
Baillie Gifford Governance Summary Report	
Legal & General Sharing Our Views Report	
GMO Statement regarding ESG	

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BAILLIE GIFFORD

Governance Review

2013/14

Introduction

Baillie Gifford recognises that owning a company's shares on behalf of clients confers certain rights and responsibilities.

As active managers, a key part of our investment strategy is to assess the quality of company management, in particular management attitudes to shareholders. When combined with financial information, non-financial business information can provide a valuable insight into the overall quality of management. Given that significant environmental, social and governance (ESG) issues play out over the medium to longer term, and that our clients are invested for the longer term, it is important that we consider companies' approaches to ESG issues on a case by case basis.

Approach

Baillie Gifford's investment philosophy is to add value through active management by making long-term investments in well-researched and well-managed, high quality businesses that enjoy sustainable, competitive advantages in their marketplace.

Corporate governance, environmental and social factors can be integral to the long-term sustainability of businesses regardless of where they are listed or the countries in which they operate.

Our investment approach aims to add value for our clients through the use of proprietary, fundamental research, building up an in-depth knowledge of individual companies in order to develop a view on their prospects. As part of this investment process, we endeavour to identify financial and non-financial issues within companies that we believe could have a material impact on shareholder value.

As responsible owners, and on behalf of our clients, we continue to monitor the companies in which we invest, and vote at company meetings on a global basis. We engage with those that are significant holdings, have experienced poor ESG performance, have a lack of disclosure, or are operating in high-impact sectors such as oil, gas, mining, infrastructure, or in politically-sensitive regions.

Our approach to the social and environmental aspects of share ownership is based on engagement and dialogue. Using in-house and external research, we identify key issues relating to our clients' shareholdings, and discuss them with the companies concerned. In this way, we encourage companies to monitor and address the material social and environmental risks and opportunities facing their businesses. We believe that this process can contribute to the long-term value of our clients' investments.

The Corporate Governance Team analyses all companies in which we are invested at least once a year. We have divided the investment universe on a geographical basis to facilitate regional expertise in governance, as well as ESG trends and issues. We engage with the right companies on the right issues, thereby concentrating our efforts where they can be most effective. Companies whose ESG performance or disclosure is not appropriate are identified as engagement priorities. We then undertake further analysis making use of all publicly available company documents, previous research pieces published on the Baillie Gifford Research Library, and analysis from ESG research providers and various brokers.

Engagement Themes

The ESG issues on which we focus vary between geographic region, industry sector and between companies. They are dependent on the emphasis of a company's core business activities.

Key ESG issues

The following list is neither exhaustive nor exclusive, but is representative of our expectations of companies on specific ESG issues.

Governance

— Board diversity
— Board-level responsibility for significant ESG issues
— Appropriate systems for assessment of risks and opportunities
— Formal policies and systems for implementation and subsequent monitoring of effectiveness
— Dialogues with stakeholders and disclosure of the above in publicly available reports
— Incorporation of relevant ESG issues into long-term executive compensation
— Appropriate relationships with regulators
— Consideration of minority shareholders

Corporate Disclosure and Engagement

Currently, levels of disclosure vary between sectors and between countries. Baillie Gifford endeavours to engage with all the companies in which it is invested on corporate governance, environmental and social issues where disclosure is either limited or not aligned with best practice. Best practice is specific to the sector and the country where the company is incorporated or listed. These differences are taken into consideration when analysing and engaging with a company.

Issues which are material to investors should be set out succinctly in the annual report. Disclosure should contain a policy element, description of company-wide implementation plans, indication of recent performance, and targets against which future performance will be evaluated.

In accordance with the ABI's (Association of British Insurers) revised Guidelines on Responsible Investment Disclosure, Baillie Gifford believes that ESG risks should be reported in the context of the whole range of risks and opportunities faced by the company. We also take the view that the ESG-related reporting should contain an outlook, and that it should describe action being taken to reduce risks. We also fully endorse the International Corporate Governance Network's (ICGN) Statement and Guidance on Non-financial Business Reporting.

As signatories to both the UK Stewardship Code and the UN Principles for Responsible Investment (UNPRI), we support effective dialogue between investors and companies on governance and strategic issues, particularly where this enhances and protects our clients' long-term returns. Details of our engagement policy and our compliance with the UK Stewardship Code can be found on our website (www.bailliegifford.com).

Evaluating the Effectiveness of our Intervention

When engaging with companies on ESG, we set clear objectives. Our underlying aim is to develop a good understanding of a company's policies, systems and performance. Where we believe these do not meet an appropriate standard and are not in our clients' best interests, we encourage improvements.

We monitor companies' progress and follow up on any meetings we have with them when we believe this to be necessary. We actively consider whether the objectives we set at the time of our meeting with the company have been met.

Industry Groups

We build and maintain strong connections with other shareholders in order to increase the influence we can bring to bear on our clients' behalf. We do this through formal and informal means. In 2007, we became a signatory to the UNPRI, a set of principles which encourage the incorporation of ESG issues into mainstream investment decision making and ownership practices. Having analysed and engaged with companies on ESG issues for a number of years, we saw becoming a signatory as a natural progression towards greater transparency and accountability to our clients on ESG issues.

Less formally, we often meet and network with ESG peers and, when appropriate, arrange joint meetings with company representatives.

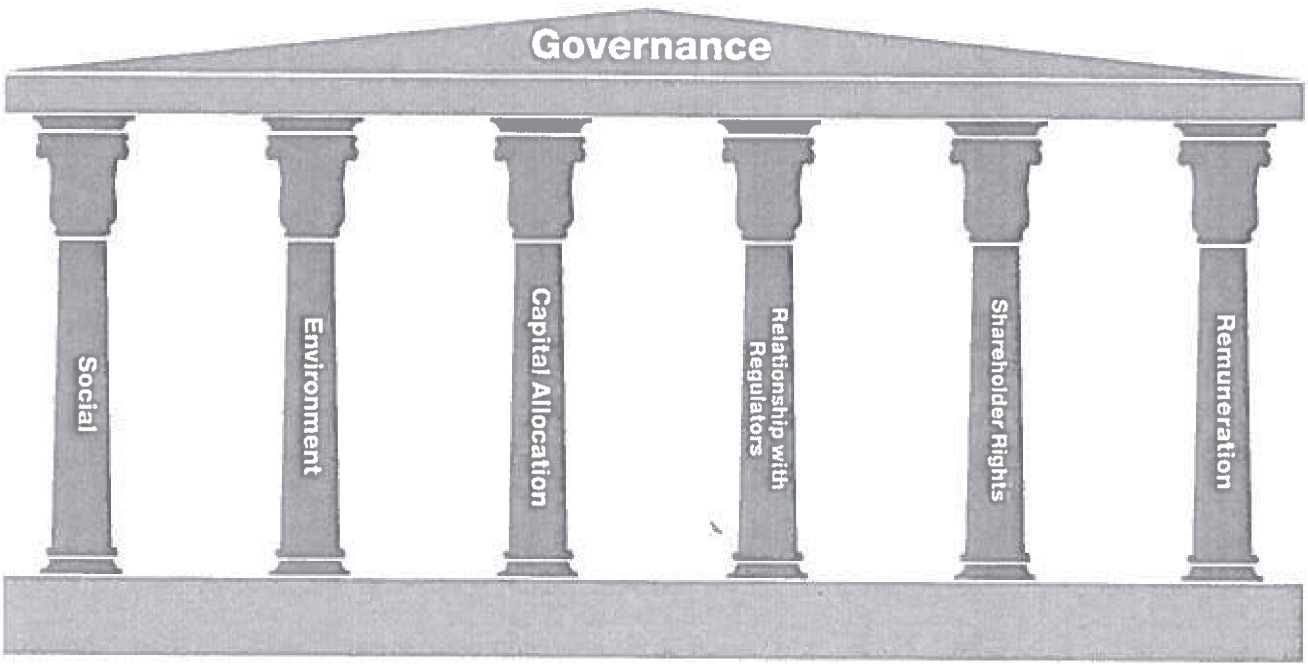
In addition, we provide input into UKSIF, the UK Sustainable Investment and Finance association, and therefore the UK's ESG agenda. As members of the Asian Corporate Governance Association (ACGA) we are active in contributing to corporate governance reforms in Asian markets. Baillie Gifford has also been a signatory to the Carbon Disclosure Project (CDP) since its inception in 2000. It provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. We are also members of the Extractive Industries Transparency Initiative.

Governance and ESG

Welcome to the 2014 Governance Review. Overall, 2013 was a good year for the Corporate Governance team and 2014 looks set to continue the development of our systems and processes to support the work we do in collaboration with the different investment teams. I rarely have a chance to articulate how I, and more broadly Baillie Gifford, think about Corporate Governance, Environmental and Social (ESG) matters, so I welcome the opportunity this review presents. What follows is high level but I hope it provides some flavour of our philosophy behind these less tangible, more long-term influences on companies' growth. The rest of the review provides more practical examples of how we approach ESG research and engagement on a day-to-day basis.

How Do I Think About It?

I believe that governance, management, people, their values, time horizons, relationships and attitudes are integral to the decisions they make; decisions that influence social and environmental performance, capital allocation, remuneration structures, relationships with external stakeholders and attitudes towards minority shareholders. Environmental and social (E&S) factors should not be considered without understanding the relevant governance structures. It may be a blunt question to ask to illustrate the point but, was the BP Macondo disaster a failure of an environmental management system or a failure of management? I would suggest management were at fault.



How Does Baillie Gifford Think About Governance?

Management are critical. There are obviously many internal and external factors that feed into the growth and success of a company, but over a five to ten year time horizon, the decisions that management make will be influential. Assessing management is not simple and we have many conversations about how we analyse, consider and measure management quality. Ultimately, actions speak louder than words, but management turnover, remuneration policies, attitude towards minority shareholders and E&S performance are helpful indicators and can prompt further research and engagement.

It is important to highlight that each investment strategy at Baillie Gifford has its own approach to how it considers or reviews ESG performance. Management quality is part of every investment decision but beyond that there are different approaches. For some there is a quarterly review, for others it's part of the weekly stock discussions, some teams take full responsibility and the Corporate Governance team is a support function, others consult us on an ad hoc basis. It certainly isn't a one-size-fits-all tick box approach (which might be easier). Separate from the investment teams requirements, the process is two-way and it is the Corporate Governance team's responsibility to highlight any ESG issue to the different strategies if we believe it's of significance to the company in question. Flexible is a word we would like to use to describe ourselves.

Finally, I try hard not to use the word integration; challenge and collaboration are how I prefer to describe the Corporate Governance team's working relationships with the different investment teams. We're working together, not trying to bolt something on to an investment team's process.

What is Changing?

I have now been at Baillie Gifford for ten years and the Corporate Governance team is unrecognisable from a decade ago, not only in its make up but also the work we do on a daily basis. Every year we do more with the investors and engage with more companies. But, we are always thinking a lot about how we work and what work we do. To help with the 'how' we are in the middle of a significant systems project that should streamline the voting process, thereby freeing up time. It will also facilitate data extraction for projects and surveys such as the UNPRI survey. The time this creates will allow us to be more proactive with our research and engagement.

And I haven't mentioned the Kay Review or the Investor Forum. There is a lot happening in the UK at the moment and this is influencing many other markets including Japan and the European Union. The ability to understand and think about governance and broader ESG factors is only going to increase in importance globally and that is a great challenge and opportunity for investors, the Clients Department and the Corporate Governance Team.

How Do Our Clients Know if We're Considering ESG Factors Appropriately?

Given that I've said we won't be adding a box for investors to tick to 'prove' we're doing this, how should clients assess our approach to thinking about corporate governance, environmental and social factors? The Baillie Gifford score or ranking resulting from the UNPRI survey, should provide some confidence, but it will be an underpin at best. I believe that actions and outputs are the main indicator. One action is the secondments we do between the investment and Corporate Governance teams – this is not a common practice in the industry. It replicates the investor rotations and is an important part of our training and team development. For further detail see an investor's perspective following three weeks spent with the Corporate Governance team (page 12).

Portfolio turnover and performance are indicators. If we hold companies on clients' behalf that routinely have run-ins with regulators, where management's asset allocation is questionable, and if these risks or corporate actions are unexpected and not incorporated into the original buy discussion, clients should challenge us. Many factors feed into buy and sell decisions; ESG criteria are one small thread and so the answer will never be straightforward, but failure to do what we say we do will show through in the traditional performance indicators that clients and consultants use every day.

I have used this before but it remains true so to quote the CEO of a large holding of Baillie Gifford clients, Atlas Copco, "There is always a better way" and "I am happy but not satisfied." It's great to be working in an area that is developing so fast, has support and where expectations are high. However, we don't have all the answers and so the work goes on. I look forward to updating you throughout the year and if this prompts any questions please speak to your client contact.

Marianne Harper Gow,
Head of Corporate Governance, 2014

ESG in Different Markets

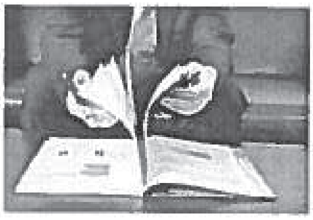
The significance of environmental, social and governance issues varies between geographies and therefore, although our research is bottom-up, it is important to have an understanding of the cultural environment in which companies operate. Management quality will always be important but the impact of other factors can vary.

UK Remuneration

In January 2014, we saw our first binding vote on companies' remuneration policies. This will be a triennial vote and is in addition to the non-binding annual vote on companies' remuneration reports and the introduction of new long-term incentive plans. In the fourth quarter of 2013 and the first quarter of 2014, we were consulted by approximately 50 companies which were keen to engage with their largest shareholders ahead of the 2014 AGMs. The purpose is to ensure they know in advance of the AGM whether anything within the policy is making institutional shareholders uncomfortable. For more details about our approach to assessing remuneration policies, please see the 2014 Corporate Governance Principles and Guidelines on our website. In summary we are looking to ensure the policies are:

1. Clear, simple, understandable and designed for the long term
2. Balanced and proportionate
3. Aligned with the long-term strategy and remuneration framework of employees throughout the organisation, and sensitive to risk
4. Clearly delivering outcomes that reflect value creation
5. Structured to avoid pay for failure

Our quarterly reports will provide an indication of how smoothly the 2014 voting season is progressing.



Social Challenges in South Africa

South Africa is known as the country of contrasts and contradictions. This applies to every social aspect of the rainbow nation, including living conditions, education services and the labour market. As part of a trip to the 2013 UNPRI conference in South Africa, we took the opportunity to explore these themes to understand the impact on the companies in which we are investing, and the potential opportunities they present. We looked at several socio-economics aspects including corruption and the role of equity distribution under the Black Economic Empowerment (BEE) regulation, the unions, employee training and incentivisation.

Corruption is not only a concern for a responsible investor; it is also an important social barometer. There is an increasingly empowered civil society acting against it. High level political scandals are in the papers every week, frequent local demonstrations are denouncing embezzlements by civil servants and national 'everyday corruption' campaigns are gaining momentum. High-level corruption is relevant for listed companies, notably because many BEE ownership deals have benefited a minority from the African National Congress (ANC), the ruling party.

Another aspect we identified as crucial in understanding the sustainability of a business model in South Africa is the ability of mining and retail companies in particular to maintain good relationship with unions. Unions play an important social role in South Africa and focus on basic salaries and the living wage rather than productivity metrics and employee share plans. Failure to address these issues can lead to social unrest, particularly in the mining sector.

On the positive side King III, the South African code of corporate governance, is a summary of the best international practices. Integrated Reporting is something that few global companies are attempting and even fewer are doing well. All South African companies are required to produce an Integrated Annual Report which helps when anlaysing a company's approach to managing broad ESG issues.

Engagement Examples from Around the World

UK

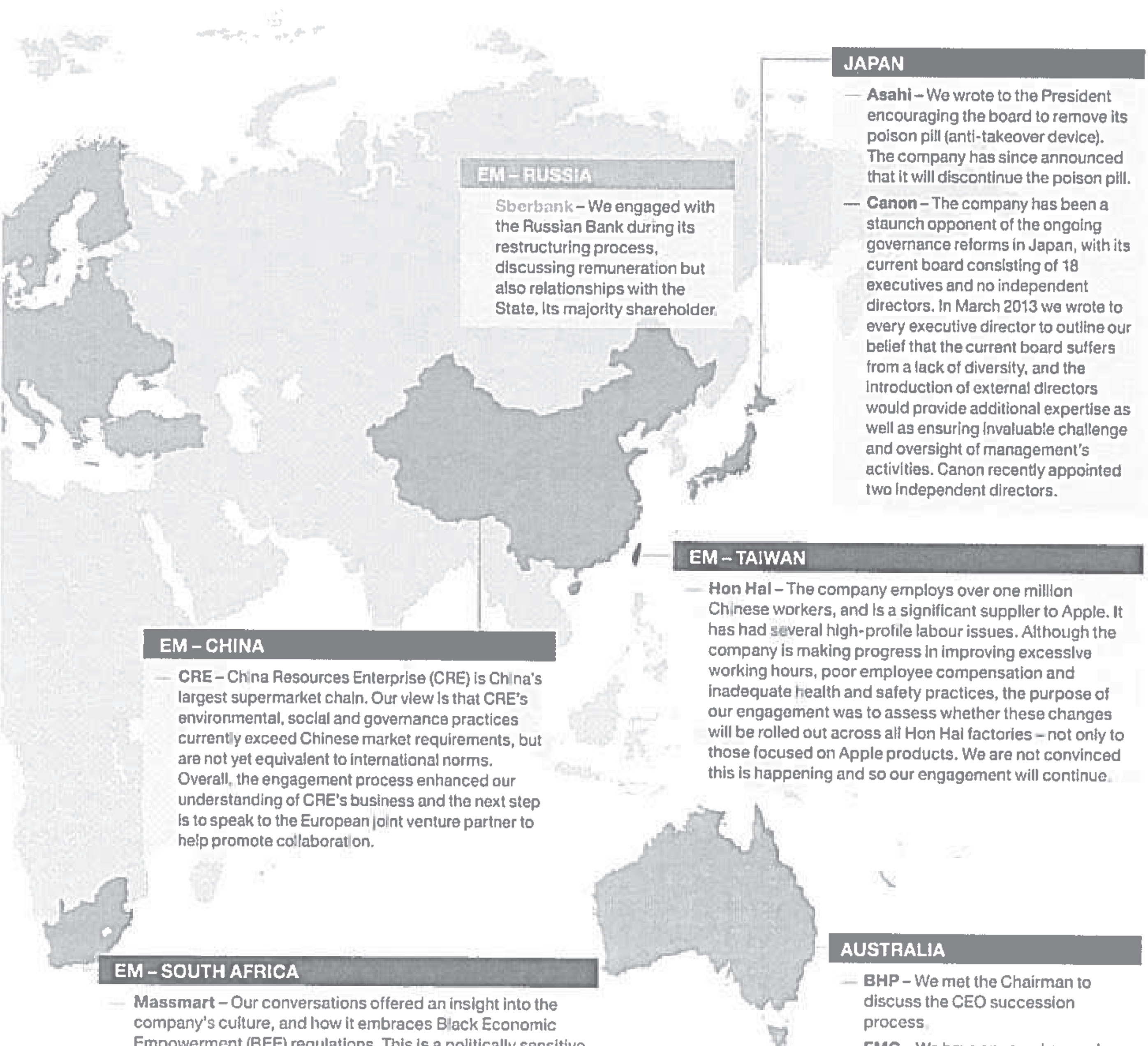
- **Standard Chartered** – We met the Standard Chartered chairman, several other board members and the company secretary in April. The challenges for board members of international companies are increasing, particularly in the banking sector.
- **Burberry** – Engagement on the remuneration policy is ongoing. Some amendments are required before we will be able to approve the 2014 policy vote.

US

- **Eldorado Gold** – A couple of years ago, we provided Eldorado Gold with a list of key Health and Safety and Environmental (H&SE) metrics. We were happy to find them partially disclosed in the 2012 Annual Report. However, although it is a good indicator that the company is considering these issues, we are yet to see the tangible implementation of group-wide H&SE standards.
- **Apache** – Although 2012 was a difficult year from an operational and share price perspective, the Compensation Committee granted additional discretionary bonus awards to the CEO and weakened the performance targets attached to the executives' equity-based compensation. We engaged with the company to outline our opposition to such actions and opposed the executives' compensation policy at the AGM.
- **O'Reilly** – From a corporate governance perspective, it is interesting because the company is transitioning from being a family-owned and managed business to one with broad-based ownership.
- **iRobot** – iRobot designs and manufactures robotics equipment for consumer, government and industrial products. The current remuneration structure is not consistent with the company's long-term strategy and does not act to align management with shareholders.

EUROPE

- **PPR Kering** – We had a discussion with Kering ahead of its AGM. Our areas of interest were the resolution to authorise the issuance of shares to service the incentive plan, and the company's progress in preparing an environmental profit and loss (P&L) account.
- **Inditex** – We had several meetings during the year discussing supply chain management. We are confident that Inditex's vertically integrated supply chain incorporates all relevant controls, audit procedures and improvement plans.
- **Atlas Copco** – The company is potentially the most sophisticated industrial company we own on behalf of clients in terms of 'sustainability' being an everyday part of what it does.
- **Ryanair** – Disclosure is not a strong point. The company received significant votes against the Annual Report and remuneration report at the 2013 AGM. Engagement is continuing.



EM – RUSSIA

— **Sberbank** – We engaged with the Russian Bank during its restructuring process, discussing remuneration but also relationships with the State, its majority shareholder.

JAPAN

— **Asahi** – We wrote to the President encouraging the board to remove its poison pill (anti-takeover device). The company has since announced that it will discontinue the poison pill.

— **Canon** – The company has been a staunch opponent of the ongoing governance reforms in Japan, with its current board consisting of 18 executives and no independent directors. In March 2013 we wrote to every executive director to outline our belief that the current board suffers from a lack of diversity, and the introduction of external directors would provide additional expertise as well as ensuring invaluable challenge and oversight of management's activities. Canon recently appointed two independent directors.

EM – TAIWAN

— **Hon Hai** – The company employs over one million Chinese workers, and is a significant supplier to Apple. It has had several high-profile labour issues. Although the company is making progress in improving excessive working hours, poor employee compensation and inadequate health and safety practices, the purpose of our engagement was to assess whether these changes will be rolled out across all Hon Hai factories – not only to those focused on Apple products. We are not convinced this is happening and so our engagement will continue.

EM – CHINA

— **CRE** – China Resources Enterprise (CRE) is China's largest supermarket chain. Our view is that CRE's environmental, social and governance practices currently exceed Chinese market requirements, but are not yet equivalent to international norms. Overall, the engagement process enhanced our understanding of CRE's business and the next step is to speak to the European joint venture partner to help promote collaboration.

EM – SOUTH AFRICA

— **Massmart** – Our conversations offered an insight into the company's culture, and how it embraces Black Economic Empowerment (BEE) regulations. This is a politically sensitive subject with significant union involvement and impacts employee incentives, succession planning and training.

— **Naspers** – The founder and long-time CEO Mr Bekker had his tenure extended following the sudden death of the designated successor.

AUSTRALIA

— **BHP** – We met the Chairman to discuss the CEO succession process.

— **FMG** – We have engaged several times in the past two years with FMG, the Australian iron ore miner, to discuss disputes over land rights and relationships with aboriginal groups.

Lawrence Burns

How Governance Factors are Considered from an Investor Perspective:

Lawrence Burns, an Investment Manager in Baillie Gifford's EAFE Alpha Team Spent Three Weeks on Secondment

Investing with a five to ten year time horizon increases the importance of a company's governance structure, its impact on the environment and the society in which it operates. A company can gain in the short term from reduced costs stemming from lax environmental controls but in the long term there are likely to be consequences. Given the periods over which we invest, we are likely to be around to experience those consequences. A similar situation applies to governance structures. As investors, we can assess the decisions made today but effective governance structures help us have greater confidence in the decisions that will be made in the years to come.

Issues such as whether employees and suppliers are well treated, or whether society as a whole benefits can be very important to the success of an investment. If this is not the case, it can be more difficult for a company to grow, and future problems may build up. Companies that treat their employees poorly will struggle to recruit and retain good people and some may even face strikes. Those that treat their suppliers badly will find them to be more helpful to their competitors. A company whose business model is bad for society at large will only see these problems magnified as it grows, and will face threats such as regulation or brand damage. Assessing governance issues, much like investment as a whole, is more of an art than a science and is best conducted on a case-by-case-basis rather than through all-encompassing rules intended for all companies and situations.

Over the years, we have increased the emphasis we place on assessing management within our research process. It is primarily through the lens of management analysis that governance issues are often researched and debated in an investment context. Here the lines can become blurred between what is an investment consideration and what is a corporate governance consideration. Often there is no distinction.

Through examining remuneration schemes, board structures and the treatment of stakeholders, we can assess the culture of management, the time horizon within which they operate and the sustainability of their business. Baillie Gifford's investment research benefits from the breadth of knowledge of the firm's Corporate Governance team, offering a further perspective and assisting in the interpretation of different factors which influence investment decisions. For example, it may help us understand how differentiated and long-term a remuneration scheme is in the context of an industry and a country, or how environmental disclosure of a company compares to its global peer group.

The issue of engagement is also important. There is an element of responsibility here, but we are also hopeful that increasing engagement can simultaneously help make companies better, further our knowledge of management and improve our relationship with them. The coming year will, as ever, be an opportunity for us to make progress in all of these areas.

Implementing the UNPRI

PRI Principle	PRI Recommendation	Baillie Gifford's Response and Progress
Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes.	As long-term investors, we believe that ESG issues are important and can have an impact on financial performance. The work the Corporate Governance Team carries out for various investors and product groups has evolved as our organisation has grown and new products have developed. In some cases, we may provide a short ESG overview of companies being discussed at the weekly stock meeting. For others, we will complete a quarterly overview of the portfolio. There are also instances where governance is more of a focus than broader ESG issues. In addition, any investment manager or analyst can ask the Corporate Governance Team for a view on a company or issue. Moreover, it is the team's responsibility to highlight any significant corporate governance, social and environmental matters to the investment managers. It would be an error to overlook a material ESG matter as part of the investment analysis and decision-making process.
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices.	In 2013 we engaged with 181 companies. Engaging with companies and voting at company AGMs and EGMs are important responsibilities of the Corporate Governance Team. Baillie Gifford votes globally. Engagement on broader ESG issues is focused on our largest holdings, companies with limited disclosure, which operate in sensitive or high-impact sectors, those with lagging performance, those that suffer a negative incident, and those where we have significant holdings and are therefore most exposed.
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.	This is a primary responsibility of the Corporate Governance Team. When voting or engaging with companies, a frequent initial request is for an increase in disclosure.
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry.	This is probably the Principle where we are least focused in the sense that we do not actively promote it. However, we are happy to discuss all aspects with clients and interested parties.
Principle 5	We will work together to enhance our effectiveness in implementing the Principles.	As members of the Asian Corporate Governance Association, UK Sustainable Investment & Finance, ICGN and the UK Corporate Governance Forum, we form part of a significant network of Governance professionals which frequently works together on different projects to enhance effectiveness. In addition and when appropriate we collaborate with clients on projects that are of mutual interest and benefit.
Principle 6	We will each report on our activities and progress towards implementing the Principles.	Our quarterly reporting procedures, as well as this annual Governance Review, are important tools for communicating to clients and our wider stakeholder group about Baillie Gifford's approach to being a responsible long-term investment manager, and the importance we place on our stewardship activities.

As mentioned in a previous section of this report, the governance team divides its responsibilities geographically. Our primary objectives are to consider the AGM agendas of every company whose shares we own on behalf of our clients and vote in the best interests of our clients. In addition, we provide each investment team with information that is of greatest interest and relevance to them, and remain available for ad hoc projects as they arise. The engagement stories and case studies presented in the rest of the report illustrate how we think about ESG issues.

Governance Glossary

Board Diversity	Refers to boards which comprise directors drawn from a range of backgrounds, and normally relate to women, nationality, experience, knowledge and age.
Capital Allocation	It is possible to assess the effectiveness and strength of a management team by the manner in which available capital is used – buying up rivals, expanding existing businesses or returning money to investors in the form of dividend payments or share buybacks are all possible uses.
Environment Data or Disclosure	This information offers an insight into a company's approach to considering the environment in which it operates, and can be used as an indicator for operational efficiency.
ESG (environmental, social and governance)	A generic term used in reference to corporate behaviour and the likely impact of this on a company's financial performance. It covers issues such as measures adopted to minimise the company's carbon footprint. — Governance – management quality, relationships with regulators, consideration of (foreign) minority shareholders — Environment data or disclosure – can be used as an indicator for operational efficiency — Social factors translate into labour standards, community relations, control of health and safety statistics, employee turnover, preventing employee injury or death
Executive Remuneration/ Compensation	Remuneration packages for senior executives, including base salary, bonuses and stock awards, are approved by a compensation committee. Shareholders have a say in approving stock options and increasingly engage with companies on overall packages where these appear excessive.
HSE	Health, Safety and Environmental (or Environment, Health and Safety (EHS)) requirements present a series of legal, regulatory and policy requirements for companies, with the extent of the regulations varying according to the industry and country in which the company operates.
Independent Directors	The diversity of a board is enhanced by the inclusion of directors who do not work for the company, or have any financial or family connection with it.
International Labour Organisation (ILO)	ILO's eight Core Conventions are Forced Labour Convention, 1930; Freedom of Association and Protection of the Right to Organise Convention, 1949; Right to Organise and Collective Bargaining Convention, 1949; Equal Remuneration Convention, 1951; Abolition of Forced Labour Convention, 1957; Discrimination (Employment and Occupation) Convention, 1958; Minimum Age Convention, 1973; Worst Forms of Child Labour Convention, 1999.
Poison Pills	These are defensive mechanisms used to make a company's shares less attractive to a possible acquirer. They enable shareholders to purchase additional shares at less than the market value in order to make the overall acquisition price prohibitively expensive. These can protect company management and are therefore not in minority shareholders' best interests. Baillie Gifford takes a negative view of poison pills.
Stakeholders	Any person or entity that has an interest in the company including customers, suppliers, employees, regulators, licence providers, local communities, local and national governments.
UK Stewardship Code	These guidelines aim to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders.
United Nations Global Compact	Ten Principles which cover human rights, labour, the environment, and anti corruption.
United Nations Principles of Responsible Investment (UNPRI)	These principles operate on the thesis that ESG issues can have an impact on a company's financial performance. The six principles provide a framework that allows investors to assess these issues.

GMO Statement regarding ESG [Environmental, Social and Governance] Principles

As of June 2014

For more than 35 years, GMO has been a premier provider of investment management solutions to our global client base, consisting of some of the most prestigious institutional investors from the ranks of corporate and public defined benefit and defined contribution plans, foundations, endowments and sovereign wealth funds, among others. Our expertise covers a broad spectrum of capital markets, including developed and emerging equities, developed and emerging fixed income, asset allocation, forestry, agriculture and a full complement of absolute return-oriented strategies.

In terms of delivering on our objectives to clients, GMO's various investment teams utilize a number of approaches in seeking to identify attractively-valued assets. We were one of the early innovators in quantitative investing and continue to use systematic disciplines today. In addition, we have a deep pool of talented fundamental investment professionals in our ranks.

GMO's primary objective is to deliver the best risk-adjusted returns for each of the strategies that the firm offers. In executing on that objective we remain focused on delivering superior investment results, always mindful of the fiduciary duty we have to each of our clients.

GMO recognizes that views vary among investors as to the importance and relevance of ESG factors to their investment strategies and we presently manage several client accounts that incorporate ESG-related factors, such as social screens. In such cases, our clients have established separately managed portfolios (subject to our asset-level requirements which may vary for each strategy) and we adhere to the clearly proscribed guidelines and/or objective screening criteria provided by our clients. At this time, GMO is able to provide limited assistance in the design and ongoing maintenance of such screens. Clients should make their own assessment of the potential impact ESG screening could have on risk-adjusted returns.

In what follows, we describe in more detail the extent to which our investment processes are consistent with key ESG-related principles.

Do we consider ESG issues in our investment analysis and decision-making processes?

Delivering the best risk-adjusted returns is our primary objective. We do not incorporate ESG issues as a secondary objective and our current research shows that incorporating ESG factors into our investment processes could not be relied upon to consistently produce excess returns or reduce risk for our clients.

For example, the investment processes for the strategies managed by our Global Equity team rely on our evaluation of companies' published financial information, securities' prices, equity and bond markets, and the overall economy. In order to provide as broad an opportunity set as possible, we try not to constrain the universes to which we apply our stock selection disciplines and thus generally do not incorporate ESG or other potentially restrictive screens. ESG continues to be an area of research for the Global Equity team but currently is applied on a portfolio-by-portfolio basis and not embedded in the core of our investment philosophy or process.

In the rare instances where the Global Equity team formally incorporates ESG considerations into a strategy's investment process, the primary impetus for doing so is a belief that ESG considerations will not negatively impact return prospects. For example, the investment universe for GMO's Resources strategy has an unusually large proportion of firms with poor ESG histories. Our research in this narrow universe suggested that screening these companies out would not have a material impact on returns.

Within our core investment processes, there are certain measures of profitability we do evaluate that may correlate with good governance and a sustainable business. For example, many of the equity strategies managed by our Global Equity team incorporate an evaluation of a company's "quality," defined by GMO as high and stable levels of profitability and relatively low levels of debt. While not an explicit objective of our quality factor, we have observed over time that there is a correlation between companies that rank high on our quality measure and those that rank high on social and governance criteria. This relationship could, of course, change at any time.

In our fundamental equity strategies managed by the International Active team, we do often consider issues that have ESG elements in the normal course of evaluating a company's valuation level and future prospects. ESG elements will be included where we have come to the conclusion that such ESG considerations have a significant impact on the expected return or risk of an investment. It is generally the International Active team's belief that good corporate governance, over time, will affect a firm's valuation positively and we would assign a lower value to a firm with sub-standard corporate governance, everything else being equal. Beyond this, the team considers social and environmental issues from a risk management perspective and screens companies regarding potentially significant reputational risk issues (including but not limited to social or environmental issues) and will tend to penalize those companies relative to their industry peers in its analysis.

Our Fixed Income strategy mix contains both traditional (Core Plus, and Global) and specialty (Emerging Debt and asset-backed securities) strategies. None of GMO's Fixed Income strategy universes has been narrowed based on ESG-related principles, and none of those investment processes has been designed with such principles in mind. Given that the universes from which we select securities and our value-added processes generally relate to sovereign, quasi-sovereign, and asset-backed debt markets, it is unlikely that we will explicitly factor environmental, social or governance factors into our fixed income strategies.

To what extent will we be active owners and incorporate ESG issues into our ownership policies and practices?

As long-term investors, we seek to defend the interests of our clients not only at the time of initial purchase of securities, but also over the full period these securities are held in the portfolios. Therefore, GMO votes on the equity investments it manages in pooled funds and separately managed accounts unless – in the case of separately managed accounts – clients direct otherwise.

In our pooled funds and where separate account clients have delegated proxy voting to us, GMO has engaged Institutional Shareholder Services (ISS) to act as its proxy voting agent. ISS undertakes research, makes voting recommendations and ensures votes are submitted in a timely manner. In the majority of cases, GMO acts in accordance with those recommendations. Full details of GMO's voting policy, including default positions on matters of corporate governance, are set out in the document entitled "Proxy Voting Policies and Procedures" as of June 25, 2014. A copy of GMO's Proxy Voting Policy is available upon request or may be found on the SEC's website, www.sec.gov, as part of GMO Trust's registration statement. Proxy voting reports are also available upon request. As with the fundamental analysis performed by our International Active investment team, we may incorporate a variety of factors (which may include ESG issues if we determine they are relevant) when deciding to vote proxies in a particular manner.

To what extent will GMO seek appropriate disclosure on ESG issues by the entities in which we invest?

As described in our proxy voting policy, we have been supportive of initiatives that lead firms to disclose all aspects that could materially impact the value of a firm, including – where we consider it relevant – ESG issues. For example, we generally vote in favor of independent board directors if the majority of the current board members are not independent. In terms of our fundamental research, where applicable, our portfolio managers will similarly push/probe firms to disclose all aspects that could materially impact the value of a firm, including – where we consider it relevant – ESG issues.

Why hasn't GMO signed the UN Principles for Responsible Investing (UN PRI)?

GMO has carefully reviewed the UNPRI and determined not to sign the Principles at this stage. The main rationale for this decision is that we believe that certain of the principles would conflict with and/or distract GMO from its primary objective of delivering the best risk-adjusted returns to each of its clients. While ESG issues, as such, are not formally part of our investment objectives, certain elements of our security analysis and investment processes may be consistent with managing ESG issues (as described above).

GMO Renewable Resources has separately signed up to UN PRI

GMO Renewable Resources, LLC (GMORR), a majority-owned joint venture of GMO LLC, has separately become a signatory of the UN PRI. GMORR is a separately registered investment adviser specializing in direct forestry, farmland and other land-related investments and from its beginning has believed that, in light of its focus on forestry, agriculture and other land-related investments, careful consideration of environmental, social and governance issues is critical to minimizing risk and maximizing returns to its investors. Consequently, ESG principals are integral to the team's investment process as GMORR strives to operate responsibly and sustainably in all aspects of its business.

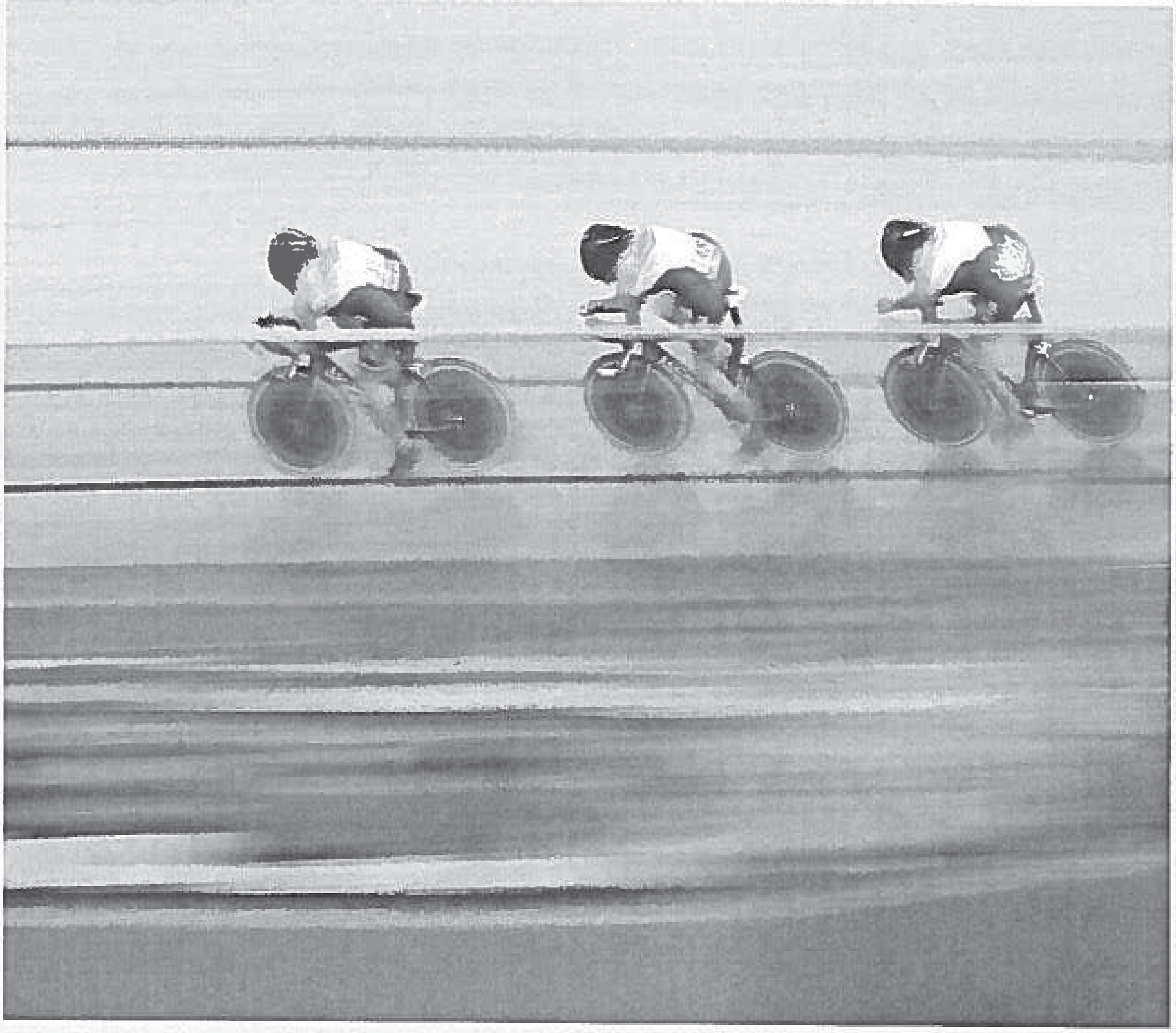
GMORR typically invests in regions where land ownership rights are well developed. GMORR strives to make choices that improve the long-term sustainability of their activities including (1) enhancing and promoting environmental sustainability; (2) respecting land, resources and human rights; (3) social sustainability, including maintaining consistent safety standards; and (4) good governance, including close supervision of financial and operating activities. In addition to being a signatory of the UN PRI, GMORR typically seeks certification for its timberland assets under a national or international standard except in (1) situations where it does not have full control and in (2) Greenfield projects which do not yet have cash flow to support the costs of certification. GMORR is also exploring the development of metrics and monitoring processes to measure factors that contribute to sustainability on agricultural properties.

Summary

In conclusion, our primary mission as an investment management firm is to deliver the best risk-adjusted returns for our clients. As described more fully above, there are certainly instances where ESG-related factors are considered, but only to the extent that we believe they lead to better risk-adjusted returns for our clients.

Sharing our views.

Positive impacts of active ownership



Legal & General
INVESTMENT MANAGEMENT

Welcome to our third annual Corporate Governance (CG) report. Following feedback from our clients we have altered the format and content. There is a new section entitled 'Where Are They Now?', looking at past years' engagements and how the companies have subsequently performed positively. It shows a small sample, but illustrates why CG is important as demonstrated by some of these companies whose share prices have increased anywhere between 100 to 1,000%.

Much has happened in the world of CG and the team has been extremely busy on a variety of topics. Financial significance is the key to our CG engagements. As a team we are integrated in all aspects of ESG (Environment, Social, Governance) and feel this comprehensive approach is beneficial. In short, we focus on all relevant factors that may help improve companies and markets.

In 2013 we continued collaborating with other investors. Auditor mandates is one example where we worked with other investors in trying to improve the market. To the Investor Group's satisfaction, at the end of 2013 the EU legislator agreed on mandatory rotation of auditors and maximum non-audit fees. The market itself has already been moving in this direction with many companies changing their auditors - some for the first time in decades.

In Professor Kay's Review of UK Equity Markets he recommended the creation of an independent Investor Forum. LGIM is helping to make this a reality and I have been asked to chair the working group aiming for the Investor Forum's implementation to be completed by mid 2014. It will be made up of asset owners and overseas investors with a focus on improving long-term equity returns and the relationship between owners and companies. We believe it will make a meaningful contribution to investor collaboration.

Most of our work continues to be done behind the scenes. Our aim is to improve the index as a whole and the performance of the individual companies we invest in. Our focus is on maximising value for our clients, not generating publicity. We focus on a number of completed engagements in this review, giving you a flavour of the depth of our activities. In addition, we continue to drive our ESG activities overseas with positive momentum in markets such as Japan and Indonesia.

One area we are placing increasing emphasis on is embedding material ESG issues into our fixed income portfolios. We have built a proprietary database ranking companies in each sector based on key risks to their performance. More details can be found within the report and this remains a key focus for 2014.

Sacha Sadan
Director of Corporate Governance

In the UK, we continued our Voting Policy of not abstaining and globally we minimised abstentions as well. Individual company meetings increased to 480 (425 in 2012) and 30% of them covered E&S matters. This is a significant increase and is due to our higher overseas profile and more companies wanting to engage.

Finally, a brief mention on remuneration. We continue to work hard on pay policies and the team was deeply involved in the new UK pay legislation. LGIM helped make it both workable and aligned with long-term owners. Sadly, however there isn't a silver bullet to fix some misalignment of returns and we need to keep engaging with companies to fully understand their business models and individual circumstances.

We hope you enjoy the report and please feel free to send us your comments.

Sacha Sadan
Director, Corporate Governance

Views from 2013

The Corporate Governance landscape is evolving rapidly. Once seen as almost exclusively focused on executive pay and perceived as a box-ticking exercise, today it deals with an increasingly wide range of corporate activities.

As we continue to report annually on our activities in more detail, we highlight some significant areas of focus from last year.

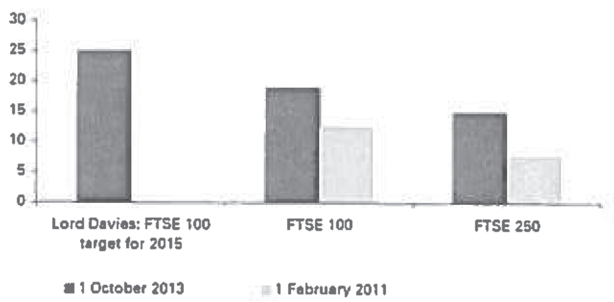
BOARD DIVERSITY

During 2013, the diversity of company boards in terms of gender, age, skills and experience continued to be at the forefront of our discussions with companies. We consider this issue as part of the discussion of board effectiveness, which we believe is directly correlated to the success of a company.

This year the discussion has moved on from convincing companies that this is an important business issue to working with many different parts of the chain to improve the status quo. The increase in board diversity is not just the responsibility of companies but also of asset owners, investors, headhunters and the government.

At a company level, we continued to address the gender diversity issue. Supported by other investors, we led an engagement focus at several FTSE 250 companies and the remaining FTSE 100 companies that have no females at board level. These engagements resulted in several companies tackling the issue head-on and appointing appropriate, well-qualified women to their boards. Companies are continuing to make the change but progress is slow. We have therefore strengthened our voting policy on diversity this year, stating that by 2015, if a FTSE 100 company does not have female representation on its board, has not put in place aspirational targets or made proper disclosure on initiatives surrounding this issue, we will vote against the Chairman of the board and/or the Chairman of the Nomination Committee. We believe this is a powerful way to instigate further change, which may in time extend beyond FTSE 100 companies.

Figure 1. Women on UK boards improving trend



Source: Professional Boards Forum BoardWatch

We believe a differentiating factor in how a company progresses on this important issue is the commitment from the CEO. We have therefore engaged on the importance of all forms of diversity with CEOs as well as Chairmen, ensuring that the issue is embedded into company culture, rather than seen as a box ticking exercise.

We continued to look at the pipeline of female talent and encouraged companies to think of new ways of nurturing their ability; from establishing a board shadowing programme, and taking on new board members without previous experience, to serving on outside boards as non-executive directors. We also engage with headhunters in order to understand how they interact with their clients on this issue and have suggested the Voluntary Code of Conduct be strengthened.

> **"The Local Authority Pension Fund Forum (LAPFF) endorsed our efforts to promote diversity amongst FTSE 100 companies and issued a press release stating that our stance is a clear signal to the boardrooms of corporate Britain that change must be accelerated."**

Finally, we are also committed to helping change internally at Legal & General Group plc. Clare Payn, our International Corporate Governance Manager, presented to senior HR directors on LGIM's activities on this issue and is a member of the Equality, Diversity & Inclusion Committee and the Female Talent Forum sub-committee. Both of these groups are working on understanding where the problems lie and on nurturing and improving our own pipeline and female talent. This well-established commitment to the issue is evident in the public presentations that we have been involved with in the investor community, both in the UK and the US over the last year.

We remain committed to diversity as a key issue relating to board effectiveness and foresee our discussions with companies becoming more fruitful as it is increasingly recognised as a key governance issue impacting performance.

Views from 2013

UK LISTING RULES

As a long-term investor it is our philosophy to improve the performance of all the companies in which we invest. Therefore, the integrity of the UK market should be strengthened in order for it to maintain its long-term attractiveness and its ability to compete in the international marketplace.

We continued to push for changes to the Listing Rules that protect minority shareholders in premium listed companies. The measures that we have advocated include a formal requirement for a relationship agreement to be in place between a controlling shareholder and the company, stronger independent representation on the board of directors and voting rights which are fair and equal to all shareholders.

In November 2013, the Financial Conduct Authority (FCA) announced a package with a range of provisions that matched our view on how the Listing Rules could be improved, which we welcomed. For example, the FCA intends to place a requirement on the interaction of a premium listed company and a controlling shareholder via a 'mandatory agreement'. In addition, the FCA intends to provide additional voting power to minority shareholders when electing independent directors to the board and where a company wishes to cancel its premium listing.

The FCA announced that the full and final package of measures will be implemented by mid 2014.

AUDITORS

Over the past two years, LGIM has collaborated with other European investors to improve the process of auditors undertaking due diligence on company accounts. There have been a number of concerns with the weaknesses in the application of accounting standards. LGIM has pushed for reforms, such as improved transparency, mandatory rotation of auditors every 15 years, and limiting non-audit fees to 50% of audit fees. We believe these measures will realign the accountability of auditors to shareholders, enhance reporting requirements and improve the efficiency of the audit market.

LGIM continued to engage with regulators and shareholders to push the agenda. We engaged with the Competition Commission in the UK and expressed our views prior to the release of their recommendations. We also met Michel Barnier, the European Commissioner, in Brussels to discuss auditor independence and regulation.

Towards the end of the year, regulators in the UK and EU updated the market on their findings following consultation in 2012 and announced a number of measures they believed will tackle the issue. This included measures to strengthen accountability of the external auditor to the Audit Committee on the scope of audit work conducted, mandatory tendering at least every 20 years and the prohibition of 'Big 4' only clauses in loan agreements and a potential limit on non-audit fees.

> **"We welcome these changes in terms of mandatory rotation of audit firm and payment of non-audit fees."**

We will continue to push for changes in our engagement with companies. This has already made an impact with a number of FTSE firms announcing their intentions to change auditors.

CYBER SECURITY

One of the emerging threats to companies globally is the issue of cyber security. We define cyber security as the protection of information, assets and key business technological innovation. These issues are essential for the day-to-day operations of a company as well as for the creation of future shareholder value. Cyber attacks are a reality for many large organisations today – the UK government highlights these as threats equal to natural hazards or terrorist incidents.

Over the course of the year, we engaged with a number of companies to discuss how this financial and operational issue is dealt with by the board.

Working alongside the UK government and the investment community, we will continue to raise awareness within boards. In our view, this issue cannot be delegated to an IT team. We believe that boards should be looking at this problem strategically, and taking steps to implement the necessary infrastructure for protecting information assets and intellectual property.

CORPORATE GOVERNANCE IN INDONESIA

In September 2013, we submitted a letter to the Indonesian Financial Authority (OJK) highlighting our concerns with the proxy voting structure and the challenges we, as foreign investors, face when exercising our voting rights responsibly. We suggested a number of improvements to the proxy voting framework in order to make it more investor friendly. Our proposals included sending meeting agendas in a timely manner, greater detail and transparency on proposals including director elections and providing better access to proxy voting documents.

The OJK took on board our comments and those of other investors. In February 2014, the OJK produced the 'Indonesia Corporate Governance Roadmap' towards

Views from 2013

better governance of issuers and public companies: http://www.ojk.go.id/en/press-release-ojk-launches-the-indonesian-corporate-governance-roadmap

We welcome this document as it can be used as guidance for companies to establish best practice principles. Furthermore, the OJK has formed a Corporate Governance Task Force to develop the roadmap and enhance the corporate governance framework to protect shareholder rights. We look forward to engaging with the Task Force during 2014 to ensure that real progress is made.

UK BANKING SECTOR

The UK banking sector is beset with the challenges of improving capital strength and operating efficiency while dealing with claims from PPI, LIBOR, swaps and other regulatory fines. We held 33 meetings in the sector (after 45 in 2012) to discuss how boards were dealing with these issues, focusing on risk and audit practices. HSBC has announced that it will change its auditors to PwC after more than 20 years. The Competition Commission, the FRC and EU regulators have highlighted the importance of audit quality and made proposals on auditor rotation. Barclays responded to the Salz review recommendations for a comprehensive change of culture at the bank. It has established the Transform Programme to drive the change and it also raised further equity capital.

INVESTOR FORUM

Following Professor Kay's review of the effectiveness of the UK equity markets in 2012, we were recognised as an important long-term investor and selected to be part of a 'Collective Engagement Working Group' in April 2013. This group was tasked with taking forward Professor Kay's recommendation to identify how investors can work together better in engaging with companies, fostering trust and building constructive relationships.

In December 2013, the Collective Engagement Working Group announced the implementation of the 'Investor Forum' to promote shared commitment to long-term strategies and sustainable wealth creation among asset owners, asset managers and companies. The Forum's aim is to encourage collaborative engagement amongst investors, in particular overseas shareholders. The implementation team is led by our Director of Corporate Governance who will establish the Forum's governance structures to ensure that it becomes fully operational by mid-2014.

The report of the Collective Working Group can be found at: http://www.investmentfunds.org.uk/assets/files/press/2013/20131203-cewginvestorforum.pdf&sa=U&ei=0Zc5U-PtDdSShQfTjoCABQ&ved=0CB4QFjAA&usg=AFQjCNGdH8H6TW5v5pyZivrFfDnN1rPTvA

BOARD EFFECTIVENESS

Board evaluations are a standard agenda item for FTSE 350 company boards, since the UK Corporate Governance Code recommended that companies undertake an externally facilitated board review every three years. During the year we engaged with several of the established practitioners in the field and the FRC to understand how reviews are conducted and how, as large shareholders, we can help improve the current system. It was discussed regularly at company meetings, which gave us a more rounded picture of companies' experiences.

> **"We believe board effectiveness reviews can be a powerful way of improving boards."**

As long-term investors, we want to be reassured that boards are equipped for their future challenges and have the requisite skills and experiences to create value. Moreover, the fresh eyes of an evaluator with experience of many boards and common problems can aid a Chair in their quest for continuous improvement.

However, 'external' assessors are at times conflicted, an example being where additional professional services are offered. The variation in evaluative methods – where some evaluations rely on questionnaires, others on observation – means that a more consistent approach is necessary. We believe there is scope for a Code of Conduct to be set up to ensure that a minimum standard of review is upheld and that potential conflicts of interest are managed appropriately. We were consulted on a proposed code that was released in January 2014 and should enter a public consultation phase by Institute of Chartered Secretaries and Administrators (ICSA). We will be making a submission to this.

Additionally, we are pushing companies to improve disclosure on reviews in annual reports so we can move away from 'boiler plate' descriptions that offer little insight into recommendations or actions taken. As large shareholders, we want to know the action points companies are taking following reviews, as well as being engaged in the solutions.

Views from 2013

ESG INTEGRATION

Integration of ESG considerations, as part of the fundamental analysis, is gaining ground in the management of fixed income. As one of the largest European fixed income managers, with assets under management of £157bn[1], we increasingly get asked by our clients about how ESG is researched and reflected in the management of credit funds.

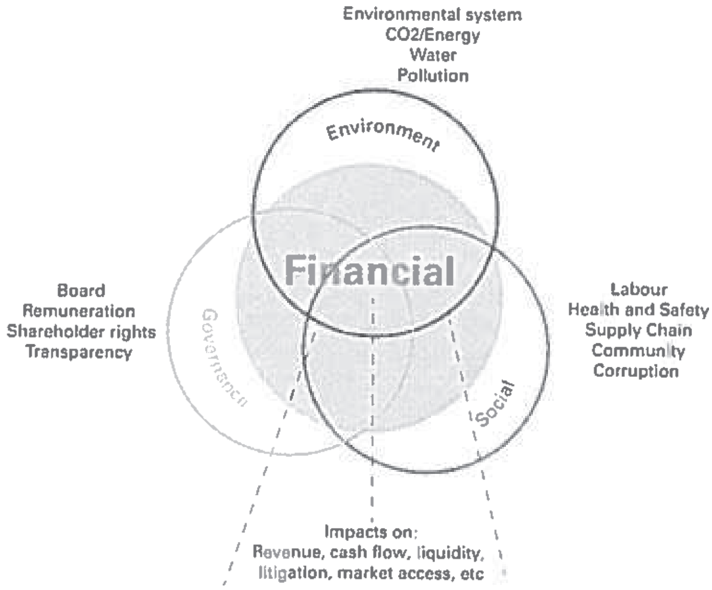
Heightened public awareness of the scarcity of natural resources, climatic changes and the social impact of economic activities has fundamentally changed the operating parameters for many debt issuers. Failure to comply with ESG standards can pose serious risks to a borrower's operating performance, financial flexibility and regulatory and legal exposure. The ultimate motivation for debt holders to incorporate ESG is the protection and enhancement of investment returns. This is based on the view that organisations which excel with respect to their ESG credentials will also be more likely to demonstrate superior operating and financial performance. Conversely, if laxity on ESG matters is embedded in an organisation's culture it is also more at risk of lagging its peers in the marketplace.

In response to client demands, we have formalised our risk assessment of ESG of companies by developing a proprietary scoring tool. The framework has been developed together with our high yield credit team who have been assessing such risks in their analysis for some time. An example of the scores given to a corporate issuer, compared to its industry peer, is given below:

Company A

	Company rating	Peer group rating		
ESG Overall Score	6.7	4.0		
Environmental	7.7	3.4	Environmental system	10
			CO2 / Energy	6
			Water	3
			Pollution	9
Social	7.2	4.6	Labour	7
			Health and Safety	6
			Supply chain	5
			Community	8
			Corruption	10
Governance	5.1	4.0	Board	10
			Shareholder rights	3
			Remuneration	3
			Transparency	6
			LGIM's votes	0
Controversies	High			
Country risk	3.6			

Demonstration of ESG impacting financials of a debt issuer



Source: LGIM

Each of the environment, social and governance categories is broken down into relevant subcategories. In turn, each of these subcategories is weighted according to their potential to impact company performance. The overall score for a company's environmental, social and governance performance is an aggregation of the weighted scores of each subcategory.

This quantitative measure is intended to score all asset classes, including investment grade credit and equities. This score supplements the fundamental assessment of corporate issuers. Naturally, the impact of ESG is dependent on the type of corporate issuer, its industry sector, its geographical footprint and the type of instrument and the intended holding period. As such, the integration of ESG criteria in the investment process is based on consolidated views of their relevance at country and sector level, with the judgement of its implications left to the analysts and portfolio managers.

We have completed the scoring of issuers in three key sectors during 2013 and intend to extend it out to all sectors, while building in-house expertise on ESG risks on each sector during 2014.

[1]As at 31 December 2013

Sharing our views

We recognise that working with others can be a powerful tool which can quickly influence change. There are various ways of collaborating including group meetings, joining associations and co-signing letters.

COLLABORATIVE ENGAGEMENT

Working with other investors can help to produce better results for our clients. Our combined assets carry even greater weight with companies and this means we can achieve significant change. It also helps us to generate the best solution by combining our knowledge and experience. We participated in a number of multi-investor meetings with companies including Glencore/Xstrata, RSA Insurance, Prudential, National Grid and Vedanta Resources. Such meetings provide an excellent opportunity for us to learn about the companies and also align our views with other shareholders.

Furthermore, we also collaborated on regulatory-related issues to improve market practice and shareholder rights. For example, during the year under review, there were a number of cases where investment banks waived share lock-up agreements. This included the Lloyds placing in St James's Place shares. We collaborated with other investors seeking better regulation and tightening of policy. This included sending a letter to the FCA regarding better disclosure and regulatory guidance on the terms and conditions of such agreements.

We also had dialogue with non-government organisations (NGO) and think tanks in the industry to share knowledge and to understand other approaches to various topics. We find it a valuable exercise that can bring mutual benefits by keeping our channels of communication open.

NETWORK MEMBERSHIPS

Collective work is an extremely effective method of engagement, but one that requires an enormous amount of resources and organisation. In order to facilitate this process, we are members of industry wide associations and networks. Below are a few examples of our activities during the year. A full list and further details on each are outlined on our website at:

http://www.lgim.com/uk/en/capabilities/corporate-governance/associations/

Association of British Insurers (ABI)

Following on from the Kay Review, the ABI released a report on the role and value of public equity markets and the way they operate. As members of the ABI, we contributed to the study, offering our views on the IPO market, listing rules, capital raisings and how they can be made more efficient.

Furthermore, we also contributed to another report on improving Corporate Governance and Shareholder Engagement. The report highlighted how investors exercised their stewardship responsibilities by describing how they undertake their voting and engagement activities. This paper also highlighted the crucial role of Non-Executive Directors on how boards operate and are governed.

Asian Corporate Governance Association (ACGA)

We attended the ACGA delegation in Tokyo to meet key associations, such as Keidanren, FSA and Ministry of Economy, Trade and Industry, to discuss corporate governance reforms in Japan. We noted a positive trend of both regulators recognising the importance of independent voice on company boards and companies demonstrating its benefit similarly.

www.lgim.com/library/knowledge/thought-leadership/esg-spotlight/ESG_Spotlight_Japan_MAR_13.pdf

International Corporate Governance Network (ICGN)

LGIM was on the panel at the ICGN conference in Milan where the issue of long-termism and the value of engagement was debated. We also spoke at the International Corporate Governance Network conference in New York, where we discussed different approaches to improving diversity on boards.

Sharing our views

Business in the Community (BITC)

We have been working with BITC to develop a new framework to measure the value of long-term responsible business and investor engagement, which has also received recognition from the Prince of Wales. Furthermore, we presented at the Guildhall with the Lord Mayor of London on our findings. Please see link below for a copy of the research published: http://www.bitc.org.uk/system/files/conscious_capital.pdf&sa=U&ei=HJk5U83UG4qjhgeIsYCwBA&ved=0CCYQFjAA&usg=AFQjCNGxXOmku7IsUVq5M9kNRCo8xOQgmw

Council of Institutional Investors (CII)

LGIM attended the Council of Institutional Investors conference in Washington DC in April, where we met with US investors as well as investee companies including Goldman Sachs, Microsoft and Chesapeake.

Institutional Investors Group on Climate Change (IIGCC)

We attended the United Nations Framework Convention on Climate Change conference in Poland, with a series of meetings with Polish policymakers, organised by IIGCC. The objective of the meetings were to reiterate our support for clean energy, convey investors' concerns over risks related to the energy infrastructure investment environment in Poland and highlight the need for ambitious carbon emission reduction targets within the EU. Meetings were held with senior MPs of the leading party in the coalition government including the Deputy Director of Energy Department in the Ministry of Economy and the Director of Mining Department. Both meetings concluded that Poland will remain closely integrated with future commitments towards clean energy. In addition, a meeting was also held with the second largest opposition party. This meeting highlighted that Poland could push for more ambitious renewable targets and that the current long-term energy plan is not sufficiently forceful to encourage long-term foreign investments.

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
PensionsCommitte e	24 February 2015	Unrestricted		

REPORT OF:	TITLE:
Acting Corporate Director of Resources ORIGINATING OFFICER(S): Bola Tobun– Investment & Treasury Manager	LGPS Governance Regulations and the Local Pension Board Establishment Ward(s) affected: N/A

1. SUMMARY

1.1 The report explains the planned changes to the governance of the Local Government Pension Scheme (LGPS) as a result of the public Service Pensions Act 2013 AND Regulations issued on 28 January 2015. The main requirement is for a proposed new Local Pension Board to assist the Administering Authority in the running of thePension Fund and to monitor compliance with rules and standards.

2. DECISIONS REQUIRED

The Pensions Committee is recommended to:

2.1 note the report;

2.2 note that the monitoring officer will make the necessary changes to the constitution that the PensionsCommittee has the delegated authority and power to create the Local Pension Board in accordance with the decision made by Full Council on 26th November 2014; and

2.2 to approve the Local Pension Board Terms of Reference as set out at Appendix A of this report.

3. REASONS FOR DECISIONS

3.1 The Public Service Pensions Act 2013 gave powers to the Secretary of State to introduce a number of changes to the administration of the LGPS.One of the changes introduced is the creation of the Local Pension Board.

3.2 Under Regulation 2(2) of the LGPS Regulations 2013, the Scheme Manager responsible for the local administration of pensions and other benefits payable under those Regulations is referred to as the "administering authority", this function has been delegated by Full Council to the Pensions Committee.

3.3 Therefore the Pension Committee has the delegated authority to approve the delegation of the functions of the Scheme Manager under Section 101 of the Local government Act 1972.

3.4 The Pensions Committee must be aware of all governance Regulations for the administration of the Fund.

4. BACKGROUND

4.1 The Public Service Pensions Act (PSPA) 2013 provides the platform for a more coherent and consistent system to establish assurance that benefits are paid, contributions are received and the Code of Practice is followed in accordance with the law.

4.2 The Department of Communities and Local government (DCLG) issued final LGPS Governance regulations on 28 January 2015. These Regulations set out the requirements to establish a Local Pension Board and include its establishment, function and role.

4.3 In the final Regulations, there are further changes to the initial draft regulations circulated at the last meeting. The changes are as follows:

- Removal of the requirement for 'relevant experience' for those individuals to be appointed to a local pension board as a member or employer representative: There is now no requirement in the regulations (either regulation 107(2)(a) or 107(2)(b)) for a person who is appointed to a Board to have relevant experience. The requirement for capacity is retained.
- Voting rights: New Regulation 106(7) provides that voting rights only apply to members of a Board who are either an employer or a member representative. In effect this means that 'other members' of a Board do not have voting rights.
- Clarification that only officers or elected members of the administering authority relating to the local pension board are precluded from being members of that local pension board: Regulations now confirm that officers or elected members of one Administering Authority could be members of the Local Pension Board of a second Administering Authority.
- Joint Pension Boards: New Regulation 106(3) provides for the establishment of a joint local pension board where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities. Approval for such a Board would have to be obtained from the Secretary of State.
- Inclusion of new regulation 107(3)(b): Regulations now state that any elected member of the Administering Authority may only be appointed to the Board as either an employer or member

representative. This additional regulation dovetails with the new regulation 106(7) which restricts voting rights to employer and member representatives.

- Inclusion of new regulation 107(4): This regulation provides further clarification on the constitution of a combined board and committee as provided for through regulation 106(2).

4.4 The current published Regulations are shown as an Appendix B to this report.

4.5 **Consultation** - A working group was established to create a feasible LBTH Local Pension Board.Thisgroup consists of two members of the Pensions Committee, officers of the Acting Corporate Director of Resources and the Monitoring Officer to established membership of the Local pension Board, frequency of meetings, delegations, roles and responsibilities of member's in-line with the new Governance Regulations and Shadow scheme Advisory Board Guidelines.

4.6 The terms of reference produced, is thus attached as an Appendix A to this report.

5. LOCAL PENSION BOARD

5.1 The Local Pension Board is established by London Borough of Tower Hamlets (LBTH) under regulation 106 of the Local Government Pension Scheme Regulations 2013.

5.2 Pension Board: Under regulation 106 of the Local Government Pension Scheme Regulations 2013.the Local Pension Board is responsible for assisting the administering authority to secure compliance with the rules of the scheme, and relevant legislation, and with any requirements imposed by the Pensions Regulator, and to ensure the effective and efficient governance and administration of the scheme.

5.3 All persons appointed to the Board will adhere to the Committee's Code of Conduct. The Board's role, members, and working arrangements are in the Terms of Reference included as an Appendix to this report.

5.4 Powers of the Pension Board: The Pension Board will exercise all its powers and duties in accordance with the law and its Terms of Reference.

5.5 The role of the Pension Board is defined by regulation 106 (1) of the LGPS Regulations as being to assist London Borough of Tower Hamlets as Scheme Manager of the LBTH Pension Fund:

a) to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator

b) to ensure the effective and efficient governance and administration of the London Borough of Tower Hamlets Pension Fund

5.6 The Pension Board is to provide oversight of these matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension Fund. The Pension Fund's management powers and responsibilities which have been, and may be, delegated by the Council to committees, sub-committees and officers of the Council, remain solely the powers and responsibilities of those committees, sub-committees and officers.

5.7 In relation to ensuring the effective and efficient governance and administration of the Pension Fund, this means having oversight of whether the aims and objectives outlined within the Fund's Governance and Administration strategies are being achieved, having regard to any overriding requirements included within guidance from DCLG, the Scheme Advisory Board or the Pensions Regulator.

5.8 The Pension Board will ensure that in performing itsrole it:

- secures compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
- ensures the effective and efficient governance and administration of the Scheme.

5.9 The Board must provide minutes of each meeting to the following:

- Pensions Committee, copied to the Corporate Director Resources, and may make reports and recommendations to the Pensions Committee insofar as they relate to the role of the Pension Board.

5.10 In addition, an annual report of the Pension Board (as prepared by the Chair ofthe Pension Board), should be provided to the Lead Member for Resources andCorporate Director of Resources,

5.11 In the exceptional circumstances that the Board considers that a matter broughtto the attention of the Pensions Committee and Corporate Director of Resources has not been acted upon or resolved to their satisfaction by thePensions Committee and/or Corporate Director of Resources, thePension Board will provide a report to Full Council.

5.12 **Membership:** The Pensions Board consists of 7 persons made up of threeemployer and three member representatives in equal proportion and includean additional expert individual to assist in facilitating proceedings. The quorum is 3.

5.13 A substitution for any persons appointed to the Pensions Board shall followthe administering authority's procedure. The term of office for a person appointedto the Pensions Board shall be for a period of four years. Nomination to the boardshall take a four-year rotation with member nominations received in year one andemployer nominations received in year three. This is to ensure a consistency ofknowledge within the Board and to assist with the development of knowledge andexperience.

5.14 The Pensions Board are expected to meetfor a minimum of four times a year.Peopleappointed to the Pensions Board are expected to make themselves available toattend board meetings. Persons appointed who fail to attend three or moremeetings will be asked to leave the Board and a replacement sought from theirnominating body unless there are exceptional reasons for their failure to attend.

5.13 The Pension Board's role is to carry out the duties imposed on it underthe scheme regulations and associated legislation, to assist the Pensions Committee as Scheme Manager in its management and administrative role. The Pension Board is not a decision-making body. The Pension Board is not a scrutiny function

6. FINANACIAL IMPLICATIONS

6.1 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.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

8. LEGAL COMMENTS

8.1 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 and the Local Government Pension Scheme Regulations 2013. Amendments to the 2013 Regulations were introduced by the Local Government Pensions Scheme (Amendment) (Governance) Regulations 2015 which are due to come into force on the 20th February 2015. The intention of the Act and the Regulations is to ensure that the Local Government Pension Scheme is well managed at both national and local levels.

8.2 Regulations 106 makes 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. Thereafter the Board should be operational within four months of the above date. The membership of the Board must consist of an equal number of employer and member representatives who must not be officers or councillors of the administering authority responsible for the discharge of local government pension functions .i.e. the Pensions Committee.

8.3 The report describes the functions and role of the Pension Board and sets out proposed terms of reference. The Board will be responsible for assisting the Council (Administering Authority) to secure compliance with the rules of the pensions scheme, relevant legislation, and with any requirements imposed by the Pensions Regulator, and to ensure the effective and efficient governance and administration of the scheme.

8.4 When carrying out its functions and in its decision making process, 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).

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 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.

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

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 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.

11.2 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.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no 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 Committee 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***
	Bola Tobun Investment&Treasury Manager x4733

LOCAL PENSION BOARD OF LONDON BOROUGH OF TOWER HAMLETS
TERMS OF REFERENCE

Introduction

1. This document sets out the terms of reference of the Local Pension Board of [LONDON BOROUGH OF TOWER HAMLETS] (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).

2. The Board is established by the Administering Authority and operates independently of the Committee. Relevant information about its creation and operation are contained in these Terms of Reference.

3. The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.

4. Except where approval has been granted under regulation 106(2) of the Regulations the Board shall be constituted separately from any committee or sub-committee constituted under Section 101 of the Local Government Act 1972 with delegated authority to execute the function of the Administering Authority.

Interpretation

5. The following terms have the meanings as outlined below:

'the Act'	The Public Service Pensions Act 2013.
'the Code'	means the Pension Regulator's Code of Practice No 14 governance and administration of public service pension schemes.
'the Committee'	means the committee who has delegated decision making powers for the Fund in accordance with Section 101 of the Local Government Act 1972 (i.e. the Pensions Committee at LBTH).
'the Fund'	means the Fund managed and administered by the Administering Authority.
'the Guidance'	means the guidance on the creation and operation of local pension boards issued by the Shadow Scheme Advisory Board.

'the Regulations'	means the Local Government Pension Scheme Regulations 2013 (as amended from time to time), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended from time to time) including any earlier regulations as defined in these regulations to the extent they remain applicable and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended from time to time).
'Relevant legislation'	means relevant overriding legislation as well as the Pension Regulator's Codes of Practice as they apply to the Administering Authority and the Board notwithstanding that the Codes of Practice are not legislation.
'the Scheme'	means the Local Government Pension Scheme in England and Wales.

Statement of purpose

6. The purpose of the Board is to assist[1] the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

(a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and 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.

Duties of the Board

7. The Board should at all times act in a reasonable manner in the conduct of its purpose. In support of this duty Board members should be subject to and abide by the code of conduct for Board members[2].

Establishment

The Board is established on [01 APRIL 2014] subsequent to approval by [FULL COUNCIL] on [26 NOVEMBER 2014]. (subject to the agreement of the Pensions Committee on 24 February 2015).

[1] Please see paragraph 3.28 of the Guidance for more information on what assisting the Administering Authority means.
[2] See paragraphs 7.9 to 7.11 of the Guidance for more information on a Code of Conduct for Boards.

8. As stated above, the Pensions Board is not explicitly bound by the rules governing Committees established under Section 101 of the Local Government Act 1972, however, for consistency and best practice, the Pensions Board will, where practicable and subject to specific rules set out in these Terms of Reference, operate in the same way as the Council's other Committees as set out in the Constitution. This includes:
    - Rules 6 - 10, 17.3, 17.6 and 18 to 25 of the Council Procedure Rules (Part 4 – Rules of Procedures) relating to :
        - Notice and summons to meetings
        - Chair of meeting (except in relation to casting votes)
        - Quorum
        - Duration of meetings
        - Cancellation of meetings
        - Voting (certain rules)
        - Minutes
        - Petitions
        - Record of Attendance
        - Exclusion of the Public
        - Members' Conduct
        - Disturbance by Public
        - Suspension of Amendment of Council Procedure Rules
    - Access to Information Procedure Rules (Part 4.2 of the Constitution)
    - Code of Conduct for Members (Part 5.1 of the Constitution) – with specific reference to registering and disclosing interests.
    - Members' Allowance Scheme (Part 6 of the Constitution) – with particular reference to allowances and expenses payable.

Membership

9. The Board shall consist of [SIX] voting members, as follows:

    [THREE] Member Representatives; and

    [THREE] Employer Representatives.

10. There shall be an equal number of Member and Employer Representatives.

11. There shall also be [ONE] other representatives who is not entitled to vote.

Member representatives

12. Member representatives shall either be scheme members[3] or have capacity to represent scheme members of the Fund.

13. Member representatives should be able to demonstrate their capacity[4] to attend and complete the necessary preparation for meetings and participate in training as required.

[3] Active, deferred or pensioner members
[4] See paragraphs 5.16 to 5.20 of the Guidance which outlines what 'capacity' in this context means.

14. Substitutes [SHALL] be appointed. Where appointed substitutes should be named and must undertake the same training as full members.

15. A total of [THREE] member representatives shall be appointed[5] from the following sources:

    a) [ONE] member representative shall be appointed by the recognised trade unions representing employees who are scheme members of the Fund.

    b) [ONE] member representative shall be appointed by [ADMITTED BODIES FORUM] where that body is independent of the Administering Authority and open to and representative of all scheme members of the Fund.

    c) [ONE] member representative shall be appointed following a transparent recruitment process which should be open to all pensioners and be approved by the Administering Authority.

Employer representatives

16. Employer representatives shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

17. Employer representatives should be able to demonstrate their capacity[6] to attend and complete the necessary preparation for meetings and participate in training as required.

18. Substitutes [SHALL] be appointed. Where appointed substitutes should be named and must undertake the same training as full members.

19. A total of [THREE] employer representatives shall be appointed[7] to the Board from the following sources:

    a) [ONE ELECTED MEMBER] employer representatives shall be appointed by [FULL COUNCIL] to and representative of all employers in the Fund.

    b) [ONE] employer representatives shall be appointed following a transparent recruitment process which should be open to all employers in the Fund and be approved by the Administering Authority.

[5] See paragraphs 5.25 to 5.28 of the Guidance for further information on the process for appointing member representatives.
[6] See paragraphs 5.16 to 5.20 of the Guidance which outlines what 'capacity' in this context means.
[7] See paragraphs 5.25 to 5.28 of the Guidance for further information on the process for appointing employer representatives.

c) [ONE] employer representatives shall be appointed by the Administering Authority where all employers will have been asked to submit their interest in undertaking the role of employer representative on the Board.

Other members[8]

20. [ONE] other member shall be appointed to the Board by the agreement of both the Administering Authority and the Board to act as an Independent Chair.

21. Other members do not have voting rights on the Board.

Appointment of chair

22. Subject to the meeting arrangements in paragraphs 35 to 37 below a chair shall be appointed for the Board as set out below:

a) *An independent chair to be appointed by the Administering Authority but shall count as an 'other' member under paragraphs 20-21 above. In this respect the term independent means having no pre-existing employment, financial or other material interest in either the Administering Authority or any scheme employer in the Fund or not being a member of the Fund.*

Duties of chair

23. The chair of the Board:

(a) Shall ensure the Board delivers its purpose as set out in these Terms of Reference,
(b) Shall ensure that meetings are productive and effective and that opportunity is provided for the views of all members to be expressed and considered, and
(c) Shall seek to reach consensus and ensure that decisions are properly put to a vote when it cannot be reached. Instances of a failure to reach a consensus position will be recorded and published.

Notification of appointments

24. When appointments to the Board have been made the Administering Authority shall publish the name of Board members, the process followed in the appointment together with the way in which the appointments support the effective delivery of the purpose of the Board.

Terms of Office[9]

[8] When considering whether to have other members on the Board regard should be given to the advice provided in paragraphs 5.21 to 5.24 of the Guidance.

25. The term of office for Board members is [FOUR] years.

26. Extensions to terms of office may be made by the Administering Authority with the agreement of the Board.

27. A Board member may be appointed for further terms of office using the methods set out in paragraphs 15 and 19.

28. Board membership may be terminated prior to the end of the term of office due to:

    (a) A member representative appointed on the basis of their membership of the scheme no longer being a scheme member in the Fund[10].
    (b) A member representative no longer being a scheme member or a representative of the body on which their appointment relied.
    (c) An employer representative no longer holding the office or employment or being a member of the body on which their appointment relied.
    (d) A Board member no longer being able to demonstrate to [LONDON BOROUGH OF TOWER HAMLETS] their capacity to attend and prepare for meetings or to participate in required training.
    (e) The representative being withdrawn by the nominating body and a replacement identified.
    (f) A Board member has a conflict of interest which cannot be managed in accordance with the Board's conflict policy.
    (g) A Board member who is an elected member becomes a member of the Pensions Committee.
    (h) A Board member who is an officer of the Administering Authority becomes responsible for the discharge of any function of the Administering Authority under the Regulations.

Conflicts of interest[11]

29. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

30. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person’s exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.

31. On appointment to the Board and following any subsequent declaration of potential conflict by a Board member, the Administering Authority shall ensure

[9] See paragraphs 5.29 and 5.30of the Guidance which outlines points to consider when setting out the term of office for Board members. In particular consideration should be given to allowing members to retire on a rolling basis to ensure experience is retained.
[10] This includes active, deferred and pensioner members.
[11] See section 7 of the Guidance for more information on Conflicts of Interest.

that any potential conflict is effectively managed in line with both the internal procedures of the Board's conflicts policy and the requirements of the Code.

Knowledge and understanding (including Training)[12]

32. Knowledge and understanding must be considered in light of the role of the Board to assist the Administering Authority in line with the requirements outlined in paragraph 6 above. The Board shall establish and maintain a Knowledge and Understanding Policy and Framework to address the knowledge and understanding requirements that apply to Board members under the Act. That policy and framework shall set out the degree of knowledge and understanding required as well as how knowledge and understanding is acquired, reviewed and updated.

33. Board members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding policy and framework.

34. Board members shall participate in such personal training needs analysis or other processes that are put in place in order to ensure that they maintain the required level of knowledge and understanding to carry out their role on the Board.

Meetings

35. The Board shall as a minimum meet [FOUR] times[13] each year.

36. Meetings shall normally take place between the hours of [09:00] and [21:00] at [LBTH TOWNHALL].

37. The chair of the Board with the consent of the Board membership may call additional meetings. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and e-mails.

Quorum

38. A meeting is only quorate when at least one person of each member and employer representatives are present including an independent chair. Or 50% of both member and employer representatives are present.

39. A meeting that becomes inquorate may continue but any decisions will be non-binding.

[12] See section 6 of the Guidance for more information on Knowledge and Understanding.
[13] See 5.35.11 in Guidance for more advice on the number of meetings to hold each year.

Board administration

40. The Chair shall agree with [AN OFFICER FROM DEMOCRATIC SERVICES] (the 'Board Secretary') an agenda prior to each Board meeting.

41. The agenda and supporting papers will be issued at least [SEVEN] working days (where practicable) in advance of the meeting except in the case of matters of urgency.

42. Draft minutes of each meeting including all actions and agreements will be recorded and published within [TWENTY - ONE] working days of the meeting. These draft minutes will be subject to formal agreement by the Board at their next meeting. Any decisions made by the Board should be noted in the minutes and in addition where the Board was unable to reach a decision such occasions should also be noted in the minutes.

    Where necessary any information considered exempt as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or considered confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998 shall be included in a Part II minute that is not made available to the public.

43. The Board Secretary, in consultation with [Investment & Treasury Manager] shall support Board members in maintaining their knowledge and understanding as determined in the Board's Knowledge and Understanding Policy and Framework and other guidance or legislation.

44. The Board Secretary shall arrange such advice as is required by the Board subject to such conditions as are listed in these Terms of Reference for the use of the budget set for the Board.

45. The Board Secretary shall ensure an attendance record is maintained along with advising the Administering Authority on allowances and expenses to be paid under these terms.

46. The Board Secretary shall liaise with the Administering Authority on the requirements of the Board, including advanced notice for officers to attend and arranging dates and times of Board meetings.

Public access to Board meetings and information

47. The Board meetings will be open to the general public (unless there is an exemption under relevant legislation which would preclude part (or all) of the meeting from being open to the general public).

48. The following will be entitled to attend Board meetings in an observer capacity:

    (a) *Members of the Pensions Committee,*
    (b) *Any person requested to attend by the Board.*

Any attendees will be permitted to speak at the discretion of the Chair.

49. In accordance with the Act the Administering Authority shall publish information about the Board to include:

    (a) The names of Board members and their contact details.
    (b) The representation of employers and members on the Board.
    (c) The role of the Board.
    (d) These Terms of Reference.

50. The Administering Authority shall also publish other information about the Board including:

    (a) Agendas and minutes
    (b) Training and attendance logs
    (c) An annual report on the work of the Board to be included in the Fund's own annual report.

51. All or some of this information may be published using the following means or other means as considered appropriate from time to time:

    (a) On the Fund’s website.
    (b) As part of the Fund’s Annual Report.
    (c) As part of the Governance Compliance Statement.

52. Information may be excluded on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

Expenses and allowances[14]

53. The Administering Authority [SHALL] meet the expenses of Board members in line with the Administering Authority's policy on expenses as set out in the Members Allowances Scheme

Budget

54. The Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Board will be met from the Fund and determined by:

    a) The Board will seek approval from the Corporate Director of Resources for any expenditure it wishes to make.

[14] Provision for the payment of expenses and allowances is a decision to be made locally by each Administering Authority. Full consideration should be given to information in Guidance - see section 9 and paragraphs 5.18 and 5.35.17 for more information. Administering authorities should aim to ensure that no Board member is either better or worse off as a result of fulfilling their duties as a member of the Board.

Core functions[15]

55. The first core function of the Board is to assist[16] the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

    a) *Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.*
    b) *Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.*
    c) *Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.*
    d) *Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.*
    e) *Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.*
    f) *Monitor complaints and performance on the administration and governance of the scheme.*
    g) *Assist with the application of the Internal Dispute Resolution Process.*
    h) *Review the complete and proper exercise of Pensions Ombudsman cases.*
    i) *Review the implementation of revised policies and procedures following changes to the Scheme.*
    j) *Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.*
    k) *Review the complete and proper exercise of employer and administering authority discretions.*
    l) *Review the outcome of internal and external audit reports.*
    m) *Review draft accounts and Fund annual report.*
    n) *Review the compliance of particular cases, projects or process on request of the Committee.*
    o) *Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.*

56. The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core

[15] In determining the role of the Board, further information can be found in paragraphs 3.27 to 3.29 of the Guidance.
[16] Please see paragraph 3.28 of the Guidance for more information on what assisting the Administering Authority means.

function the Board may determine the areas it wishes to consider including but not restricted to:

a) Assist with the development of improved customer services.
b) Monitor performance of administration, governance and investments against key performance targets and indicators.
c) Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
d) Monitor investment costs including custodian and transaction costs.
e) Monitor internal and external audit reports.
f) Review the risk register as it relates to the scheme manager function of the authority.
g) Assist with the development of improved management, administration and governance structures and policies.
h) Review the outcome of actuarial reporting and valuations.
i) Assist in the development and monitoring of process improvements on request of Committee.
j) Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.
k) Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.

57. In support of its core functions the Board may make a request for information to the Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing.

58. In support of its core functions the Board may make recommendations to the Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Reporting[17]

59. The Board should in the first instance report its requests, recommendations or concerns to the Committee. In support of this any member of the Board may attend a Committee meeting as an observer.

60. Requests and recommendations should be reported under the provisions of paragraphs 59 and 60 above.

61. The Board should report any concerns over a decision made by the Committee to the Committee subject to the agreement of at least 50% of voting Board members provided that all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate.

62. On receipt of a report under paragraph 63 above the Committee should, within a reasonable period, consider and respond to the Board.

[17] See section 8 of the Guidance for more information on Reporting.

63. Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report.

64. Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee under paragraph 63 and has not been rectified within a reasonable period of time it is under an obligation to escalate the breach.

65. The appropriate internal route for escalation is to the Monitoring Officer and/or Acting Corporate Director of Resources, the Section 151 Officer.

66. The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation.

67. Board members are also subject to the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistle blowing policy].

Review of terms of reference

68. These Terms of Reference shall be reviewed on each material change to those parts of the Regulations covering local pension boards and at least every [THREE] years.

69. These Terms of Reference were [adopted on [01 APRIL 2015].

…………………………………………
Signed on behalf of the Administering Authority

…………………………………………
Signed on behalf of the Board

Published 24 February 2015

STATUTORY INSTRUMENTS

2015 No. 57

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015

Made - - - -	*26th January 2015*
Laid before Parliament	*28th January 2015*
Coming into force in accordance with regulation 1(3)	

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(**a**).

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 2015.

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

(3) These Regulations come into force as follows—

(a) on 20th February 2015, this regulation and regulations 2, 8 and 9—

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

(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 paragraphs (2) to (4) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) into the Principal Regulations

(**a**) 2013 c. 25. Sections 5, 7 and 12 of that Act come into force in relation to regulations relating to local government workers on 1 April 2015 – see S.I. 2015/4.
(**b**) S.I. 2013/2356.

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, 8 and 9 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 9.

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

4. In regulation 55(1)(d) for "regulation 53(4) (Scheme managers)" substitute "regulation 106 (local pension boards: establishment)".

5. Omit regulation 63 (aggregate Scheme costs).

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

7. 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)".

8. In Schedule 1 (interpretation)—

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

""Local Government Pension Scheme Advisory Board" means the 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);"".

9. After regulation 104(**a**) insert—

"PART 3

Governance

Delegation

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

(2) An administering authority may delegate any function under these Regulations including this power to delegate.

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**) Regulation 104 was inserted by S.I. 2014/1146.

(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(**a**), and

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

(b) to ensure the effective and efficient governance and administration of the Scheme and any connected 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) Where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities, those administering authorities may establish a joint local pension board if approval in writing has been obtained from the Secretary of State.

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

(5) The Secretary of State may withdraw an approval if any conditions under paragraph (4) are not met or if in the opinion of the Secretary of State it is no longer appropriate for the approval to continue.

(6) Subject to paragraph (7), an administering authority may determine the procedures applicable to a local pension board, including as to the establishment of sub-committees, formation of joint committees and payment of expenses.

(7) Except where a local pension board is a committee approved under paragraph (2), no member of a local pension board shall have a right to vote on any question unless that member is an employer representative or a member representative(**b**).

(8) 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.

(9) 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 this regulation 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) An administering authority must appoint to the local pension board an equal number, which is no less than 4 in total, of employer representatives and member representatives and for these purposes the administering authority must be satisfied that—

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

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

(3) Except where a local pension board is a committee approved under regulation 106(2) (committee that is a Scheme manager is also local pension board)—

(**a**) See section 4(6) of the Public Service Pensions Act 2013 for the definition of connected scheme.
(**b**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.

(a) 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 the local pension board of that authority; and

(b) any elected member of the administering authority who is a member of the local pension board must be appointed as either an employer representative or a member representative.

(4) Where a local pension board is a committee approved under regulation 106(2) (committee that is a Scheme manager is also local pension board) the administering authority must designate an equal number which is no less than 4 in total of the members of that committee as employer representatives and member representatives and for these purposes the administering authority must be satisfied that—

(a) a person to be designated as an employer representative has the capacity to represent employers; and

(b) a person to be designated as a member representative has the capacity to represent members.

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(**a**).

(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.

(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 function of the Local Government Pension Scheme Advisory Board is to provide advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board also has the function of 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.

(**a**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(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 shall 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(**a**).

(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 shall be 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

(**a**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(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 and any connected scheme in accordance with Treasury directions made under section 11 of the Public Service Pensions Act 2013(**a**) ("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 such period as enables the requirements in those directions to be met.

(4) An administering authority 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 14.6% 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(**b**) ("the Cost Cap 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 date on which the consultation period ends, 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).

(**a**) 2013 c. 25.
(**b**) 2013 c. 25; see regulation 3 of S.I. 2014/575.

(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 the 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 the date on which that report is received.".

We consent to the making of these Regulations

Mark Lancaster
Gavin Barwell
23rd January 2015 — Two of the Lords Commissioners of Her Majesty's Treasury

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

Kris Hopkins

Parliamentary Under Secretary of State
26th January 2015 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 20th February 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 8 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 9 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.

No impact assessment has been prepared for this instrument as no impact on the costs of business or the voluntary sector is foreseen.

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**24 February 2015**	**Unrestricted**		
REPORT OF: Acting Corporate Director of Resources ORIGINATING OFFICER(S): Bola Tobun– Investment and Treasury Manager		TITLE: **Pension Fund Business Plan and Budget for 2015/16** **Ward(s) affected: N/A**		

1. SUMMARY

1.1 This report outlines the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

2. DECISIONS REQUIRED

Members are asked to:

2.1 Agree the work plan attached as Appendix 1 to this report.

2.2 Agree the revenue budget for 2015/16 attached as Appendix 2 to this report.

3. REASONS FOR DECISIONS

3.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Regulations also empower the Fund to admit employees of other 'defined' (e.g. other public bodies, housing corporations) bodies into the Fund.

3.2 The proposed work plan for the authority has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Work Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.

3.3 The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

4. ALTERNATIVE OPTIONS

4.1 The development and implementation of a work plan should ensure that a structured approach is in place for the monitoring and management of the Pension Fund. This should in turn ensure that the Council meets its statutory obligations as administering authority to the Fund. However, the

Committee is under no obligation to adopt a work plan in carrying out its duties.

5. BACKGROUND

5.1 The Council has specific delegated functions that it has to fulfil as the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.

5.2 It is appropriate that the Committee should set out how it intends to fulfil its obligations as the delegated authority appointed by the Council to be responsible for the Fund. Adopting a planned approach should make monitoring easier for the Committee and ensure that activities critical to the effective management of the Fund are being undertaken.

5.3 The Key Performance Indicators cover the following areas:

- Investment performance
- Funding level
- Death benefit administration
- Retirement administration
- Benefit statements
- New Joiners
- Transfers in and out
- Employer and member satisfaction
- Data quality
- Contributions monitoring
- Overall administration cost
- Audit

5.4 In line with best practice, future Pensions Committee meetings will be provided with a schedule of Pension Fund key performance indicators (KPIs) covering investment and administration practices.

5.5 An annual Work Plan will be presented to Committee for agreement. The Work Plan should be presented to Committee by the last committee meeting of the prior financial year to which the Work Plan applies.

6 WORK PLAN

6.1 In designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated into the Plan. The Work Plan has been developed using the below outline action plan.

ACTIVITY	PURPOSE
Administration&Governance	
Member training on specific and general issues	To provide training on specific issues based on identified need or emerging/ current issues. To

	provide ongoing training to members to enable them to challenge the advice received and equip them with the tools to enter into constructive dialogue with advisers.
Pensions Committee to receive key performance indicators report on a quarterly basis.	To ensure scheme is run in accordance with agreed service standards; and compliance with regulations and to deal with and rectify any errors and complaints in a timely way.
Review the current pension administration strategy	To ensure scheme is run in accordance with the rules.
Review and refresh key policy documents; the Statement of Investment Principles, Funding Strategy Statement, Governance & Communications Policy Statement as necessary (i.e. where significant changes are made)	Seek member approval and formally publish any updated documents where this is deemed appropriate.
Set up pensions specific website or microsite	A pension specific website is scheduled to be set up towards the latter half of 2015, which will include details on pension administration, pension investments.and to provide a platform for on-line training facilities.
Minimum of four Pensions Committee meetings to be held during the financial year 2015/16.	To ensure that members are kept up to date on key developments with the London Borough of Tower Hamlets Pension Fund and to ensure that approval is received on key tasks/issues that affect the effective operation of the Fund.
Each Fund manager will attend at least one meeting during the year 2015/16 and more if deemed necessary	To oversee fund manager activities and monitor performance to ensure that they are achieving performance targets and investing fund assets within the confines of the risk parameters and approach agreed with the Council.
Ensure high level support is available to monitor and review, monitor and manage the risks taken by the Fund.	High level support is available via the Risk and Investment Management Team (RIMT) (this consists of officers and advisers) which oversees the implementation of the Pensions Committee decisions and as well as conceive and discuss new ideas for consideration by the Committee.
Investment & Accounting	
Draft Pension Fund Annual Accounts approved by the Acting Corporate Director of Resources in July 2015.	To ensure that the Council meets the regulatory timetable and fulfils its stewardship role to the Fund.
Audited Pension Fund Annual Report to be published on or before the statutory deadline of 1 December 2015	Ensure that the Council fulfils it statutory obligation and to keep members abreast of the Pension Fund activities in a transparent and accessible way.

Review of the Funds investment strategy	To ensure that the Fund's investment strategy is optimal. There are no current plans for a major investment strategy review over the financial year, although manager underperformance/ market developments may require a review of Strategy.
Review of (Actuarial, Investment Consultant and Independent Adviser and Custodian Services)	This may not lead to full re-tendering for these services, but reviews will be commissioned to ensure that the Fund is still receiving good value for its major services. All options will be considered in the review including joining existing framework contracts.
Preparation for 2016, Triennial Valuation of Pension Fund Assets and Liabilities	The Fund is bound by legislation to undertake an actuarial valuation of its assets and liabilities to ensure that appropriate future contribution rates are set and that any Fund deficit is recovered over an appropriate period of time in line with the Fund's Strategy Statement. This report will present to Members the outcome of this exercise.

7. PENSION FUND REVENUE ACCOUNT

7.1 The budget estimate outlined in this report will assist the Council in monitoringexpenditure of the Fund's revenue account in accordance with its requirement tomanage resources effectively. The report provides details of the actual figuresas at 31st December 2014, forecast outturn figures for 2014/15 and revenue budgetestimates for 2015/16 in respect of income and expenditure elements of the PensionFund.

7.2 Members are requested to note the pension fund's Revenue Account position for 2014/15 and approve the proposed budget set out in Appendix 2.

2014/15 Budget Estimates

7.3 The estimates for the Pension Fund can be difficult to predict because of the uncertainty surrounding a number of aspects such as transfer values, death grants, and volatility in investment markets.

7.4 Expenditure (benefits payable) is expected to rise from £43.9m in 2013/14 to a forecast of £49.6min 2014/15. This is due to an increase in pension payments in 2014/15 and theincrease in retirement grants paid.

7.5 Transfer of internal cash may be made to fund managers this year to rebalance the Fund. Some of the cash held in house will bedeployed to fund the investment opportunities as they become available. Cash heldinternally is invested in line with Tower Hamlets Council's treasury management strategy,which is delegated to the Corporate Director of Resources to implement.

2015/16 Proposed Budget

7.5 The budget for the Pension Fund can be difficult to predict because of the uncertaintysurrounding a number of aspects such as transfer values, death grants, and volatilityin investment markets. The following paragraphs set out some of the assumptionsbehind the proposed 2015/16 budget estimates:

<u>Notes to Appendix 2</u>

1. **Contribution Receivable**
   The budget figure is based on 2014/15 activity levels using the contribution rate as stipulated by the actuary. Plus a 2.5% to reflect the pay award for 2015/16.

2. **Transfer Values In**
   The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service and salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity and a zero net budget has therefore been assumed.

3. **Other Income**
   The budget figure is based on 2015/16 Internal interest earned on revenue balances.

4. **Benefits Payable**
   The budget figure is based on 2014/15 activity levels plus a 2.5% increase to reflect the 2015/16 pay award.

5. **Payments to and on account of leavers**
   The same assumptions have been made as for transfer values in.

6. **Administrative and other expenses borne by the scheme**
   These costs are estimated on the basis of planned workloads with a 3.5% allowance for inflation. Costs include officers' time, the cost of provision of accommodation and IT facilities, bank charges, global custodian fees, audit fees and professional advisers' fees.

7. **Investment Income**
   Investment Income is assumed at 4% on assets of £1.085billion and over 2/3rd is subsequently re-invested by the Fund Managers.

8. **Change in Market Value of Investments**
   An investment of £1.085m is assumed to increase by 2.75%.The combined return of investment income and capital growth on 15/16 investments is based on assumed 6.75% per annum.

9. **Fund Managers Fees**

Fund managers' fees are calculated at an average rate of 0.38% on assets of £1.115billion.

10. **Global Custodian Fees**
The fee is set at £120,000 as per fees schedule.

11. **Tax on Dividends**
Net tax on dividends is based on 8% of budgeted investment Income.

8. Financial Implications

8.1 The performance of the Pension Fund's investments affects the required level ofcontributions due from employers.

8.2. The employers' contribution rate for the London Borough of Tower Hamlets is currently set at15.8%, this rate did not change following the 2010 triennial review however, followingthe 2013 triennial valuation the total implied employers contribution rate (based oncurrent pensionable pay) for the Council increased from 1 April 2014. As beforethe deficit funding aspect has been defined as cash value so if establishmentnumbers fall, a cash lump sum reimbursement will need to be paid to the fund by theCouncil to ensure the level of deficit funding is maintained. The estimated shortfallcashcontribution for 2015/16 is £20.5m, up from £18.5m in 2014/15. The next valuationexercise will occur in 2016 with the results taking effect from 1 April 2017.

8.3 LGPS regulations specify that any net sums not immediately required should beinvested in accordance with regulations. The investment of Pension Fund cashhas been kept separate from Tower Hamlets Council's investments but invested in accordancewith the Council's Treasury Management Strategy.

9. COMMENTS OF THE CHIEF FINANCIAL OFFICER

9.1. The comments of the Acting Corporate Director of Resources have been incorporated into the report.

10. LEGAL COMMENTS

10.1 In discharging their functions under the Local Government Pension (Management and Investment of Funds) Regulations 2009, thePensions Committee must have regard to:

- The need for diversification of investments of the Fund's money;
- The suitability of investments which they propose to make
- 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 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 budgetary matters. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

10.3 Members of the Pensions Committee are required by the Council's Constitution to consider pension matters and meet the various statutory obligations and the duties of the Council.This Work Plan provides for certain statutory requirements to be met and for members to be well trained and kept up to date and thus fit for purpose.

10.4 When making decisions regarding investment of pension funds, 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 don't (the public sector duty).

11. ONE TOWER HAMLETS CONSIDERATIONS

11.1 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.

11.2 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

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 The adoption of a work plan will minimise risks relating to the management of the Fund and should assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Tower Hamlets Pension Fund.

14. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

15. EFFICIENCY STATEMENT

15.1 A work plan and budget should result in a more efficient process of managing the Pension 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
	Bola Tobun x4733

Activity	Responsible Person	Pensions Committee/ Adviser & Officers Meeting	Meeting Jun 2015 (TBC)	Meeting Sep 2015 (TBC)	Meeting Nov 2015 (TBC)	Meeting Mar 2016 (TBC)
Quarterly Performance Reporting of Fund Managers and update on emerging/current issues	Investment & Treasury Manager	Pensions Committee	√	√	√	√
Quarterly Administrative Key Performance Indicators Report	Pensions Manager	Pensions Committee	√	√	√	√
Fund Managers' Meeting Presentation	Investment & Treasury Manager	Adviser & Officers Meeting	√	√	√	√
Member Training	Investment & Treasury Manager	Pensions Committee		√	√	√
Consideration of (Annual Review) of Statement of Investment Principles and Funding Strategy Statement (If necessary)	Investment & Treasury Manager	Pensions Committee		√		
Review asset allocation with Advisers	Investment & Treasury Manager	Adviser & Officers Meeting	√			
Consideration of (Annual Review) of Communications Policy Statement	Pensions Manager	*Pensions Committee*	√			
Consideration of Governance Compliance Statement (If necessary)	Chief Accountant	Pensions Committee	√			
Presentation on Fund Performance 2014/15	The WM Company & Hymans	Pensions Committee	√			
Review of actuarial and investment advice and custodial services arrangements for the Pension Fund	Investment & Treasury Manager	Pensions Committee	√			
Set up of pension specific website	Investment & Treasury Manager					
Pension Fund Work Plan 2016/17	Investment & Treasury Manager	Pensions Committee				√
Review/Approval of Annual Report 2015/16	Investment & Treasury Manager	Pensions Committee		√	√	
Review of Fund Managers' internal control measures (SAS 70)	Investment & Treasury Manager	Pensions Committee			√	
Other Ad-hoc items for consideration	Various	Pensions Committee	√	√	√	√
Preparation for Triennial Valuation of the Fund	Various	Pensions Committee				√

Appendix 2

Pension Fund Budget 2015/2016

	Account as at 31st Mar 2014 £,000	Original Budget 20014/15 £,000	Actual as at 31st Dec 2015 £,000	Forecast Outturn 2014/15 £,000	**Budget 2015/16 £,000**
Contributions Receivable					
- from Employer	42,401	**43,673**	34,154	45,539	**46,905**
- from Employees	9,982	**10,281**	8,188	10,917	**11,245**
Transfer Values In	3,527	**3,633**	1,552	2,069	
Other Income		**55**		90	**50**
Sub - Total Income	55,910	**57,642**	43,894	58,615	**58,200**
Benefits Payable					
- Pensions	35,681	**36,751**	31,015	41,353	**42,595**
- Purchase of Pensions					
- Lump Sums: Retirement Allowances	7,136	**7,350**	5,364	7,152	**7,367**
- Lump Sums: Death Grants	1,042	**1,073**		1,073	**1,105**
Payments to and on account of leavers					
- Refunds of Contributions	3		73	93	
- Transfer Values Out	2,778	**2,861**	6,167	8,225	
- Other payments	3		132	180	
Administrative and other expenses borne by the scheme					
- Administration and processing	686	**707**	425	567	**850**
- Actuarial fees	50	**30**	0	30	**55**
- Audit fees	21	**25**	0	25	**25**
- Legal and other professional fees	212	**100**	0	100	**150**
Sub - Total Expenses	47,612	**48,898**	43,176	58,798	**52,146**
Total Net Additions (Withdrawals) from Dealings with Members	**8,298**	**8,745**	718	(180)	**6,054**
RETURNS ON INVESTMENTS					
Investment Income	11,130	**13,360**	9,265	12,521	**12,405**
Change in Market Value of Investments	69,113	**50,645**	52,021	63,000	**5,385**
Investment management Expenses					
-Fund Managers Fees	(2,364)	**(2,604)**		(2,811)	**(2,885)**
-Performance Measurement Fees	(15)	**(20)**		(20)	**(22)**
-Investment Consultancy Fees	(103)	**(45)**		(45)	**(55)**
Total Return On Investments	**77,761**	**61,400**	61,286	72,645	**14,904**
NET INCREASE (DECREASE) IN THE FUND DURING THE YEAR	86,059	**70,145**	68,533	72,465	**33,387**
OPENING NET ASSETS OF THE SCHEME	926,871	**1,012,930**	1,012,930	1,012,930	**1,081,463**
CLOSING NET ASSETS OF THE SCHEME	1,012,930	**1,083,075**	1,081,463	1,085,395	**1,114,850**

0.005

-0.00233

COMMITTEE: PensionsCommittee	DATE: 24February2015	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): **Anant Dodia** **Pensions Manager**		TITLE: **Review of discretions under the Local Government Pension Scheme** Ward(s) affected: N/A		

1. SUMMARY

1.1. The introduction of the new Local Government Pension Scheme (LGPS) from 1 April 2014 required all scheme employers to review their existing discretionary pension arrangements and publish new policy statements.

1.2. On 16 July 2014, Members considered the authority's discretionary pension arrangements and agreed that a further report be brought to this Committee following a detailed review of the discretions.

1.3. A complete review of all the required authority discretion decisions and policies has been undertaken.

1.4. The Pension Regulations require that in preparing or making revisions to its pensions policy statements, the scheme employer must have regard to the extent to which the exercise of any of its policies could lead to a serious loss of confidence in the public service. The exercise of any discretions must therefore be reasonable, affordable, and justified in the circumstances and be consistently applied.

1.5. This report summarises the Pension Policies which need reviewing at this time and make recommendations for the adoption of new policy statements.There are five discretions to reconsider.

1.6. The adoption of current policy in relation to the discretionary provision of the new Scheme will not prevent the Council from reconsidering any of its decisions at a later stage should it be felt prudent to do so for the proper governance of the scheme.

2. DECISIONS REQUIRED

2.1 The Committee is recommended to approve:-

(i) The employer discretions set out in Section 4 of this report, and

(ii) The policy statement set out at Appendix 1.

3. BACKGROUND

3.1 The cost of providing public sector pension schemes has been steadily increasing over many years and the previous Government was concerned about their long term sustainability. As a result the Government appointed

Lord Hutton to chair an independent Public Services Pensions Commission to undertake a fundamental review of public sector pension provision.

3.2 TheGovernment accepted the Commission's recommendations and government departments negotiated with the relevant employer representatives and trade unions, and as a result the LGPS Regulations 2013 came into force on 1st April, 2014.

3.3 The new regulations require all scheme employers to review their existing discretionary pension policy statements and publish new statements effective from 1st April, 2014. It is a requirement that the discretion policy statement is agreed and published.

4. DISCRETIONSTO BE REVIEWED WITHIN THE SCHEME

4.1 There are five 'Employer Discretions' available within the LGPS Regulations 2013 which require a decision by each employing Authority.The first four discretions have previously been agreed by the authority and it is recommended that these are continued. The fifth one is a new discretion and it is recommended,to adopt this discretion.Full details are outlined in the Policy Statement attached at **Appendix1** and detailed below is a summary of the options for consideration.

- Whether the council will pay towards the cost of Shared Cost Additional Pension Contributions (SCAPC) made by an active scheme member to purchase extra pension benefits of up to £6,500 per annum.
- Whether to permit flexible retirement for staff aged 55 or over.
- Whether to waive in whole or part any actuarial reduction on benefits which a member voluntarily draws before normal pension age.
- Whether to grant an additional pension of up to £6,500 to an active pension scheme member or within six months of leaving to a member whose employment was terminated on the grounds of redundancy or retirement on the grounds of efficiency.
- Whether to apply the '85 year rule' for a scheme member wishing to voluntarily draw benefits on or after age 55 and before age 60.

4.1.1 **Decision 1** - Employees can voluntarily choose to make Additional Pension Contributions; there is the option for the employer to share the cost, under Shared Cost Additional Pension Contributions (SCAPC).

The LGPS regulations allow members to make additional pension contributions(APC) to the LGPS at their own cost either by a one-off lump sum or by regularon-going contributions in order to purchase additional pension. They also allowfor shared cost additional pension contributions with costs shared between theemployer and employee (SCAPCs).

The amount of additional contributions to be paid is determined by reference to actuarial guidance issued by the Secretary of State. For example a 55 year old female wishing to make contributions over a 10 year period to purchase an additional £6,500 will be required to pay extra £921.05 per month. The employer could decide to pay a certain percentage of the above monthly contributions. Alternatively a one off lump sum cost is £84,968.

- Employer Benefits

  - The provision could be used as a recruitment and retention tool e.g. for hard tofill posts.

- Employer/Employee Disadvantages

  - The cost of purchasing additional pension could be substantial.

  - There might be potential tax implications for the member in relation to annualand lifetime allowances.

Options suggested are:

(a) To make use of the discretion in exceptional circumstances where there is a clear financial or operational advantage for the Authority in doing so. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

(b) Continue not to exercise this discretion and not to fund on Shared Cost Additional PensionContributions (SCAPCs)

This discretion was not previously adopted due to material cost implications. It is therefore proposed that at this time the Council will continue not to exercise this discretion and will not fund SCAPC on the basis of affordability

Recommendation:

It is recommended that option (b) is adopted.

4.1.2 **Decision 2** - The discretion to allow Flexible Retirement.

The LGPS Regulations allow a member aged 55 or over who reduces theirworking hours or grade, with their employer's consent, to receive immediatepayment of all or part of their retirement benefits. Additionally, the employermay decide to waive any actuarial reduction that applies.

Flexible retirement allows a pension scheme member who has attained the ageof 55 to request payment of their accrued pension benefits even though theyhave not ceased to be employed. This request can only be considered if themember of staff either reduces their working hours and or their grade.Payment of pension benefits under this provision is not automatic and can onlybe made if the Council consents to that payment. There is no provision tosubsequently withdraw benefits granted under this provision. The LGPS alsoallows the member to build up new pension rights in the LGPS based on thenew hours and or grade.A member requesting flexible retirement is not required to draw all of thebenefits due to them instead s/he may choose to receive all, some or none ofthe benefits built up on membership from 1 April 2008 onwards. However, s/hemust draw all of the pre-April 2008 accrued benefits. As the member has achoice of partial drawdown, the cost to the employer may be affected by thischoice.

The Council's current policy is to permit flexible retirement on the merit of each individual case. The Council has the discretion to waive the early retirement reduction, but has stated that it will not normally be exercised other than in exceptional circumstances or on compassionate grounds.

- Benefit to the Employer

  - Flexible retirement can enable the employer to retain the services of a skilledand experienced employee in a situation where the employee may, due tofactors outside the workplace, have previously chosen to resign or take fullretirement. It can act as a useful retention tool, particularly in hard to fill posts,as part of the Council's Corporate Workforce Strategy, particularly in areaswhich combine an aging workforce with recruitment and retention difficulties,and act as a beneficial enhancement to the Council's existing Flexible Workingprovisions.

  - Flexible retirement acts as a useful tool for the employer when managingorganisational change or staffing reductions, and could provide an alternativesolution in situations which otherwise might have involved redundancies orefficiency retirements with associated employer costs. It offers a means tomanage capacity, to assist with succession planning and to potentially createcareer opportunities for younger employees who are currently underrepresentedin the workforce.

  - Savings can be made through a reduced salary but it would depend on theneeds of the Service and individual factors which need to be taken into accountwhen considering requests for flexible retirement as well as the budget impactand on-going revenue savings.

Benefit to the Employee

- For the employee, it becomes possible to 'partially' retire, to draw pensionbenefits but in the meantime remain in employment in a changed capacity whichcan offer greater flexibility. The flexibility can help employees manage theirwork-life balance, help them step-down towards full retirement and/or help themmanage commitments outside the work place. It should be noted however thatany new pension scheme entitlements in the 'step down' post are built up in thenew scheme LGPS 2014 and will have a later normal retirement age linked tothe state pension age (SPA).

Issues:

There is a potential cost to the employer as any existing 85 year rule protectionsapply for flexible retirement; generally retirements over age 55 whenmembership of the LGPS started pre October 2006. The length of service/agewill determine whether there is protection. The 85 year rule is determined byadding the employee's age to the calendar length of pensionable service inwhole years and applies, prevents or limits actuarial reduction where the totalexceeds 85 at retirement or before reaching normal retirement age.Whilst Flexible Retirement can bring many benefits, there are some practicalissues which could present difficulties for the employer.

Where a reduction in hours is requested this may have an impact on thedeliveryof services, particularly where the request is to reduce by only a fewhours per week and it is therefore difficult to recruit a replacement. A request toreduce hours may also be difficult to agree to where part-time working is notsuitable in meeting business demands or where the member is already workingreduced hours.

Agreement to a request to reduce grade may be dependent on whether there issuitable work available at the lower grade, and whether the duties no longerperformed can be covered by other means.

Any decision to waive all or some of the actuarial reduction that may apply to themember's benefits would require the employer to meet the additional costincurred by the pension fund. It should be noted that in all cases, once agreed,the payment of flexible retirement benefits is irrevocable regardless of whetherthe member resigns after only a short time in the new post.

The likely level offuture take-up of flexible retirement is not known. There may be risks that shoulda large proportion of employees request flexible retirement there could be adetrimental impact to services although this has not been apparent in theoperation of the scheme so far. On the other hand, there could be potentialsaving of redundancy pay.

As the level of likely take-up is not known, the potential costs are alsoimpossible to estimate, although costs are mitigated by assessing each case onits merits e.g. cost/benefit.

Options suggested are:

(a) Not to continue with the discretionary power to adopt a flexibleretirement scheme.
(b) To continue to permit a flexible retirement schemewhere there is a clear financial or operational advantage for the Authority in doing so.This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

This discretion was previously adopted by the Council and is only agreed if it is in the economic and /or operational interest of the Council's service to do so. The Council currently operates a Flexible Retirement Scheme as part of its flexible working arrangements and it is proposed that at this arrangement should continue. A summary of the policy is detailed below:

Flexible retirement policy allows a member of the Local Government Pension scheme aged 55 or over, to reduce their contractual hours (the reduction in hours should normally be at least 40 per cent of the previous hours worked or moved to), to work in a lower graded post (the reduction in grade should normally be at least two grades or 25 per cent drop of gross salary), and draw their pension benefits from that time, whilst continuing if they wish, to accrue further benefits in the continuing employment. The reduction in hours or grade should not be temporary and will require their manager's consent. Their request will be considered on its merits (e.g. failing health/work life balance) and will only be agreed if it is in the economic interest and/or operational interests of the service to do so.

Recommendation:

It is recommended that option (b) is adopted.

4.1.3 **<u>Decision 3</u>** - The Council has the discretion to waive actuarial reduction to pension, the costs of which will be borne by the Council.

The LGPS 2014 regulations include a significant change in that an activemember of the LGPS or a deferred member, canchoose to retire voluntarily from age 55 without the employer's consent.Currently employer's consent is required for retirements before age 60, with noemployer consent required from age 60.Actuarial reductions will apply to pensions taken from age 55 up to normalretirement age using actuarial guidance issued by the Secretary of State.

For some members employers may agree to waive all the actuarial reduction oncompassionate grounds or part of the actuarial reduction on any grounds.Waiving the reduction would require the Council to make a payment to thepension fund for the shortfall created by paying the pension early withoutreduction, known as a pension strain payment or employer pension cost.For pre LGPS 2014 members with 85 year rule protections on membership toApril 2014 [April 2016 if will be age 60 before this date or April 2020 if will beage 60 between April 2016 and April 2020], the Council may choose to waive allactuarial reductions applicable to this membership on the grounds ofcompassion.In relation to membership built up from April 2014 [April 2016 or April 2020]onwards, the Council may choose to waive all or some of the reductions on anygrounds.

Currently the policy on waiving any reduction in benefits arising from earlypayment is that the discretion will not normally be exercised, but the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative will consider applications on a case by case basis.

- <u>Benefits to the Employer</u>

  - The employer costs of waiving any actuarial reduction would be the same as ifan employee were to be made redundant between the ages of 55 – 60.However, in circumstances where redundancy was not an immediate option, butpotentially possible in the medium term, there could be a saving in cost throughavoiding any future redundancy payment and mitigation of on-going salarypayments.

- <u>Benefits to the Employee</u>

  - If a request to retire early is granted without actuarial reduction, the employeereceives pension as earned without the reduction ahead of normal retirementage.

Options suggested are:

(a) Not to make use of discretion to waive all or part of the actuarialreduction

(b) To consider the use of the discretion, the Council will waive reductions only in exceptional circumstances where there is a clear financial or operational advantage for the Authority in so doing or on compassionate grounds. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

This discretion was previously adopted by the Council, and is only agreed if it is in the economic and /or operational interest of the Council's service to do so. The Council will continue to waive reductions only in exceptional circumstances where there is a clear financial or operational advantage for the Authority in so doing or on compassionate grounds would this be considered. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

Recommendation:

It is recommended that option (b) is adopted.

4.1.4 **Decision 4**- The discretion to award additional pension (whole cost to employer).

This provision enables the employer to award an additional pension to an activemember. Under the LGPS 2014 regulations, the discretion to award anadditional pension of £6,500 per annum (from the previous maximum of £5,000)has been introduced.The Council's current policy is generally not to award additional years of serviceor added pension to employees. The former is no longer applicable andtherefore does not need to be reviewed.

- Benefits to Employer

  - The provision could be used in a range of circumstances, including as arecruitment and retention tool or as part of the compensation for dismissal onthe grounds of redundancy (including business efficiency). In the latter case,arrangements must be made within 6 months of the date that the employee'semployment ended. Where an award is made on these grounds, no additionallump sum compensation can be paid in excess of a maximum severancepayment of statutory redundancy with weekly pay limit waived.

- Benefits to Employee

  - The employee receives an increased pension without needing to voluntarilypurchase it.

Issues:

The cost of awarding additional pension could be substantial and once awarded thepension cannot be taken away i.e. the employee could leave with the benefitsintact. As a guide the cost of purchasing a pension of £6,500 for a male aged 40 years is £50,310 and for a female aged 40 years is £54,418. These costs increase the older the individual, for example rising to £71,158 for a female aged 50 years.There can be potential tax implications for the member in relation to annual andlifetime allowances.There are possible age and sex discrimination risks. The amount of employercontribution may vary in relation to the member's normal retirement age, whichmay cost less for women than a comparator male due to variations in the stateretirement age. Possible age discrimination risks might occur if youngeremployees were directly excluded or any discretion was exercised on agefactors alone.

Options suggested are:

(a) Not to make use of the discretion on additional pension contribution.
(b) To consider each application for additionalpension on its merits, where it is in the employer's interests andtaking into account the employer costs of the additional pension. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

This discretion was not previously adopted by the Council due to material cost implications. It is therefore proposed that the Council will continue not to exercise this discretion on the basis of affordability.

Recommendation:

It is recommended that option (a) is adopted.

4.1.5 **Decision 5**– The "85 year rule" can be activated for individual employees, prior to age 60 in the case of Early Voluntary Retirement, the cost of which will be borne by the Council.

The 85 year rule was introduced to the Local Government Pension Scheme from 1 April 1998 replacing the previous 'rule of 25', and allowed pension benefits to be paid unreduced once the member's age and service added together totalled 85. It was subsequently removed by Statutory Instrument with effect from 1 October 2006, but those with membership when it was part of the scheme still retain a protection to have it applied.

The degree of protection varies dependant on age and members are accordingly split into groups, with different periods of membership attracting different degrees of protection.

The 2014 LGPS scheme removed from the regulations the requirement for the employer to give consent to the release of pension benefits when requested by a member between the ages of 55 and 60.

In the previous scheme the 85 year rule would automatically apply to a member whose benefits were released before age 60 if they met the requirements of the 85 year rule. This would have generated a cost as it meant the benefits were paid without the expected reductions (because of the 85 year rule protection) before the members earliest normal retirement date. The cost of releasing benefits before age 60 would be taken into account when deciding whether or not the employer consented to the early release.

Under the 2014 scheme, now that a member can choose to draw their benefits before age 60 without the consent of their employer, the 85 year rule does not automatically protect their benefits from reduction before the age of 60. Instead the member suffers a reduction up to the point their benefits would have been payable unreduced (i.e. age 60 or the date the 85 year rule is met if later).

As the 85 year rule does not automaticallyapply to members who would otherwise be subject to it and who choose tovoluntarily draw their benefits at age 55 and before 60, this provision allowstheemployer to switch the rule back on and thus bear the cost of this decision.

- <u>Benefits to Employer</u>

  - Switching the 85 year rule back on might be a mechanism employers wouldwish to consider to encourage members to retire early to, for example, helpachieve a balanced age profile within the workforce or to avoid possibleredundancies later (which have attendant greater costs). Whilst also exercisingthe discretion to waive actuarial reductions would be more expensive than justswitching back on the 85 year rule, it would still (in nearly all cases) be lessexpensive than redundancy.

- <u>Benefits to Employee</u>

  - The employee avoids some or all of the actuarial reduction and receivesincreased pension benefits.

Issues:

If the employer does agree to switch back on the 85 year rule, the employer willhave to meet the cost of any strain resulting from the payment of benefits beforeage 60.The cost would vary on a case by case basis depending on the employee's degree of protection.

Options suggested are:

(a) Not to make use of this discretion.
(b) To consider each case on its merits,where it is in the employer's interests in doing so and taking into account the employercosts. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

This is a new discretion. It is therefore proposed to adopt this discretion.

Recommendation:

It is recommended that option (b) is adopted.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

5.1 Employer decisions on the application of discretions can give rise to strain costs being payable by the employer to the fund. Strain costs are the capitalised financial value of the impact on the fund when a member draws their pension benefits before their Normal or State Pension Age.

5.2 Factors that influence the strain costs are the members' age, length of service, gender and marital status. The impact on the fund is the loss of future contribution streams from the employee and the member, and paying out benefits earlier than anticipated.

5.3 Whenever individual decisions are taken in the use of discretions the potential cost implications have to be taken into account as part of the consideration process.

5.4 The discretions can only be exercised if there is a minimal impact on the Fund's financial position.

5.5 The Council has a duty to ensure that it is spending public money wisely and any expenditure that arise from decisions taken under the pensions regulations would have to be funded from existing resources.

5.6 Additional comments of the Chief Financial Officer have been incorporated elsewhere in the report.

6. LEGAL COMMENTS

6.1.1 TheLocal Government Pension Scheme Regulations 2013came into force on 1 April 2014. Regulation 60 requires Scheme Employers participating in the LGPS to formulate, publish and keep under review a writtenstatement of policy about the exercise of discretionary functions.Those discretions relate to:
a. funding of additional pension;
b. flexible retirement;
c. waiving of actuarial reduction; and
d. award of additional pension.
.

6.1.2 In accordance with paragraph 2(2) of Schedule 2 to the Local Government Pension Scheme (Transitional Provisions, Savings & Amendment) Regulations 2014, the Council must prepare a written statement on whether to agree to waive in full or part, any actuarial reduction applied to the benefits of a member (pre 1st April 2014 membership) who voluntarily retires and elects to draw their benefits on or after the age of 55 but before the age of 60.

6.2 In preparing, or reviewing and making revisions to its statement, the Council must have due regard to the extent to which exercising the discretions unless properly limited could lead to a serious loss of confidence in the public service.

6.3 The policies do not confer any contractual rights on scheme members and the employer reserves the right to change policy at any time.

6.4 When deciding whether or not to proceed with the scheme, 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 don't (the public sector duty). A form of equality analysis will be required which is proportionate to the proposed scheme and its potential impact on scheme members, particularly in relation to any decision to award additional pension. The award of additional pension could lead to age or sex discrimination. The amount of an employer's contribution may vary in relation to a member's normal retirement age, which may cost less for women than a male comparator due to variations in the state retirement age. Possible age discrimination might occur if younger employees were directly excluded from the benefit of additional pension or any discretion was exercised on age factors alone.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 The Pension Fund Accounts demonstrate the financial stewardship ofthe scheme members and employers assets. A financially viable andstable pension fund is a valuable recruitment and retention incentive.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

9.1 The recommendations ensure that there is no risk to the pension fund and mitigates budgetary risks to revenue.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no any Crime and Disorder Reduction implications arising from this report.

11. EFFICIENCY STATEMENT

11.1 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	*Anant Dodia* *Tel: 020 7364 4248*

APPENDIX 1

LONDON BOROUGH OF TOWER HAMLETS

LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

STATEMENT OF POLICY - EXERCISE OF DISCRETIONARY FUNCTIONS

The Local Government Pension Scheme (LGPS) 2014 effective from 1 April 2014 introduces or amends a number of discretionary elements over which the Council as the employing body can exercise its discretion.

These policy discretions are, where appropriate, as close to the discretions previously applied by the Council.

In accordance with Regulation 60 of the above regulations the Council must formulate, approve, publish and keep under review changes to the Council's Policy in relation to the exercise of its employer discretions under regulations:

- 16(2)(e) and 16(4)(d) (funding of additional pension);
- 30(6) (flexible retirement);
- 30(8) (waiving of actuarial reduction); and
- 31 (award of additional pension).

In addition and in accordance with Paragraphs 2(2) of Schedule 2 to the Local Government Pension Scheme (Transitional Provisions, Savings & Amendment) Regulations 2014 the Council must also prepare a written statement on whether, in respect of benefits relating to pre 1 April 2014 membership, to 'switch on' the 85 year rule for a member who voluntarily retires (leaves employment) and elects to draw their benefits on or after the age of 55 and before the age of 60 thereby agreeing to waive in full or part any actuarial reduction applied to the member's benefits.

The Council is required to send a copy of this Statement to the Pensions Administering Authority and publish it in a place that is easily accessible to all of its eligible scheme employees. There is also the requirement to keep this Policy Statement under review and make such revisions as are appropriate following a change of policy.

Where a revision is made a copy of the revised statement must be supplied to the Pension Administering Authority before the expiry of one month beginning with the date that any such revision is made. The Council must also publish its revised statement ensuring that it is equally accessible.

In preparing, or reviewing and making revisions to its statement, the Council must have regard to the extent to which the exercise of its discretionary powers, unless properly limited, could lead to a serious loss of confidence in the public service.

This document outlines London Borough of Tower Hamlets policy on the employer discretions specified in LGPS 2014, effective from 1 April 2014.

PART A – Formulation of <u>COMPULSORY</u> policy in accordance with Regulation 60 of the Local Government Pension Scheme Regulations 2013

Regulation 16 – Additional Pension Contributions
Where an active Scheme member wishes to purchase extra annual pension of up to £6,500* (figure at 1 April 2014) by making Additional Pension Contributions (APCs), the employer can choose to (voluntarily) contribute towards the cost of purchasing that extra pension via a Shared Cost Additional Pension Contribution (SCAPC)

The Scheme employer may resolve to fund in whole or in part any arrangement entered into by an active scheme member to pay additional pension contributions by way of regular contributions in accordance with *Regulation 16(2)(e)*, or by way of a lump sum in accordance with *Regulation 16(4)(d)*.

The Scheme employer may enter into an APC contract with a Scheme member who is contributing to the MAIN section of the Scheme in order to purchase additional pension of not more than the additional pension limit (£6,500 from 1 April 2014 subject to annual increase in line with the Pensions (Increase) Act 1971). The amount of additional contribution to be paid is determined by reference to actuarial guidance issued by the Secretary of State.

<u>London Borough of Tower Hamletspolicy concerning the whole or part funding of an active member's additional pension contributions - Regulation 16(2)(e) and 16(4)(d)</u>

The Council's policy is not to establish a Shared Cost Additional Pension Contribution Scheme for its employees either on the basis of regular ongoing contribution or by a one off lump sum. This would be costly and as such the Council <u>will continuenot to exercise this discretion</u> on the basis of affordability.

Regulation 30(6) – Flexible Retirement
An active member who has attained the age of 55 or over and who with the agreement of their employer reduces their working hours or grade of employment may, with the further consent of their employer, elect to receive immediate payment of all or part of the retirement pension to which they would be entitled in respect of that employment as if that member were no longer an employee in local government service on the date of the reduction in hours or grade *(adjusted by the amount shown as appropriate in actuarial guidance issued by the Secretary of State – separate policy required under Regulation 30(8)).*

As part of the policy making decision the Scheme employer must consider whether, in addition to the benefits the member may have accrued prior to 1 April 2008 (which the member must draw), to permit the member to choose to draw all, part or none of the pension benefits they built up after 31 March 2008 and before 1 April 2014 and all, part of none of the pension benefits they built up after 1 April 2014.

Due consideration must be given to the financial implications of allowing an employee to draw all or part of their pension benefits earlier than their normal retirement age.

London Borough of Tower Hamlets policy concerning flexible retirement

The Council currently has a policy in place to consider applications for Flexible Retirement which is linked to the Council's policies on retirement and flexible working. The Authority relies upon the knowledge and skills of its employees and as such this policy provides the opportunity for retaining skills and experience as part of a transition towards retirement.

Flexible Retirement allows scheme members age 55 and over to apply to transfer to a lower graded post or to reduce hours of employment and at the same time access their retirement benefits. Both the transfer to a lower graded post or reduction in hours of work and the early release of retirement benefits is employer discretion.

The Council currently operates a Flexible Retirement Scheme and as such this arrangement will continue.

Regulation 30(8) – Waiving of Actuarial Reduction

Where a Scheme employer's policy is to consent to the immediate release of benefits in respect of an active member who is aged 55 or over, those benefits must be adjusted by an amount shown as appropriate in actuarial guidance issued by the Secretary of State (commonly referred to as actuarial reduction or early payment reduction).

A scheme employer (or former employer as the case may be) may agree to waive in whole or in part and at their own cost, any actuarial reduction that may be required by the Scheme Regulations.

Due consideration must be given to the financial implications of agreeing to waive in whole or in part any actuarial reduction.

London Borough of Tower Hamlets policy concerning the waiving of actuarial reduction

The Council will continue to waive reductions only in exceptional circumstances where there is a clear financial or operational advantage for the Authority in so doing or on compassionate grounds would this be considered. This would require authorisation by the Corporate Director of Resources and Head of Human Resources & Workforce Development or their nominated representative.

Regulation 31 – Award of Additional Pension

A Scheme employer may resolve to award

(a) an active member, or

(b) a member who was an active member but dismissed by reason of redundancy, or business efficiency, or whose employment was terminated by mutual consent on grounds of business efficiency, or whose employment was terminated by mutual consent on grounds of business efficiency,

additional annual pension of, in total (including any additional pension purchased by the Scheme employer under Regulation 16), not more than the additional pension limit (£6,500 from 1 April 2014 subject to annual increase in line with the Pensions (Increase) Act 1971).

Any additional pension awarded is payable from the same date as any pension payable under other provisions of the Scheme Regulations from the account to which the additional pension is attached.

In the case of a member falling within sub-paragraph (b) above, the resolution to award additional pension must be made within 6 months of the date that the member's employment ended.

London Borough of Tower Hamlets policy concerning the award of additional pension

The Council's policy is not to fund additional pension at whole cost to the employer given the substantial costs associated with introducing an equitable scheme. This would be a costly and as such the Council will continue not to exercise this discretion on the basis of affordability.

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 Schedule 2 – paragraphs 2 and 3

Where a scheme member retires or leaves employment and elects to draw their benefits at or after the age of 55 and before the age of 60 those benefits will be actuarially reduced unless their Scheme employer agrees to meet the full or part cost of those reductions as a result of the member otherwise being protected under the 85 year rule as set out in previous regulations.

So as to avoid the member suffering the full reduction to their benefits the Scheme employer can 'switch on' the 85 year rule protections thereby allowing the member to receive fully or partly unreduced benefits but subject to the Scheme employer paying a strain (capital) cost to the Pension Fund.

London Borough of Tower Hamlets policy concerning the 'switching on' of the 85 year rule

The Council's policy is toconsider each case on its merits, where it is in the employer's interests in doing so and taking into account the employer costs. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

The discretions contained within this Policy Statement are applicable to all eligible members of the Scheme. The Scheme rules allow for a revised statement to be issued at least one month in advance of the date that any new policy takes effect.

The revised statement must be sent to the Pensions Administering Authority and published in a place that is accessible to all of its eligible scheme members.

The policies made above have regard to the extent to which the exercise of the discretions could lead to a serious loss of confidence in the public service and will be exercised reasonably and only used when there is a real and substantial future benefit to the Council for incurring the extra costs that may arise.

The Council retains the right to change this Policy Statement at any time and only the version which is current at the time a relevant event occurs to an employee will be the one applied to that employee.

24 February 2015

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