TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 23 July 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 Andrew Cregan
Vice Chair**:** TBA

Councillor Clare Harrisson, Councillor Abdul Mukit MBE, Councillor Candida Ronald, Councillor Suluk Ahmed, 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 Asad, Councillor Shafiqul Haque, Councillor John Pierce, Councillor Rajib Ahmed and Councillor Rachel Blake

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

Contact for further enquiries:
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Web:http://www.towerhamlets.gov.uk/committee

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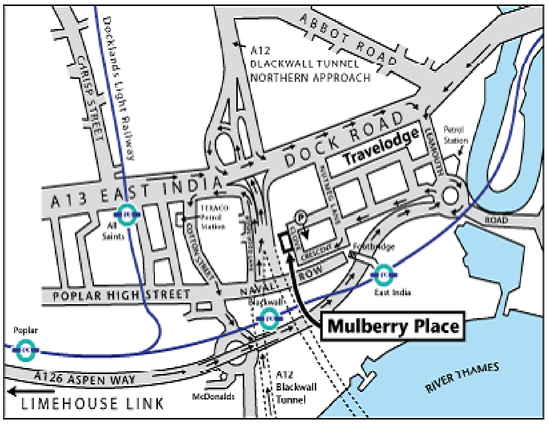

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PAGE NUMBER(S)

1. **APPOINTMENT OF VICE-CHAIR**

APOLOGIES FOR ABSENCE

2. **DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST** — **1 - 4**

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

3. **MINUTES OF THE PREVIOUS MEETING(S)** — **5 - 10**

To confirm as a correct record the minutes of the meeting of the Committee held on 24 February 2015.

4. **PETITIONS**

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

5. **REPORTS FOR CONSIDERATION**

5 .1 **Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings** — **11 - 16**

To consider the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2015/16.

5 .2 **Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2015-16** — **17 - 20**

To note the continued nomination of the Admitted Bodies and Un ion Representatives as co-optees of the Pensions Committee.

5 .3 **WM Annual Review of the Pension Fund Performance 2014/15**

To receive a presentation from WM Performance Services.

5 .4	**Market and Economic Update**	
	To receive a verbal update from Mr Haines, professional investment advisor for the Pension Fund.	
5 .5	**Investment in London LGPS Collective Investment Vehicle (CIV)**	**21 - 26**
	To inform the Committee on the progress of setting up the London Collective Investment Vehicle (CIV), and the work that is currently underway.	
5 .6	**Pension Fund Investment Performance Review for Quarter End 31 March 2015**	**27 - 222**
	To inform Members of the performance of the Fund and its investment managers for the quarter ending 31 March 2015.	
5 .7	**Pensions Board Update July 2015**	**223 - 228**
	To inform Members of progress on the establishment of the new Pensions Board under the Public Service Pensions Act 2013	
5 .8	**LGPS Governance Training**	**229 - 238**
	To receive a presentation from Ms Tobun Investment & Treasury Manager.	
5 .9	**Pension Fund Business Plan and Budget for 2015/16**	**239 - 250**
	To consider the report which outlines the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.	
5 .10	**2014/15 Local Government Pension Fund Annual Report**	**251 - 256**
	To consider the draft Annual Pension Fund Report and Statement of Accounts.	

6. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Next Meeting of the Committee:
Thursday, 17 September 2015 at 7.00 p.m. to be held in Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

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DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

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

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

Interests and Disclosable Pecuniary Interests (DPIs)

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

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

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

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

Effect of a Disclosable Pecuniary Interest on participation at meetings

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

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

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

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

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

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

Further advice

For further advice please contact:-

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

APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or 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 7.10 P.M. ON TUESDAY, 24 FEBRUARY 2015

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

Members Present:

Councillor Rajib Ahmed (Chair)

Councillor Clare Harrisson
Councillor Ayas Miah
Councillor Mohammed Mufti Miah

Admitted Bodies, Non-Voting Members Present:

John Gray – Non-Voting Member (Admitted Body)

Others Present:

Evan Grace – Asset Allocation Portfolio Manager
Tim Sutton – Vice President

Officers Present:

Anant Dodia – (Pensions Manager)
Chris Holme – (Acting Corporate Director - Resources)
Kevin Miles – (Chief Accountant, Resources)
Bola Tobun – (Investments and Treasury Manager, Resources)
Nishaat Ismail – (Committee Officer, Democratic Services, Directorate Law Probity and Governance)
David Knight – (Senior Democratic Services Officer)

Apologies:

Councillor Andrew Cregan
Councillor Harun Miah
Frank West

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 19th November 2014 were presented for approval. Cllr Harrisson-requested that the spelling of her name on page 8 at 4.1 be corrected.

RESOLVED:

- That the minutes of 19th November be approved as a correct record of proceedings.

ACTION BY: Nishaat Ismail (Committee Officer)

3. TRAINING - ASSET ALLOCATION BY WELLINGTON MANAGEMENT

The Committee received a training session on Asset allocation by representatives from Wellington Management.

The Committee were informed about the 3 main functions carried out by Wellington Management as an investment management firm, known as the "Spectrum of asset allocation services"

1. Research
2. Advise
3. Solve

The Committee were also told the following;

- The economic environment is important to asset allocation
- It is important to diversify exposure across economic environments
- Tactical Asset Allocation is important;
    - There are different ways of making tactical decisions; Direct approach, outsourced approach and a hybrid approach.

Members were also told about the importance of having a combination of Active and Passive Management to manage the LGPS portfolio.

It was
RESOLVED:

That the presentation be noted by Members of the Committee.

4. REPORTS FOR CONSIDERATION

4.1 Investment Performance Review for Quarter End 31 December 2014

The Investment and Treasury Manager presented the Investment Performance Review for Quarter End 31 December 2014. The report informed Members of the performance of the Fund and its' investment managers for the quarter ending 31st December 2014.

The Committee were informed;

- For the quarter end December 2014, the US dollar strengthened against the sterling and Euro.
- The equity market for UK only rose by 0.4%
- US equities rose by 4.1% for the quarter
- US equities performed best than any other market.

Performance of Tower Hamlets Pension Fund

The Committee heard that;

- Five of Tower Hamlet's Pension Fund managers performed well.
- 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.
- Tower Hamlets has 2 global equities; GMO and Baillie Gifford.
- GMO made absolute return of 1.3% in the quarter, underperforming the benchmark of 2.8% by 1.5%.
- Baillie Gifford Diversified Growth Fund generated a return of 0.6% for the quarter, underperformed the benchmark of 1.0% by 0.4%
- Ruffer performed very encouragingly by posting a positive return of 4.2% against a target return of 0.6% over the quarter.

In response to Member's questions the Committee were told that;

- GMO's performance will be better in the coming quarter.
- Baillie Gifford takes a different approach to asset allocation in comparison to GMO.
- Baillie Gifford and GMO perform and produce returns at different times.
- The equities market was performing well.

The Chair requested to arrange a meeting with officers to discuss the Fund Managers further.

RESOLVED:

That the contents of the report be noted.

4.2 Investment in London LGPS Collective Investment Vehicle - Joint Committee Meeting 17th December 2014

The Chief Accountant presented the report which summarised the business of a Pensions CIV Sectoral Joint Committee meeting on 17th December 2014.

Cllr Clare Harrisson and Kevin Miles (Chief Accountant) attended the joint committee meeting where the terms of reference for the CIV were covered.

The Committee were told that the CIV asked an additional £50,000 from all authorities involved.

Members noted that one of the key concerns raised in the CIV joint committee meeting was concerns of accountability raised by most councils involved.

The Committee also heard that ultimately it was up to councils how much they wished to invest in the CIV.

In response to Member's questions, the Investment and Treasury Manager and the Acting Corporate Director said they would find out if Tower Hamlets has any non-disclosure clauses with any of the fund managers.

RESOLVED:

That Member's approved the recommendations to invest a further £50,000 into the CIV.

4.3 Tower Hamlets Pension Scheme- Social, Environmental and Ethical Investment

The Chief Accountant presented this report which informed the Committee of the Pension Fund's approach to socially responsible investments.

The Committee were told that 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.

Members were also informed that the Council recognises that Social, Ethical and Environmental issues are factors to be taken into consideration in assessing investments.

Members raised their concerns about the importance of knowing exactly where LBTH's pension fund managers are investing the Council's money.

RESOLVED:

That the report be noted.

4.4 LGPS Governance Regulations and LBTH Local Pensions Board Establishment

The Investment and Treasury Manager presented this report explaining 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 28th January 2015.

Members were informed about the discussions of the meeting of Pension Board Working Group meeting.

Members requested that changes be made to the Local Pension Board of LBTH Terms of Reference, at points 19.b & c under the Employer representatives section.

RESOLVED:

- That the report be noted
- The monitoring officer will make the necessary changed to the constitution that the Pensions Committee has the delegated authority and power to create the Local Pension Board be noted.
- And the Local Pension Board Terms of Reference be approved with amendments.

4.5 Pension Fund Business Plan and Budget for 2015/16

The Investment and Treasury Manager presented the Pension Fund Business Plan and Budget for 2015/16.

The report outlined the Work Plan for the Council's statutory function as the administering authority of the LBTH Pension Fund.

The Committee were told about the Key Performance Indicators that 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

Members were told that the Pensions Committee will receive update on those performance indicators.

In response to Members questions, the Committee were told that;

- From 1st April 2015, changes will enable people to opt for Pension scheme outside. There will be procedures in place to advise the individual by independent advisors.
- Officers are in the process of finding out more information from the Council's actuaries to prevent loss of cash flow as a result of people transferring to private pension schemes.
- People would be made aware of the implications of opting for a pension scheme elsewhere.

RESOLVED:

1 That the work plan be agreed.
2 The revenue budget for 2015/16 also be agreed.

4.6 Review of discretions under the Local Government Pension Scheme

The Pensions Manager presented the Review of discretions under the Local Government Pension Scheme.

Members were told about the Pension Policies which need reviewing. There were five discretions to reconsider;

- 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 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.

RESOLVED:

That the employer discretions set out in Section 4 of this report and the policy statement be approved.

5. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 9.00 p.m.

Chair, Councillor Rajib Ahmed
Pensions Committee

Non-Executive Report of the: **Pensions Committee** 23rd July 2015	TOWER HAMLETS
Report of: Meic Sullivan-Gould, Interim Monitoring Officer	**Classification:** Unrestricted
Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings	

Originating Officer(s)	Antonella Burgio
Wards affected	All Wards

Summary
This report sets out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2015/16 for Members' information.

Recommendations:

The Pensions Committee is recommended to:

1. Note its Terms of Reference, Membership and Quorum as set out in Appendix A to this report.

2. Determine the preferred time at which the scheduled meetings will start

1. REASONS FOR THE DECISIONS

1.1 The report is brought annually to assist new and returning Members by informing them of the framework of the Committee set out in the Council's Constitution.

2. ALTERNATIVE OPTIONS

2.1 The report asks Members solely to confirm its constitutional arrangements and therefore they are not required to consider any alternative options.

3. DETAILS OF REPORT

Background

3.1 At the reconvened Annual Council Meeting on 24th June 2015, Members were appointed to the various Committees and Panels established for the new municipal year as set out in the Constitution.

3.2 The terms of reference for the Pensions Committee together with the appointed Membership and Quorum thereof are set out in Appendix A.

4. Membership

4.1 Council on 24th June 2015 agreed that the Membership of the Committee be set at 7 Members in line with the recommendations of the Constitutional Working Party adopted by Council in April 2010 to ensure the proportionality arrangements are upheld.

4.2 Council also agreed that one Admitted Body and one Trade Union representative be invited to join the Committee on a non-voting basis in line with the recommendations of the Constitutional Working Party. Officers will verbally update Members on the process for appointing to these positions at the meeting.

5. Programme of Meetings

5.1 The Council has agreed a programme of meetings for the municipal year. Meetings of the Pensions Committee are scheduled as follows:

23 July
17 September
26 November
10 March (2016)

5.2 The Constitution provides that, the meetings will take place at 7.30pm unless the Chair otherwise decides. The Chair and Pension Committee Members, in the past, have agreed the meetings will take place at 7.00pm in accordance with the programme of meetings for principal committees as this time is deemed to be more convenient for members and public. Additionally any meetings that fall during the holy month of Ramadan are scheduled to commence at 5.30pm. Members may wish to determine their own meeting time in the forthcoming municipal year and are permitted to offer their views to the Chair.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

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

7. LEGAL COMMENTS

Appendix A sets out the terms of reference and composition of the committee as set out in Paragraph 3.3.10 of the Council's Constitution. There are no immediate legal consequences arising from this report.

8. ONE TOWER HAMLETS CONSIDERATIONS

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

9. BEST VALUE (BV) IMPLICATIONS

There are no specific best value implications arising from the recommendations in the report.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

[Authors should explain how the proposals in the report will contribute to a sustainable environment and/or identify any environmental implications of the proposals and the action proposed to address these.]

11. RISK MANAGEMENT IMPLICATIONS

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

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

There are no specific crime and disorder reduction implications arising from the recommendations in the report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Terms of Reference and Membership

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- NONE

Officer contact details for documents:

- N/A

APPENDIX A

PENSIONS COMMITTEE - TERMS OF REFERENCE

Terms of Reference:

- To consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters.

Membership:

Members	Substitutes
7 Members of the Council	**Up to three substitutes maybe appointed for each Member**
Plus one representative of the Admitted Bodies and one Trade Union representative. The Admitted Body and Trade Union representatives will be non-voting members of the Committee.	

At the reconvened Annual General Meeting of the Council held on 24th June 2015 the following appointments were made to the Pensions Committee.

PENSIONS COMMITTEE **(Seven members of the Council)**		
Labour Group (4)	***Independent Group (3)***	***Conservative Group (0)***
Councillor Andrew Cregan (Chair) Councillor Clare Harrisson Councillor Md. Abdul Mukit Councillor Candida Ronald Deputies:- Councillor John Pierce Councillor Rajib Ahmed Councillor Rachel Blake	Councillor Suluk Ahmed Councillor Harun Miah Councillor Mufti Miah Deputies:- Councillor Abdul Asad Councillor Shafiqul Haque	n/a

The quorum of the Pensions Committee is three Members.

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Non-Executive Report of the: **Pensions Committee** 23rd July 2015	TOWER HAMLETS
Report of: Meic Sullivan- Gould, Interim Monitoring Officer	**Classification:** Unrestricted
Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2015-16	

Originating Officer(s)	Antonella Burgio
Wards affected	All Wards

Summary

The purpose of this report is note the continued appointment of 2 non-voting co-optees to the Pensions Committee for the duration of the municipal year.

Recommendations:

The Pensions Committee is recommended to:

1. Note the continued nomination of John Gray (Admitted Bodies Representative) and Frank West (Union Representative) as non-voting co-optees of the Pensions Committee for the municipal year 2015-16 and their reappointment at the reconvened meeting of Annual Council on 24th June 2015.

1. REASONS FOR THE DECISIONS

1.1 Under Article 8 (Para. 8.01) and Part 3 Section 3.3.10 of the Constitution, Council has delegated to the Pensions Committee, responsibility to consi pension matters and meet its obligations and duties under the Superannuation 1972 and the various statutory requirements in respect of investment matters.

1.2 Part 3 Section 3.3.10 of the Constitution also provides that membership of Pensions Committee comprise Elected Members, and include 1 Representative the Admitted Bodies and 1 Trade Union Representative.

2. ALTERNATIVE OPTIONS

2.1 The Constitution does not provide any alternative arrangements for appointment of co-optees to this Member Level Body.

3. DETAILS OF REPORT

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 Regulation. The Regulation also empowers the Fund to admit employees of other 'defined' (e.g. other public bodies, housing corporations) bodies into the Fund.

3.2 The Pensions Committee has specific delegated function that it has to fulfil in representing the Council 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.

3.3 Part 3 Section 3.3.10 of the Constitution provides that membership of the Pensions Committee comprise Elected Members, and also include 1 Representative of the Admitted Bodies to the Pension Fund and 1 Trade Union Representative.

3.4 The Committee's Terms of Reference does not presently stipulate a term of office for these roles. In the absence of a specified term, it is appropriate that the appointment of the co-optees should be periodically reaffirmed to ensure that the persons appointed continue to serve with the endorsement of the external bodies and organisations that (contribute to the Fund and that) have nominated them.

4. APPOINTMENT OF CO-OPTEES

4.1 The external organisations and bodies represented by Mr John Gray have been canvassed and none have objected to his reappointment as representative for Admitted Bodies for the municipal year 2015-16.

4.2 The Council's recognised Trade unions have been contacted and have not objected to the reappointment of Mr Frank West in the role of representative of Trade Unions for the municipal year 2015-16.

4.3 This matter is therefore brought before the Pensions Committee to note the continued endorsement of Mr Gray and Mr West as co-optees of the Committee and also to note their respective reappointment at Annual Council on 24th June 2015.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

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

6. LEGAL COMMENTS

6.1 The functions of the Pensions Committee under the Council's Constitution are: "to consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters". This includes ensuring the Council meets its various obligations under the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. As referred to in paragraph 3 above, the Council's Constitution provides for 1 Representative of the Admitted Bodies and 1 Trade Union Representative to be co-opted onto the Pensions Committee. The appointments of John Gray and Frank West were agreed at the Annual Council meeting on the 24th June 2015.

7. ONE TOWER HAMLETS CONSIDERATIONS

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

8. BEST VALUE (BV) IMPLICATIONS

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

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

10. RISK MANAGEMENT IMPLICATIONS

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

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 Authors should identify how the proposals in the report contribute to the reduction of crime and disorder.]

Linked Reports, Appendices and Background Documents

Linked Report
- NONE

Appendices
- NONE.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- NONE.

Officer contact details for documents:
- N/A

Non-Executive Report of the: **Pensions Committee** **23 July 2015**	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** [Unrestricted]
Investment in London LGPS Collective Investment Vehicle (CIV)	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	All wards

Summary

This report informs the Committee on the progress of setting up the London Collective Investment Vehicle (CIV), and the work that is currently underway. The process of the CIV being operational and will in due course require the Committee to assess the merits for the Fund to transfer assets or invest directly into funds held on the CIV, where this is deemed as beneficial for the Fund to do so. The report also outlines the need for the Fund to invest a relatively small sum of money into the CIV to be held as regulatory capital.

Recommendations:

Members are recommended:

1. Note the update on progress in setting up the CIV
2. Delegate authority to the Corporate Director of Resources in consultation with the Chair of Pensions Committee to settle any contracts concerned with the CIV on behalf of the Council and Pension Fund
3. Delegate authority to the Corporate Director of Resources in consultation with the Chair of Pensions Committee to invest sums required for regulatory capital to the London CIV to meet the requirements for FCA (Financial Conduct Authority) registration. Anticipated level of investment £160,000.
4. Agree that where circumstances arise and the Committee is not available for consultation, delegate to the Corporate Director of Resources in consultation with the Chair of Pensions Committee the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund.

1. REASONS FOR THE DECISIONS

1.1 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.

1.2 Members should be aware that this development in London is being closely watched both by Central Government and other funds and the success of this venture may well impact the long term future of the LGPS. Given the benefits that will accrue to this Fund and others in London over the longer term, both in terms of savings, efficiency gains and wider benefits including new opportunities for investment, from closer collaboration, the Committee's support should continue to be forthcoming to ensure a successful delivery of the London CIV. It should be recognised that delays to some of these key developments will lead to a delay in London funds securing the benefits of the CIV for which so many fund have worked collaboratively to ensure its delivery and could mean real savings and benefits are delayed, hence the request for more delegations to be put in place than would ordinarily be the case.

2. ALTERNATIVE OPTIONS

2.1 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.

3. DETAILS OF REPORT

3.1 Members have received a number of papers which have covered both the calls for structural reform coming from CLG and the work that has been going on in London to consider ways of working more collaboratively and efficiently with other funds and more specifically to consider options for the establishment of a collective investment vehicle in London. Members have also previously agreed to commit £75,000 towards the setting up of the London CIV.

3.2 The London CIV has made progress in 2015, as follows:

a) The Pensions Joint Committee has met three times and considered:
- The appointment of Northern Trust providing functions including a depositary, Custodian, Fund Accountant, Transfer Agency and Tax reclaims;
- Procuring the Authorised Contractual Scheme Operator;
- Their role of acting as a forum of shareholders of the CIV; and
- The governance structures of the CIV

b) The Interim Directors of the CIV company have met and considered/ratified decisions concerning:
   - The appointment of Northern Trust providing functions including a depositary, Custodian, Fund Accountant, Transfer Agency and Tax reclaims;
   - A number of procurements, including a Recruitment consultant, Advisors to the company and an advisor for an Asset servicer procurement;
   - The company programmes, risk registers and procedures; and
   - The recruitment process for senior executives and future Board members

c) The Technical Sub Group have met and considered:
   - The fund managers that the boroughs currently invest in and the process by which they may come onto the CIV;
   - The process of narrowing down those managers for phase 1 of the CIV and the proposals those managers have put forward including fee reductions and scope of investment;
   - The initial structures and governance modelling of the CIV and the methods by which the boroughs will interact with the vehicle;
   - A number of procurements including the reviewing and ratification of candidate responses; and
   - An initial paper on working capital requirements to meet the liquidity needs as set out by the FCA.

3.3 The London CIV has now reached the position to apply for formal registration to the FCA, a key milestone, without which the CIV is unable to operate. Formal approval is expected to be given to the London CIV as both operator and fund over the summer, it is therefore anticipated that it will be ready to open with funds in early autumn. As part of the authorisation process, the CIV is required to have sufficient regulatory capital in place to ensure that it is able to meet commitments in the event of a short term crisis. Whilst it is possible to argue that the structure of the CIV and the support of Local Authorities and the fact that these will be its only investors, means that the CIV is a much more secure organisation than others and therefore this requirement for regulatory capital feels like an unnecessary additional burden, however as this is a requirement for authorisation, it will be necessary for the CIV to hold sufficient regulatory capital. To ensure that the amount held is sufficient to cover the CIV for a reasonable period of time as it grows assets under management, it has been agreed that each London Borough should be asked to provide this as an investment. An assessment of the requirement means that funds will be asked to invest between £150- £160k.

3.4 It should be recognised that this is different to £75k contributed so far, in that this amount was required to actually fund the establishment of the CIV and would be classified as expenditure. However this additional sum of £150-£160k represents share capital and will be held as an investment and will be recognised as such within the Pension Fund report and accounts as part of the assets of the Fund. The Committee are therefore asked to delegate authority to the Corporate Director of Resources in conjunction with the Chair of the Committee to agree to this investment in the CIV when this is required.

3.5 The FCA rules classify the CIV as an externally managed Collective Portfolio Management firm and accordingly, the Operator of the CIV would need to retain working capital in accordance with FCA rules and regulations, hence the requirement for this regulatory capital to be held by the CIV in advance of the formal authorisation by the FCA being given. The Regulatory Capital held by the CIV will be invested in liquid assets by the company in the form of cash or near cash investments. It is anticipated that the regulatory capital being put in by the Funds will be sufficient to ensure that this will cover any growth in the assets under management.

3.6 The Committee is also being asked to authorise the delegation of sorting contractual arrangements with the CIV to ensure that the Fund is able to participate fully in the CIV when the opportunity arises. This does not commit the Fund in any way to investing through the CIV, the decision on whether to do so, how much and in what asset classes remains very much the decision of this Committee. However, given the timescales for some of these decisions, particularly in the early days and the gaps between Committee meetings, it may be necessary for the Fund to consider a transition of assets into the CIV should the opportunity arise between one Committee meeting and the next one. Whilst every effort will be made to contact and seek approval from individual Committee Members, it may be necessary for the Corporate Director of Resources in conjunction with the Chair of Pensions Committee to make a decision in the absence of a formal Committee meeting. The circumstances under which such a decision would be required would only be where the transition of assets relates to a pre-existing fund manager for the Pension Fund and where the financial benefits of the transition would be clear for the Fund.

3.7 Although the final details of the individual sub-funds on the CIV are yet to be finalised, it is anticipated that the initial sub-funds on the CIV will be a combination of passive and multi-asset funds. Due to commercial confidentiality it is not possible to disclose the level of anticipated savings from this, but it is clear that the benefits across London funds will be significant and that these are only likely to grow as the range of sub-funds and opportunities for investment increase.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

5.1 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.

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

5.3 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). The Committee may take the view that investing in the Collective Investment Vehicle will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 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.

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 The Committee may take the view that investing in the Collective Investment Vehicle will optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

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 Any form of investment inevitably involves a degree of risk.

9.2 To minimise risk the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents
Linked Report

- NONE

Appendices

- NONE

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- NONE

Officer contact details for documents:

- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

Non-Executive Report of the: **Pensions Committee** 23rd July 2015	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** [Unrestricted or Exempt]
Pension Fund Investment Performance Review for Quarter End 31 March 2015	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	[All wards]

Summary

This report informs Members of the performance of the Fund and its investment managers for the quarter ending 31 March 2015.

For the quarter, the Fund outperformed the benchmark by 0.8%, delivering a positive absolute return of 5.5% against benchmark return of 4.7%.

The Fund is ahead its benchmark for the last twelve months to end of March 2015, the Fund returned 11.8%, and this exceeds the benchmark by 0.3%.

For longer term performance the Fund posted three year returns of 10.7% ahead the benchmark return of 10% and posted five year returns of 8.0% against benchmark return of 7.9%.

For this quarter end, six 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 (DGF), Baillie Gifford Global Equities, GMO and Legal & General Equities and UK Gilts Funds.

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.

Recommendations:

Members are recommended to note the contents of this report.

1. REASONS FOR THE DECISIONS

1.1 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.

2. ALTERNATIVE OPTIONS

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

3. DETAILS OF REPORT

3.1 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.

3.2 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.

3.3 This report informs Members of the performance of the Fund and its investment managers for the quarter 31 March 2015.

3.4 Legal & General Investment Management

3.4.1 Legal & General was appointed (2 August 2010) to manage passively UK Equity and UK Index-Linked Mandates, which at 31 March 2015 had a market value of £226.3m. The value of the assets taken on at the commencement of the contract was £204.7m.

3.4.2 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.

3.5 Baillie Gifford & Co

3.5.1 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 March 2015 was £217.7m. 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.

3.5.2 The diversified growth fund mandate was opened in February 2011 with contract value of £40m. The market value of assets as at 31 March 2015 was £50.7m. 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%.

3.6 GMO

3.6.1 GMO manages a Global Equity Mandate which at 31 March 2015 had a market value of £273.4m. on 25 November 2014, £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.

3.6.2 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.

3.7 Investec Asset Management

3.7.1 Investec manages a Global Bond Mandate which at 31 March 2015 had a market value of £99.6m. The initial value of the assets taken on at the commencement (26 April 2010) of the contract was £97m.

3.7.2 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.

3.8 Ruffer Investment Management

3.8.1 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 March 2015 was £50.6m.

3.8.2 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.

3.9 Schroder Investment Management

3.9.1 Schroder manages a property mandate. The value of this mandate on 20 September 2004 was £90m. The market value of assets at 31 March 2015 was £122.2m.

3.9.2 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.

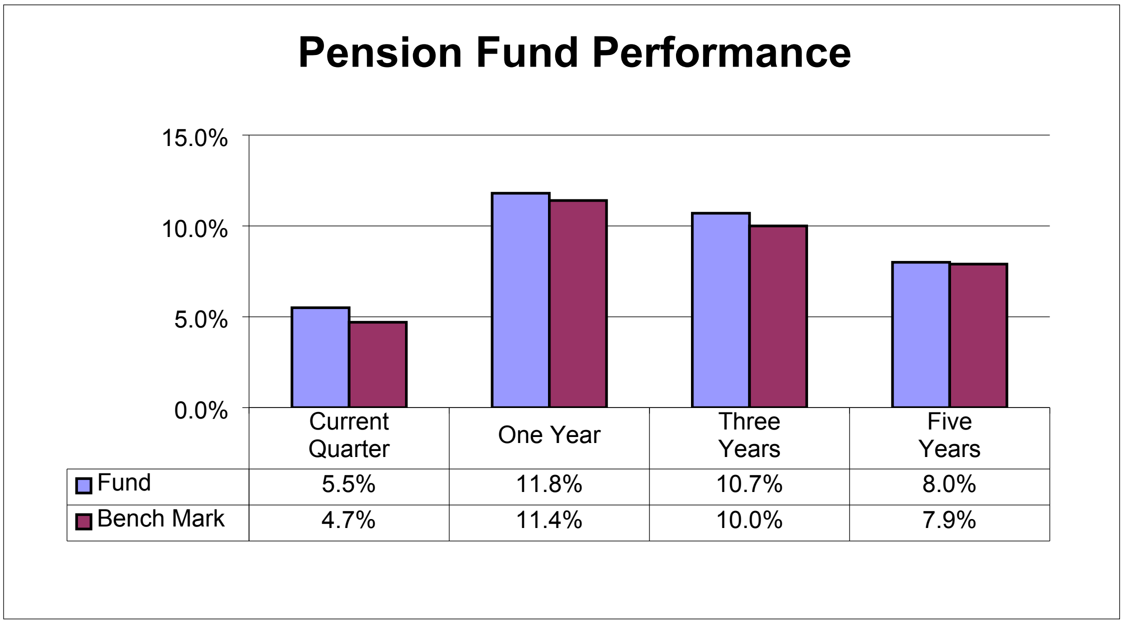
3.10. INVESTMENT PERFORMANCE

3.10.1 The Fund’s overall value has increased by £60.4m from £1,081.5m as of 31 December 2014 to £1,141.9m as of 31 March 2015.

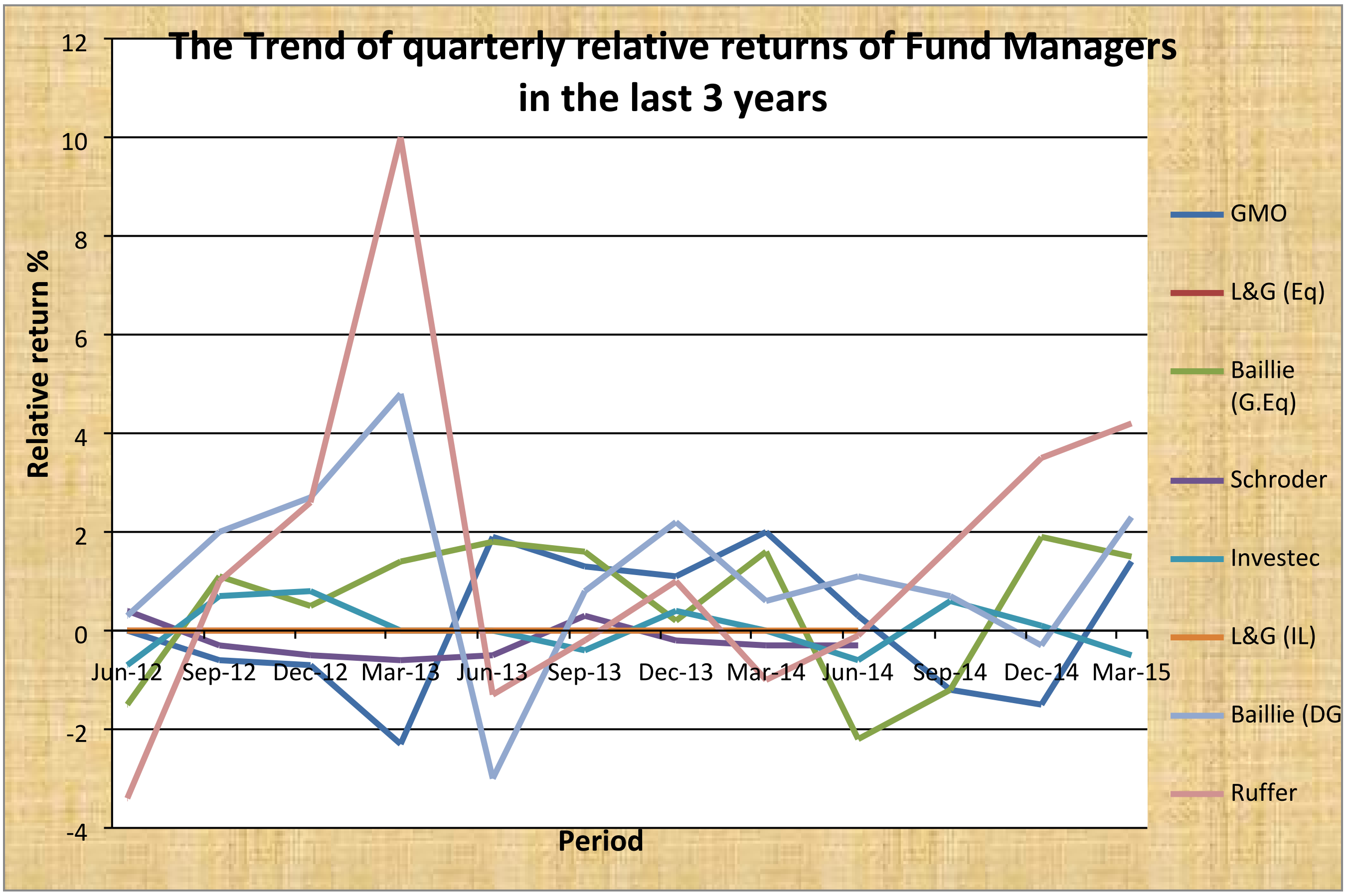
3.10.2 The fund outperformed the benchmark this quarter with a return of 5.5% compared to the benchmark return of 4.7%. The twelve month period sees the fund outperforming the benchmark by 0.9%.

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

Table 1 – Pension Fund Performance



3.10.4 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.



3.11 <u>MANAGERS</u>

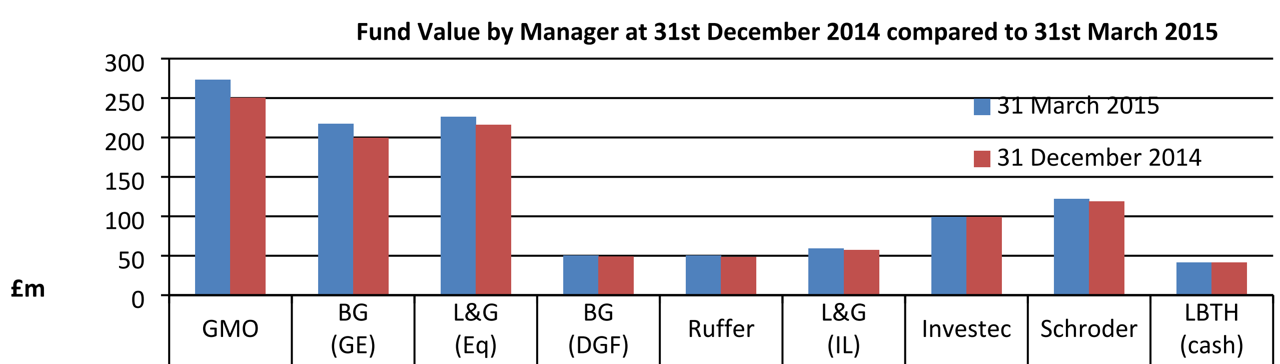
3.11.1 The Fund employs six specialist managers with eight mandates. The managers, mandate and funds held under management are set out below:

<u>Table 2: Management Structure</u>

Manager	Mandate	Value March 2015 £m	Benchmark Weight % of Fund Managers	Actual Weight % of Portfolio as at 31 March	% Difference of strategic weight & actual	Revised B/Mark Weight Dec 2014	% Difference with revised B/Mark Dec 2014	Date Appointed
GMO	Global Equity	**273.61**	25.0%	23.94%	-0.6%	23.0%	+0.94%	29 Apr 2005
Baillie Gifford	Global Equity	**217.67**	16.0%	19.06%	+3.06%	18.0%	+1.06%	5 Jul 2007
L & G UK Equity	UK Equity	**226.26**	20.0%	19.81%	-0.19%	20.0%	-0.19%	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	**50.68**	5.0%	4.44%	-0.56%	5.0%	-0.56%	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	**50.62**	5.0%	4.43%	-0.57%	5.0%	-0.57%	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	**59.55**	3.0%	5.21%	2.21%	3.0%	2.21%	2 Aug 2010
Investec Bonds	Bonds	**99.63**	14.0%	8.73%	-5.27%	14.0%	-5.27%	26 Apr 2010
Schroder	Property	**122.20**	12.0%	10.7%	-1.30%	12.0%	-1.30%	30 Sep 2004
Cash	Currency	**41.87**	0.0%	3.67%	3.67%		+3.67%	
Total		**1,141.86**	**100.0%**	**100.00%**	**0.00%**	**100.0%**	**0.00%**	

3.11.2 The Fund was valued at £1,141.86million as at 31 March 2015. This includes cash held and being managed internally (LBTH Treasury Management), this stands at 3.67% of the total assets value.

3.11.3 The breakdown by manager is shown below and illustrates the performance of the markets over the period.



	GMO	BG (GE)	L&G (Eq)	BG (DGF)	Ruffer	L&G (IL)	Investec	Schroder	LBTH (cash)
31 March 2015	273.61	217.67	226.26	50.68	50.62	59.55	99.63	122.2	41.87
31 December 2014	250.74	199.44	216.08	49.09	48.29	57.65	99.49	119.21	41.47

3.11.4 A decision was made at the July 2014 committee meeting to rebalance the Fund's overweight positions in equities given the strength of equity markets. This is still an ongoing process.

3.11.5 The recommendations from the advisers and officers to the committee were to provide a better balance between the two global equity mandates. 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%;
- if possible some rebalancing of the equity overweight to the DGF managers to with the aim to 'lock-in' some of the recent equity gains.

3.11.6 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.

3.11.7 The logical place to rebalance the cash awaiting investment to would have been with Investec, but this manager has not met their target and remains underweight on the back of strong performance from the other asset classes. Therefore there is currently no desire to rebalance the Investec mandate to bring it back in line with target.

3.11.8 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	1.40%	-1.60%	0.50%	0.30%
Baillie Gifford Global Equities	1.50%	-0.20%	2.40%	2.40%
L & G UK Equity	0.00%	0.10%	0.10%	N/A
Baillie Gifford Diversified Growth	2.30%	4.10%	2.60%	N/A
Ruffer Total Return Fund	4.20%	9.80%	4.60%	N/A
L & G Index Linked-Gilts	0.00%	0.00%	0.10%	N/A
Investec Bonds	-0.50%	-0.70%	-1.30%	N/A
Schroder	-0.30%	-0.60%	-0.80%	-1.00%
Total Variance (Relative)	**0.80%**	**0.40%**	**0.70%**	**0.10%**

3.12 GMO - A rebalancing decision was made at the committee meeting of July 2014, 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.

3.12.1 GMO made absolute return of 9.0% in the quarter, outperforming the benchmark of 7.6% by 1.4%.

3.12.2 The two previous quarters of underperformance preceded by a period of strong outperformance, highlight the volatility and long term nature of this portfolio.

3.12.3 The portfolio's allocation to Japanese value stocks proved beneficial over Q1 2015, both due to the overweight allocation and also positive stock selection. Stock selection also proved successful in the European market.

3.12.4 As in previous quarters, the portfolio remains overweight to high quality US stocks, however during Q1 2015 this detracted from returns as this segment underperformed the broader US market. The effect of individual stock selection in this segment also detracted from relative returns. The fund's emerging market exposure also proved to be a marginal drag on returns, with Brazilian stocks performing poorly on the back of continued concerns about political and economic stability in the country.

3.13 **Baillie Gifford** – the portfolio outperformed the benchmark of 7.6% over the quarter, delivering a return of 9.1% resulting in relative outperformance of 1.5%. 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.

3.13.1 One of the largest contributors to performance was Naspers, the South African pay TV and social media company. Naspers has a significant stake in the Chinese gaming site, Tencent, to which its share price is highly correlated. Tencent released strong fourth quarter results which showed strong increases in revenues and net income. This was driven by the growing video advertising revenue. The company’s market share remains at very high levels with around 40% of Chinese mobile gaming users, and its pipeline of future games appears to be solid.

3.13.2 Anthem, the US health insurance business, had a good quarter following stronger than expected earnings results for the final quarter of 2014. Positive news that its acquisition of Simply Healthcare in Florida will almost certainly go ahead, also boosted the company’s share price.

3.13.3 The two largest detractors during the quarter were Apple and Baidu. The Fund does not hold Apple, the US Technology company, and the stock’s strength over the reporting period has hindered performance relative to the benchmark. Baidu, the Chinese online search engine, released results slightly below consensus due to higher than expected costs, including investment in online payments. The company has a dominant position in mobile search, and the manager believes that accelerating 4G Smartphone penetration will lead to a significant rise in mobile data usage.

3.14 **Legal & General - L & G (UK Equity)** – The portfolio returned 4.7% matching the index return over the quarter.

3.14.1 At the quarterly index review AA, Virgin Money Holdings, Petropavlovsk and Oxford Biomedical were added, whilst Hardy Oil & Gas was deleted.

3.14.2 Mecom Group was acquired by Belgium media group De Persgroep Publishing NV for £0.2bn in cash, whilst Ophir Energy (constituent) acquired Salamander Energy. Other corporate activity included Qatar Airways purchasing a 9.99% stake in International Consolidated Airlines Group, resulting in a freefloat decrease. Spire Healthcare Group, Merlin Entertainments, Inmarsat, Polypipe and SPP all saw their freefloats increase after strategic holders reduced their stakes.

3.14.3 BT Group, Poundland, Charles Taylor, IP Group and Anglo Pacific Group all raised cash to fund expansion, while Serco and AA raised cash to strengthen the balance sheet and reduce debt costs respectively

3.15 **L & G Index Linked Gilts** – The portfolio returned 3.3% matching the index return over the quarter.

3.15.1 UK 2014 Q4 GDP was confirmed at 3.0% year on year. RPI inflation continued its fall, down to 1.0% in February and with consumer confidence at a 15-year high, we now enter the most unpredictable General Election in a generation.

3.15.2 During the first quarter, there were auctions of 2024, 2037, 2044 and a single syndication of 2058 maturity bonds. These raised approximately £9.2bn for government funding.

3.15.3 The Fund held all 21 stocks contained within the benchmark index. The Fund and index had a modified duration of 22.98 and 22.96 years respectively at the end of the quarter and the real yield was -0.94% (yield curve basis)

3.16 **Investec (Bonds)** – The portfolio delivered a return 0.1% against a target of 0.6% over the quarter, underperforming the target by 0.5%. The underperformance here was driven mainly by the corporate credit exposure.

3.16.1 Interest rate positioning and emerging market debt exposure both made broadly positive contributions, whilst currency exposure made flat contribution.

3.16.2 The ***emerging market debt*** exposure added to relative returns over the period. This was predominantly due to being able to take full advantage of the strength in emerging market bonds at the beginning of the year.

3.16.3 The positive relative performance from the ***interest rate exposure*** was predominantly due to the holdings of smaller, higher-quality government bonds, such as Israeli and Australian, where both central banks struck a more dovish tone in one form or another. The short exposure to US Treasuries was a drag on relative returns after US government bond markets continued to rally amid a more dovish interpretation of US Federal Reserve (Fed) comments.

3.16.4 The ***corporate credit exposure*** detracted from relative returns over the period. The bulk of this underperformance came in March, when broader credit market hedge positions detracted after a strong rally in high yield credit markets, particularly in Europe following the announcement of quantitative easing (QE) from the European Central Bank.

3.16.5 The ***currency exposure*** made a flat contribution to returns, reflecting how negative performance from the manager's idiosyncratic, short-term positions was offset by their core, longer-term holdings, such as their strategic bias towards the US dollar. Indeed, several of our idiosyncratic trades did not evolve as they had expected.

3.16.6 Longer term performance remains below the benchmark for 12 months, 3 years and since inception. 12 months to reporting period the relative return was -0.7%, with the benchmark posting 2.6% and the portfolio delivered 1.9%.

3.17 **Schroder (Property) –** The portfolio returned 2.5% over the quarter; this is below the benchmark of 2.8% resulting in underperformance of the benchmark by 0.3%.

3.17.1 Positive drivers of performance for this quarter are Central London and Industrial specialist funds, although cash and reinvestment costa associated with a high volume of transactions over the reporting period (£5.8m) have temporarily held back returns.

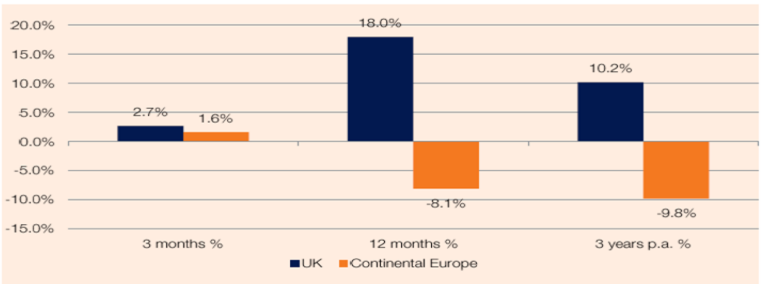
3.17.2 Longer term performance continues to lag the benchmark; with an underperformance 1.0% p.a. over the 5 years to 31 March 2015.

3.17.3 The UK investments assets (97% of the portfolio's value) outperformed by +1.4% over the past twelve months, 0.8% over the three years and 0.5% over the five years. The UK assets marginally underperformed the benchmark over the quarter due in part to cash held on account pending investment.

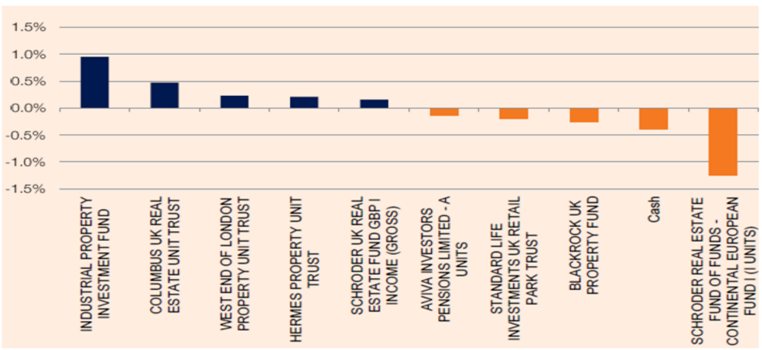
3.17.4 The Continental European Fund (3% of portfolio) produced a positive return this quarter (10.9%), but still remains a drag to total returns in aggregate over the past five years in particular.

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

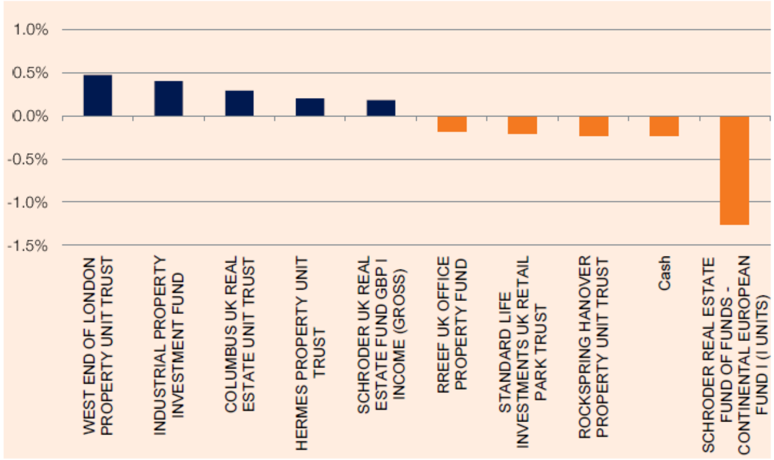
Total return by region
Periods to end 31 Mar 2015



Total return attribution relative to benchmark top & bottom five contributors
12 months to 31 Mar 2015



Total return attribution relative to benchmark top & bottom five contributors
3 years to 31 Mar 2015



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.

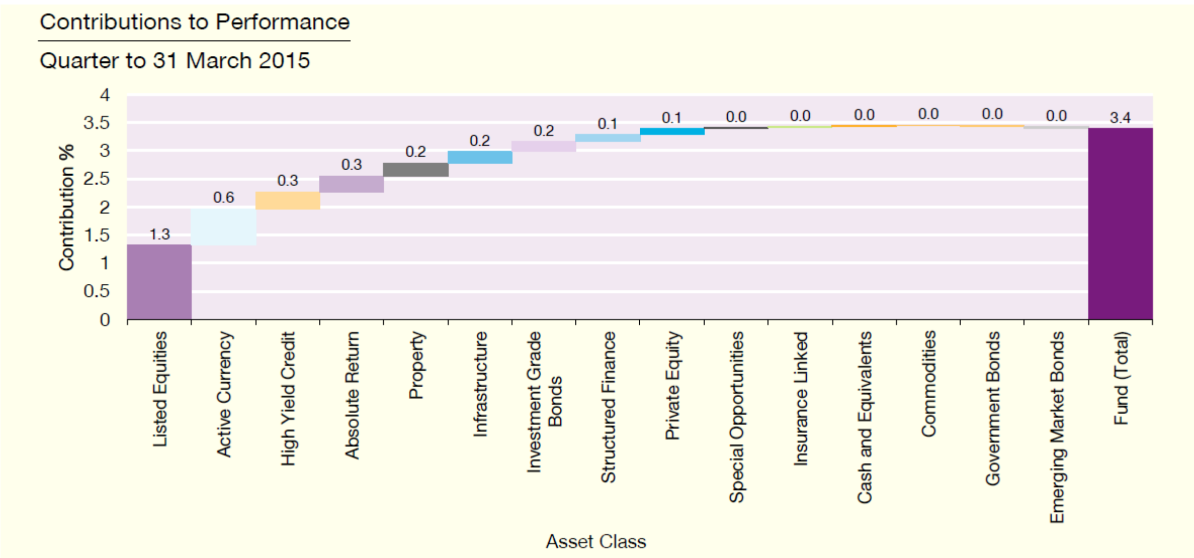
3.18 **Baillie Gifford Diversified Growth Fund** generated a return of 3.3% for the quarter, outperformed the benchmark of 1.0% by 2.3%.

3.18.1 Over the past year, all asset classes contributed positively to performance, with the greatest contributions coming from listed equities, active currency and absolute return.

3.18.2 In the three months to 31 March 2015, the largest contributors to performance were listed equities, active currency, high yield credit and absolute return. Most other asset classes were broadly flat over the quarter.

3.18.3 The long term performances are ahead of the benchmark. The last 12 months are ahead by 4.1% and the last 3 years by 2.6% above benchmark returns.

3.18.4 Please see below charts which illustrate contributions to performance per asset class for the quarter end and Year to 31 March 2015.



Ave. Weight %	20.6	-0.2	13.5	8.2	2.4	4.3	6.4	13.1	2.0	0.6	5.1	6.9	5.6	0.0	11.5	100.0
Return %	6.4	0.6	2.2	3.3	10.7	4.8	2.5	0.8	5.1	3.7	0.2	0.3	-0.2	2.3	-1.5	3.4

Ave. Weight %	18.2	-0.1	7.4	2.3	13.0	7.7	12.8	4.5	4.9	11.3	2.7	5.9	2.2	0.6	6.7	100.0
Return %	11.3	1.1	13.9	36.9	1.8	5.5	3.1	10.1	6.6	1.5	10.2	0.4	6.7	8.8	0.1	8.6

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

3.19 **Ruffer Total Return Fund (Absolute Return)** – The portfolio performed very encouragingly by posting a positive return of 4.8% against a target return of 0.6% over the quarter.

3.19.1 Exposure to inflation linked bonds made a notable positive contribution to portfolio returns over the quarter, as the announcement of a reduction in issuance and the impact of quantitative easing by the ECB combined to drive down yields in long-dated bonds.

3.19.2 The allocation to Japanese equities also added value, boosted by a change in policy towards domestic equities by the Japanese Government Pension Investment Fund.

3.19.3 Exposure to the US Dollar had a positive impact on performance, as the currency remained strong in anticipation of a rise in US interest rates.

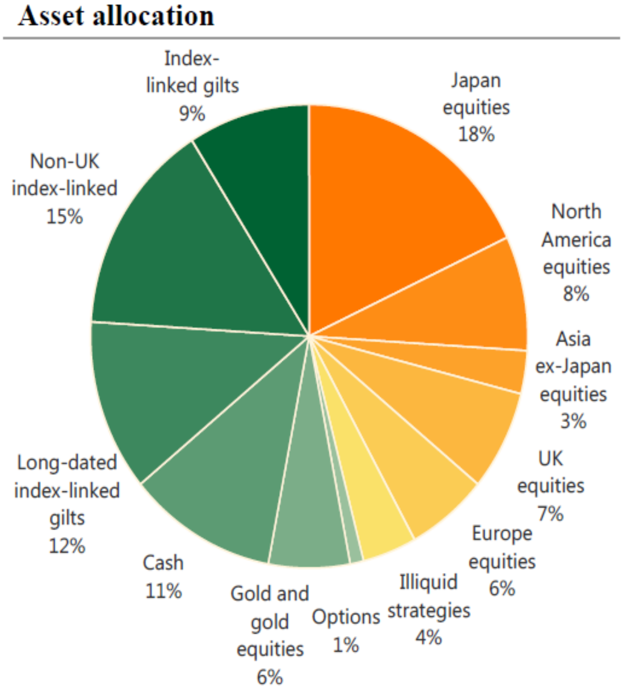
3.19.4 The use of protective options strategies was the primary detractor. The manager put in place protection strategies to protect against the reversal of low bond yields, however the fall in bond yields over the quarter created a drag on performance. The manager believes these options remain an important strategy in the current yield environment.

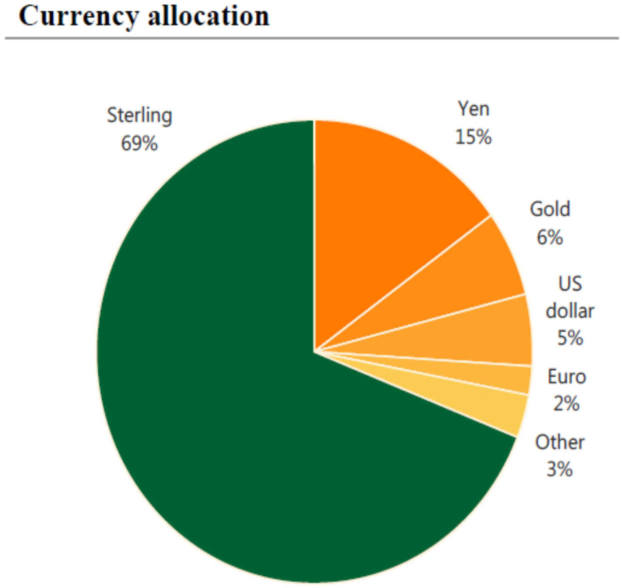
3.19.5 The allocation to US technology stocks also proved detrimental, as the market factored in the impact of ongoing Dollar strength on the sector's overseas earnings.

3.19.6 In terms of portfolio activity, the equity holdings were trimmed slightly over the quarter as the manager sought to lock in profits. There was also a substantial reduction in US Dollar exposure, which had been maintained as protection against an equity market collapse.

3.19.7 The manager locked in profits following recent Dollar strength, and at the same time increased exposure to the Japanese Yen to provide the same 'safe haven' protection.

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





3.20 Internal Cash Management

3.20.1 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 cash flows requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

3.20.2 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.

3.20.3 The cash balance grew through year. The opening balance of £17.146m, with a low point of £16,806m and closing with a peak level of 41.818m. The average cash balance for the year was £24.811m at the end of March 2015. The interest earned on the cash was £179.946k.

3.20.4 The weighted average rate of return for the year was 0.725%. This outperformed the benchmark by 0.375%. (B/Mark 7 day LIBID: 0.35%).

3.20.5 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 last 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.

3.20.6 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.

3.21 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%**	

3.21.1 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:-

- 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.
- 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.
- 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.

3.21.2 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.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

5.1 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.

5.2 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.

5.3 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.

5.4 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.

5.5 When reviewing the Pension Fund Investment Performance, 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). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

5.6 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.

5.7 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.

5.8 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.]

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 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.

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 This report helps in addressing value for money through benchmarking the Council's performance against the WM Local Authority Universe of Funds.

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 Any form of investment inevitably involves a degree of risk.

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

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

- [None]

Appendices

Investment Managers Quarterly reports for the managers; Investec, GMO, Schroder, Baillie Gifford, LGIM and Ruffer)
WM Quarterly Performance Review.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

Investment Managers Quarterly reports (Investec, GMO, Schroder, Baillie Gifford, LGIM and Ruffer)
WM Quarterly Performance Review.

Officer contact details for documents:

- Bola Tobun Investment &Treasury Manager x4733

WM PERFORMANCE SERVICES
A State Street Business

Quarterly Performance Service

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED

QUARTERLY PERFORMANCE REVIEW

PERIODS TO END MARCH 2015

Produced 11 May 2015

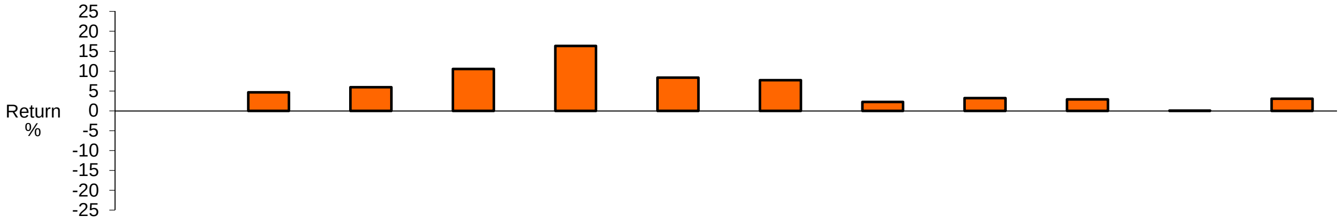
Contents

Market Background

Periods to end March 2015
Pound Sterling

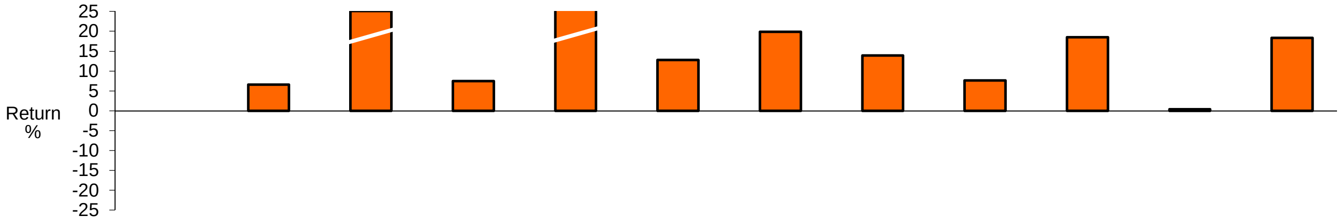
This page details the performance of the major markets.

Latest Quarter



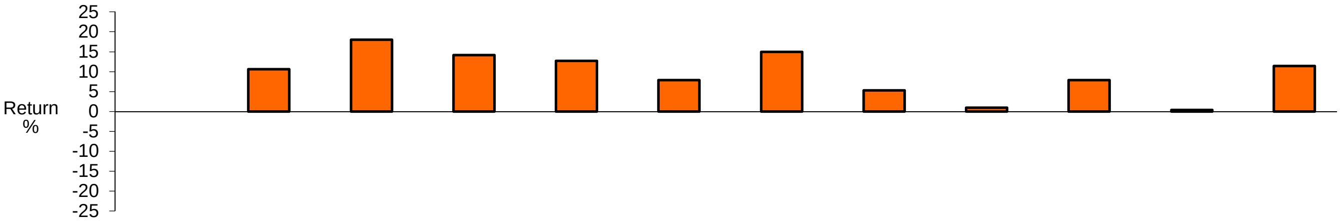
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	4.7	5.9	10.6	16.4	8.4	7.7	2.2	3.2	2.9	0.1	3.0

Last 12 Months



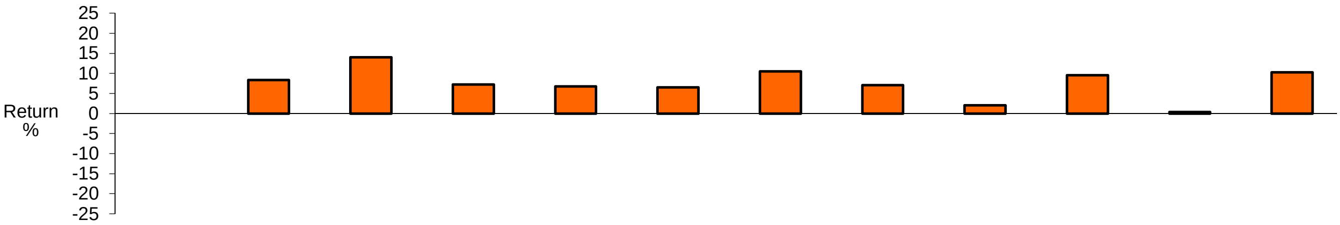
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	6.6	25.1	7.5	27.1	12.7	19.9	13.9	7.6	18.5	0.3	18.3

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	10.6	18.1	14.1	12.7	7.8	14.9	5.3	1.0	7.9	0.4	11.4

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	8.3	14.0	7.2	6.7	6.5	10.5	7.0	2.1	9.6	0.4	10.3

	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. From1/4/14 all manager returns are net of management 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	100.0	MSCI AC World GDR
UK Equities	100.0			FTSE All Share
% Allocation	20.0	25.0	16.0	

	L&G	Investec	Schroders	Baillie Gifford	Ruffer	Total Combined	Benchmark Indices
Global Equities						41.0	MSCI AC World GDR
UK Equities						20.0	FTSE All Share
Pooled Bonds		100.0				14.0	LIBOR 3 Month 2%
UK Index Linked	100.0					3.0	FTSE A Gov Index-Linked > 5 yrs
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%
% Allocation	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.

SSGS - Performance Services Contact: Lynn Coventry

Direct Telephone: (0131) 315 5258 E-mail: lynn.coventry@statestreet.com

Performance Summary

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | Periods to end March 2015

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 31/12/2014	Transactions	Capital Gain / loss	Income	Value at 31/03/2015	*% Fund*
GMO	Eq Glbl	250,737	1,041	21,611	1,015	273,389	24
L & G	Eq UK	216,078	0	10,179	-25	226,256	20
BAILLIE GIFF	Eq Glbl	199,442	112	18,116	112	217,670	19
SCHRODERS	Prop UK	119,210	911	2,081	912	122,202	11
INVESTEC	Bd Glbl	99,494	0	136	-66	99,630	9
L & G	Bd UK I/L	57,654	0	1,894	-8	59,547	5
BAILLIE GIFF	Structured	49,084	18	1,582	18	50,684	4
RUFFER	Absolute	48,290	0	2,329	0	50,619	4
INT MGD	Cash	41,474	393	0	75	41,867	4
Total Fund		1,081,463	2,476	57,925	2,034	1,141,864	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

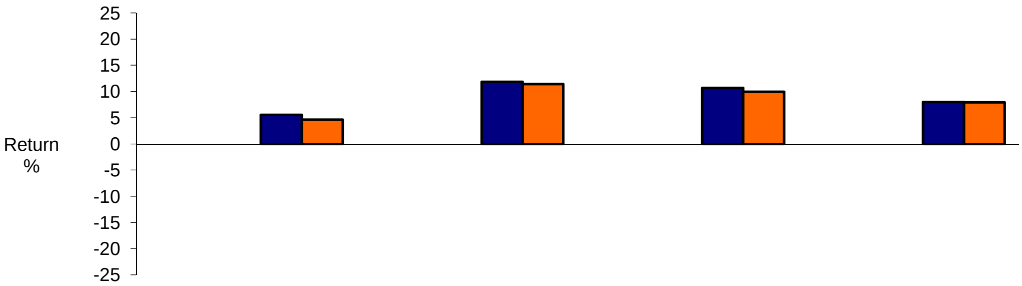
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED	Periods to end March 2015
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

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



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	5.5	11.8	10.7	8.0
Benchmark	4.7	11.4	10.0	7.9
Relative Return	0.9	0.3	0.6	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 March 2015**

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

Category - TOTAL ASSETS

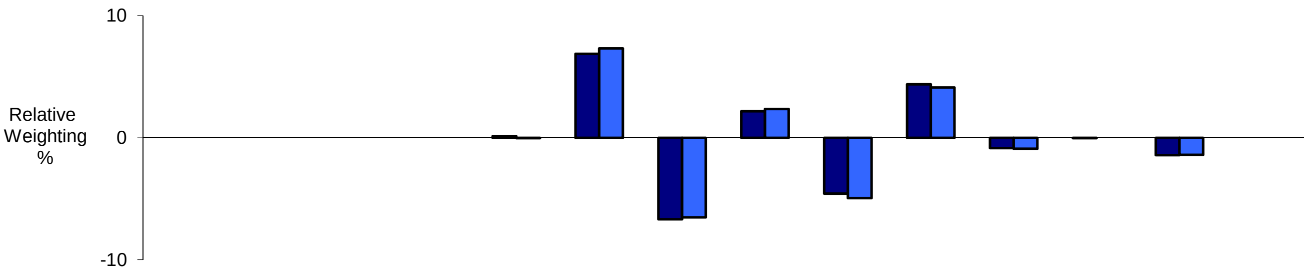
This page analyses in detail the Fund performance over the latest period.

Summary

Fund Return	5.5
Benchmark Return	4.7
Relative Performance	0.9
attributable to:	
Asset Allocation	0.1
Stock Selection	0.8

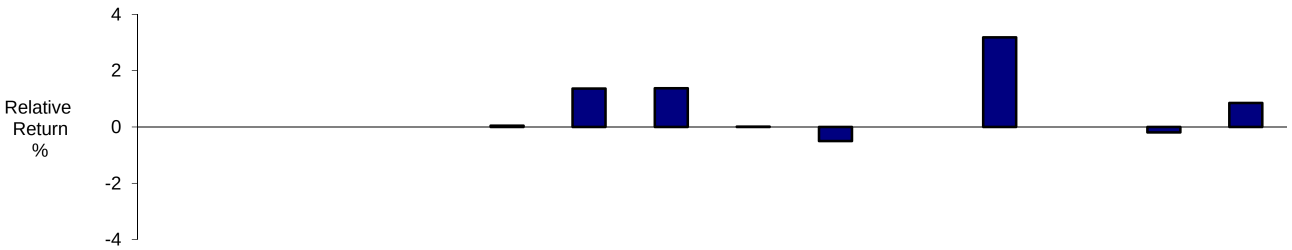
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

Asset Allocation



	UK Equities	O/S Equities	Global Eq	UK IL	Pooled Bonds	Cash	Alternatives	Curr Instr	Property	Total Fund
Fund Start	20.0	23.0	18.4	5.3	9.2	4.4	9.0	-0.0	10.7	100.0
Fund End	19.8	23.7	19.1	5.2	8.7	4.1	8.9	0.0	10.5	100.0
BM Start	19.9	16.1	25.1	3.2	13.8		9.9		12.1	100.0
BM End	19.8	16.4	25.6	2.9	13.7		9.8		11.9	100.0
Impact	-	0.2	-0.2	-	0.2	-0.2	-	-	-	0.1

Stock Selection



	UK Equities	O/S Equities	Global Eq	UK IL	Pooled Bonds	Cash	Alternatives	Curr Instr	Property	Total Fund
Fund	4.7	9.1	9.1	3.3	0.1	0.6	4.0	0.0 #	2.6	5.5
Benchmark	4.7	7.6	7.6	3.3	0.6		0.8		2.8	4.7
Impact	-	0.3	0.3	-	-		0.3		-	0.8

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

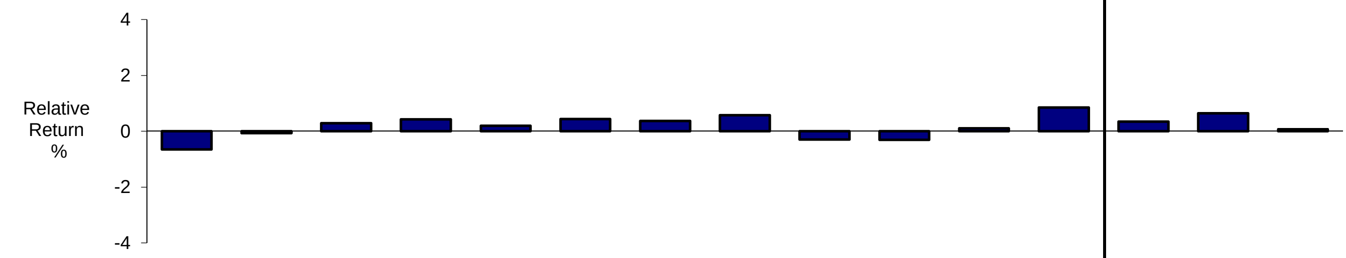
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2015**

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.

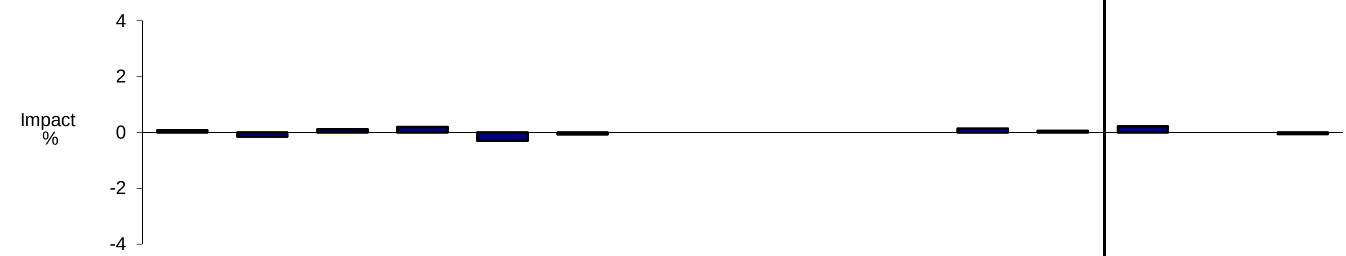
Fund Returns



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	2.8	5.5	11.8	10.7	8.0
Benchmark	-1.9	2.6	2.4	8.4	-0.2	2.5	3.6	0.7	2.1	1.5	2.7	4.7	11.4	10.0	7.9
Relative	-0.6	-0.1	0.3	0.4	0.2	0.4	0.4	0.6	-0.3	-0.3	0.1	0.9	0.3	0.6	0.1

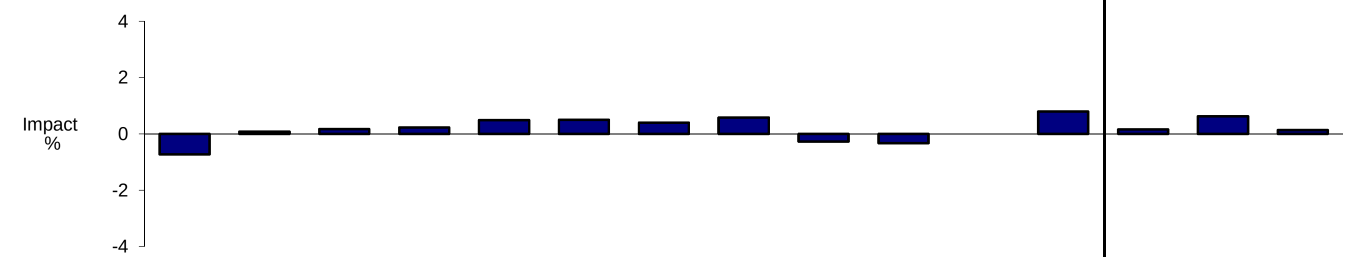
The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:

Asset Allocation



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Impact	0.1	-0.1	0.1	0.2	-0.3	-0.1	-	-	-	-	0.1	0.1	0.2	-	-0.1

Stock Selection



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Impact	-0.7	0.1	0.2	0.2	0.5	0.5	0.4	0.6	-0.3	-0.3	-	0.8	0.2	0.6	0.1

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

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

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

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

not invested in this area for the entire period

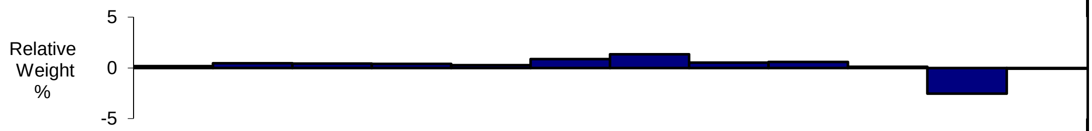
- indicates a value less than 0.05 and greater than -0.05

Long Term Asset Allocation

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end March 2015**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

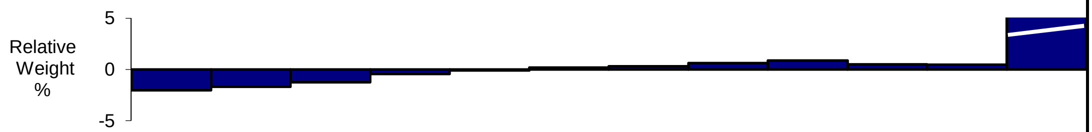
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



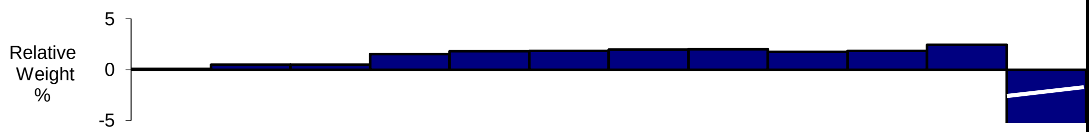
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	22.7	23.0	22.9	22.9	22.8	23.4	23.9	23.0	23.1	22.6	20.0	19.8			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	19.9			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

OVERSEAS EQUITIES



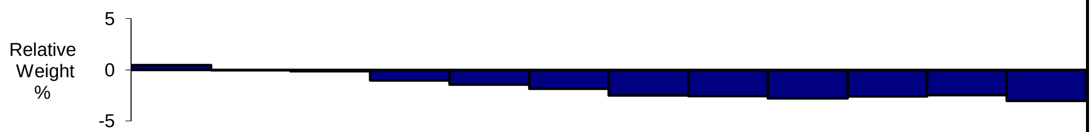
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	20.5	20.8	21.3	22.1	22.4	22.7	22.8	23.1	23.4	23.0	23.0	23.7			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	16.1			
Impact	-	-	-	-0.1	-	-	-	-	-	-	-	0.2	0.3	0.1	-

GLOBAL POOLED INC UK



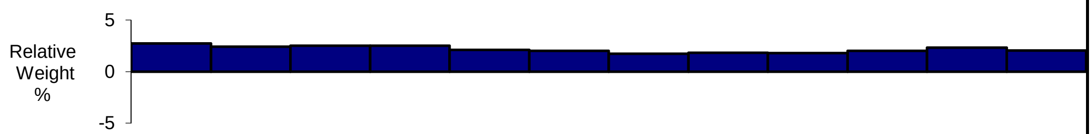
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	16.1	16.5	16.5	17.5	17.8	17.8	18.0	18.0	17.7	17.8	18.4	19.1			
Benchmark	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	25.1			
Impact	-	-	-	-	-	-	-	-	-	-	-	-0.2	-0.2	-	-

TOTAL BONDS PLUS INDEX-LINKED



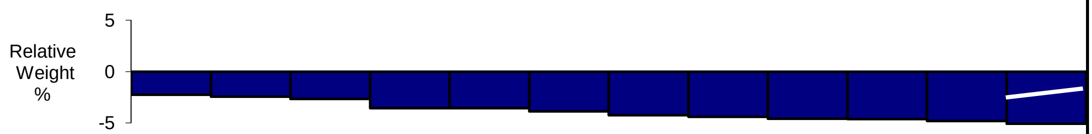
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	17.5	17.0	16.9	16.0	15.6	15.1	14.5	14.4	14.2	14.4	14.5	13.9			
Benchmark	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0			
Impact	-	-0.1	0.1	0.2	-0.2	-	-	0.1	-	0.1	0.2	0.1	0.5	0.2	0.2

U.K. INDEX - LINKED



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	5.7	5.4	5.5	5.5	5.1	5.0	4.8	4.8	4.8	5.0	5.3	5.2			
Benchmark	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.2			
Impact	0.1	-0.2	0.1	-	-0.2	-	-0.1	-	-	0.1	0.1	-	0.2	-	-

POOLED BONDS



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	11.8	11.6	11.3	10.4	10.4	10.1	9.8	9.6	9.4	9.4	9.2	8.7			
Benchmark	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	13.8			
Impact	-0.1	-	-	0.2	-	0.1	0.1	-	0.1	-	0.1	0.2	0.4	0.3	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

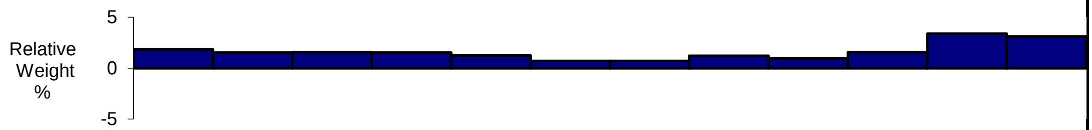
Long Term Asset Allocation

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2015**

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

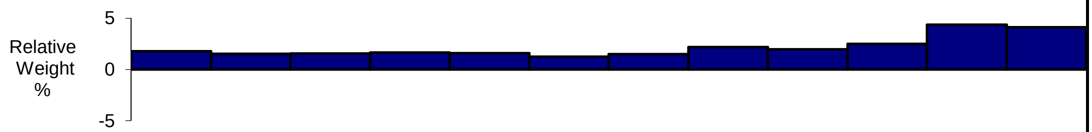
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



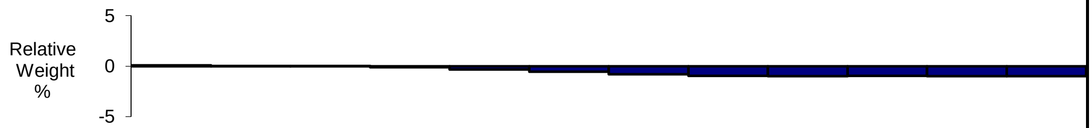
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	11.9	11.5	11.6	11.5	11.3	10.7	10.7	11.2	11.0	11.6	13.4	13.0			
Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.9			
Impact	0.1	-0.1	-	-0.1	-	-	-	-	-	-	-	-0.1	-0.2	-0.2	-0.1

TOTAL CASH



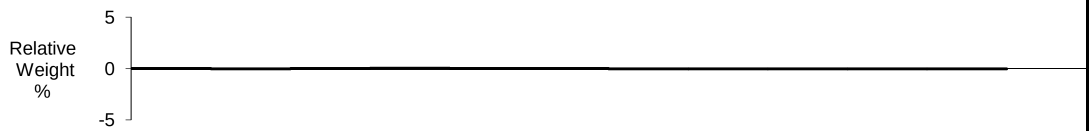
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	1.8	1.5	1.6	1.6	1.6	1.3	1.5	2.2	2.0	2.5	4.4	4.1			
Benchmark															
Impact	0.1	-	-	-0.1	-	-0.1	-	-	-0.1	-	-0.1	-0.2	-0.3	-0.2	-0.2

ALTERNATIVES



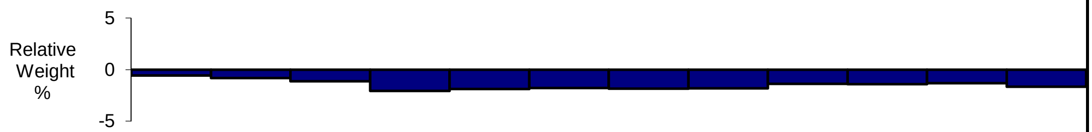
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	10.1	10.0	10.0	9.9	9.7	9.5	9.2	9.0	9.0	9.1	9.0	8.9			
Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.9			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-

CURRENCY INSTRUMENTS



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	0.0	-0.0	0.0	0.1	0.0	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 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	11.4	11.2	10.9	9.9	10.1	10.2	10.2	10.2	10.6	10.6	10.7	10.5			
Benchmark	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.1			
Impact	-	-	-	0.1	-	-	-	-	-	-	-	-	-0.1	-	-0.1

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

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

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

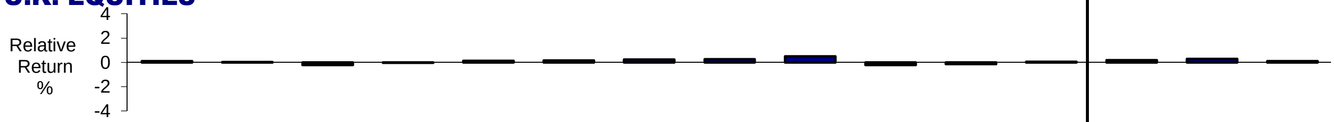
Long Term Stock Selection

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — Periods to end March 2015

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

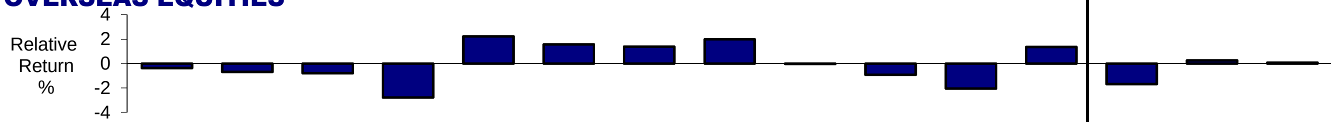
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



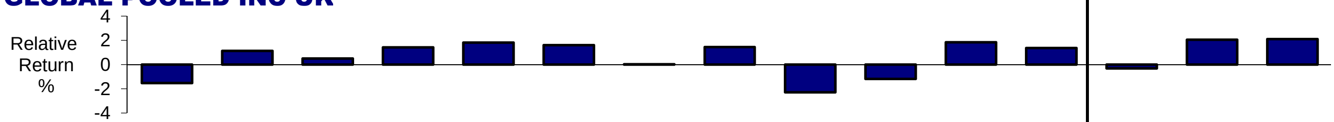
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-2.5	4.7	3.6	10.3	-1.5	5.8	5.7	-0.4	2.7	-1.2	0.4	4.7	6.8	10.9	8.4
Benchmark	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6	2.2	-1.0	0.6	4.7	6.6	10.6	8.3
Impact	-	-	-	-	-	-	0.1	0.1	0.1	-	-	-	-	0.1	-

OVERSEAS EQUITIES



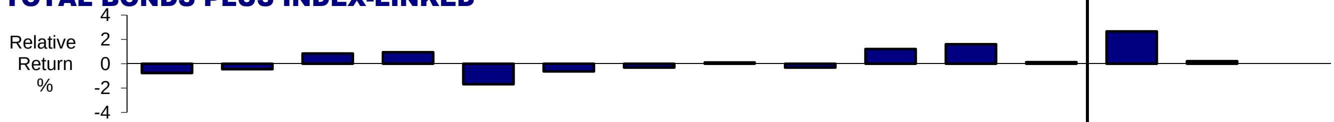
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-4.8	2.9	3.4	11.4	2.8	4.1	5.6	2.4	2.1	0.9	1.7	9.1	14.2	14.2	9.2
Benchmark	-4.5	3.7	4.2	14.6	0.5	2.5	4.2	0.5	2.1	1.8	3.8	7.6	16.1	13.9	9.1
Impact	-0.1	-0.1	-0.2	-0.6	0.5	0.4	0.3	0.4	-	-0.2	-0.5	0.3	-0.4	0.1	-

GLOBAL POOLED INC UK



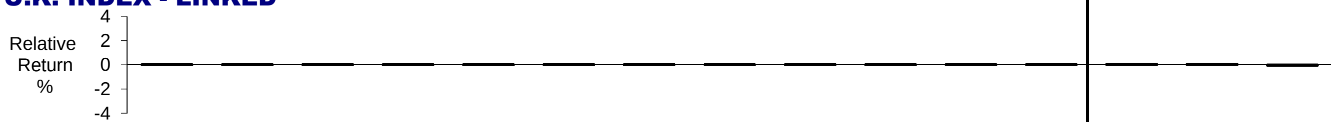
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-5.0	5.1	2.8	15.8	1.7	2.8	5.1	2.0	0.3	1.9	6.4	9.1	18.6	16.4	12.4
Benchmark	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	2.6	3.2	4.5	7.6	19.0	14.1	10.0
Impact	-0.2	0.2	0.1	0.2	0.3	0.3	-	0.3	-0.4	-0.2	0.3	0.3	-	0.4	0.4

TOTAL BONDS PLUS INDEX-LINKED



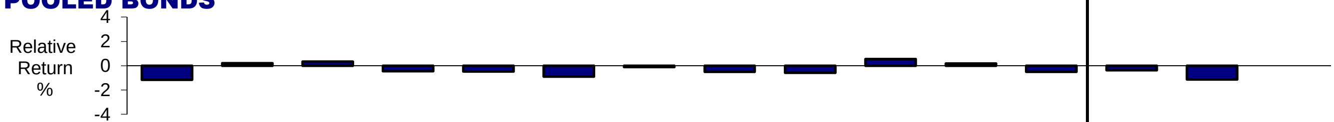
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-0.0	-0.4	2.3	3.1	-2.5	-0.0	0.0	1.3	0.4	2.8	3.8	1.3	8.5	4.0	3.5
Benchmark	0.7	-0.0	1.4	2.1	-0.8	0.6	0.3	1.1	0.7	1.6	2.2	1.2	5.7	3.8	
Impact	-0.1	-	-	-	-	-0.1	-	-	-0.1	0.1	-	-	-	-0.1	-0.3

U.K. INDEX - LINKED



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	0.8	-3.2	5.1	9.0	-7.3	0.6	-0.9	3.6	1.1	5.9	9.4	3.3	21.1	9.0	10.7
Benchmark	0.8	-3.2	5.0	9.0	-7.3	0.5	-0.9	3.6	1.1	5.9	9.4	3.3	21.0	8.9	10.8
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

POOLED BONDS



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1	0.0	1.2	0.8	0.1	2.2	1.4	
Benchmark	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.6	2.6	
Impact	-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

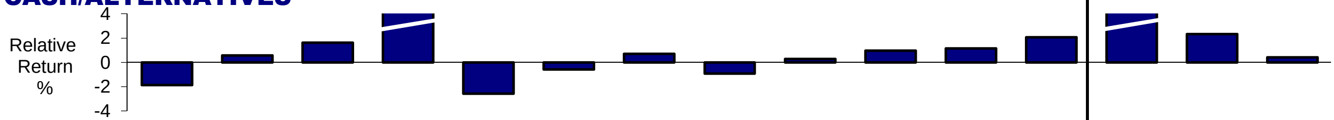
Long Term Stock Selection

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — Periods to end March 2015

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

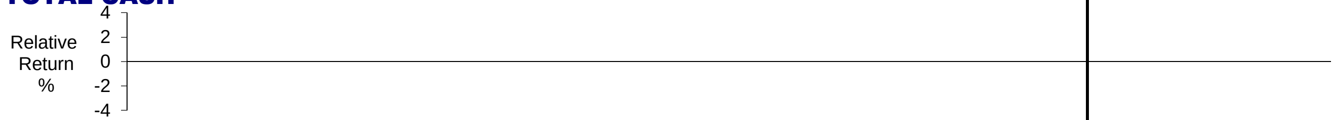
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



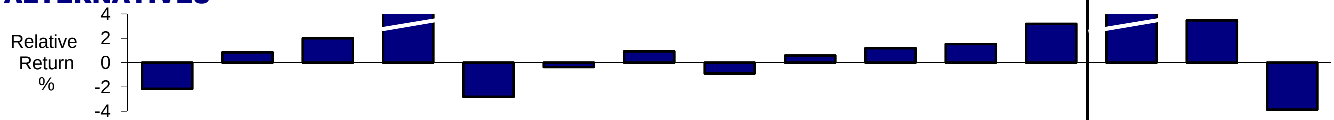
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-1.0	1.4	2.4	6.6	-1.8	0.2	1.5	-0.1	1.1	1.8	2.0	2.9	8.0	5.7	3.3
Benchmark	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	3.3	3.3	2.9
Impact	-0.2	0.1	0.2	0.6	-0.3	-	0.1	-0.1	0.1	0.1	0.1	0.3	0.6	0.3	0.1

TOTAL CASH



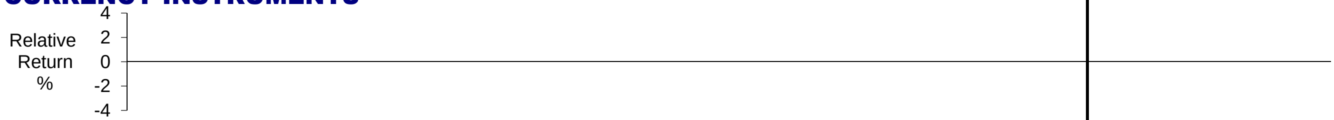
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	0.5	-0.4	0.1	1.5	0.2	-1.0	-0.2	-0.2	-0.2	0.8	0.9	0.6	2.2	0.9	1.0
Benchmark															
Impact															

ALTERNATIVES



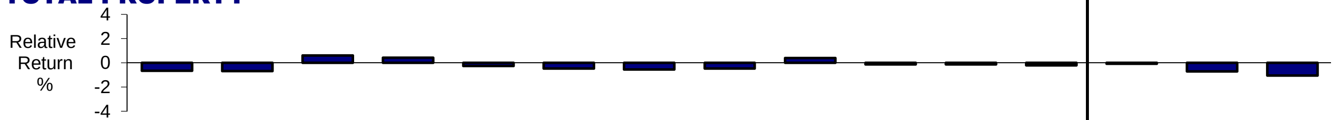
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-1.3	1.7	2.8	7.4	-2.0	0.4	1.7	-0.1	1.4	2.0	2.4	4.0	10.1	6.9	-1.1
Benchmark	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	3.3	3.3	2.9
Impact	-0.2	0.1	0.2	0.6	-0.3	-	0.1	-0.1	0.1	0.1	0.1	0.3	0.6	0.3	0.1

CURRENCY INSTRUMENTS



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	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	0.0 #	n/a	n/a	n/a
Benchmark															
Impact															

TOTAL PROPERTY



	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-0.4	-0.3	0.2	1.2	1.2	2.0	3.7	2.8	4.7	3.9	4.4	2.6	16.6	8.9	7.6
Benchmark	0.3	0.4	-0.4	0.8	1.4	2.4	4.3	3.3	4.3	4.0	4.6	2.8	16.6	9.6	8.7
Impact	-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 March 2015**

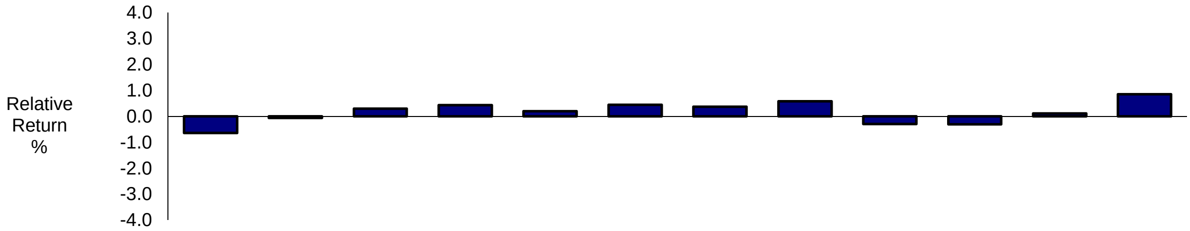
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

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

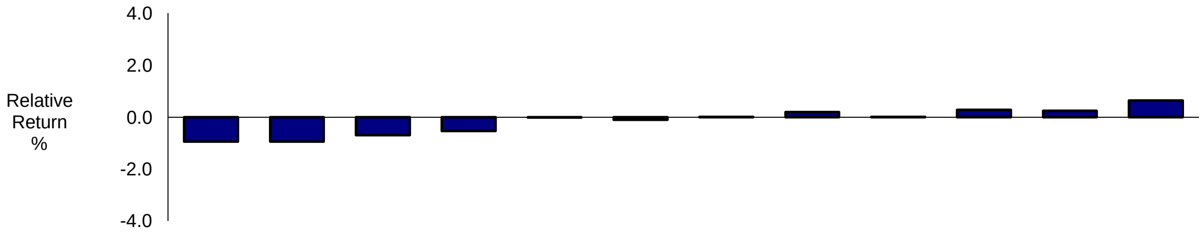
	---------- 2012 ----------			-------------- 2013 --------------				-------------- 2014 --------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	829.5	809.6	829.0	853.8	929.4	930.3	956.0	998.4	1016.2	1035.1	1049.7	1081.5
Net Investment	4.6	1.0	3.9	2.2	3.7	0.8	6.2	7.1	4.2	4.3	4.7	2.5
Capital Gain/Loss	-24.5	18.5	20.9	73.3	-2.7	24.9	36.2	10.8	14.7	10.3	27.0	57.9
Final	809.6	829.0	853.8	929.4	930.3	956.0	998.4	1016.2	1035.1	1049.7	1081.5	1141.9
Income	3.2	2.3	1.9	2.3	3.2	2.3	2.1	2.1	3.8	2.3	2.9	2.0
Proportion Of Total Fund (%)	100	100	100	100	100	100	100	100	100	100	100	100
Proportions (%) In												
Total Equity	59	60	61	63	63	64	65	64	64	63	61	63
Bonds + IL	17	17	17	16	16	15	15	14	14	14	15	14
Cash/ Alts	12	12	12	12	11	11	11	11	11	12	13	13
Property	11	11	11	10	10	10	10	10	11	11	11	10

Quarterly Returns



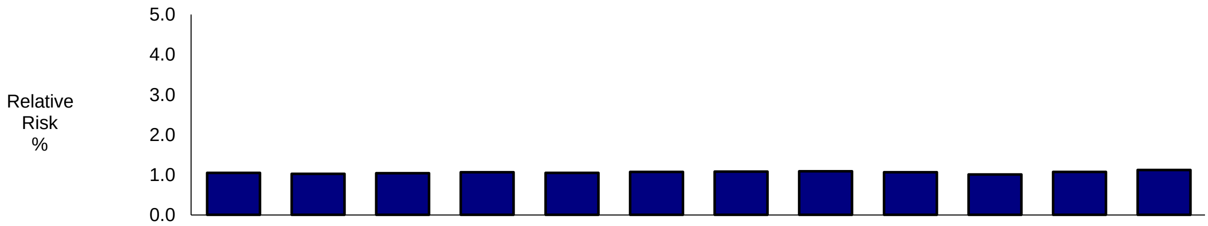
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	2.8	5.5
Benchmark	-1.9	2.6	2.4	8.4	-0.2	2.5	3.6	0.7	2.1	1.5	2.7	4.7
Relative Return	-0.6	-0.1	0.3	0.4	0.2	0.4	0.4	0.6	-0.3	-0.3	0.1	0.9

Annualised Rolling 3 Year Returns



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	9.9	5.8	5.7	6.6	9.5	7.8	7.1	7.1	7.2	11.2	10.4	10.7
Benchmark	11.0	6.8	6.5	7.1	9.6	7.9	7.1	6.9	7.2	10.9	10.1	10.0
Relative Return	-0.9	-0.9	-0.7	-0.5	-0.0	-0.1	0.0	0.2	0.0	0.3	0.2	0.6

Rolling 3 Year Risk



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Relative Risk	1.0	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.1	1.1
Information Ratio	-0.9	-0.9	-0.7	-0.5	-0.0	-0.1	0.0	0.2	0.0	0.3	0.2	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.

Summary of Manager Performance

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2015**

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

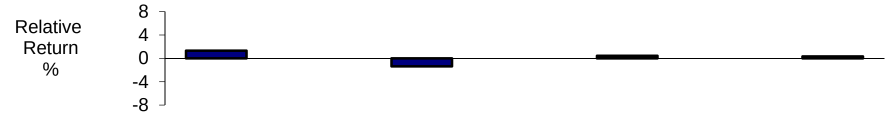
Category - TOTAL ASSETS

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

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

GMO - TOTAL ASSETS

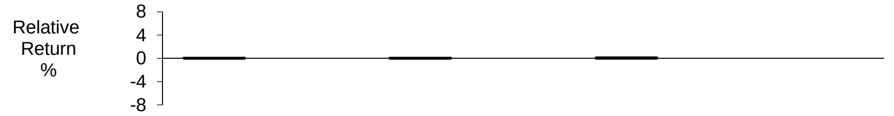
LB OF TOWER HAMLETS - GMO BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	9.0	13.5	14.1	9.4
Benchmark	7.6	15.1	13.6	9.1
Relative Return	1.3	-1.4	0.4	0.3

L&G - TOTAL ASSETS

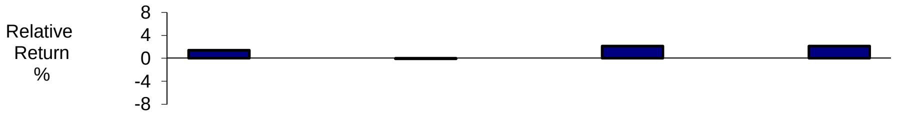
FTSE All Share TR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	4.7	6.6	10.7	
Benchmark	4.7	6.6	10.6	
Relative Return	0.0	0.1	0.1	

BAILLIE GIFFORD & CO - TOTAL ASSETS

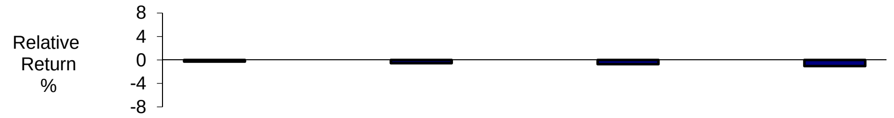
MSCI AC WORLD GDR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	9.1	18.9	16.5	12.4
Benchmark	7.6	19.0	14.1	10.0
Relative Return	1.4	-0.1	2.1	2.1

SCHRODER INVEST. MGMT. - TOTAL ASSETS

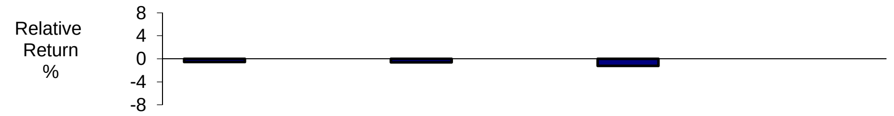
London Borough of Tower Hamlets - Schroders



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	2.5	16.0	8.6	7.3
Benchmark	2.8	16.6	9.4	8.4
Relative Return	-0.3	-0.6	-0.7	-1.0

INVESTEC ASSET MANAGEMENT - TOTAL ASSETS

GBP 3 MONTH LIBOR + 2%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.1	1.9	1.3	
Benchmark	0.6	2.6	2.6	
Relative Return	-0.6	-0.6	-1.2	

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 March 2015**

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

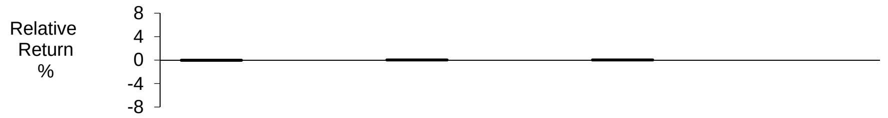
Category - TOTAL ASSETS

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

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

L&G - TOTAL ASSETS

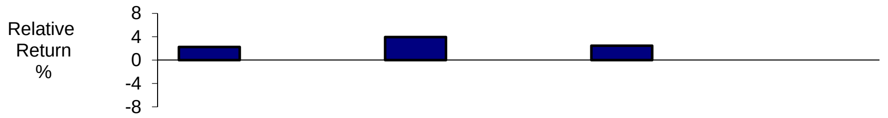
FTSE UK GILTS INDEXED > 5 YRS



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	3.3	21.1	9.0	
Benchmark	3.3	21.0	8.9	
Relative Return	-0.0	0.0	0.1	

BAILLIE GIFFORD & CO - TOTAL ASSETS

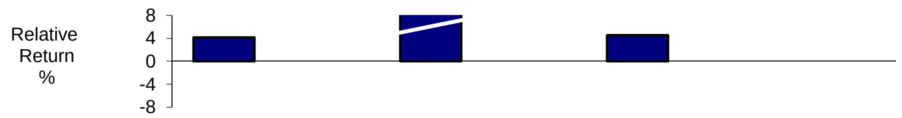
BANK OF ENGLAND BASE RATE + 3.5%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	3.3	8.1	6.6	
Benchmark	1.0	4.0	4.0	
Relative Return	2.3	3.9	2.5	

RUFFER INVESTMENT MGMT LTD - TOTAL ASSETS

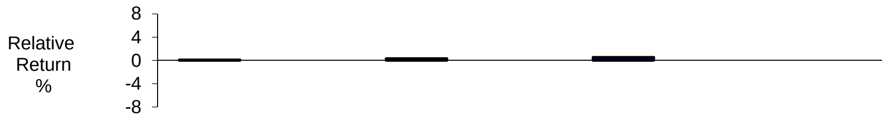
GBP 3 MONTH LIBOR + 2%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	4.8	12.4	7.2	
Benchmark	0.6	2.6	2.6	
Relative Return	4.2	9.6	4.5	

INTERNALLY MANAGED - TOTAL ASSETS

LB TOWER HAMLETS INTERNAL BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.2	0.7	0.9	n/a
Benchmark	0.1	0.3	0.4	0.4
Relative Return	0.1	0.3	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 March 2015

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		5.5
Benchmark Return		4.7
Relative Performance		0.9
	attributable to:	
	Strategic Allocation	-
	Manager Contribution	0.8
	Residual	0.1

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
23.2	25.0	-	GMO	0.3	9.0	7.6
20.0	20.0	-	L&G	-	4.7	4.7
18.4	16.0	0.1	BAILLIE GIFFORD & CO	0.3	9.1	7.6
11.0	12.0	-	SCHRODER INVEST. MGMT.	-	2.5	2.8
9.2	14.0	0.2	INVESTEC ASSET MANAGEMENT	-	0.1	0.6
5.3	3.0	-0.1	L&G	-	3.3	3.3
4.5	5.0	-	BAILLIE GIFFORD & CO	0.1	3.3	1.0
4.5	5.0	-	RUFFER INVESTMENT MGMT LTD	0.2	4.8	0.6
3.8	0.0	-0.2	INTERNALLY MANAGED	-	0.2	0.1
		-		0.8		

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

Appendices

Asset Mix and Returns

LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end March 2015**

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

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

All values are shown in GBP'000s	Asset Allocation								Stock Selection	
	31/12/2014				Gain/		31/03/2015			
	Value	%	Purchases	Sales	Loss	Income	Value	%	Return	B'M
TOTAL EQUITIES	663,829	61	50,595	49,486	49,669	1,107	714,607	63	7.6	6.6
U.K. EQUITIES	216,078	20			10,179		226,256	20	4.7	4.7
OVERSEAS EQUITIES	248,309	23	50,483	49,486	21,375	1,107	270,681	24	9.1	7.6
NORTH AMERICA	108,060	10	28,790	32,625	7,307	443	111,533	10	7.4	
TOTAL USA	105,475	10	27,079	32,603	6,682	434	106,633	9	7.0	
CONTINENTAL EUROPE	59,868	6	5,088	13,505	5,786	197	57,237	5	10.4	
EUROLAND TOTAL	53,213	5	4,676	12,595	5,181	110	50,474	4	10.4	
FRANCE	19,085	2	2,122	4,347	1,221	51	18,080	2	6.7	
GERMANY	15,165	1	60	2,346	1,862	29	14,741	1	13.6	
NETHERLANDS	3,027	0	437	708	451	-1	3,207	0	14.6	
ITALY	4,831	0	356	676	534		5,044	0	11.0	
BELGIUM	828	0		114	178		892	0	21.7	
FINLAND	1,134	0		399	103	3	838	0	9.6	
AUSTRIA	605	0			15		620	0	2.5	
SPAIN	5,913	1	161	1,470	142	11	4,746	0	2.3	
IRELAND	2,129	0	1,539	2,456	673	17	1,885	0	45.4	
PORTUGAL	497	0		78	1		421	0	0.0	
GREECE										
LUXEMBOURG										
NON EUROLAND TOTAL	6,655	1	413	910	605	87	6,763	1	10.5	
SWITZERLAND	2,135	0	304	392	186	0	2,233	0	8.8	
DENMARK	943	0	8	71	83	75	963	0	16.8	
NORWAY	1,384	0	101	27	134	9	1,592	0	10.4	
SWEDEN	2,193	0		420	202	3	1,975	0	9.6	
JAPAN	21,052	2	788	2,352	3,586	259	23,074	2	18.5	
TOTAL PACIFIC (EX.JAPAN)	3,674	0	5,139		580	7	9,393	1	11.1	
OTHER INTL EQUITIES	55,654	5	10,677	1,004	4,116	201	69,444	6	7.4	7.6
GLOBAL POOLED INC UK	199,442	18	112		18,116		217,670	19	9.1	7.6
BG INTERNATIONAL EQUITY FUND	199,442	18	112		18,116		217,670	19	9.1	
INTERNATIONAL										
International Unit Trust 1										
U.K. INDEX - LINKED	57,654	5			1,894		59,547	5	3.3	3.3
POOLED BONDS	99,494	9			136		99,630	9	0.1	0.6
CASH/ALTERNATIVES	144,768	13	86,330	86,875	4,114	76	148,336	13	2.9	0.8
CURRENCY INSTRUMENTS	-32	0	4,830	4,797	-1				0.0 #	
U.K. PROPERTY	110,791	10	20,549	17,475	2,072	912	115,936	10	2.7	2.8
OVERSEAS PROPERTY	4,961	0		1,194	41		3,808	0	1.4	
TOTAL ASSETS	**1,081,463**	**100**	**162,303**	**159,827**	**57,925**	**2,034**	**1,141,864**	**100**	**5.5**	**4.7**

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 March 2015**

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 ---------------				2015	1yr	3yrs	5yrs
Return %	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1		% pa	% pa
UK Equities	*-2.5*	*4.7*	*3.6*	*10.3*	*-1.5*	*5.8*	*5.7*	*-0.4*	*2.7*	*-1.2*	*0.4*	*4.7*	*6.8*	*10.9*	*8.4*
	(37)	*(50)*	*(75)*	*(78)*	*(48)*	*(52)*	*(46)*	*(33)*	*(12)*	*(68)*	*(77)*	*(45)*	*(41)*	*(63)*	*(85)*
N. America	*-2.0*	*3.2*	*-0.7*	*14.5*	*1.2*	*-1.8*	*7.4*	*1.4*	*0.5*	*7.0*	*8.6*	*7.4*	*25.4*	*16.0*	*12.8*
	(62)	*(80)*	*(43)*	*(98)*	*(95)*	*(98)*	*(58)*	*(36)*	*(93)*	*(6)*	*(32)*	*(41)*	*(46)*	*(96)*	*(96)*
Europe ex UK	*-9.0*	*6.7*	*8.7*	*4.3*	*2.9*	*11.6*	*8.0*	*6.5*	*1.6*	*-5.6*	*-2.7*	*10.4*	*3.1*	*14.4*	*6.2*
	(98)	*(44)*	*(15)*	*(100)*	*(6)*	*(1)*	*(4)*	*(1)*	*(16)*	*(100)*	*(95)*	*(66)*	*(100)*	*(64)*	*(100)*
Pacific	*-1.1*	*12.6*	*7.2*	*4.2*	*-6.5*	*7.2*	*4.6*	*-0.8*	*4.4*	*0.1*	*3.0*	*11.1*	*19.6*	*15.6*	*12.1*
	(7)	*(2)*	*(9)*	*(96)*	*(17)*	*(4)*	*(3)*	*(75)*	*(13)*	*(66)*	*(41)*	*(30)*	*(41)*	*(7)*	*(11)*
Japan	*-4.2*	*-3.2*	*2.4*	*18.6*	*6.1*	*2.1*	*-2.4*	*-4.8*	*6.3*	*0.9*	*-4.0*	*18.5*	*22.1*	*11.5*	*7.2*
	(27)	*(56)*	*(77)*	*(81)*	*(20)*	*(22)*	*(92)*	*(27)*	*(8)*	*(95)*	*(98)*	*(10)*	*(89)*	*(89)*	*(65)*
Global Eq	*-5.0*	*5.1*	*2.8*	*15.8*	*1.7*	*2.8*	*5.1*	*2.0*	*0.3*	*1.9*	*6.4*	*9.1*	*18.6*	*16.4*	*12.4*
	(75)	*(14)*	*(30)*	*(20)*	*(18)*	*(15)*	*(50)*	*(11)*	*(100)*	*(73)*	*(10)*	*(17)*	*(57)*	*(33)*	*(11)*
UK IL	*0.8*	*-3.2*	*5.1*	*9.0*	*-7.3*	*0.6*	*-0.9*	*3.6*	*1.1*	*5.9*	*9.4*	*3.3*	*21.1*	*9.0*	*10.7*
	(22)	*(63)*	*(28)*	*(27)*	*(51)*	*(30)*	*(28)*	*(21)*	*(34)*	*(20)*	*(31)*	*(28)*	*(29)*	*(22)*	*(42)*
Pooled Bonds	*-0.4*	*0.9*	*1.0*	*0.2*	*0.1*	*-0.3*	*0.5*	*0.1*	*0.0*	*1.2*	*0.8*	*0.1*	*2.2*	*1.4*	
	(85)	*(84)*	*(76)*	*(92)*	*(33)*	*(78)*	*(64)*	*(93)*	*(76)*	*(30)*	*(27)*	*(84)*	*(80)*	*(100)*	
Cash	*0.5*	*-0.4*	*0.1*	*1.5*	*0.2*	*-1.0*	*-0.2*	*-0.2*	*-0.2*	*0.8*	*0.9*	*0.6*	*2.2*	*0.9*	*1.0*
	(27)	*(87)*	*(39)*	*(22)*	*(37)*	*(81)*	*(70)*	*(80)*	*(72)*	*(23)*	*(21)*	*(25)*	*(27)*	*(38)*	*(28)*
Alternatives	*-1.3*	*1.7*	*2.8*	*7.4*	*-2.0*	*0.4*	*1.7*	*-0.1*	*1.4*	*2.0*	*2.4*	*4.0*	*10.1*	*6.9*	*-1.1*
	(77)	*(32)*	*(20)*	*(22)*	*(86)*	*(28)*	*(39)*	*(86)*	*(39)*	*(60)*	*(53)*	*(28)*	*(40)*	*(43)*	*(100)*
Curr Instr	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*0.0 #*	*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	*-0.4*	*-0.3*	*0.2*	*1.2*	*1.2*	*2.0*	*3.7*	*2.8*	*4.7*	*3.9*	*4.4*	*2.6*	*16.6*	*8.9*	*7.6*
	(78)	*(66)*	*(54)*	*(36)*	*(77)*	*(51)*	*(58)*	*(61)*	*(36)*	*(54)*	*(25)*	*(69)*	*(44)*	*(55)*	*(58)*
Total Assets	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	2.8	5.5	11.8	10.7	8.0
	(82)	(84)	(54)	(60)	(14)	(33)	(32)	(21)	(67)	(86)	(63)	(52)	(73)	(57)	(83)

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 March 2015**

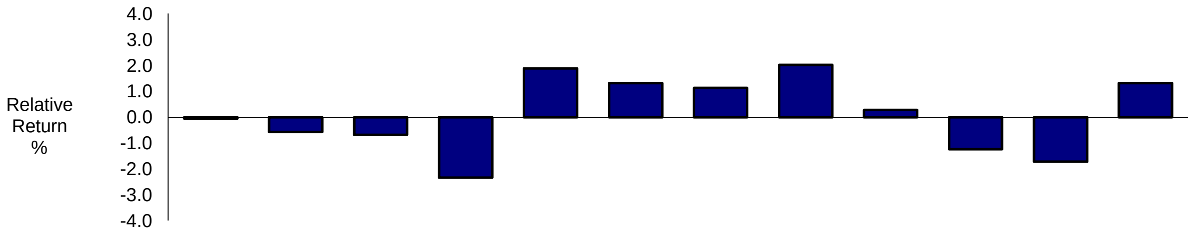
Benchmark - LB OF TOWER HAMLETS - GMO BM — **Pound Sterling**

Category - TOTAL ASSETS

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

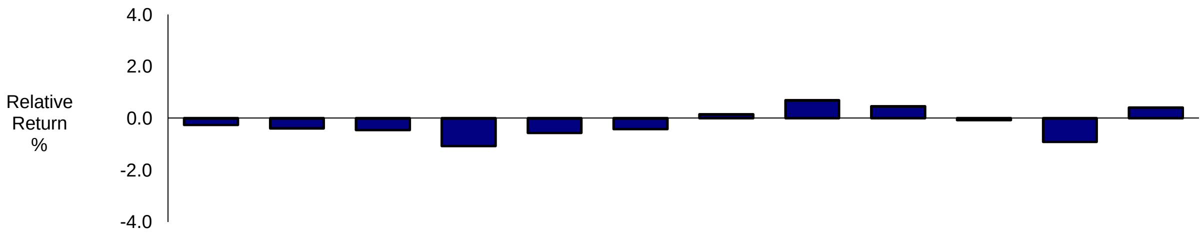
	---------- 2012 ----------			-------------- 2013 --------------				-------------- 2014 --------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	199.0	190.8	196.3	203.5	226.3	231.9	241.1	254.8	260.5	267.0	267.8	250.7
Net Investment	2.7	1.0	1.6	0.8	2.7	1.0	1.7	0.9	2.8	1.2	-18.8	1.0
Capital Gain/Loss	-10.9	4.5	5.6	22.0	2.9	8.2	12.0	4.8	3.7	-0.4	1.7	21.6
Final	190.8	196.3	203.5	226.3	231.9	241.1	254.8	260.5	267.0	267.8	250.7	273.4
Income	2.2	1.5	1.1	1.3	2.3	1.3	1.3	1.2	2.7	1.3	1.9	1.0
Proportion Of Total Fund (%)	24	24	24	24	25	25	26	26	26	26	23	24

Quarterly Returns



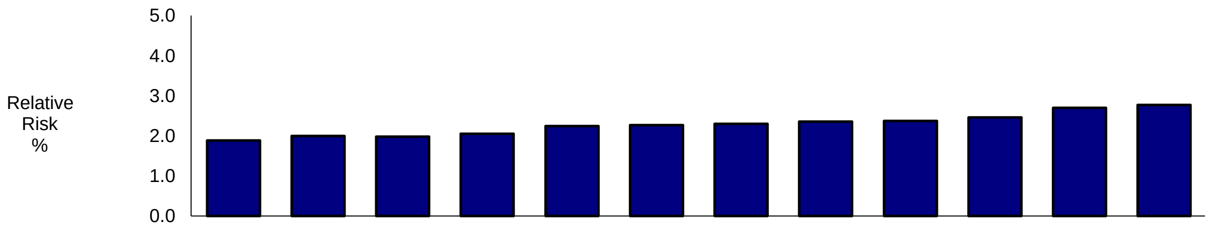
Fund	-4.3	3.1	3.4	11.4	2.3	4.1	5.5	2.4	2.4	0.3	1.3	9.0
Benchmark	-4.3	3.7	4.1	14.1	0.4	2.7	4.3	0.3	2.2	1.6	3.1	7.6
Relative Return	-0.0	-0.6	-0.7	-2.3	1.9	1.3	1.1	2.0	0.3	-1.2	-1.7	1.3

Annualised Rolling 3 Year Returns



Fund	10.8	4.9	5.5	6.3	11.4	9.3	8.4	8.5	8.7	14.8	13.0	14.1
Benchmark	11.1	5.3	5.9	7.5	12.0	9.8	8.3	7.8	8.2	14.9	14.0	13.6
Relative Return	-0.3	-0.4	-0.5	-1.1	-0.6	-0.4	0.1	0.7	0.5	-0.1	-0.9	0.4

Rolling 3 Year Risk



Relative Risk	1.9	2.0	2.0	2.0	2.2	2.3	2.3	2.4	2.4	2.5	2.7	2.8
Information Ratio	-0.1	-0.2	-0.2	-0.5	-0.3	-0.2	0.1	0.3	0.2	-0.0	-0.3	0.1

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 March 2015**

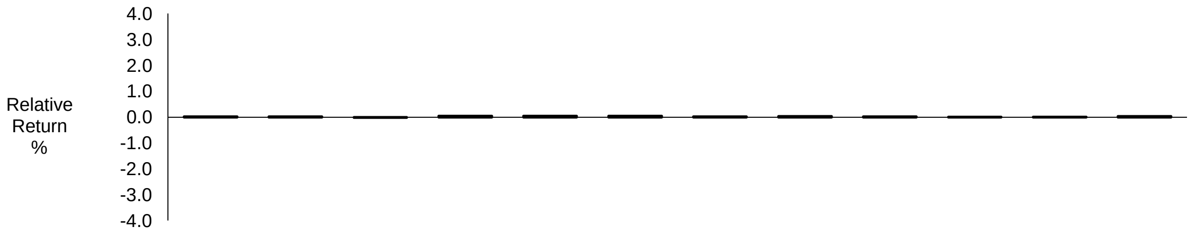
Benchmark - FTSE All Share TR | **Pound Sterling**

Category - TOTAL ASSETS

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

	---------- 2012 ----------			--------------- 2013 ---------------				--------------- 2014 ---------------				2015
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Values (GBPm's)												
Initial	166.5	162.2	169.8	176.3	194.6	191.5	202.3	213.4	212.1	216.9	214.8	216.1
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	-4.3	7.7	6.5	18.3	-3.1	10.8	11.1	-1.3	4.8	-2.1	1.3	10.2
Final	162.2	169.8	176.3	194.6	191.5	202.3	213.4	212.1	216.9	214.8	216.1	226.3
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 (%)	20	20	21	21	21	21	21	21	21	20	20	20

Quarterly Returns

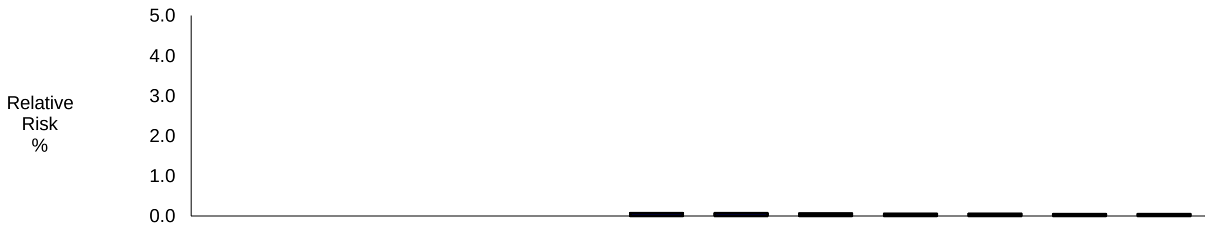


	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	-2.6	4.7	3.8	10.4	-1.6	5.6	5.5	-0.6	2.3	-1.0	0.6	4.7
Benchmark	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6	2.2	-1.0	0.6	4.7
Relative Return	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Annualised Rolling 3 Year Returns

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund						10.2	9.5	8.9	9.0	14.1	11.2	10.7
Benchmark						10.1	9.4	8.8	8.9	13.9	11.1	10.6
Relative Return						0.1	0.1	0.1	0.1	0.1	0.1	0.1

Rolling 3 Year Risk



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Relative Risk						0.1	0.1	0.1	0.1	0.1	0.0	0.0
Information Ratio						1.7	1.9	1.9	2.2	2.2	2.3	2.3

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

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

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

Rolling Years with Relative Risk - B Gifford World Equity

LONDON BOROUGH OF TOWER HAMLETS - BAILLIE GIFFORD & CO — **Periods to end March 2015**

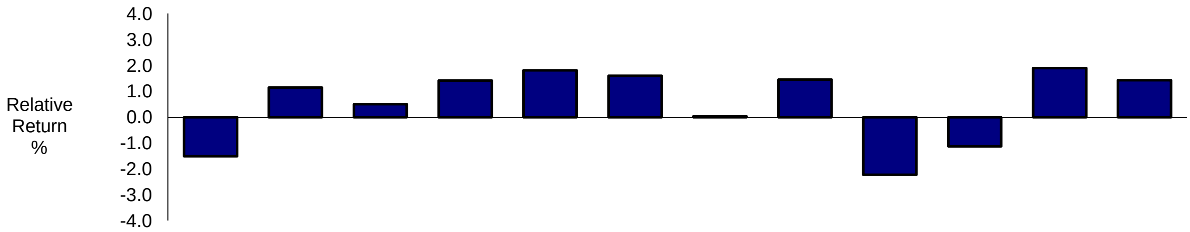
Benchmark - MSCI AC WORLD GDR — **Pound Sterling**

Category - TOTAL ASSETS

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

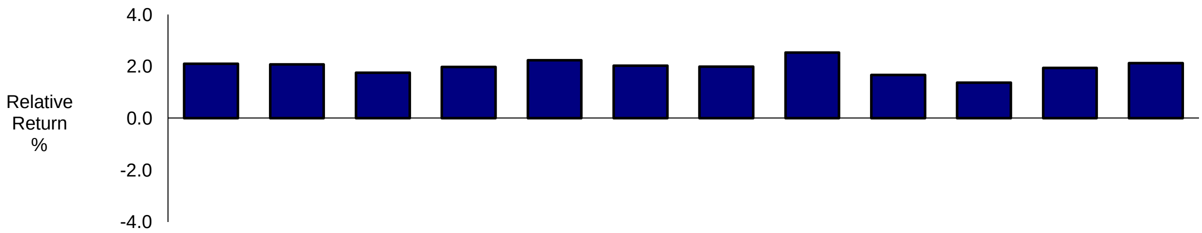
	---------- 2012 ----------			-------------- 2013 --------------				-------------- 2014 --------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	137.0	130.1	136.8	140.8	163.1	165.9	170.6	179.4	183.1	183.6	187.3	199.4
Net Investment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Gain/Loss	-6.9	6.6	3.9	22.2	2.8	4.6	8.6	3.6	0.5	3.5	12.1	18.1
Final	130.1	136.8	140.8	163.1	165.9	170.6	179.4	183.1	183.6	187.3	199.4	217.7
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Proportion Of Total Fund (%)	16	17	16	18	18	18	18	18	18	18	18	19

Quarterly Returns



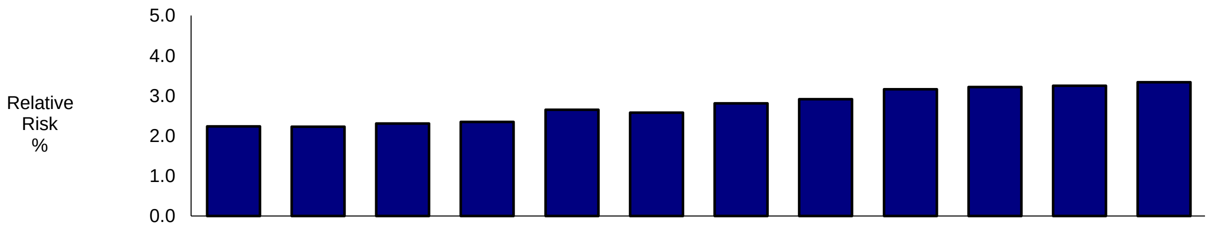
Fund	-5.0	5.1	2.8	15.8	1.7	2.8	5.1	2.0	0.3	2.0	6.5	9.1
Benchmark	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	2.6	3.2	4.5	7.6
Relative Return	-1.5	1.1	0.5	1.4	1.8	1.6	0.0	1.5	-2.2	-1.1	1.9	1.4

Annualised Rolling 3 Year Returns



Fund	15.6	9.7	8.8	10.5	15.0	12.0	10.4	10.4	10.4	17.3	16.8	16.5
Benchmark	13.2	7.4	6.9	8.3	12.5	9.8	8.3	7.7	8.5	15.7	14.6	14.1
Relative Return	2.1	2.1	1.7	2.0	2.2	2.0	2.0	2.5	1.7	1.4	1.9	2.1

Rolling 3 Year Risk



Relative Risk	2.2	2.2	2.3	2.3	2.6	2.6	2.8	2.9	3.2	3.2	3.2	3.3
Information Ratio	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.9	0.5	0.4	0.6	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

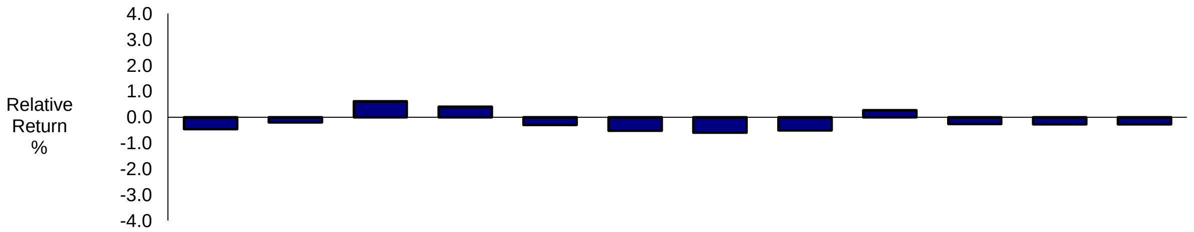
LB OF TOWER HAMLET PROPERTY PORTFOLIO - SCHRODER INVEST. MGMT.	Periods to end March 2015
Benchmark - London Borough of Tower Hamlets - Schroders	Pound Sterling

Category - TOTAL ASSETS

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

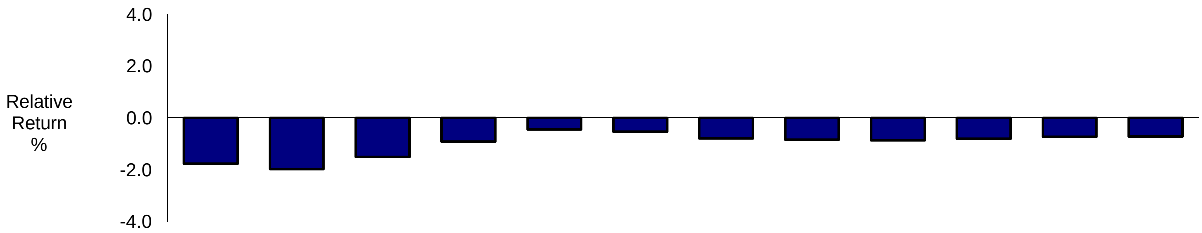
	---------- 2012 ----------			-------------- 2013 --------------				-------------- 2014 --------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	95.1	94.8	94.5	94.7	95.8	96.8	98.7	102.3	105.2	110.1	114.3	119.2
Net Investment	1.0	0.8	0.8	0.9	0.8	0.9	0.8	1.0	1.1	1.0	1.0	0.9
Capital Gain/Loss	-1.3	-1.1	-0.7	0.1	0.3	0.9	2.8	1.9	3.8	3.2	3.9	2.1
Final	94.8	94.5	94.7	95.8	96.8	98.7	102.3	105.2	110.1	114.3	119.2	122.2
Income	0.9	0.8	0.8	1.0	0.8	0.9	0.8	0.9	1.0	0.9	0.9	0.9
Proportion Of Total Fund (%)	12	11	11	10	10	10	10	10	11	11	11	11

Quarterly Returns



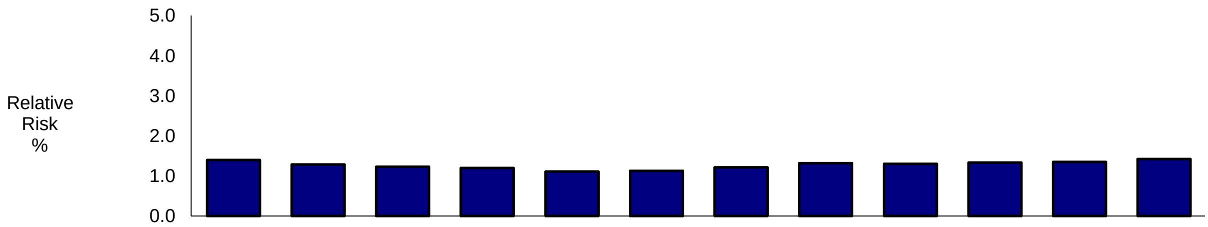
Fund	-0.4	-0.3	0.2	1.2	1.1	1.9	3.6	2.8	4.6	3.7	4.3	2.5
Benchmark	0.1	-0.1	-0.4	0.8	1.4	2.4	4.3	3.3	4.3	4.0	4.6	2.8
Relative Return	-0.5	-0.2	0.6	0.4	-0.3	-0.5	-0.6	-0.5	0.3	-0.3	-0.3	-0.3

Annualised Rolling 3 Year Returns



Fund	7.8	6.8	4.5	3.8	3.7	3.9	4.4	4.8	5.7	6.6	7.8	8.6
Benchmark	9.7	9.0	6.1	4.7	4.2	4.4	5.2	5.7	6.6	7.4	8.6	9.4
Relative Return	-1.8	-2.0	-1.5	-0.9	-0.4	-0.5	-0.8	-0.8	-0.9	-0.8	-0.7	-0.7

Rolling 3 Year Risk



Relative Risk	1.4	1.3	1.2	1.2	1.1	1.1	1.2	1.3	1.3	1.3	1.4	1.4
Information Ratio	-1.3	-1.5	-1.2	-0.8	-0.4	-0.5	-0.7	-0.6	-0.7	-0.6	-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 - Investec Global Bonds

LONDON BOROUGH OF TOWER HAMLETS - INVESTEC ASSET MANAGEMENT — **Periods to end March 2015**

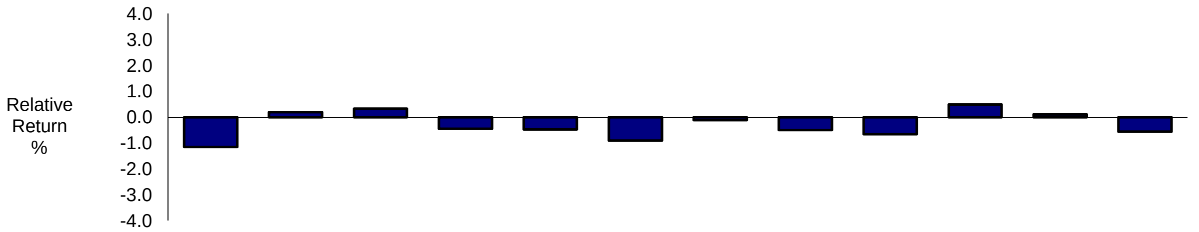
Benchmark - GBP 3 MONTH LIBOR + 2% — **Pound Sterling**

Category - TOTAL ASSETS

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

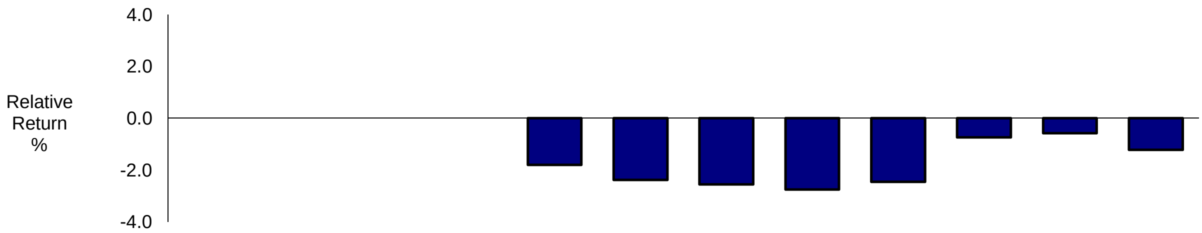
	---------- 2012 ----------			--------------- 2013 ---------------				--------------- 2014 ---------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	95.5	95.1	96.0	96.9	97.0	97.2	96.9	97.4	97.5	97.5	98.7	99.5
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	-0.4	0.8	0.9	0.2	0.1	-0.3	0.5	0.1	0.0	1.2	0.8	0.1
Final	95.1	96.0	96.9	97.0	97.2	96.9	97.4	97.5	97.5	98.7	99.5	99.6
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Proportion Of Total Fund (%)	12	12	11	10	10	10	10	10	9	9	9	9

Quarterly Returns



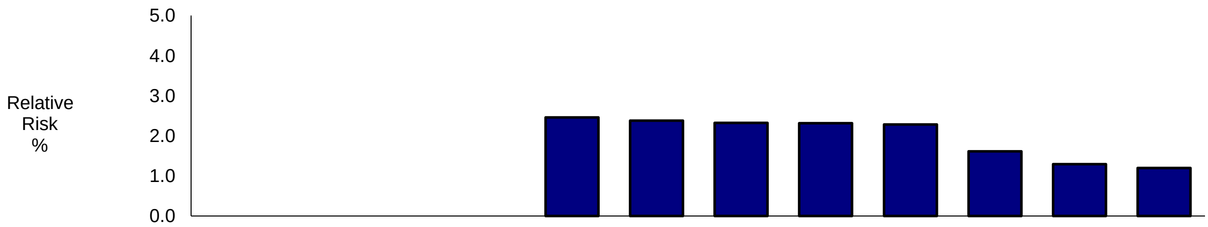
	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Fund	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1	-0.0	1.1	0.7	0.1
Benchmark	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Relative Return	-1.2	0.2	0.3	-0.5	-0.5	-0.9	-0.1	-0.5	-0.7	0.5	0.1	-0.6

Annualised Rolling 3 Year Returns



	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Fund					0.9	0.3	0.1	-0.1	0.2	1.9	2.0	1.3
Benchmark					2.8	2.8	2.7	2.7	2.7	2.7	2.6	2.6
Relative Return					-1.8	-2.4	-2.6	-2.8	-2.5	-0.7	-0.6	-1.2

Rolling 3 Year Risk



	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Relative Risk					2.5	2.4	2.3	2.3	2.3	1.6	1.3	1.2
Information Ratio					-0.7	-1.0	-1.1	-1.2	-1.1	-0.5	-0.5	-1.0

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

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

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

Rolling Years with Relative Risk - L&G Index Linked

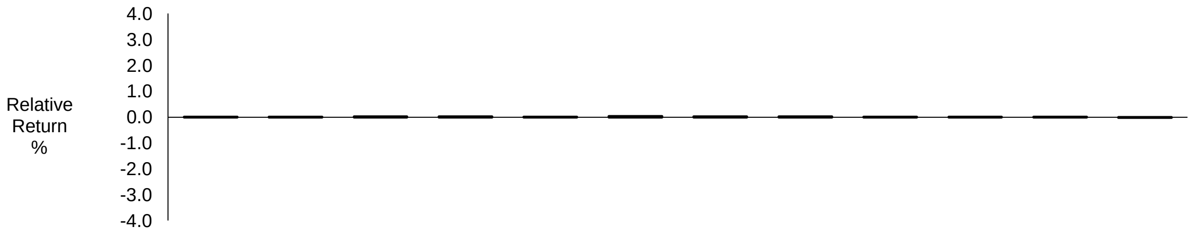
LB OF TOWER HAMLETS - L&G	Periods to end March 2015
Benchmark - FTSE UK GILTS INDEXED > 5 YRS	Pound Sterling

Category - TOTAL ASSETS

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

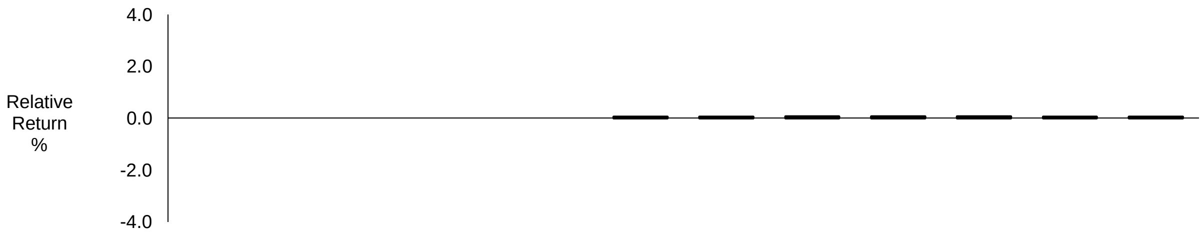
	---------- 2012 ----------			--------------- 2013 ---------------				--------------- 2014 ---------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	46.0	46.4	44.9	47.2	51.4	47.6	47.9	47.5	49.2	49.7	52.7	57.7
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.4	-1.5	2.3	4.3	-3.8	0.3	-0.4	1.7	0.6	3.0	5.0	1.9
Final	46.4	44.9	47.2	51.4	47.6	47.9	47.5	49.2	49.7	52.7	57.7	59.5
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	5	6	6	5	5	5	5	5	5	5	5

Quarterly Returns



	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Fund	0.8	-3.2	5.1	9.0	-7.3	0.6	-0.9	3.6	1.1	5.9	9.4	3.3
Benchmark	0.8	-3.2	5.0	9.0	-7.3	0.5	-0.9	3.6	1.1	5.9	9.4	3.3
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



	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Fund						8.4	7.7	9.0	7.8	7.2	7.1	9.0
Benchmark						8.3	7.6	8.9	7.8	7.1	7.0	8.9
Relative Return						0.0	0.0	0.1	0.1	0.1	0.1	0.1

Rolling 3 Year Risk

	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Relative Risk						0.0	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	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 March 2015**

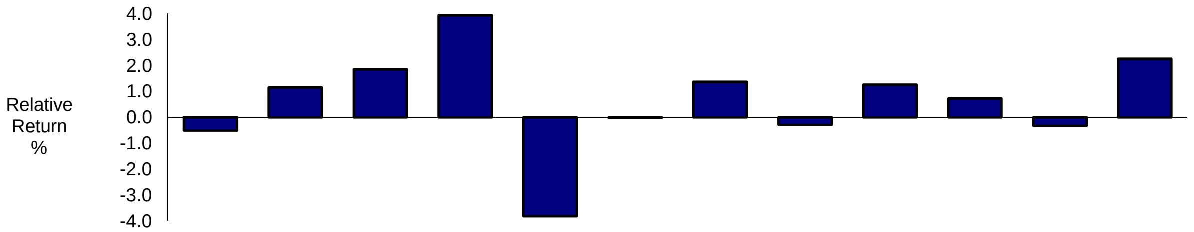
Benchmark - BANK OF ENGLAND BASE RATE + 3.5% — **Pound Sterling**

Category - TOTAL ASSETS

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

	---------- 2012 ----------			-------------- 2013 --------------				-------------- 2014 --------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	41.7	42.0	42.9	44.1	46.3	45.0	45.5	46.5	46.9	47.9	48.8	49.1
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	0.2	0.9	1.2	2.2	-1.3	0.4	1.1	0.3	1.0	0.8	0.3	1.6
Final	42.0	42.9	44.1	46.3	45.0	45.5	46.5	46.9	47.9	48.8	49.1	50.7
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 (%)	5	5	5	5	5	5	5	5	5	5	5	4

Quarterly Returns



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	0.5	2.1	2.9	5.0	-2.9	1.0	2.4	0.7	2.3	1.7	0.6	3.3
Benchmark	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Relative Return	-0.5	1.1	1.9	3.9	-3.8	-0.0	1.4	-0.3	1.3	0.7	-0.3	2.3

Annualised Rolling 3 Year Returns

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund								5.1	5.2	7.2	7.2	6.6
Benchmark								4.0	4.0	4.0	4.0	4.0
Relative Return								1.1	1.2	3.1	3.0	2.5

Rolling 3 Year Risk

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Relative Risk								4.8	4.8	4.2	4.1	3.9
Information Ratio								0.2	0.2	0.7	0.7	0.6

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

Rolling Years with Relative Risk - Ruffer

LB OF TOWER HAMLETS - RUFFER INVESTMENT MGMT LTD — **Periods to end March 2015**

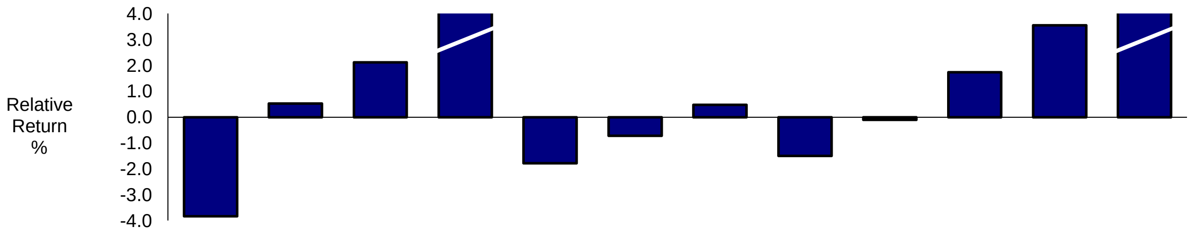
Benchmark - GBP 3 MONTH LIBOR + 2% — **Pound Sterling**

Category - TOTAL ASSETS

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

	2012			2013				2014				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	41.0	39.8	40.2	41.3	45.5	45.0	44.9	45.4	45.0	45.3	46.3	48.3
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	-1.3	0.5	1.1	4.2	-0.5	-0.0	0.5	-0.4	0.2	1.1	1.9	2.3
Final	39.8	40.2	41.3	45.5	45.0	44.9	45.4	45.0	45.3	46.3	48.3	50.6
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	4	4	4	4	4

Quarterly Returns



Fund	-3.1	1.2	2.8	10.1	-1.2	-0.1	1.1	-0.9	0.5	2.4	4.2	4.8
Benchmark	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Relative Return	-3.8	0.5	2.1	9.4	-1.8	-0.7	0.5	-1.5	-0.1	1.7	3.5	4.2

Annualised Rolling 3 Year Returns

Fund								4.3	4.1	5.7	6.3	7.2
Benchmark								2.7	2.7	2.7	2.6	2.6
Relative Return								1.6	1.4	3.0	3.6	4.5

Rolling 3 Year Risk

Relative Risk								5.5	5.5	4.9	5.2	5.2
Information Ratio								0.3	0.3	0.6	0.7	0.9

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.

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BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund

Report for the quarter ended
31 March 2015

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*

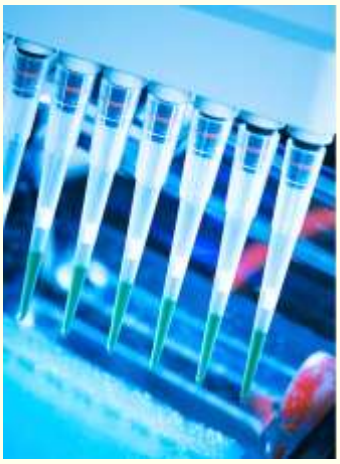
Woven fabric fibres. Coloured scanning electron micrograph (SEM) of fibres woven into a lattice of interlocking parts. This is part of a cloth called Georgette crepe.

Performance to 31 March (%)

	Fund Gross	Fund Net	Benchmark
Since Inception* (Cumulative)	108.5	101.5	72.1
Since Inception* (p.a.)	10.0	9.5	7.3
Five Years (p.a.)	13.1	12.6	10.0
One Year	19.4	18.9	19.0
Quarter	9.2	9.1	7.6

*05 July 2007
Source: StatPro

- New purchases have been in a range of stocks that reflect the focus of our research agenda
- Sales have come predominantly from our 'stalwart' holdings, largely reflecting the full valuations of these stocks
- The Global Alpha strategy closed to prospective investors at the start of this year



Valuation (after net flow of GBP 112,094)

What have we been doing this quarter?

'Closure'

We began this quarter with the closure of Global Alpha to new enquiries. This means that the strategy is now open only to you, its existing investors, and other Baillie Gifford clients. We have made this change so that we can accept further client cash flows while continuing to invest in a wide range of exciting growth companies globally.

Ongoing investment work

During the quarter, we published our annual research agenda which highlights some of the areas of focus for our work. As a reminder, we remain focused on bottom-up stock selection; the agenda simply provides a framework for where in the world we should hunt for unrecognised growth opportunities, and which parts of the portfolio require the greatest scrutiny. The key topics in this year's agenda are the US economic recovery, global divergence, countries with reform programmes, and 'disruptive' companies. Our research process has generated a wide range of investment opportunities this quarter, and the changes we have made to the portfolio fall under three of these four topics.

Continued US resurgence

The US continues to drive the economic recovery in the western world. We see the strength of the US economy first hand in results from a wide range of holdings – examples of strong profit growth in 2014 and future optimism were announced this quarter by Howard Hughes (a property company), Martin Marietta (aggregates) and Anthem (healthcare).

We remain enthusiastic about opportunities in the US housing and construction markets. To this end, we have bought one new holding and added to another. The new holding is Zillow, an online estate agency, which is well placed to take share in a market which itself is showing strong growth albeit from a low post-recession base. We added to CRH, the building materials group, which has significant exposure to the US construction market. Further potential growth for CRH comes from its proposed acquisition of a range of attractive building assets from Holcim and Lafarge – these two companies are attempting to merge, and various national competition authorities have forced them to make disposals. These assets will strengthen the position of CRH in the north-east US, as well as doubling its exposure to Emerging Markets.

Global divergence – case study commodities

Lower energy and minerals prices are affecting the economies of many countries, in particular those that are big exporters of these commodities. Losers in this respect include the Latin American economies, Russia and the Middle East. The share prices of several holdings involved in the energy industry, such as DistributionNOW (energy equipment distribution), or companies based in commodity-dependent economies, such as Latin American fast food company Arcos Dorados, have been weak.

More broadly, the portfolio's exposure to commodities is limited. The weighting in oil, for example, is around 5% and mainly comprises stocks that we think should be able to grow, even in this lower price environment. A good example is EOG Resources, which is optimistic about its organic growth prospects. In its latest annual report, published this quarter, the company highlights that with its strong balance sheet (it has over

$2 billion of cash available) it can continue to invest for future growth: "this year's crude oil price environment is offering a unique opening to add lower-cost, high quality acreage."

However, should a company have to scale back its plans in the light of lower oil prices, then it is less clear that it still merits a place in the portfolio. For this reason, we are selling the small position in Tullow Oil. We also sold the holding in Norsk Hydro, the aluminium producer; after a strong run its share price now implies a very polished outlook.

Positive reform agendas

We have been impressed that the new prime minister of India, Narendra Modi, has adopted sensible pro-growth reforms and that these are supported by the broader population. To date we have only had one holding in India; this quarter we bought HDFC, another finance company to add to the existing holding in ICICI. HDFC Corp is a leading provider of mortgages in India, and it owns HDFC Bank which provides consumers nationwide with a full range of banking facilities. We think that both ICICI and HDFC are an attractive way for the portfolio to capitalise on the evolving Indian economy.

Also of interest is the sharp rebound in several of our European holdings. This is in contrast to all the negative headlines about Greece. Perhaps the strength is in reaction to the beginning of 'quantitative easing' in Europe, which might mark the beginning of the end of the region's economic difficulties. Holdings that have benefited include Fiat (cars), DIA (Iberian supermarkets), Carlsberg (beer) and Volvo (trucks).

Innovation, accelerating change and disruption

The portfolio has significant exposure to companies in these fields – and our enthusiasm remains undiminished, with additions to two holdings and one new purchase this quarter. The additions were to Alibaba (after some share price weakness) and SAP (which looks very attractive if the transition to 'cloud'-based products goes to plan). The new purchase was a company called Financial Engines, which uses its software to offer a tailored investment service to customers in the growing US defined contribution pension market. The key attraction is that its low fees undercut traditional providers. We continue to think about the economics of companies such as these, and will share more thoughts with you in a special paper later this quarter.

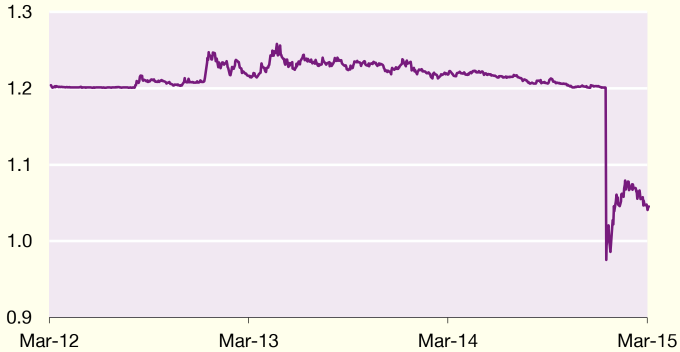
What have we been selling?

We aim to run a fully invested portfolio at all times (bar small trading cash balances) so each of the purchases described above requires something else to be sold or reduced. This is a powerful quality control mechanism: stocks with marginally weaker prospects become a source of funds. This quarter, most funding has come from stocks which we describe as 'stalwart'. The reason for their weaker prospects is simply that their share prices have all been strong in recent years and as such now appear fully valued. We have reduced the position in Moody's (the debt rating agency) and have made complete sales of British American Tobacco (which means for the first time you have no tobacco holdings), Roche (pharmaceuticals) and Bunzl (consumer disposables). Aside from these 'stalwart' sales and the commodity sales mentioned above, we have also said goodbye to Teradata, which had been bought with expectations of 'rapid' growth but has disappointed with its progress.

Dealing with uncertainty

Rarely does a quarter pass without some sort of major shock. This quarter was no exception when, to the surprise of almost everyone, the Swiss central bank stopped supporting the peg linking the Swiss franc and the euro. On the day of this announcement, the franc leapt 19% against the euro. Our Swiss-listed holdings – Richemont, Nestle and Schindler – all suffered share price falls in the immediate aftermath of the central bank's decision: the stock market was reflecting the lower value of their significant overseas profits when translated back to Swiss francs. By contrast, we are happy to remain holders of these businesses: the level of the Swiss franc has no major impact on the appeal or pricing of their products to their customers around the world. Indeed, these companies have been dealing with a strengthening Swiss franc for decades. The valuable contribution of our Swiss holdings to longer-term performance serves as a reminder that it is strong businesses that drive returns – and that currency movements 'come out in the wash' over time.

Swiss Franc-Euro Exchange Rate 2012 – 2015



Source: Bloomberg

Outlook

As is illustrated by many of the new investments this quarter, our investment process is generating a wide range of new potential holdings – and today the list of potential new stock ideas coming through is as strong as ever. Our research agenda is helping us to sort through these and to consider the threats to the portfolio too. While there remain some challenges to the portfolio – known and as yet unknown – we expect that a measured approach with a long-term mindset will enable us to navigate them successfully. We remain confident that a well-diversified portfolio of growth stocks can underpin attractive absolute and relative growth for the patient investor.

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	97
Number of Countries	24
Number of Sectors	8
Number of Industries	39
Active Share	93%
Rolling One Year Turnover	15%

Top Ten Holdings

Asset Name	% of Portfolio
Royal Caribbean Cruises	3.9
Naspers	3.8
Prudential	3.4
TSMC ADR	2.3
Anthem Inc	2.3
Ryanair	2.1
Amazon.com	2.1
TD Ameritrade Holding Corp	2.1
Markel	1.8
Google Inc Class C	1.8

New Purchases During Quarter

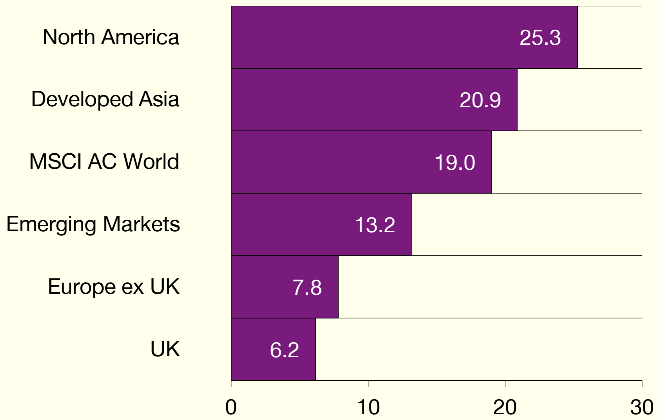
Asset Name
Financial Engines
HDFC
MS&AD Insurance
Zillow Group Inc

Complete Sales During Quarter

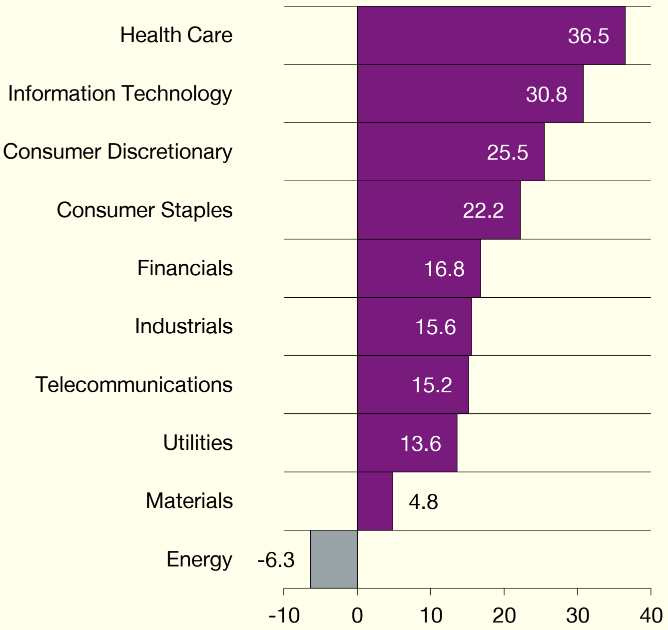
Asset Name
Bank Negara Indonesia
British American Tobacco
Norsk Hydro
Roche
Teradata

Index Information

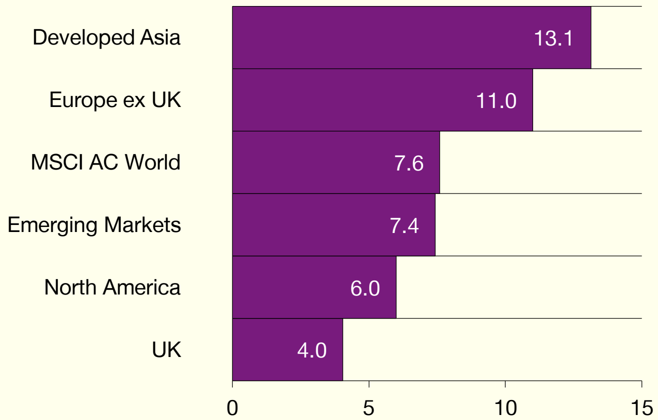
Regional Returns Over One Year (%)



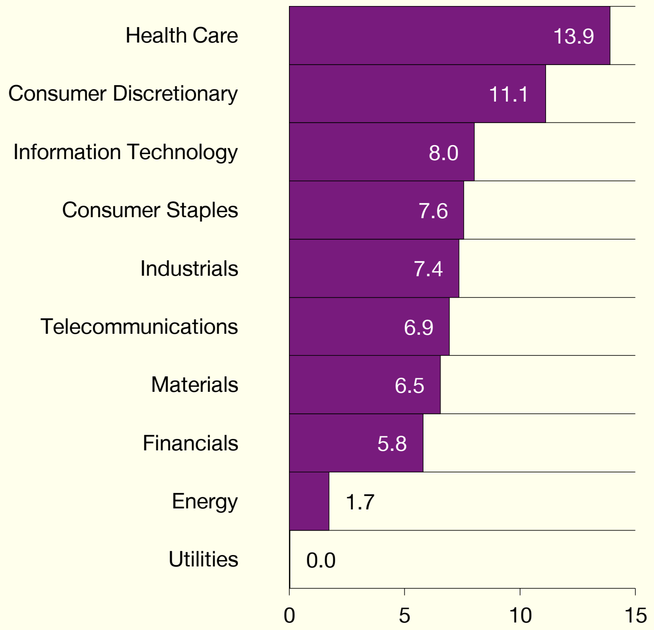
Sector Returns Over One Year (%)



Regional Returns During Quarter (%)



Sector Returns During Quarter (%)



% Change in GBP
Source: Baillie Gifford

Performance Objective

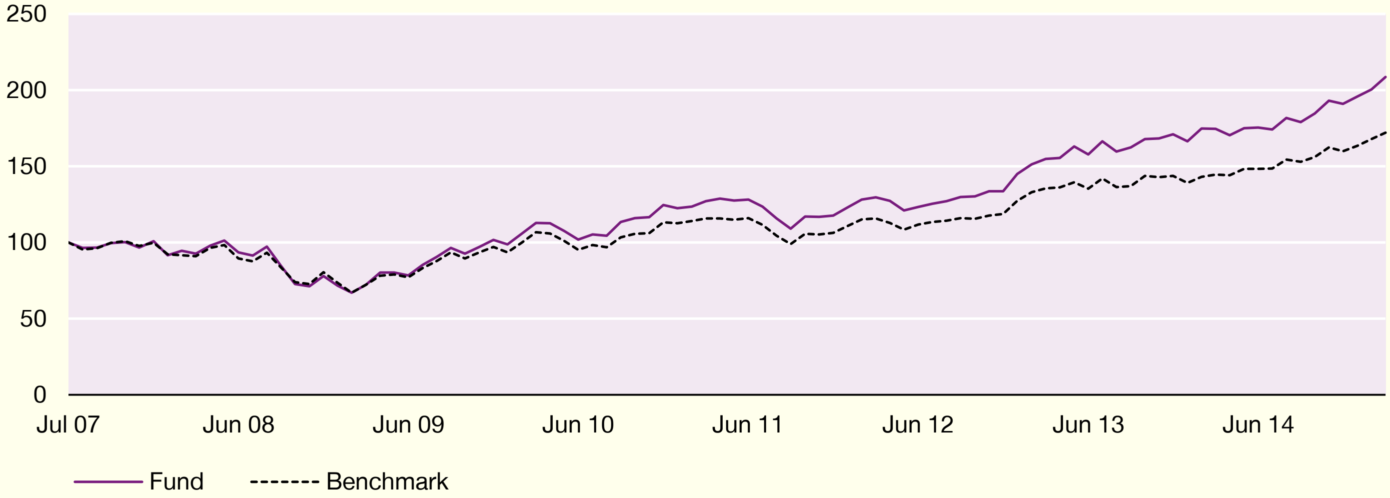
To outperform the MSCI AC World Index by 2.0 - 3.0% per annum (gross) over rolling five year periods.

Relative Performance

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

	Fund (%)	Benchmark (%)	Difference (%)
Since Inception* (Cumulative)	108.5	72.1	36.5
Since Inception* (p.a.)	10.0	7.3	2.7
Five Years (p.a.)	13.1	10.0	3.0
One Year	19.4	19.0	0.4
Quarter	9.2	7.6	1.7

Returns Since Inception*



*05 July 2007
Source: StatPro

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Since Inception* to 31 March 2015

Asset Name	Contribution (%)
Naspers	4.1
Royal Caribbean Cruises	2.0
Schindler	2.0
Amazon.com	1.7
Prudential	1.7
Richemont	1.3
Genentech	1.3
Svenska Handelsbanken	1.2
Tesla Motors	1.2
Mastercard Inc-Class A	1.1
Apple	-1.7
OGX Petroleo E Gas Participa	-1.0
Q-Cells	-1.0
Celesio AG	-0.9
Coca Cola HBC (CDI)	-0.8
Ultra Petroleum Corp	-0.7
Northern Rock	-0.7
Man Group	-0.7
BM&F Bovespa	-0.7
Yamaha Motor	-0.6

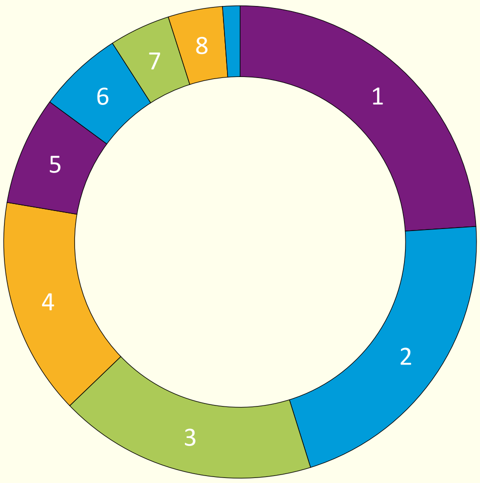
One Year to 31 March 2015

Asset Name	Contribution (%)
Royal Caribbean Cruises	1.2
Naspers	0.9
Anthem Inc	0.7
CarMax Inc	0.4
Moody's	0.4
Prudential	0.4
Baidu.com ADR	0.3
Fiat	0.3
Markel	0.3
CyberAgent Inc	0.2
Apple	-0.7
Ultra Petroleum Corp	-0.6
DistributionNOW	-0.4
Rolls-Royce	-0.3
Coca Cola HBC (CDI)	-0.3
Roche	-0.3
Sberbank	-0.3
Inpex	-0.3
Xilinx	-0.3
Tullow Oil	-0.2

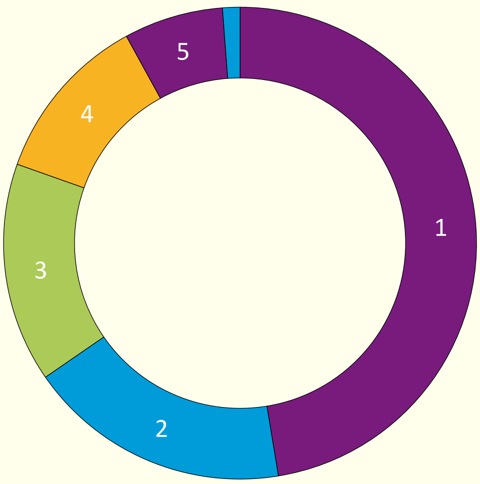
*05 July 2007
Source: StatPro

Top Ten Holdings

Asset Name	Description of Business	% of Portfolio
Royal Caribbean Cruises	Global cruise company	3.9
Naspers	Media and e-commerce company	3.8
Prudential	Life insurer	3.4
TSMC ADR	Semiconductor manufacturer	2.3
Anthem Inc	Healthcare insurer	2.3
Ryanair	Irish based low cost airline	2.1
Amazon.com	Online retailer	2.1
TD Ameritrade Holding Corp	Online brokerage firm	2.1
Markel	Markets and underwrites speciality insurance products	1.8
Google Inc Class C	Online search engine	1.8
Total		25.6



	Sector Weights	(%)
1	Financials	24.0
2	Information Technology	21.2
3	Consumer Discretionary	17.6
4	Industrials	14.9
5	Health Care	7.4
6	Consumer Staples	5.8
7	Materials	4.2
8	Energy	3.7
9	Cash	1.2
	Total	100.0



	Regional Weights	(%)
1	North America	47.4
2	Europe (ex UK)	18.0
3	Emerging Markets	15.0
4	Developed Asia Pacific	11.6
5	UK	6.8
6	Cash and Deposits	1.2
	Total	100.0

New Purchases

Stock Name	Transaction Rationale
Financial Engines	Financial Engines offers managed account services for employees enrolled in US retirement savings plans. The company's primary focus is on 401K plans but it is increasingly broadening out its offering to include other saving options such as Independent Retirement Savings accounts. It uses its highly scalable software platform to tailor the investments within an individual's retirement fund to best meet their own unique circumstances and aspirations; in effect it replicates a discretionary wealth management service but applies a savings pot threshold and a fee structure several fold below that which would normally be applied for a bespoke offering. Through having well established links with 401k record-keepers and growing credibility with plan sponsors, we believe the company is uniquely positioned to take an increasing share of the growing pool of US defined contribution retirement savings.
HDFC	HDFC Corp is India's oldest private housing finance company. The penetration of mortgages in India is extremely low and could increase many times over to reach Western levels. The company is a beneficiary of rising Indian income levels and improving housing affordability for the expanding middle-class. The business is well run, with extremely high asset quality, and its position as a non-bank allows some balance sheet flexibility without the burden of funding government treasuries. HDFC also has investments in many subsidiaries, including owning a stake in HDFC Bank, which has displayed excellent counter-cyclical loan book growth. The subsidiaries are not carried at fair value and represent significant upside to the valuation from their fee income. The company generates spectacular returns through the cycle, so we have purchased a holding.
MS&AD Insurance	MS&AD is a large Japanese insurance company. Following a phase of market consolidation in the past, the top three players now control over 90% of the market. We believe that this oligopolistic industry structure, along with evidence of an improving rate cycle, will mean that MS&AD will see significant improvement in the profitability of its insurance business over the coming years. MS&AD also has substantial holdings in a portfolio of Japanese equities that we believe will contribute to long-term book value appreciation. With shares trading well below book value, we believe that these attractions are not adequately factored into the share price.
Zillow Group Inc	Zillow is a US website covering all aspects of retail property markets across America. We believe it is in a position to replicate the success of Rightmove in the UK, only in a far larger market and using a pricing model that has scope to optimise returns beyond what Rightmove has thus far achieved. Although there are substantial differences in the mechanics of how the UK and US real estate markets operate and Zillow is at a far earlier stage in its development, we believe the scale of the opportunity is not reflected in the current Zillow valuation.

Complete Sales

Stock Name	Transaction Rationale
Bank Negara Indonesia	Bank Negara is the fourth largest bank in Indonesia. While the bank has an excellent history of rising profitability and loan growth, we believe that the operating environment will now become more difficult, and that increasing competition and rising capital requirements will mean that Bank Negara becomes structurally less profitable over the next few years. Taking into account our expectation of profitability and the market's upward rerating of the stock, we do not believe that there is enough upside to continue with the holding.
British American Tobacco	Whilst we continue to believe that British American Tobacco is a robust franchise, we believe that its long-term growth prospects are now more fully reflected in its valuation.
Norsk Hydro	We sold your holding in this Norwegian aluminium producer following an extended period of strength in its share price. Whilst we continue to believe that the company has an attractive cost position, the valuation is now discounting a very bullish scenario for the long-term commodity price.
Roche	We have sold your holding in Roche. We continue to admire the company's long-term perspective and focus on developing drugs to target un-met clinical needs, but have become increasingly concerned about its reliance on three products, Avastin, Herceptin and Rituxan. These have each had great commercial success but will face patent expiries before the end of the decade. While the impact of generic competition for these biologic drugs is likely to be less extreme than is usually the case, we suspect that replacing their profit contribution will be more difficult than the market currently expects. For Roche's business, and shareholders, we fear that the next decade may be less good than the last.
Teradata	Teradata is dominant in large scale database systems that cater to structured data. We have become progressively less sure of Teradata's ability to avoid becoming the victim of a change towards mass unstructured database systems. While the balance of probabilities is that both do quite well, the rating does not adequately reflect the risk of disruption, the culture does not appear to support the need to encompass rapid evolution and the stock no longer deserves a place in the portfolio.

Portfolio Characteristics

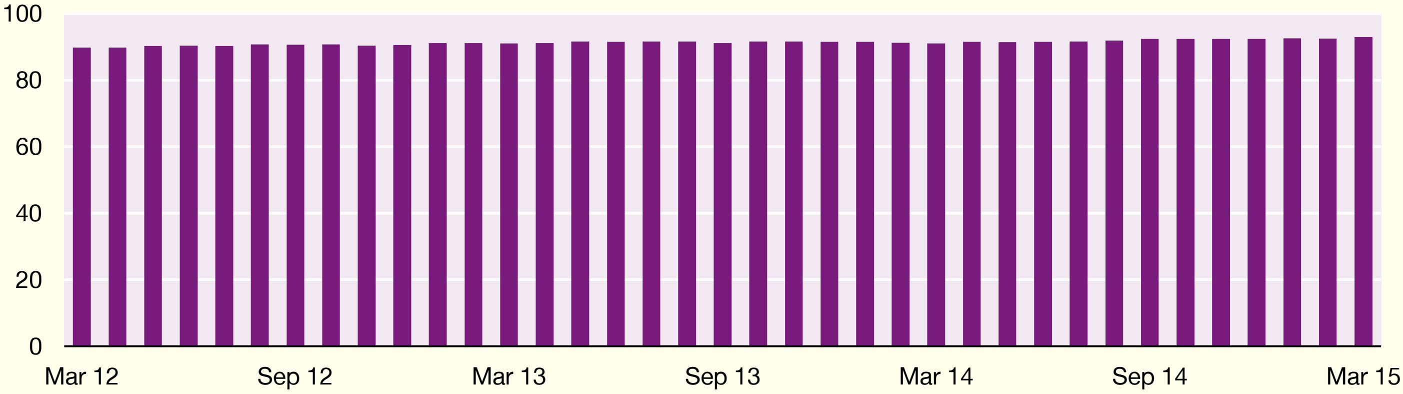
Key Statistics	
Number of Holdings	97
Number of Countries	24
Number of Sectors	8
Number of Industries	39
Active Share	93%
Rolling One Year Turnover	15%

Measures of portfolio active share and turnover continue to be reflective of the strategy's long-term, active approach

Your portfolio continues to be well diversified at the stock, industry and regional levels

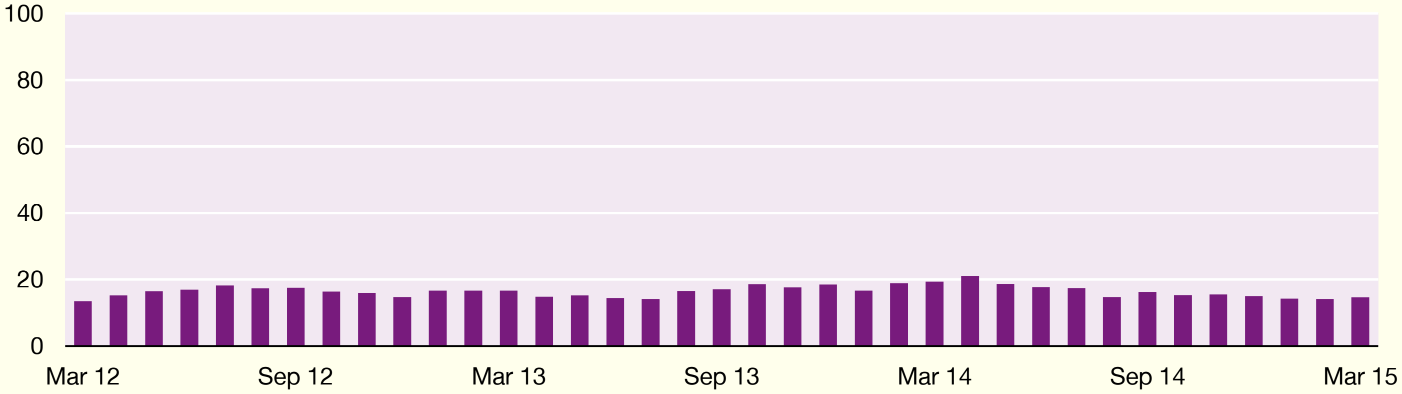
Stock selection of companies across a range of underlying industries contributes to a portfolio bias towards the information technology and consumer-orientated sectors. Your portfolio also continues to be biased away from the healthcare sector

Active Share (%)



Active Share – This is a measure of how actively managed a portfolio is. “Active Share” ranges from 0% to 100%. If the fund is exactly in line with the benchmark then “Active Share” will be 0%. If the fund has no commonality with the benchmark then “Active Share” will be 100%. Active Share is calculated by taking 100 minus “Common Money” (the % of the portfolio that overlaps with the index). For the calculation of “Common Money”, for each stock the smaller of either the portfolio or benchmark weight is taken, and these numbers are then summed.

Rolling One Year Turnover (%)



Rolling One Year Turnover is calculated as the lesser of the sum of all purchases and the sum of all sales in each month divided by the month end market value, summed over 12 months. Turnover is a measure of average investment horizon, the lower the turnover the longer the average investment horizon.

Asset Name	Fund %
Equities	
Royal Caribbean Cruises	3.91
Naspers	3.79
Prudential	3.45
TSMC ADR	2.32
Anthem Inc	2.27
Ryanair	2.10
Amazon.com	2.08
TD Ameritrade Holding Corp	2.08
Markel	1.78
Google Inc Class C	1.78
AIA Group	1.75
Nestle	1.73
Samsung Elec. Common GDR Reg S	1.60
First Republic Bank	1.59
CarMax	1.56
M&T Bank	1.52
Moody's	1.50
CRH	1.50
Baidu.com Sponsored ADR	1.44
Harley-Davidson	1.42
SAP	1.38
EOG Resources	1.33
Wolseley	1.32
MS&AD Insurance	1.29
eBay	1.28
INPEX	1.23
Atlas Copco B	1.22
Svenska Handelsbanken	1.21
Schindler	1.19
Visa Inc-Class A Shares	1.18
Mastercard	1.18
Waters	1.09
Schibsted	1.08
FLIR Systems	1.08
Fairfax Financial Holdings	1.06
Martin Marietta Materials	1.03
Colgate-Palmolive	1.02
Alibaba	1.02
SMC	1.00
Myriad Genetics Inc	0.99
Rolls-Royce	0.99
Tokyo Electron	0.99

Asset Name	Fund %
ICICI Bank Ltd	0.98
Bank of Ireland	0.98
Monsanto	0.93
Dolby Laboratories	0.92
THK	0.90
Lincoln Electric Hdg.	0.88
Xilinx	0.88
Brambles	0.86
CH Robinson	0.85
Teradyne	0.83
American Express	0.82
Qualcomm	0.82
Fiat Chrysler Automobiles	0.80
Olympus	0.78
Jardine Matheson	0.78
CyberAgent Inc	0.78
Ultra Petroleum	0.75
Dia	0.74
Carlsberg	0.74
TripAdvisor	0.73
Mindray Medical International ADR	0.72
Praxair	0.71
Coca Cola HBC (CDI)	0.71
Deutsche Boerse	0.69
Rohm	0.68
Tesla Motors	0.67
Richemont	0.66
DistributionNOW	0.64
Facebook	0.64
Volvo	0.61
Hays	0.56
Japan Exchange Group	0.56
Ritchie Bros Auctioneers (USA)	0.52
Financial Engines	0.52
Qiagen	0.49
HDFC	0.49
Seattle Genetics	0.48
Leucadia National	0.48
Howard Hughes	0.47
China Resources Enterprise	0.45
Zillow Group Inc Class A	0.45
SK Hynix Inc	0.45
Tsingtao Brewery 'H'	0.43

Asset Name	Fund %
BM&F Bovespa	0.39
Intuitive Surgical	0.38
Dragon Oil	0.34
Twitter Inc	0.33
Aggreko	0.27
Sberbank Spon ADR	0.26
Shandong Weigao	0.22
Arcos Dorados	0.16
Bunzl	0.13
Jyske Bank	0.10
Tullow Oil	0.08
Atlas Copco A	0.06
Total Equities	98.81

Total Cash and Deposits	1.19

Total Fund	100.00

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	12	Companies	5	Companies	None
Resolutions	124	Resolutions	11	Resolutions	None

During the quarter, there were two trips to Japan, and many more meetings with European companies

Stewardship Codes now seem to be proliferating

In the US, shareholders continue to use their voice to influence corporate governance practices

Company Engagement

Engagement Type	Company
Corporate Governance	BM&F Bovespa, Bank of Ireland, Nestle, Ryanair Holdings PLC
Corporate Social Responsibility	Wolseley plc
AGM or EGM Proposals	Amazon.com, Bank Negara Indonesia, Dolby Laboratories, Inc., Intuitive Surgical, Jyske Bank AS, Monsanto Company, Qualcomm Inc, Visa Inc, Wolseley plc
Executive Remuneration	British American Tobacco, Dolby Laboratories, Inc., TD Ameritrade Holding Corp, Wolseley plc

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

High activity levels within the team in the opening quarter of 2015 reflect the growing importance of corporate governance to companies and the broader number of countries acknowledging its significance. During the quarter, there were two trips to Japan, and many more meetings with European companies. We also witnessed a shareholder-led initiative in the US aimed at influencing the content of AGM agendas – so-called proxy access. Meanwhile, this growth in activity continues to add to our workload, so we have recruited a senior analyst who joined the team in March.

As a firm, Baillie Gifford has substantial exposure to Japanese equities and, for many years, we have been involved in conversations discussing governance practices in Japan. However, there has recently been a notable change there in terms of attitude and urgency. With government and regulatory backing, the Japanese Stewardship Code was introduced in 2014 and a Corporate Governance Code has been implemented this year. These developments have changed the openness and frequency of company engagement that is focused on governance. To add some context, as recently as 2007 we had difficulty translating the term *'corporate governance'* into Japanese. Now we have senior corporate figures, such as the CFO of Sony, asking for our perspective on how to implement good governance practices. Indeed, our head of governance was among the presenters at a recent high-profile conference in Japan. Furthermore, it is encouraging that both small and large companies are equally engaged in the discussions.

Stewardship Codes now seem to be growing in popularity. Prior to recent developments in Japan, the UK had set the trend in 2010, and we have recently had a stewardship consultation document from the Hong Kong Securities and Futures Commission. Other countries are discussing the introduction of a code but we are yet to see any content. It will be interesting to see if this momentum continues and how the concept of Stewardship expands in developed and emerging markets.

Elsewhere, we have been receiving a growing number of engagement requests from European companies with non-executive directors and chairmen providing us with more opportunities to discuss governance topics. This is another reason to feel positive about the progress being made although, at present, these discussions are primarily focused on the AGM agenda. Next year we will be more explicit in stating that we want to incorporate broader engagement on strategic and operational matters. It is valuable to be able to speak directly to a chairman or a member of the board.

In the US, shareholders continue to use their voice to influence corporate governance practices. Proxy access proposals seeking amendments to company bylaws to allow long-term shareholders to nominate board candidates are developing into the main issue ahead of the 2015 voting season. We are supportive in principle and are engaging with investee companies in order to implement appropriate policies for each.

And finally, as already mentioned, with corporate governance assuming ever greater importance, we have moved to strengthen our team. Michelle O'Keefe has joined as an analyst. She brings a background in climate change, resource governance and European resource policy assessments.

Company	Engagement Report
Amazon.com	In preparation for its annual general meeting, the company invited us to discuss a shareholder proposal to introduce proxy access. The proposal was for a bylaw amendment that would permit a shareholder or group of shareholders owning 3% of the issued share capital for three years to nominate up to 25% of the board. We explained our support for proxy access, believing that long-term shareholders should be able to nominate directors. The proposal is non-binding and will not require the company to implement the requested changes if passed. However, Amazon is keen to speak to its largest shareholders to understand their perspective. The management do not consider the thresholds in the current proposal to be optimal, but intend to engage with shareholders to find a satisfactory solution. We are encouraged by the company's willingness to listen to shareholders and will continue our discussions with the company after the annual general meeting.
Bank of Ireland	Bank of Ireland is a leading Irish bank. Following a visit from the CEO earlier this year, when our discussions focused on the bank's long-term strategy, the chairman visited our offices in March to discuss the company's governance structure. The chairman provided an update on changes to the composition of the board. We also discussed the long-term focus of the board, its view of the strategic challenges facing the bank and the remuneration of the executive management team and the bank's employees. This was a useful meeting that afforded us the opportunity to provide feedback on governance issues. Our suggestions were welcomed by the chairman.
BM&F Bovespa	BM&F Bovespa owns and operates Brazil's stock and futures exchange. We had a meeting with the chairman and chief financial officer in our offices to discuss the company's approach to governance. This was a routine meeting, with the company keen to explain the structure of the board and remuneration policy. The chairman was confident that the current board contains the relevant skills and experience, but explained that international expertise is one area for development. With regards to remuneration, the company is shifting from options to restricted stock awards for use in management equity incentives. The company believes that this will be better for retention. We explained our preference for performance-based awards and encouraged the company to provide disclosure of specific targets. Whilst this meeting was relatively basic, it should provide a foundation for future discussions on other governance topics.
British American Tobacco	As part of a remuneration consultation, we had a one-to-one conference call with the chairman and the remuneration committee chairman, as well as participating in a group engagement call with other shareholders and members of the Investment Association. The main change was to increase the chief executive's long-term incentives from 400% to 600% of salary. The proposed increase equated to an extra £2.3 million per annum in total pay opportunity. The company explained that the increase was to ensure the CEO's package was competitive with similar-sized companies. However, the committee did not intend to strengthen the relevant performance conditions and had completed a remuneration review and consultation process in 2014. Accordingly, we did not agree with the rationale for the proposed changes or consider them appropriate. This was in line with several other shareholders and the company subsequently withdrew the proposed changes. We are supportive of legitimate increases and amendments to executive pay policies, but will reject those which we do not believe to be appropriate or aligned with shareholders. Consequently, this engagement was successful and we look forward to future discussions with the company.
Dolby Laboratories, Inc.	Ahead of the company's annual general meeting, we had a call to discuss compensation decisions taken during the year. The compensation committee had made sizeable retention and inducement awards during the year to former and incoming executives. We explained that we do not consider these type of awards to be an effective or efficient use of shareholders' capital. We also outlined our belief that they serve to undermine the existing compensation policy. Based on these concerns, we decided to oppose the executive compensation resolution at the annual general meeting and forwarded the committee our executive remuneration principles. Despite our significant holding, the resolution received minimal opposition due to Dolby's share structure. Nonetheless we encouraged the company to exercise improved practices in the future.

Company	Engagement Report
Monsanto Company	Monsanto is the world's largest provider of genetically modified seeds and traits. We spoke with investor relations ahead of the annual general meeting to discuss a shareholder proposal requesting the introduction of proxy access. The proposal sought a bylaw change so that a shareholder or group of shareholders owning 3% of the issued share capital for three years could nominate up to 25% of the board. The company argued that the proposal could unbalance the overall composition of the board and/or disrupt its effective functioning. Conversely, we are supportive of proxy access in principle and believe that long-term shareholders should be able to nominate board candidates. Furthermore, the thresholds put forward should act as a deterrent for nuisance shareholders seeking to exploit the provision. We voted in favour of the resolution at the annual general meeting where it passed with 53% support. Given that this proposal was a non-binding request, we have contacted the company to encourage further discussions on how best to implement this provision.
Nestle	The chairman hosted a round table meeting in London before the company's 2015 AGM. Remuneration was on the agenda. Swiss companies approach remuneration a little differently to many other companies, offering a vote on the total budget for the executives for the next business year, and then a retrospective vote on the remuneration report. We are confirming as we write this how we will vote at the AGM so this will be reported in the quarter two voting report. Of more long-term strategic importance, the company has a retirement age of 72. The current chairman and ex-CEO, Peter Brabeck Letmanthe is 70. His succession is particularly relevant because he is a strong and influential character having worked in the company since the late 1960s and been on the board since 1997. There is unlikely to be a like-for-like successor, so we will continue our conversation with the company on this topic.
Ryanair Holdings PLC	Ryanair is a European low cost airline. In February, we travelled to the company's headquarters in Dublin to meet the senior independent director who is also the remuneration committee chairman. We wanted a better understanding of the company's remuneration policy and to ask whether the board would consider improving disclosure relating to remuneration. During our discussions we made a number of suggestions on information the company could disclose to shareholders which would enable us to assess the stringency and suitability of the remuneration policy. Overall, the company found our suggestions helpful and the topic of providing greater retrospective disclosure will be discussed at the company's next board meeting. We also met the CEO who gave an insightful update on developments in the company's governance structure and long-term strategy.
Wolseley plc	Wolseley requested a meeting to consult us prior to amending the sustainability strategy. Consultations are normally restricted to remuneration schemes. The board members are looking at the execution of their strategy on the operational side and what efficiency gains they can make, in conjunction with reviewing sustainability from the ground up, being guided by the feedback received from suppliers and customers. Separately, they have reviewed the company's remuneration schemes. We conveyed the view that the sustainability policies and remuneration principles should support the long-term corporate strategy; they should not be separate conversations. This was an extremely interesting and informative meeting and we expect to continue the discussion before the company publishes its Integrated annual report.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Monsanto	Annual 30/01/15	5	We supported a shareholder proposal requesting the company introduce proxy access provisions as we believe it is in shareholders' best interests.

Companies	Voting Rationale
BM&F Bovespa, CRH, Carlsberg, Dolby Laboratories, Jyske Bank, Monsanto, Qualcomm, SK Hynix Inc, Samsung Elec. Common GDR Reg S, Svenska Handelsbanken, TD Ameritrade Holding Corp, Visa Inc-Class A Shares	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Dolby Laboratories	Annual 03/02/15	3	We opposed the executive compensation given the award of one off payments. We do not believe this aligned management with shareholders.
Monsanto	Annual 30/01/15	3	We opposed the executive compensation policy due to a lack of disclosure.
Monsanto	Annual 30/01/15	4, 6	We opposed two shareholder proposals which are too prescriptive.
Svenska Handelsbanken	AGM 25/03/15	21-25	We opposed five shareholder proposals which we do not believe are in current shareholders' best interests.
Visa Inc-Class A Shares	Annual 28/01/15	3	We opposed executive compensation policy as we do not believe the performance conditions are sufficiently stretching.

Companies	Voting Rationale
Qualcomm	We opposed the executive compensation policy as the company granted retention awards during the year which we do not believe are aligned with shareholders' best interests

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)
Total Purchases		112,094	
Accrued Interest		0	
		112,094	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			112,094
Net Accrued Interest			0
Total			112,094

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							
27/01/15 27/01/15	Baillie Gifford Global Alpha Pension Fund B1C4T87	50,787.998 GBP 2.21		112,094		94,327,437.150	109,849,090
Total Purchases				112,094			
Total Net Investment/Disinvestment International							112,094
Total Net Investment/Disinvestment Other							112,094
Total Net Investment/Disinvestment Pension Funds							112,094
Total							112,094

	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	0.02	0.02	0.70

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	116,143,449	15.2	7.4	77.4	34,226	8,579	25,647	33,077	0	1,149	0
Merrill Lynch International	59,042,038	0.0	80.1	19.9	51,015	44,443	6,572	49,388	0	1,627	0
Morgan Stanley	45,952,824	0.0	44.9	55.1	16,558	10,756	5,802	16,558	0	0	0
Liquidnet Europe Ltd (MTP)	32,300,059	0.0	0.0	100.0	16,150	0	16,150	16,150	0	0	0
Citigroup Inc	24,188,503	0.0	65.6	34.4	19,035	14,670	4,365	19,034	0	1	0
William Blair & Co LLC	19,038,832	0.0	100.0	0.0	9,519	9,519	0	2,295	0	7,225	0
Robert W Baird Ltd	18,541,823	0.0	86.1	13.9	9,271	7,980	1,291	9,271	0	0	0
Royal Bank of Canada	16,915,667	0.0	0.0	100.0	11,841	0	11,841	11,841	0	0	0
JP Morgan Chase Bank NA	12,061,699	0.0	0.0	100.0	8,443	0	8,443	8,443	0	0	0
Sanford C Bernstein & Co LLC	11,395,051	0.0	100.0	0.0	5,698	5,698	0	5,698	0	0	0
Other Brokers *	52,883,353	0.0	24.1	75.9	41,633	10,045	31,588	38,813	0	2,820	0
Total	408,463,298	4.3	36.9	58.8	223,389	111,690	111,699	210,568	0	12,821	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	4.3	36.9	58.8	100.0	49.9	50.1	94.3	0.0	5.7	0.0
BG Average *	100.0	5.2	21.5	73.3	100.0	44.2	55.8	90.0	0.0	10.0	0.0

Baillie Gifford Global Alpha Pension Fund Average Commission Rate	0.0547 %
BG Average *	0.0448 %
Total commission paid as a percentage of the value of the fund	0.0060 %

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

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
Bank of New York Mellon (Custodian)	214,350,336	0	214,350,336
Northern Trust Company	50,278,951	0	50,278,951
Brown Brothers Harriman	16,278,378	0	16,278,378
Total	280,907,665	0	280,907,665

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

IA 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 Association (IA) 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	94,327,437.150	GBP 2.31	109,849,090	217,669,994	100.0
Total Pension Funds			109,849,090	217,669,994	100.0
Total			109,849,090	217,669,994	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 31 December 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 31 March 2015 (GBP)
Pension Funds				
Baillie Gifford Global Alpha Pension Fund	199,442,251	112,094	18,115,649	217,669,994
Total Pension Funds	199,442,251	112,094	18,115,649	217,669,994
Total	199,442,251	112,094	18,115,649	217,669,994

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 31 December 2014			
Pension Funds		109,736,996.05	199,442,251.28
		109,736,996.05	199,442,251.28
Income			
Management Fee Rebate	112,094.19		
	112,094.19		
Net Total Income and Charges		112,094.19	112,094.19
Change in Market Value of Investments		0.00	18,115,648.50
As at 31 March 2015		109,849,090.24	217,669,993.97
Of which:			
Pension Funds		109,849,090.24	217,669,993.97
Total		109,849,090.24	217,669,993.97

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GMO

London Borough of Tower Hamlets
Quarter Ending 31 March 2015

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Investment Management Review

London Borough of Tower Hamlets

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Quarter Ending 31 March 2015

London Borough of Tower Hamlets

Performance Gross of Management, Operating, Incentive Fees in GBP

Periods Ending 31 March 2015

Investment	Month	Quarter	YTD	Annualised 1 Year	 3 Year	 5 Year	 Since Inception *	Market Value (000)
Global Developed Equity Allocation Separately Managed (GBP) (29/04/2005)	1.51 %	8.99 %	8.99 %	13.82 %	14.12 %	9.45 %	9.90 %	274,364
London Borough of TH Custom Benchmark [1]	2.49	7.46	7.46	14.97	13.55	9.02	9.81	
Value Added	-0.98	1.53	1.53	-1.15	0.57	0.43	0.09	

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

[1] 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 March 2015

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)	1.49 %	8.93 %	8.93 %	13.57 %	13.80 %	9.06 %	9.44 %	274,364
London Borough of TH Custom Benchmark [1]	2.49	7.46	7.46	14.97	13.55	9.02	9.81	
Value Added	-0.99	1.47	1.47	-1.40	0.25	0.04	-0.37	

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

[1] 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 March 2015

Fund	Market Value 31/12/2014	Cash Flows	Gains/ Losses	Market Value 31/03/2015
London Borough of Tower Hamlets Pension Fund	251,751,242	-19,384	22,632,078	274,363,935
Total	**251,751,242**	**-19,384**	**22,632,078**	**274,363,935**

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		
05/01/2015	Redemption	-8,137.63
30/01/2015	Redemption	-11,246.80

Global Developed Equity Allocation Strategy - Investment Review

Quarter Ending 31 March 2015

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.

In dollar terms, global equities generally posted modest gains during the first quarter as central bankers took center stage and commodity prices continued to deflate. As international markets rose, the dollar strengthened considerably against most currencies with the exception of the yen. International developed markets produced strong returns in local terms, bolstered by the onset of quantitative easing in the eurozone and by the continuation of Abenomics in Japan. The U.S. market delivered barely positive returns as Fed watchers focused on if and when the rate tightening cycle might begin, and the economy under-delivered on optimistic growth expectations. At quarter end, the MSCI All Country World index registered a gain of 2.3%. MSCI EAFE was up 4.9%. The strongest performing major developed market was Japan, with MSCI Japan up 10.2%. Among the major markets, the U.K. had the weakest dollar returns with MSCI U.K. down 1.0%. The S&P 500 returned +1.0% for the quarter, and MSCI Europe was up 3.5% in dollar terms. Emerging markets trailed developed international markets; MSCI Emerging returned +2.2% for the quarter.

Modest gains for most equity markets around the world during the first 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 underperformed the U.S. broad market in the first quarter. Our 7-year real return forecast for U.S. high quality stocks at the end of February was -0.1%. Among international developed equities, we continue to favor European value stocks. Our forecast for European value stocks (excluding financials) was +1.8%. We also continue to favor value stocks within emerging markets. Our forecast for value within emerging markets was +7.0%.

Over the quarter, we made incremental changes to the portfolio's allocations primarily oriented toward rebalancing because 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 index 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 March 2015

Top Ten Holdings [3]

Amazon.com Inc.	5.1%
Alibaba Group Holding Ltd. Sponsored ADR	5.1%
LukOil OAO	4.1%
Samsung Electronics Co. Ltd.	4.1%
Philip Morris International Inc.	3.0%
Express Scripts Holding Co	3.0%
Royal Dutch Shell PLC	2.3%
Total S.A.	1.6%
Oracle Corp.	1.6%
Nissan Motor Co. Ltd.	1.5%
Total	**31.4%**

Risk Profile Since 29/04/2005 [4]

	Portfolio	Benchmark [2]
Alpha	-.27	.00
Beta	.99	1.00
R-Squared	.98	1.00
Sharpe Ratio	.56	.58

Group Exposures [5]

US Quality	24.2%
US Opportunistic Value	6.2%
Europe Value	30.6%
Japan	8.4%
Other Int'l Opportunistic Value	2.3%
Emerging Markets	27.1%
Cash & Cash Equiv.	1.2%

Characteristics

	Portfolio	Benchmark [1]
Price/Earnings - Hist 1 Yr Wtd Median	16.6x	19.7x
Price/Cash Flow - Hist 1 Yr Wtd Median	9.4x	13.9x
Price/Book - Hist 1 Yr Wtd Avg	1.6x	2.2x
Return on Equity - Hist 1 Yr Med	12.8%	14.9%
Market Cap - Weighted Median -Bil	35.2 GBP	26.7 GBP
Number of Equity Holdings	716	2469
Dividend Yield - Hist 1 Yr Wtd Avg	2.9%	2.4%

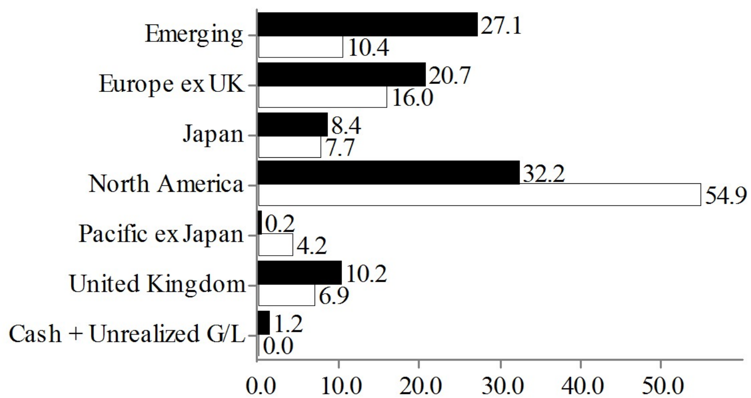
[1] *MSCI ACWI*
[2] *London Borough of TH Custom Benchmark*
[3] *Portfolio holdings are a percent of equity. They are subject to change and should not be considered a recommendation to buy individual securities.*
[4] *Alpha is a measure of risk-adjusted return; Beta is a measure of a portfolio's sensitivity 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

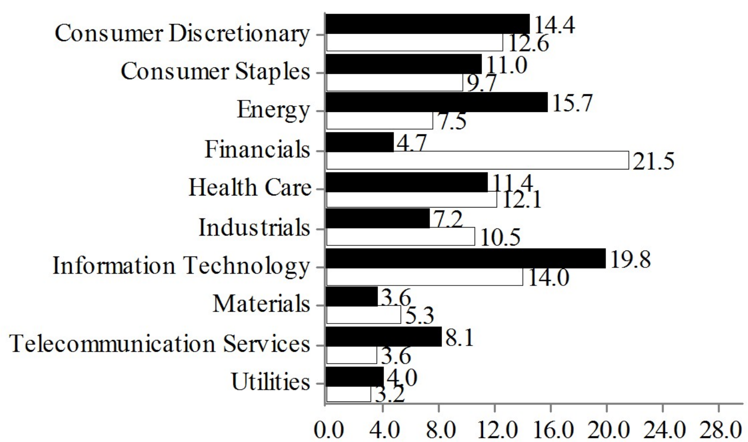
Global Developed Equity Allocation Strategy - Profile Summary

As of 31 March 2015

Regional Weights

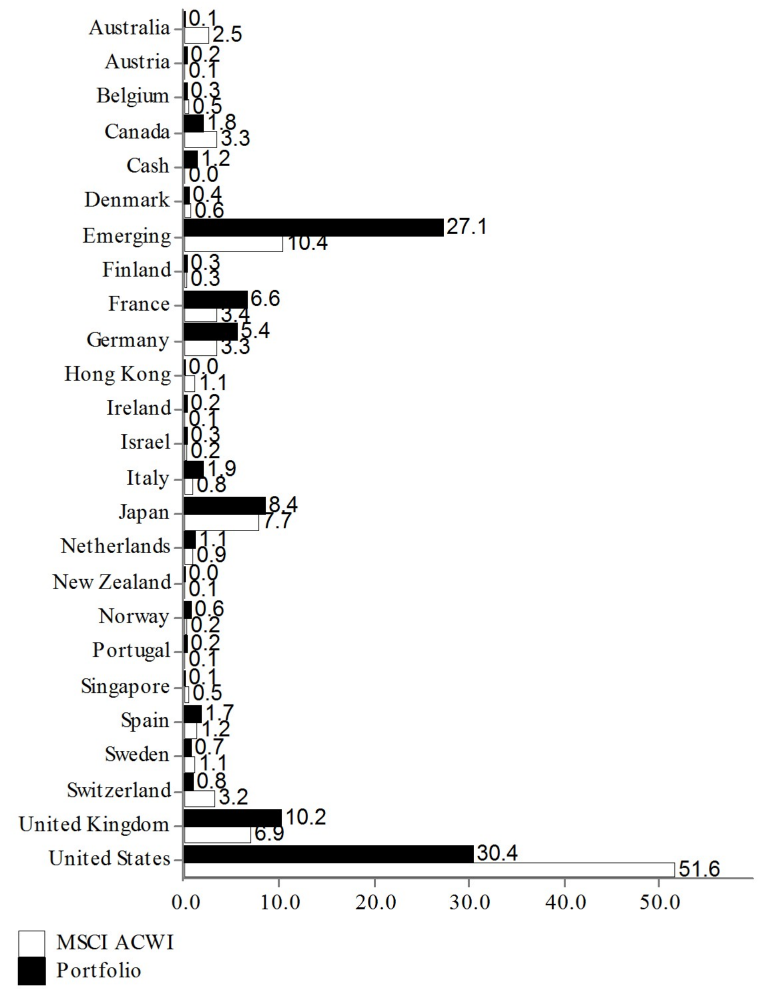


Sector Weights



GICS Sectors

Country Allocation



Global Developed Equity Allocation Strategy - Attribution Overview

Quarter Ending 31 March 2015

Performance (%)	
Net of Fees, USD (Rep Account)	+2.77
Gross of Fees, USD (Rep Account)	+2.62
MSCI World	+2.31
Value Added	**+0.31**

GROUP ALLOCATION: 0.2%

U.S. Int'l EM

SECURITY SELECTION: 0.2%

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 32% of our total portfolio weight during the quarter.

Results: Our position in U.S. high quality produced negative allocation and selection impacts during the quarter. High quality stocks underperformed the U.S. market during the period as Consumer Discretionary stocks delivered strong results and Consumer Staples lagged.

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 Utilities.

Positioning: Emerging markets accounted for approximately 10% of our total portfolio weight during the quarter.

Results: Our emerging markets position resulted in a negative selection impact during the quarter. Continued concern about political and economic conditions in Brazil drove down prices in our Brazil Materials and Brazil Utilities positions. Positive country-sector contributors to returns included Russia Energy and Turkey Materials.

The above information is <u>based on a representative account in the Strategy</u> 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 March 2015

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 11% of our total portfolio weight during the quarter.

Results: Our Japan position produced positive allocation and selection impacts during the quarter. The largest contributor was our overweight in Japan Autos, especially Nissan, which outperformed 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 37% of our total portfolio weight during the quarter.

Results: Our position in European value produced a negative allocation and a positive selection impact during the quarter. European value stocks trailed the broader European market during the quarter. Positive stock selection from our valuation-based process more than offset the allocation impact.

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

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Investec

London Borough of Tower Hamlets Pension Fund

Investec Funds Series iv, Target Return Fund

Investment report for the quarter ended 31 March 2015

Investec
Asset Management

Executive summary

Investment strategy

The London Borough of Tower Hamlets Pension Fund invests directly into the Investec Funds Series iv, Target Return Fund.

The Fund aims to produce a positive return over the long term regardless of market conditions by investing primarily in interest bearing assets and related derivatives.

The Fund aims to deliver steady gains over the long term through wide diversification of risk and a high level of investment flexibility.

The underlying principle of the Fund's strategy is that by taking a large number of small bets instead of a more limited number of larger bets it will be possible to generate an equivalent level of return, but with less short-term volatility.

Performance objective

To outperform the performance comparison index return by 2-3% per annum (gross of the base investment management fee) when measured over rolling three year periods.

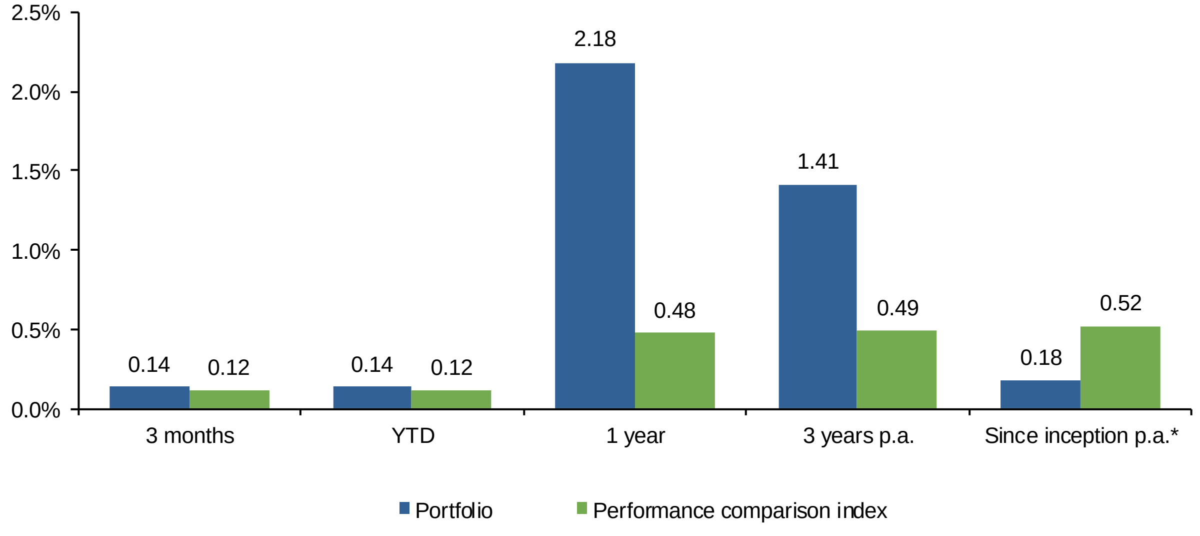
Performance commentary

The portfolio delivered a return of 0.14 % against a performance comparison index return of 0.12%. The main source of relative performance over the quarter was our exposure to corporate debt. Our broader credit market hedge position detracted after the rally in credit markets, which was most pronounced in European high yield markets. Meanwhile, within our currency exposure, our idiosyncratic, shorter-term positions were the primary detractors, although our strategic longer-term position helped mitigate the losses experienced here.

Our exposure to emerging market debt contributed to relative returns, while interest rate positioning also added. We managed to take full advantage of the rally in emerging market debt at the beginning of the year, while select exposure to high-quality country holdings proved beneficial within our interest rate exposure.

Performance

Periods ended 31 March 2015



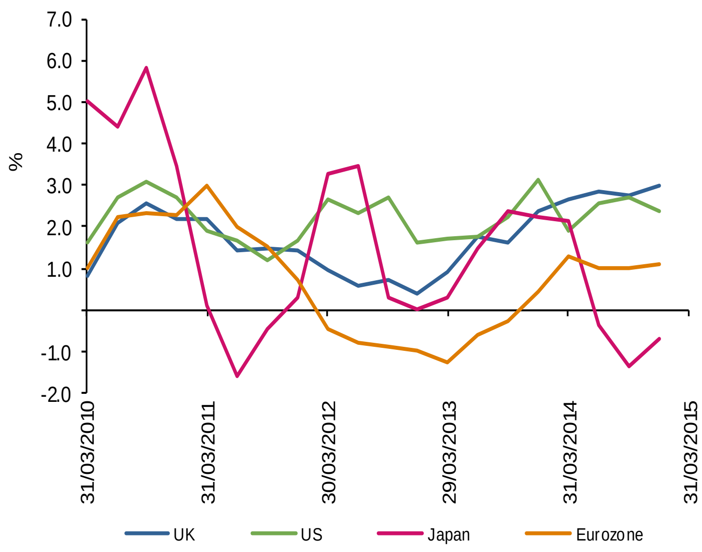
Market value : GBP 99,629,864.34

Source: Investec Asset Management. Returns are stated gross of fees. Periods above 12 months are annualised.
Performance comparison index: Overnight GBP LIBOR Rate.
*Inception date: 26 April 2010

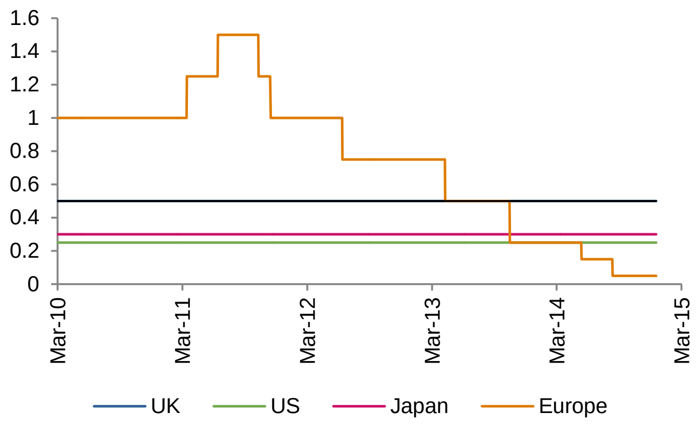
Economic and market review

Global economy – quarter ended 31 March 2015

GBP trend (annualised)



Key official interest rates



Growth

While economic data from the US undershot expectations, forecasts of global economic growth edged higher. The period was something of a contrast to previous quarters after euro-zone data was stronger and US data stuttered. Data in Japan continued to disappoint, while political rhetoric started to take centre stage in the UK in the run up to the May General Election.

After successive months of buoyant US economic data, the beginning of 2015 marked something of a slowdown, in spite of the effective 'tax cut' from lower oil prices. This manifested itself through an increasingly 'data-dependent' US Federal Reserve (Fed) in the context of interest rate hikes.

In the euro zone, deflationary pressure has eased slightly, while economic data has improved. Exports, in particular, have grown against a backdrop of a weaker euro following the European Central Bank's (ECB) quantitative easing (QE) programme.

Meanwhile, one year after the April 2014 consumption tax hike in Japan, the economy has struggled with falling inflation and a real economy (production of actual goods and services) which has failed to show material signs of improving, despite domestic financial asset prices rising strongly.

Monetary Policy

The first quarter of 2015 was particularly eventful across global markets. Underpinned by the slump in oil prices in 2014, the period will chiefly be remembered for the extent of extraordinary monetary policy actions taken by various central banks. Falling global inflation – primarily driven by plummeting oil prices – prompted 36 central banks to cut interest rates across the globe in a bid to maintain currency competitiveness.

In Europe, the ECB finally introduced sovereign bond QE, while the Swiss National Bank (SNB) surprised markets by scrapping the Swiss franc/euro cap after both the chairman and vice-chairman of the SNB had previously confirmed their support.

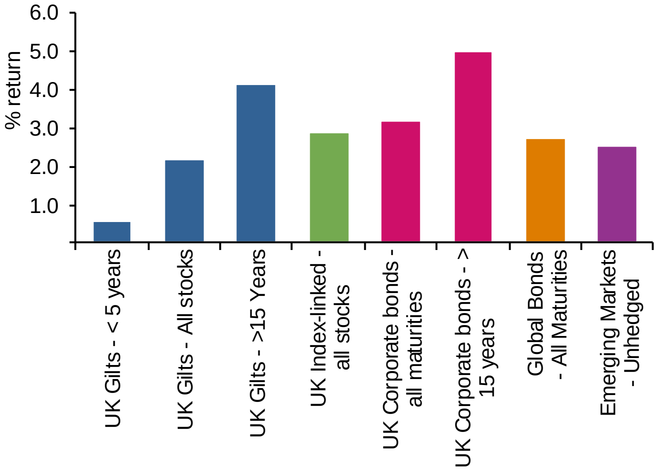
The Fed once again drew significant attention as market participants looked for clues on the intentions of the timing, and subsequent path, of future interest rate hikes. The term "patient" was dropped for the first rate hike, although this was widely expected. Indeed, market perceptions were relatively more dovish as the Fed signalled higher data dependence amid weaker inflation and mixed data.

Source: Factset

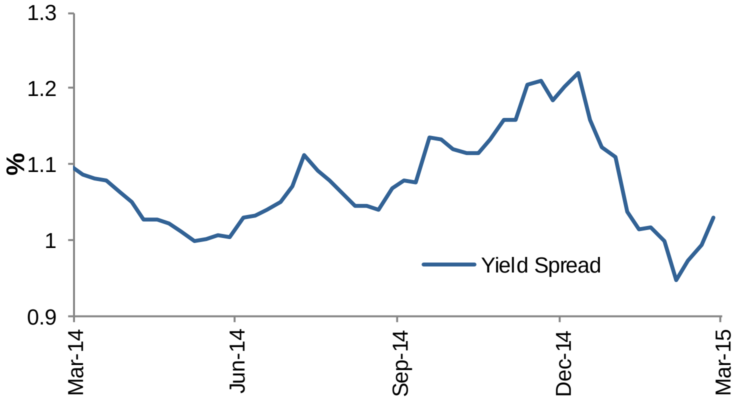
Economic and market review

Markets – quarter ended 31 March 2015

3 month £ returns



Spread between £ all maturities gilt and corporate bond yields



Returns

Yields on 10-year government bonds fell to 1.92% in the US and 1.58% in the UK, while rising to 0.40% in Japan.

Core bond market yields have continued to fall with a low inflation environment globally and pervasive accommodative monetary policy, most notably from the ECB and its QE programme.

Each of the UK, Germany and Japan 10-year bonds reached a record low yield at some point during the quarter. Falling inflation has left real yields attractive in an environment where the 'search for yield' is far reaching. Easy monetary conditions and the prospect of steady, but not spectacular, growth has kept yields lower.

Credit spreads narrowed modestly across the developed market space with high yield bonds reversing some of the prior quarter's widening. European high yield credit, in particular, benefited from the positive sentiment post the ECB QE announcement.

Emerging market local currency bonds were once again adversely impacted by the strengthening US dollar, while emerging market hard currency bonds achieved a modest gain as investors sought out higher yielding dollar assets.

Valuation and behavioural aspects

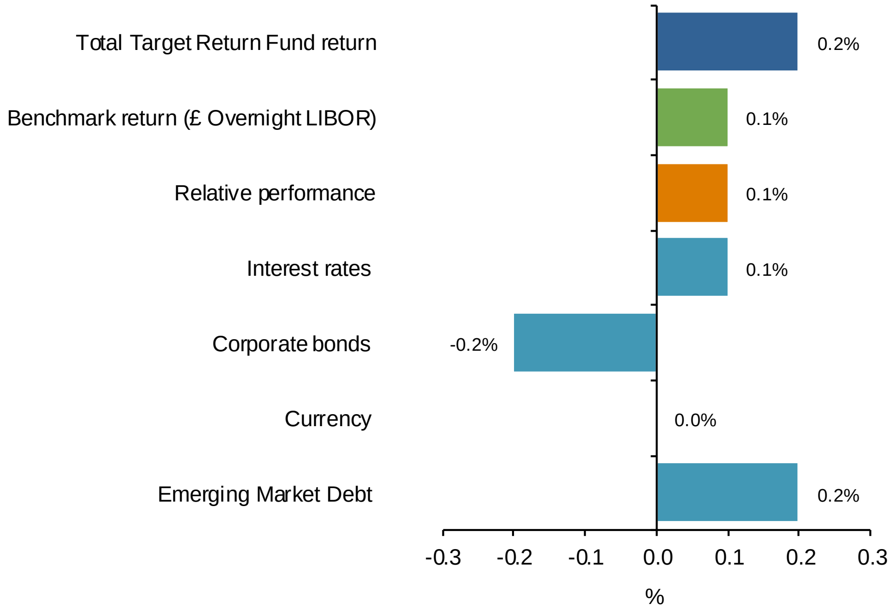
There is increasing dispersion in global bond markets which widely coincides with a higher level of both developed market and emerging market currency volatility. Much of this relates to differing prospects for monetary policy, especially with the US increasingly primed to start hiking interest rates. More importantly, this is an environment where valuation appears expensive in both absolute and relative value propositions, across global macro markets.

Source: Factset

Performance analysis

What helped and hurt – quarter ended 31 March 2015

Contribution to performance for the quarter



Interest rates

The positive relative performance from our interest rate exposure was predominantly due to our holdings of smaller, higher-quality government bonds, such as Israeli and Australian, where both central banks struck a more dovish tone in one form or another. However, our short exposure to US Treasuries was a drag on relative returns after US government bond markets continued to rally amid a more dovish interpretation of US Federal Reserve (Fed) comments.

Corporate bonds

Our corporate credit exposure detracted from relative returns over the period. The bulk of this underperformance came in March, when broader credit market hedge positions detracted after a strong rally in high yield credit markets, particularly in Europe following the announcement of quantitative easing (QE) from the European Central Bank.

Currency

Our currency exposure made a flat contribution to returns, reflecting how negative performance from our idiosyncratic, shorter-term positions was offset by our core, longer-term holdings, such as our strategic bias towards the US dollar. Indeed, several of our idiosyncratic trades did not evolve as we had expected, although each of these were managed carefully.

Emerging market debt

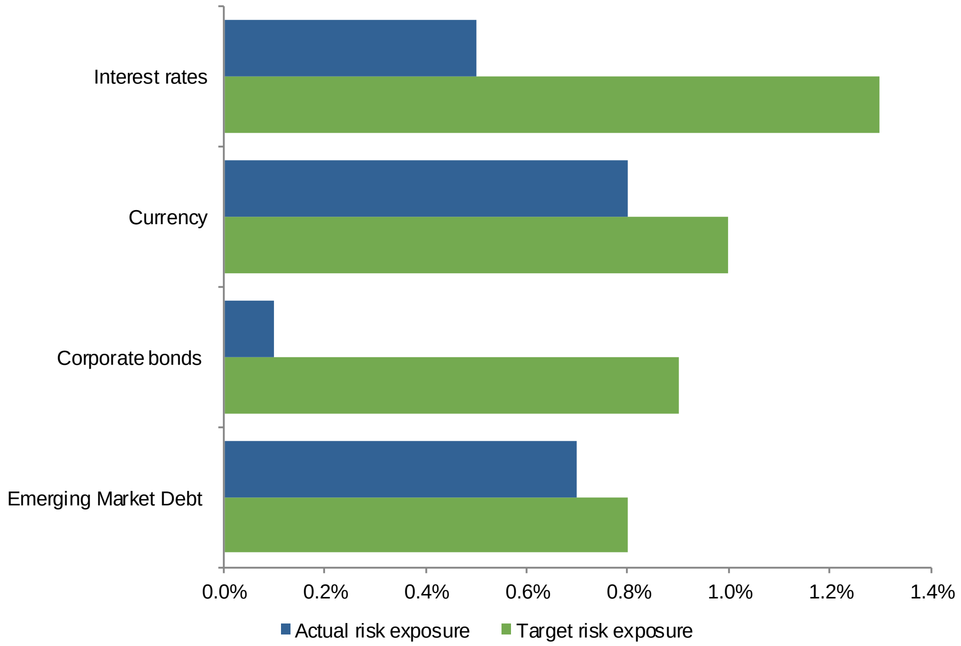
Our emerging market debt exposure added to relative returns over the period. This was predominantly due to us being able to take full advantage of the strength in emerging market bonds at the beginning of the year. However, broad-based weakness towards the end of the quarter proved difficult to escape from and dampened the positive relative returns modestly.

Source: Investec Asset Management, Returns are stated gross of management fees

Performance analysis

Portfolio strategy for the Strategic Bond Fund as at 31 March 2015

Model risk exposure (%) – Proposed allocation of risk between strategies



Strategy

Overall interest rate exposure was essentially unchanged over the quarter, although the mix was adjusted somewhat. We increased our net short exposure held in US Treasuries, while reducing our strategic short position in Japanese government bonds. We also closed our modest long position in German Bunds and ended the quarter with slight short exposure.

Within the portfolio's currency exposure, our long-held strategic long in the US dollar was reduced meaningfully over the quarter, back to around neutral levels. This corresponded with the existing overweight in sterling being added to, alongside a further reduction in the euro underweight.

Our corporate credit exposure was largely unchanged with a small reduction in lower rated bonds and investment grade bonds added to.

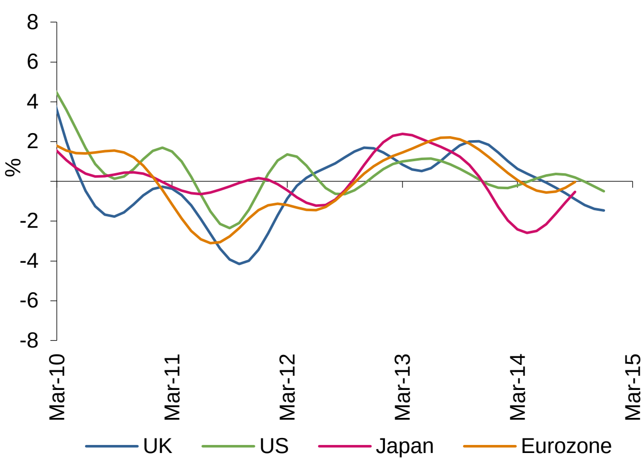
Our emerging market debt remains significantly higher than our average exposure during 2014. Aggregate duration exposure across emerging market bonds was held constant.

Source: Investec Asset Management.

Economic and market review

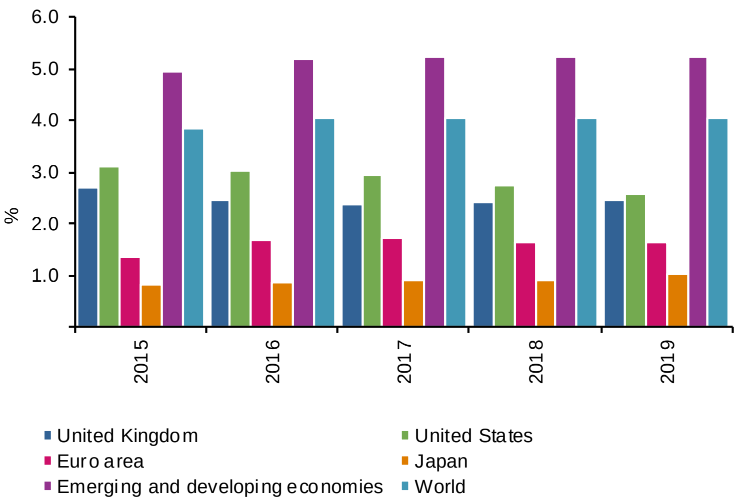
Global economy – quarter ended 31 March 2015

OECD lead indicators



Source: Factset

GDP outlook (year on year % change)



Source: International Monetary Fund (IMF) October 2014

Economic growth prospects

Underpinned by the tailwind of lower oil prices, global growth appears likely to surprise to the upside later this year.

Easier monetary conditions and relatively expansionary fiscal policy should provide an additional boost to the global economy.

The economies of the euro zone and Japan are both benefiting from weaker currencies, although growth might still be held back by structural drags.

The outlook for the US is still optimistic, despite weaker global growth and a strong US dollar weighing on the domestic economy.

Inflation

The inflationary backdrop remains benign across both developed and emerging market economies. Inflation expectations, which have been remarkably resilient, are also beginning to slide lower. A sustained output gap and lower commodity prices mean disinflationary forces are dominating.

Entrenched lower inflation is proving a challenge to policy makers and resulted in a wave of unconventional monetary measures globally.

In the US, while headline inflation registered a fall of 0.1% in the 12 months to March 2015, core inflation – which strip out volatile items such as food and energy – actually rose 1.8% for the same period. Clearly, the falling oil price appears the primary culprit. A similar, although somewhat less pronounced impact, is also evident in the UK where headline and core inflation registered readings of 0% and 1.0% in the 12 months to March 2015, respectively.

The euro zone fell into deflationary territory although there are optimistic signs after a reading of -0.1% in the 12 months to March 2015 – in stark contrast to the same figure for January 2015 of -0.6%.

GDP outlook

The IMF has stated global economic growth will be “moderate and uneven” in 2015. Falling oil prices means the economy is set to expand 3.5% and 3.8% for 2015 and 2016, respectively. The 2016 figure represents an upward revision from its January prediction. That said, the IMF’s warning of “uneven” growth alludes to a higher chance of negative shocks than positive shocks.

Despite more recent data from the US being relatively mixed, the US economy is likely to continue to act as the engine of global growth, while the euro zone and Japan will continue to look to a weaker currency to help boost both growth and inflation. Elsewhere, the Chinese economy continues to rebalance to a lower growth path with emerging markets, more broadly, adversely impacted by lower commodity prices.

The first rate hike from the Fed appears most likely to be in September of this year – slightly later than consensus forecasts of June at the end of 2014. However, a June rate hike very much remains a possibility.

Global market outlook

Quarter ended 31 March 2015

Tactical and strategic asset class views

BONDS	→	CURRENCIES	
US & UK government	→	USD	↗
EU & Japan government	↘	EUR	↘
Inflation linked	→	GBP	→
Investment grade	↘	JPY	→
High yield	↘	EM	↘
EMD	→		

Views of Investec Asset Management's Multi-Asset team and reflect relative preferences within respective asset class. Directional views for bonds reflect projected price movements. As at 31 March 2015.

→ Neutral ↑ Strongly up ↓ Sharply down ↗ Trending up ↘ Trending down

Bonds

It is clear that we are in a period of increasing divergence in policy responses between the US and other economies. The debate in the US is centred on the timing of rate hikes, while other economies are still in the midst of cutting rates. This calls for flexibility and selectivity with owning developed government bonds. We do not rule out US Treasuries as a potential investment though, and as with UK, Canada and Australian government bonds, they offer a relatively attractive yield to other markets such as Germany and Japan. Our preference for these markets is on investing further out along the yield curve and/or to position for changes in the shape of the curve.

Corporate bonds

We remain cautious about credit markets, for both investment grade and high yield bonds, due to the scale and quality of issuance, increased leverage levels and the extent of investor crowding in these markets. However, we recognise that the accommodative monetary policy in the global system provides a strong backdrop for these markets, and so believe there is potential for modest returns.

Emerging markets

Emerging market local currency debt appears to offer a decent risk premium for investors. These markets should also be supported by soft inflation and reasonable economic growth. However, selectivity is crucial and the country-specific balance of payment situations should determine the relative winners and losers. We believe emerging market local bonds offer better value than hard currency bonds, and this view has been strengthened given the recent divergent performance between the two markets.

Currency

We continue to remain positive on the US dollar as we believe the fundamentals of the economy are robust and the US is most likely to return to policy normalisation sooner than the other major economies. The direction of travel for the euro seems clear over the long term, with a further depreciation likely to take it to parity and beyond relative to the dollar. The strengthening dollar may have the biggest impact on emerging market currencies. That said, there are selective buying opportunities available.

Inflation-linked bonds

Collapsing expectations around inflation has seen break-even rates continue to fall globally. However, this presents select opportunities where valuation appears most compelling. US longer-term break-even rates are an example where the inflation expectations being priced in perhaps appear too low, presenting an attractive opportunity.

Source: Investec Asset Management

Risk

We have a dedicated in-house risk analysis team, who prepare regular portfolio analyses for your fund manager.

These reports detail forecast and actual tracking error for the portfolio, and show the major sources of potential risk relative to the benchmark and enable your fund manager to access and manage risk so that it is consistent with the mandate you have set.

The table below shows the current forecast (‘ex ante’) tracking error for your portfolio.

Statistical analysis	**Ex ante (p.a.)**
Fund Tracking Error	1.22%

Source: Investec Asset Management / EMA.

Important information

This communication is directed at professional investors only.

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Please note that past performance is not a guide to the future. The value of investments and the income from them may go down as well as up, and investors may not get back the original amount invested.

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Telephone calls may be recorded for training and quality assurance purposes.

Investec
Asset Management

Your client management team

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LONDON BOROUGH OF TOWER HAMLETS PENSION FUND

report to

31 March 2015

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Period under review 31 December 2014 – 31 March 2015

Portfolio value	**£50,618,734**

Performance (net of fees) to 31 March	**%**
3 months	+4.8
12 months	+12.4
Since inception (28 February 2011)	+26.5

Summary

Even by post crisis standards the first quarter of 2015 proved eventful. January saw the Swiss National Bank abandon the Sisyphean task of holding down the Swiss franc against the euro, and also witnessed the dawn of full-blown quantitative easing (QE) by the European Central Bank (ECB). This latter move added further fuel to the continuing leitmotif of plummeting global bonds yields, with negative nominal rates spreading further along the German yield curve and ten year eurozone government borrowing rates outside of Greece collapsing. Global equities rose over 7% on the quarter, led by Japanese equities and European equities, with the FTSE All-Share Index up slightly below 5%.

Against this at times surreal backdrop the portfolio performed well. Falling yields meant that UK index-linked bonds surged even as inflation readings dipped. European equities rose sharply, and the euro commensurately dipped, on the reality of QE and hopes of economic recovery. Japanese equities continued their rehabilitation, boosted by ongoing asset allocation changes towards equities by the Government Pension Scheme (GPIF). Meanwhile with hopes high for the US economy, and a tightening in US monetary policy therefore in prospect, the US dollar continued to rise against most comers.

At the portfolio level the quarter saw us taking some profits in equities and more significantly in currencies. The US dollar exposure was further reduced as its increasing correlation to equities reduced our belief that it would act as a protection. Elsewhere we continue to worry about the state of the corporate bond market, where risk is not being rewarded and liquidity may prove to be lower than the number first thought of, thus we have initiated a position to protect against a possible dislocation in this area.

Factors that helped performance

Japanese equities Asset allocation shifts towards equities and an improved corporate performance combined to drive Japanese equities higher.

Inflation-linked bonds Asset purchases by the ECB caused a further sharp drop in bond yields, extending gains in the price of longer duration inflation-linked bonds.

US dollar A sharply falling euro and expectations of tighter US monetary policy took the US currency higher against sterling, prompting us to take profits and cut the US dollar exposure to 5%.

Factors that hurt performance

Options With most of the portfolio's option positions being protection against higher interest rates they generally lost value as bond yields fell.

US technology Small losses were sustained in the portfolio's US 'old technology' stocks as investors factored in the effect of the rising US dollar on their overseas earnings.

Summary performance attribution

Five largest positive contributions	%
Japanese equities	+1.2
Index-linked bonds	+1.0
US dollar	+0.9
Volkswagen	+0.4
TAG Immobilien	+0.3

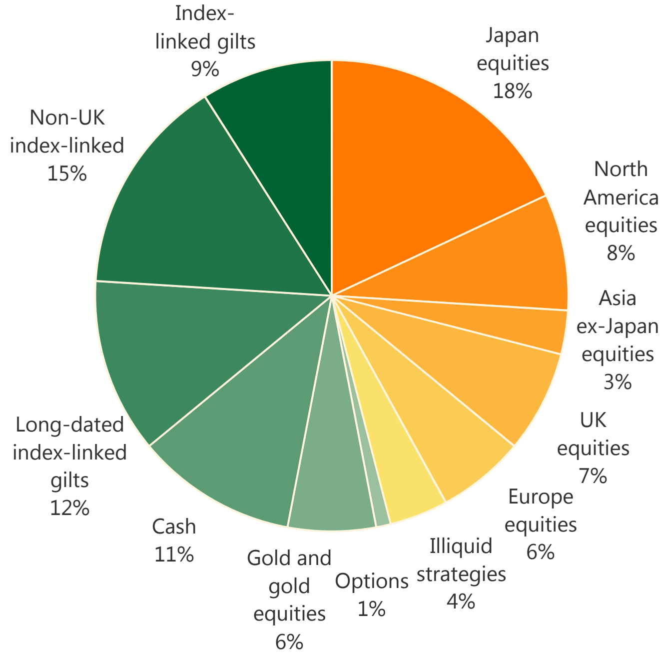
Five largest negative contributions	%
Options	-0.4
Microsoft	-0.2
Viacom	-0.1
Oracle	-0.1
Antofagasta	-0.1

Current investment strategy

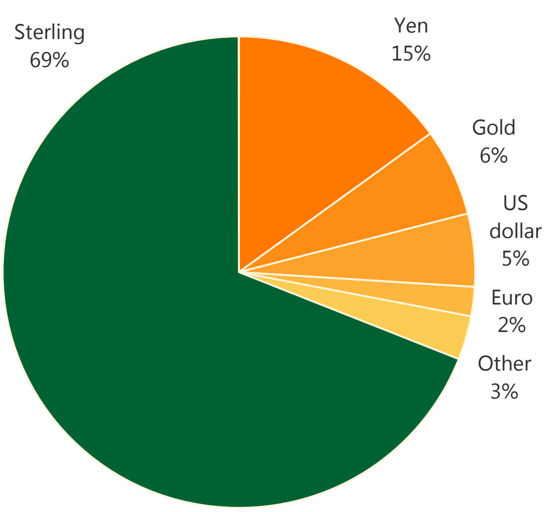
In the accompanying investment review Jonathan Ruffer seeks to encapsulate the present dilemmas and difficulties facing central banks. Six years of quantitative easing and cheap money may have inflated asset values but have had much less success in reigniting economic activity. As the clamour for nominal economic growth increases, the next stage will have to involve fiscal policy creating 'real' money, capable in Keynesian language of creating 'effective demand', rather than 'voucher' money usable only in the closed system that is the financial sector. This will have inflationary consequences. As we have often said inflation and deflation are two sides of the same coin of monetary instability, and the journey towards the inflationary outturn that we expect was always going include deflationary lurches along the way. To the charge that we have made strong returns out of inflation-linked bonds while inflation has been notable by its absence, our response is to point out that right from the dark days of autumn 2008 we were very firm in our view that an integral part of the landscape during that journey would be official interest rates, and thus bond yields, remaining at rock-bottom levels for some considerable time. In fairness we might not have foreseen the negative nominal interest rates now visible in parts of the eurozone, (who did?), but our forecasts of negative real interest rates have been longstanding and resolute. If asset prices inflation has formed the prologue to the unfolding drama, then CPI-ish inflation will surely follow as Act 2 or 3. Inflation-linked bonds appear expensive on traditional metrics but they remain central to our asset mix; thus we have resisted the siren voices urging us to take profits, choosing instead to put into the portfolio protections against a backup in bond yields.

This phenomenon of interest rates nailed to the floor is the major distortion in the present investment world. If discount rates are held close to zero, then do asset values travel towards infinity? Yet the stark reality is that central banks have become one-club golfers, where the confidence-enhancing effects of asset price inflation represent the only route by which they can shepherd the world to economic salvation. Equity market levels already owe much of their present state to central bank actions rather than the everyday realities of economic growth, profits and dividends. Add in the Indian rope-trick of share buybacks funded by increased corporate leverage and one can see that as markets have risen fundamental supports have diminished. Our recent moves have therefore been to take profits in equities, mainly in the US, selling out of General Dynamics, and reducing Lockheed Martin and some of our 'old technology' stocks, all on handsome gains. We have also crystallised our gains in our US dollar position, replacing that with some exposure to the yen, where we have greater faith in its protective potential. In contrast we have left our exposure to Japanese equities largely unchanged, as we find Japanese equities continue to provide a compelling opportunity. The market exhibits a pleasing convergence between supportive government policy, changing domestic asset allocation and more equity-friendly corporate performance, fuelling our optimism that it can build further on its 10% gain achieved in the past quarter.

Asset allocation



Currency allocation



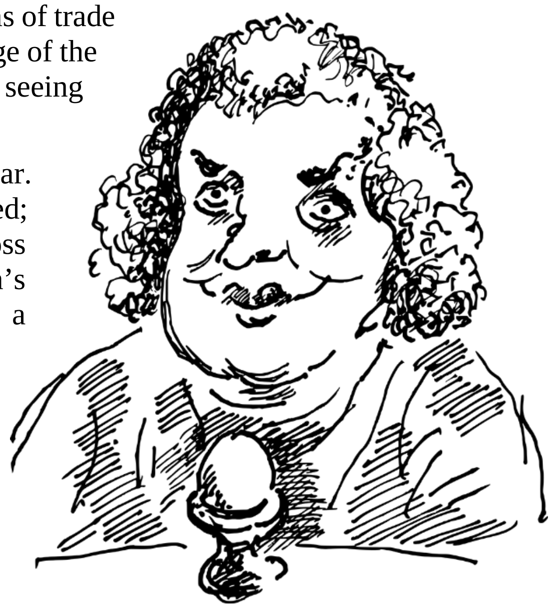
This review is more ambitious in scope than many quarterly offerings from Ruffer. It will cover more ground than is perhaps wise, and the reason for doing this is that we are looking at the many elements which will determine whether we face a deflationary crisis (to which the answer is a near-certain 'yes'), and whether the response of the central authorities will result in our long-predicted high inflation coupled with low interest rates (our answer to this is 'indubitably'). These seemingly inconsistent conclusions arise from our long-held understanding that both inflation and deflation are manifestations of the same thing: monetary instability.

The fall in the CPI inflation figure is important only if it's a herald of true deflation. Ignore talk of 'good deflation' and 'bad deflation', and the far-fetched idea that with deflation running at 0.1% a year, consumers will hold off buying stuff until it has dropped in price – presumably by a penny per £10. The issue is whether it is a messenger of mischief to come: the albatross of the Ancient Mariner, the receding of the tide before the tsunami: a harbinger – not the real thing. It does not need publication of a low CPI inflation figure to establish that there are powerful deflationary forces at work in the world's economies. Where there are deflationary forces, falling asset prices are never far away, and if central bank response to deflationary forces has driven them to high levels ahead of it, then the reversal of this becomes hard to avoid.

We may look back and see that the present phase in the worldwide economy is in a cross-current: the deflationary forces offset by the exuberance engendered by rising asset prices. Remove the latter, and you are left not only with existing deflationary forces, but also with the superimposition of the migraine imposed by financial pressures and thwarted hope. This can be seen in historical example. The fall in Wall Street in October 1929 is the best example of it. The Wall Street Crash was indeed the cause of the Great Depression – something which was obvious to its victims, but which was declared 'wrong' in the rewriting of its causation when viewed through monetarist eyes a generation later. Well, here we are again; it's not a theological debate. It is a matter of deep concern.

This is certainly the way the central banks themselves see it. They are far from complacent about the fall in inflation, concerned that it might be worrisome in its own right, and that they 'let it happen', even though they had been at great pains to seek to avoid it. The idea of quantitative easing was a resounding success for policy management, but it was more than six years ago. The cadre of economists feel it is time for another triumph, but are split on a solution and are proposing increasingly radical and divergent solutions.

Prices go down for two separate – indeed, opposite – reasons, something observed by that fine economic expert of the eighteenth century, Dr Johnson. On a trip to the poverty-stricken Shetlands, he found that eggs there cost only a ha'penny, rather than the going-rate of a penny on the mainland. He observed that the reason for this was not the abundance of eggs, but the shortage of ha'pennies. This is a crucial distinction, since a falling price can come from a change in the terms of trade either through a glut of the commodity for sale, or through a shortage of the money to acquire it. Without this distinction, one can end up seeing opposites as the same thing.



In the days when money held its value, the distinction was clear. Throughout the Victorian age, prices fell as industrialisation occurred; we see the same process today in digital cameras, in cars, and across a wide range of computer and other technologies. This is Dr Johnson's abundance of eggs. But there are times – and places – when a fundamental lack of prosperity is the driver: I see it at first hand in County Durham, where I am striving to lift spirits, lift economic activity and to lift prices. Why can one buy a four-bedroomed house in Bishop Auckland for two-thirds of the price of a two-bedroomed Oxford flat? The answer is the shortage of ha'pennies that comes with economic prostration. Across the globe, there are many economic deserts which have nothing to do with abundance, and everything to do with shortage.

We no longer live in a world where money is an absolute. When a pound sterling was made of gold, it was easy to tell whether prices were really going up or down: the rise or fall in the cost of living gave the answer. But when sterling is a token, made of paper, or by a computer entry on a bank screen, there are two moving objects. Prices have two opposite forces in a modern recession: a tendency to fall because of the economic malaise, and a tendency to go up because there is more paper money in circulation. As times get harder, the 'more paper money' overwhelms the economic malaise. That is clearly manifest in Russia: low oil prices, a flight of confidence, of capital, are all symptoms of hardship, of shortage. But the rouble is being created in big volume, so there is inflation in Russia, although the forces are exclusively deflationary. At least Russia is able to create new roubles – the essential problem for Europe is that Greece, Portugal and many other countries suffer the deflationary forces of a widespread loss of confidence, but have the euro, which they cannot manipulate downwards, as they would have done with their own currency in the last century.

Pausing there, we see deflationary forces throughout the world, which are being scarcely held at bay by the bull market in assets, itself the result of a rush from safety by conservative investors despairing of getting an adequate return on their money. The bull market is now a fundamental part of the health of the world economics, as a bear market would be – will be – if it comes about. And then the world's economics will darken quickly.

In this circumstance, the question is: will the central banks at the centre of the world's economy follow Russia and allow the partial default of their currency? In this world, the deflationary shortage of ha'pennies masquerades as an abundance.

Quantitative easing was such an initiative and it has been a resounding success – largely due to a fluke. We described in the last investment review that the money-creation was voucher-like, in that, acting as money, it transformed the balance sheet of the financial system, but it was a voucher not usable by the consumer or corporation for spending on goods and services. The inflation was seen, therefore, in asset prices, not retail prices. It bought time for those central banks, but the time has run out – will they create consumer demand with CPI-sensitive money, as a reprise?

It is an important question. If we see inflation, it is the saver who suffers. If we see deflation, it is the borrower. There is a lot of debt about following the debt explosion which came to an abrupt end in 2008. The ensuing years have seen a re-arranging of that debt – basically from the financial world to governments – but it is pretty much as high as it has ever been. There is a huge asymmetry of risk between an inflation (one less holiday a year for the victims with savings) and deflation, which threatens to bankrupt every debtor, beginning with governments. It will be inflation which will redistribute the wealth away from the saver, and keep stable the equilibrium of the borrower.

The surprise – it shouldn't have been – is that the creation of 'somewhat inflation' by the 'somewhat destruction' of a nation's currency isn't as easy as it sounds. This observation would have created hollow laughter in the days of high inflation a generation ago, but the reality is that once a trend is in place – Japan since 1995 – it is very hard to reverse. But there's an increasing realisation that the only way of extinguishing the amount of debt in the world is to penalise savers – the same dynamic, of course, as subsiding borrowing rates. Thus, when RPI peaked at 5.2% in Britain in 2011, base rates were already down to 0.5%. Now that inflation has disappeared, that subsidy has disappeared, but it tells investors what we could only surmise (as we did) a few years ago, that the solution which governments will choose is interest rates much lower than the rate of inflation. While asset prices hold up, deflation is a paper dragon. Central bankers will worry, but the rest of the world will go happily or unhappily about its business. If asset prices fall, and fall seriously, the phoney war will be over, and we will indeed be facing true deflation: a deflation which is one step on this journey to currency-compromised inflation. If that happens, expect the central authorities to respond. Expect them to target inflation. Expect them to learn from the old Japanese experience that a desire to replace deflation with a bit of inflation with some vague attempts at monetary expansion, is like attacking an enemy with a pair of scissors. Currency destruction – partial, of course, as in the UK during the 1970s and 1980s – is achieved through fiscal profligacy. In these extreme circumstances, that is the course which they will adopt. We expect to see interest rates up to 4% in the next cycle – when inflation is 10%. The next boom, on the back of prostrated savers, will be a mere five years after that.

Jonathan Ruffer
April 2015

Who we are	Ruffer is a privately-owned investment management firm. We currently manage over £18 billion for pension funds, charities, companies and private clients, and employ over 200 people, with offices in London, Edinburgh and Hong Kong. We have a single investment strategy that has followed the same tried and tested investment approach since the firm started in 1994.
Our investment objectives	Our goal is to deliver consistent positive returns, regardless of how the financial markets perform. We define this through two investment aims ▪ not to lose money in any rolling twelve-month period ▪ to generate returns meaningfully ahead of the 'risk-free' alternative of placing money on deposit Since Ruffer started, this approach has produced returns ahead of equity markets, but with much lower volatility and risk. Over shorter time periods, if equity markets are rising, our returns are likely to be lower than those of equity indices, since we will always hold protective assets as well. Although these are our aims there is always the chance that we may lose money because of the nature of the investments involved and it is possible that individual constituents of the portfolio lose all their value.
How we invest	Ruffer portfolios are predominantly invested in conventional assets, such as equities, bonds, commodities and currencies; we also will make use of derivatives. Part or all of your portfolio may be invested in Ruffer in-house funds. At the heart of our investment approach is an asset allocation which always maintains a balance of 'greed' and 'fear' investments. Protective assets, such as bonds, should perform well in a market downturn and defend the portfolio value; those in growth, principally equities, should deliver good returns in favourable market conditions. This blend of offsetting investments reflects the prevailing risks and opportunities that we see in financial markets, rather than any pre-determined allocation. We operate without the constraints of benchmarks that institutional investors have historically been tied to. The asset allocation is fulfilled through specific stock selections. We invest only in companies that reflect the themes we seek to benefit from in portfolios. We never simply invest in a stock market index.
Our investment team	Ruffer's investment team and strategy are led by Jonathan Ruffer (Chairman) and Henry Maxey (Chief Executive). They are supported by a Research Team of over 20 analysts, focussing on economic and market trends, company analysis and developing investment ideas. These are used by portfolio managers on the Fund Management Team to construct portfolios in line with the investment strategy. The average experience of Ruffer's investment team is over 15 years.

BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund - DG

Report for the quarter ended
31 March 2015

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*

Woven fabric fibres. Coloured scanning electron micrograph (SEM) of fibres woven into a lattice of interlocking parts. This is part of a cloth called Georgette crepe.

Performance to 31 March (%)

	Fund	Base Rate +3.5%
Since Inception* (p.a.)	6.5	4.0
Three Years (p.a.)	7.2	4.0
One Year	8.6	4.0
Quarter	3.4	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 (%)

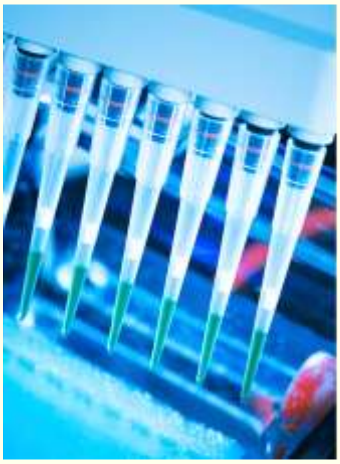
Delivered Volatility	4.4

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

Most asset classes delivered good returns over the quarter. Economic news was mixed with the most striking development being a decline in headline inflation as last year's oil price collapse flowed through

The European Central Bank began to buy government bonds in the hope of injecting some energy into the euro area economy. At the same time, debate in the US focused on when, and by how much, interest rates may rise this year

There were big moves in foreign exchange rates during the quarter, with the dollar strong against most currencies. Reflecting the decline in inflation, bond yields fell during the quarter to reach record low levels



Valuation (after net flow of GBP 18,467)

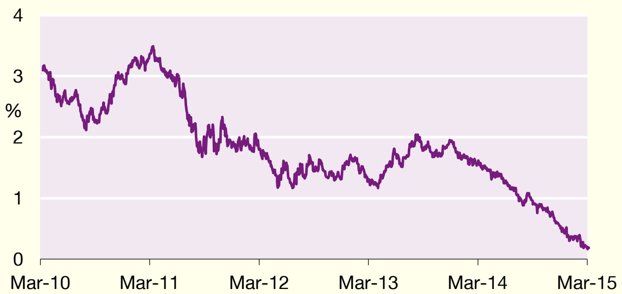
Investment environment

Much of last quarter's commentary centred on the dramatic fall in the oil price, from a peak of $115 to $56 by year end. Although it has on occasion touched lower levels since then, the oil price now appears to have stabilised, for the time being at least. However, its impact on the broader economy, particularly on inflation indices, is still being felt. Here in the UK, RPI fell to 0.9% at the end of March, whilst official inflation measures in most countries have dropped to unusually low levels.

Inflation rates dropping to near zero has encouraged speculation that we are about to enter a period of deflation, an economic environment in which the general level of prices falls rather than rises. In turn, this has stoked investor demand for fixed rate bonds and, as a result, government and other bonds yields in many markets have touched new lows.

This has been particularly noticeable in Europe where declining inflation rates have coincided with the European Central Bank (ECB) purchasing Eurozone government bonds as part of its quantitative easing programme. For example, ten-year German government bonds now yield 0.2% and similar-maturity bonds from Switzerland, though not the subject of ECB buying, now yield less than 0%, meaning that investors are paying to lend money to the Swiss government.

10 Year Bund Yield to Maturity

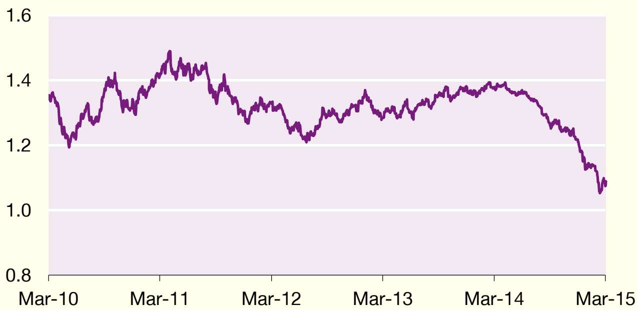


Source: DataStream

Some of the enthusiasm for German and Swiss government bonds may also be down to safe haven capital flows as the Eurozone experienced another bout of nerves over Greece. There, a new left-wing government is seeking to renegotiate the terms of the financial support package it receives from Europe and the IMF. This could yet end with Greece defaulting on its debt and leaving the euro. However, if this has been a factor, it seems to have had less influence than similar episodes in the past.

The fact that markets seem more relaxed about Greek difficulties probably reflects greater confidence in the strength of the banking system across Europe and the willingness of the ECB to provide support should it be needed. The ECB's enthusiasm for buying bonds and expanding its balance sheet has certainly been taken well by bond and equity investors. However, the reaction in currency markets to this money-printing effort has been a significant depreciation in the euro – it fell by approximately 10% against the US dollar over the quarter and by more than 20% in a single day against the Swiss franc, as the Swiss central bank abandoned its long-standing cap on the strength of the currency.

A Weakening Euro vs. US Dollar



Source: Bloomberg

Exchange rate volatility was not limited to the euro. Some emerging market currencies have also seen large moves and the dollar has been strong generally. This shift towards greater volatility in currency markets reflects diverging economic conditions and monetary policies across the globe. While recent numbers suggest some improvement in Europe, policymakers there are still clearly focused on promoting growth. The same is true of Japan. Many developing economies have lost momentum and we think Chinese growth has slowed significantly. Official figures in China suggest a mild deceleration in growth to levels that, in absolute terms, would still be the envy of most countries. However, other evidence suggests a far more meaningful slowdown and there are valid concerns over the structure of the Chinese economy, its over-reliance on fixed capital formation and a distorted banking system.

Activity in the US has, in contrast, been much more buoyant over recent years with significant job creation and a falling unemployment rate. As a result, the Federal Reserve is expected to raise interest rates at some point this year. It is this stronger economic activity and the anticipation of higher interest rates that has boosted demand for the dollar. A strong dollar will affect the profitability of many US companies and this may explain the relatively modest performance of US equities so far this year. Elsewhere, stock markets have performed well, supported by either the reality or expectation of easy monetary policy.

Outlook

The immediate outlook seems to be for moderately weak growth in the global economy and, as noted above, considerable variation in conditions across different economic regions. Inflation rates are also likely to remain low and perhaps even fall below zero in some countries, before lifting again later this year as the oil price fall drops out of the calculation. This suggests another year in which global nominal GDP growth comes in somewhere between 5% and 6%.

Valuations on most asset classes seem to be at least equal to, if not greater than, their historic averages. Arguments can be constructed that, in the current conditions, these valuations are still fair and reasonable. However, we feel that, in combination with such modest GDP growth, it would be stretching credulity to expect outsized investment returns from this point. We therefore wish to remind investors in the Fund that its return target, set over rolling five-year periods, is at least 3.5% per annum over UK base rate.

The fact that stronger returns have been delivered since the Fund was launched reflects the low level of valuations that prevailed at the end of 2008 and the aggressive monetary policies followed by central banks since then. The leading role in that effort was taken by the US Federal Reserve, which now seems on the cusp of tightening policy. The move up in rates is likely to be a modest one, but the change of direction could prove significant.

Positioning

In recent changes to asset allocation, we have lowered the equity weighting and reduced the portfolio’s exposure to an adverse move in interest rates, particularly in the US.

While these moves are not greatly significant in themselves, they bolster what we believe was already a cautious slant to the portfolio, which remains diversified across many asset classes. The largest exposure is to equities but that accounts for just one-fifth of the portfolio and is half what our asset allocation limits would permit us to own, if we were truly bullish on equities. The next largest allocations are to high yield credit markets and structured finance, but we believe our exposure to rising interest rates in these allocations is limited, either because the bonds held are short-dated or floating-rate instruments, where the coupon payment will rise with market interest rates.

The only other allocation that exceeds 10% of the portfolio is to bonds issued by governments of developing economies. Yields on these are much higher than on developed economy government bonds – around 6% on average – so we feel there is a stronger valuation argument for owning them. These are denominated in the local currencies of the issuer countries and we therefore bear the risk of loss on this currency exposure. However, elsewhere in the portfolio (mainly in the active currency overlay), we have a long position in the US dollar, which should provide a substantial offset.

Performance

The return on the Fund (net of fees) in the year to 31 March 2015 was +7.9% and over the past five years +6.5% on an annualised basis. Delivered volatility over the past five years was 4.4% per annum. The return on the Fund (net of fees) in the past three months, covering the period since we last reported to you, was 3.2%.

Over the past year, all asset classes contributed positively to performance, with the greatest contributions coming from listed equities, active currency and absolute return.

In the three months to 31 March 2015, the largest contributors to performance were listed equities, active currency, high yield credit and absolute return. Most other asset classes were broadly flat over the quarter.

Special paper: portfolio interest rate exposure

Perhaps the most striking feature of markets over the past few years has been the historically low levels to which bond yields and interest rates have fallen. Here, we look at the different types of fixed income investments held by the Diversified Growth Fund and consider how exposed the portfolio might be to a future rise in bond yields and interest rates.

Fixed income investments come in a very wide variety of guises. In the Diversified Growth Fund, we invest in bonds and other debt obligations issued by governments and companies, as well as loans issued by banks and other financial institutions. We own these directly, and also through our investments in open-ended funds (either managed by Baillie Gifford or by third parties) or via listed closed-end funds.

The extent to which the price of any of these investments rises or falls in response to moves in interest rates or shifts in bond yields depends on several things. This could be the currency in which they are denominated: a rise in interest rates in one country has far more impact on that home market than on bond markets in other countries. It could be how investors assess the borrower's creditworthiness: as a general rule, the lower a bond's credit rating, the less sensitive the bond's price will be to a change in official interest rates. It will also turn on whether or not a bond pays a fixed amount of interest (and how long that will continue for) or whether its interest payments 'float' up or down with the prevailing level of interest rates.

We expect US interest rates to rise this year. The US economy has been growing steadily for several years, creating jobs and pulling more people into the labour market. There is little sign of inflation, and wages are rising only slowly. However, with a functioning, well-capitalised banking system, good economic growth and a thriving labour market, there seems less and less reason to hold interest rates at emergency levels (the official target range for overnight interest rates set by the US Federal Reserve is between 0% and 0.25%).

The timing and extent of any upwards move is not clear. Whilst it may happen over the summer, or it may be delayed until the autumn, current market expectation is that interest rates will rise only a little way, and do so gently over a long period of time. Consequently, longer-dated US government bonds yield less than 2%. In other words, investors expect interest rates to average less than 2% over the next ten years and beyond. Of course this is possible, but we think it is unlikely. If interest rates have to rise more quickly and to a higher level, bond markets in the US could be challenged and, because the US is so important to global financial markets, there could be knock-on consequences elsewhere.

We own no US government bonds in the Diversified Growth Fund; indeed we no longer own any bonds issued by governments of developed economies. However, we continue to own bonds issued by Brazil, Colombia and Mexico and retain a significant holding in the Baillie Gifford Emerging Markets Bond Fund. Together these investments amount to 10% of the Fund.

The Diversified Growth Fund also has allocations to high yield credit (15%) and structured finance (13%), which together might imply a significant exposure to interest rates. However, most of the holdings (approximately three-quarters) are floating rate instruments such as senior secured loans and collateralised loan obligations. In both cases, returns should improve as interest rates rise. The remainder is in short-dated fixed-rate, high yield corporate bonds which are typically less interest rate sensitive.

The remaining source of clear, interest rate exposure in the portfolio is our allocation to investment grade bonds. This amounts to 6% of the Fund, all represented by the holding in the Baillie Gifford Worldwide Global Credit Fund. This is a US-dollar-denominated fund with interest rate sensitivity roughly equal to that of a medium-dated government bond.

Therefore, overall, our explicit exposure to the risk of a rapid rise in US interest rates is actually quite small. However, the easy monetary policy of recent years was deliberately put in place to support financial asset valuations and, if it is removed, many types of investment may struggle, not only bonds. With this in mind, we have established a short position, by selling futures, in US 10 Year Treasury bonds. The size of this position is equivalent to 2.5% of the Fund. Should interest rates rise by more than expected in the US, and longer-dated bonds fall in value, this short position should generate a profit that can be set against any losses experienced elsewhere in the portfolio.

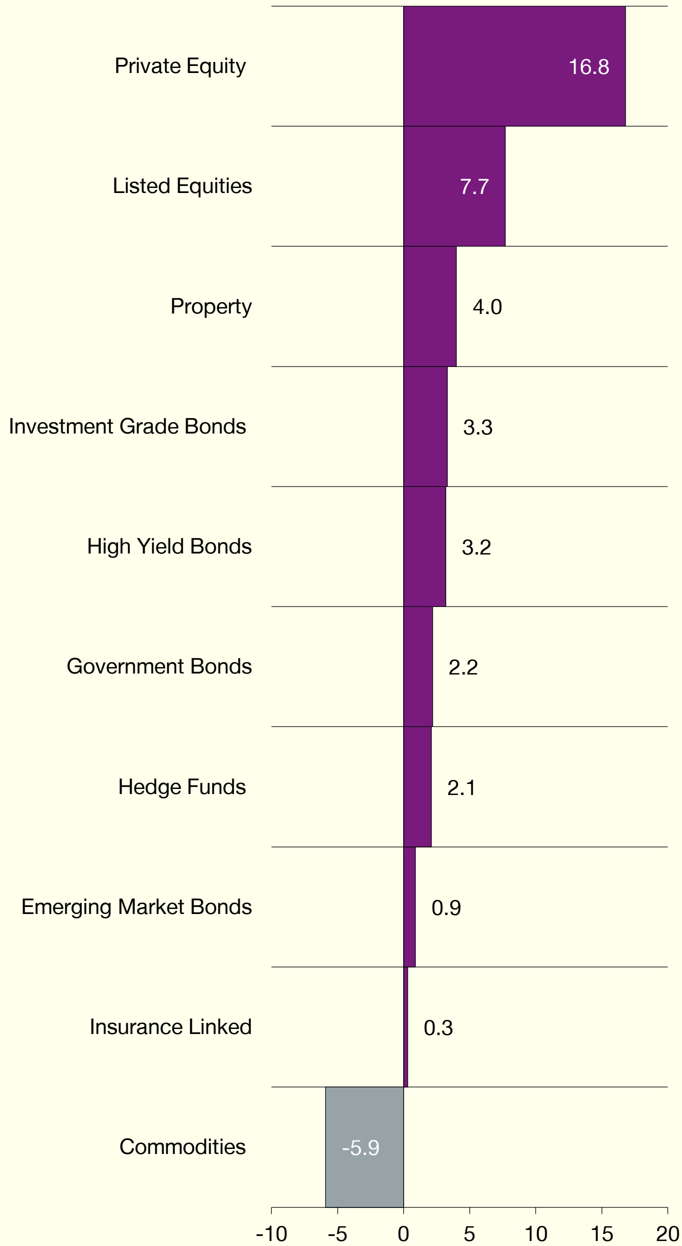
Futures

Futures allow investors to express views on where market prices might be at some later date. Only a small amount of money changes hands when a future is bought or sold, but the parties to the contract are fully exposed to subsequent market moves.

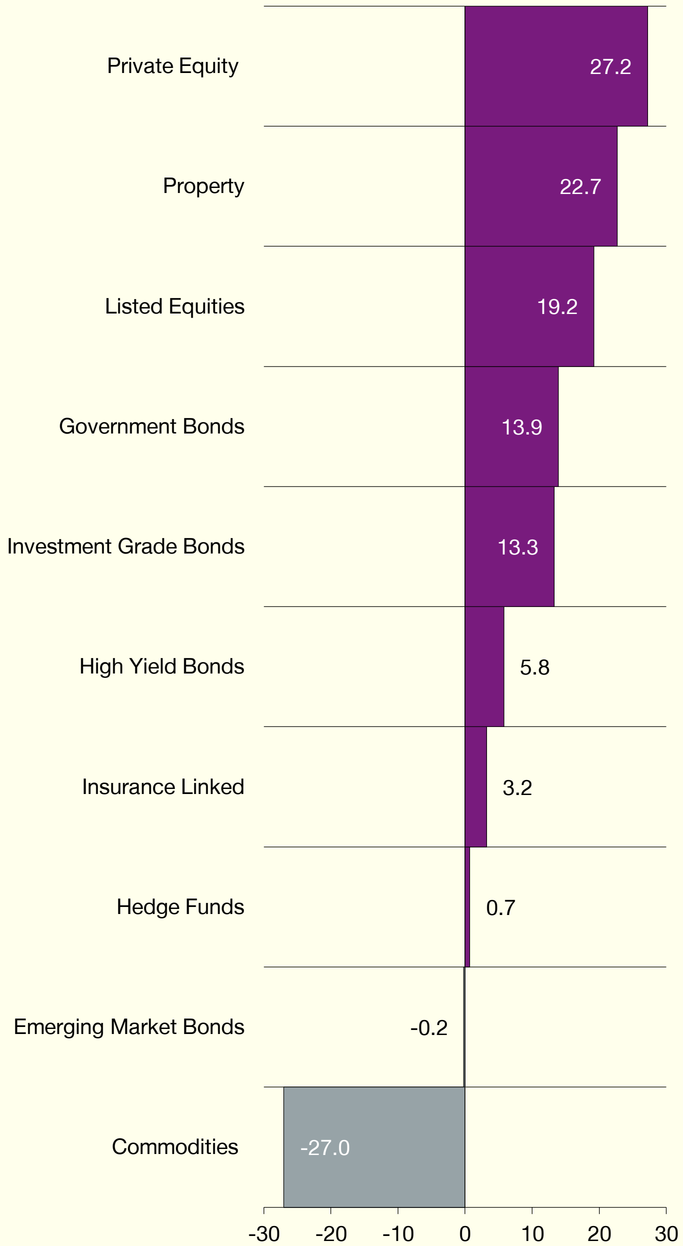
We use exchange traded futures either to gain exposure to asset classes or to hedge existing investments against adverse market movements. When we buy a future to obtain asset class exposure, we notionally allocate an amount of cash to the futures position and its asset allocation weight is therefore shown at the economic exposure it gives us. When we sell a future for hedging purposes, the asset allocation weight reflects the small amount of money that changed hands at the outset of the transaction plus any unrealised change in value due to subsequent market movements.

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%.

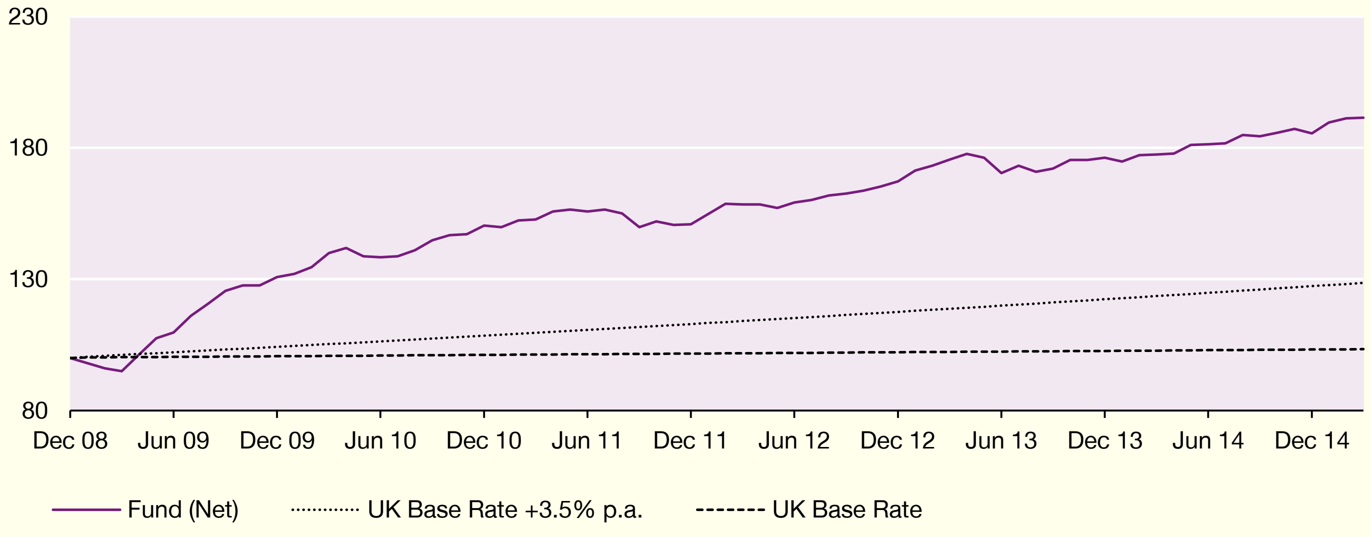
Performance

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.)	6.5	0.5	4.0
Three Years (p.a.)	6.5	0.5	4.0
One Year	7.9	0.5	4.0
Quarter	3.2	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	4.4

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

Contributions to Performance

Quarter to 31 March 2015

Ave. Weight %	20.6	-0.2	13.5	8.2	2.4	4.3	6.4	13.1	2.0	0.6	5.1	6.9	5.6	0.0	11.5	100.0
Return %	6.4	0.6	2.2	3.3	10.7	4.8	2.5	0.8	5.1	3.7	0.2	0.3	-0.2	2.3	-1.5	3.4

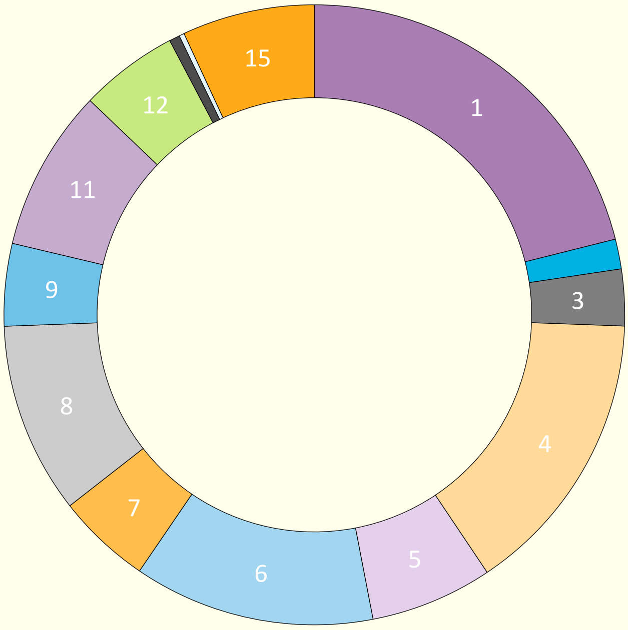
One Year to 31 March 2015

Ave. Weight %	18.2	-0.1	7.4	2.3	13.0	7.7	12.8	4.5	4.9	11.3	2.7	5.9	2.2	0.6	6.7	100.0
Return %	11.3	1.1	13.9	36.9	1.8	5.5	3.1	10.1	6.6	1.5	10.2	0.4	6.7	8.8	0.1	8.6

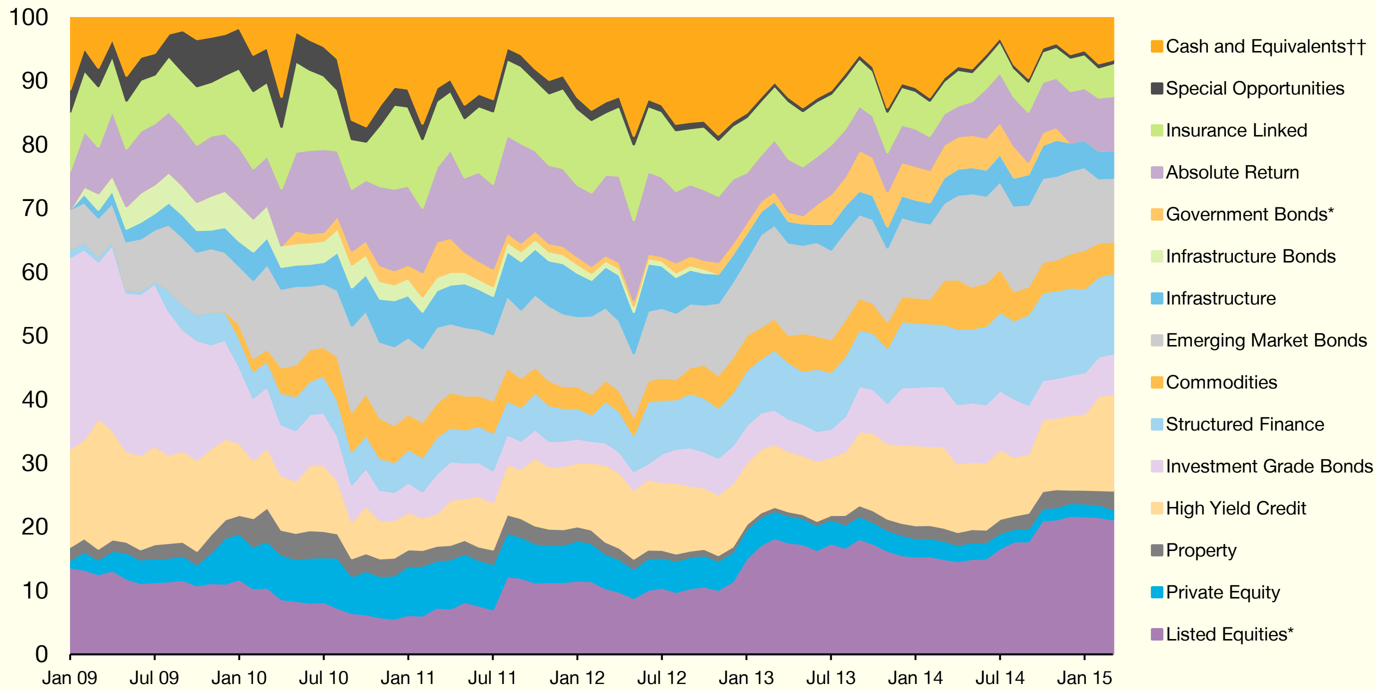
Source: Statpro/Baillie Gifford, gross of fees in sterling. Totals may not sum due to rounding

Asset Allocation at Quarter End

		(%)
1	Listed Equities*	21.2
2	Private Equity	1.6
3	Property	3.0
4	High Yield Credit	15.1
5	Investment Grade Bonds	6.4
6	Structured Finance	12.6
7	Commodities	4.9
8	Emerging Market Bonds	10.0
9	Infrastructure	4.3
10	Government Bonds*	0.0
11	Absolute Return	8.5
12	Insurance Linked	5.2
13	Special Opportunities	0.5
14	Active Currency†	-0.3
15	Cash and Equivalents	6.9
	Total	100.0



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



* Exchange traded futures are used either to gain exposure to asset classes (with all such 'long' positions fully backed by cash and therefore shown at their exposure weight) or to hedge existing investments against adverse market movements (with all such 'short' positions shown at their net unrealised profit or loss). As at 31 March 2015, the allocation to listed equities includes a long position in European dividend futures (equivalent to 2.9% of Fund) and a short position in S&P 500 Index futures (equivalent to 3% of Fund) as a hedge against a fall in equity markets. The allocation to government bonds includes a short position in US 10 Year Treasury futures (equivalent to 2.6% of Fund) as a hedge against portfolio exposure to interest rate risk.

** 30th December 2008

† This number shows the net unrealised profit and loss of the active currency positions in the Fund as at 31st March 2015

†† Includes net active currency position

Summary Risk Statistics (%)

Predicted Volatility	6.3

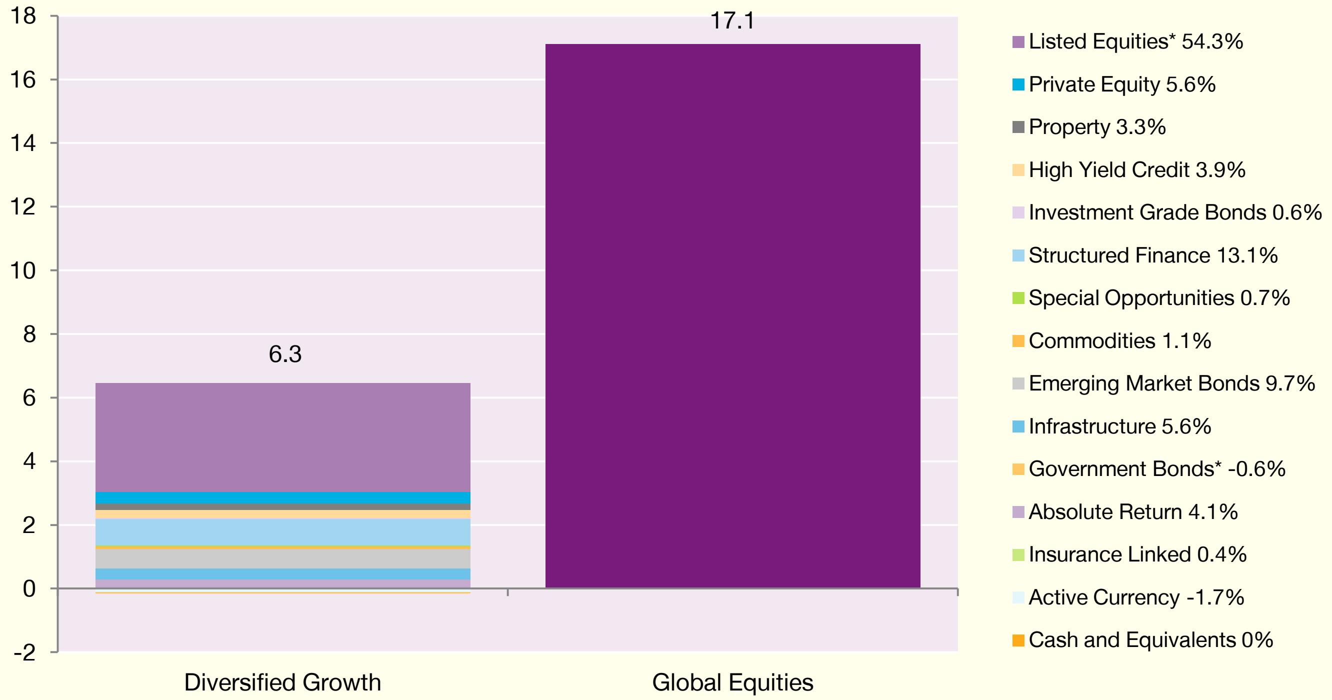
Source: Baillie Gifford, Moody's Analytics UK Limited

Market sentiment and short-term direction continue to be heavily swayed by expectations of monetary policy

Financial markets are assuming US interest rates will rise slowly and by a small amount. It will be disruptive if they have to rise more rapidly, or to a higher level, than currently anticipated

The portfolio remains broadly diversified. We moved to a slightly more cautious asset allocation by reducing equity exposure and hedging some of our bond investments against an adverse move in US bond markets

Risk Attribution



Source: Baillie Gifford & Co, Moody's Analytics UK Limited
Total may not sum due to rounding
* As at 31 March 2015, the allocation to listed equities includes a long position in European dividend futures (equivalent to 2.9% of Fund) and a short position in S&P 500 Index futures (equivalent to 3% of Fund) as a hedge against a fall in equity markets. The allocation to government bonds includes a short position in US 10 Year Treasury futures (equivalent to 2.6% of Fund) as a hedge against portfolio exposure to interest rate risk.

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	5.9
Baillie Gifford Global Income Growth Fund C Accum	5.0
BG Worldwide Japanese Fund C GBP Acc	2.9
Baillie Gifford Pacific Fund C Accum	2.1
Baillie Gifford LTGG Fund C Accum	2.0
Euro Stoxx 50 Index Dividend Futures 16	0.6
Euro Stoxx 50 Index Dividend Futures 15	0.6
Euro Stoxx 50 Index Dividend Futures 17	0.6
Euro Stoxx 50 Index Dividend Futures 18	0.5
Fondul Proprietatea	0.4
Euro Stoxx 50 Index Dividend Futures 19	0.4
Euro Stoxx 50 Index Dividend Futures 20	0.3
Damille Investments II	0.0
S&P 500 Index Future Jun 15 (Short)	0.0
Total Listed Equities	18.2

Asset Name	Fund %
Private Equity	
Graphite Enterprise Trust	0.3
NB Private Equity Partners	0.3
HarbourVest Global Private Equity	0.3
Electra Private Equity	0.3
Better Capital	0.2
JZ Capital Partners	0.1
Better Capital 2012	0.1
Dunedin Enterprise Investment Trust	0.1
Eurazeo	0.1
Total Private Equity	1.6

Asset Name	Fund %
Property	
Land Securities	0.6
Hammerson	0.6
Tritax Big Box REIT	0.5
LondonMetric Property	0.3
British Land	0.3
UK Commercial Property Trust	0.3
Target Healthcare REIT	0.1
Ediston Property Investment Company	0.1
Japan Residential Investment Company	0.1
Terra Catalyst Fund	0.0
Invista 9% 2016 Pref	0.0
Total Property	3.0

Asset Name	Fund %
High Yield Credit	
Baillie Gifford High Yield Bond Fund C Gross Acc	4.6
Credit Suisse Nova (Lux) Global Senior Loan Fund	1.5
Henderson Secured Loans Fund	1.5
NB Global Floating Rate Income Fund	1.0
ING (L) Flex Senior Loans Fund	0.8
NB Distressed Debt Investment Fund EL	0.4
Nuveen Floating Rate Income Fund	0.4
Eaton Vance Floating Rate Income Trust	0.3
Invesco Senior Income Trust	0.2
Voya Prime Rate Trust	0.2
BlackRock Floating Rate Income Trust	0.2
Pioneer Floating Rate Trust	0.2
CVC Credit Partners European Opportunities GBP	0.2
Apollo Senior Floating Rate Fund	0.2
Nuveen Senior Income Fund	0.1
Eaton Vance Senior Income Trust	0.1
Sequoia Economic Infrastructure Income Fund	0.1
CVC Credit Partners European Opportunities EUR	0.1
APX Group Inc 6.375% 2019	0.1
Trinseo 8.75% 2019	0.1
T-Mobile USA 6.542% 2020	0.1
Time Inc 5.75% 2022	0.1
Pacific Drilling 5.375% 2020	0.1
Unitymedia Hessen 5.5% 2023	0.1
Avaya 7% 2019 144A	0.1
Community Health Systems 7.125% 2020	0.1
MEG Energy 6.375% 2023	0.1
Schaeffler Finance 4.75% 2021	0.1
Frontier Communications 7.625% 2024	0.1
Terex Corp 6% 2021	0.1
Arcelormittal 5.25% 2020	0.1
Tenet Healthcare 8% 2020	0.1
Reynolds Group 5.75% 2020	0.1
Commerzbank 8.125% 2023	0.1
Atwood Oceanics Inc 6.5% 2020	0.1
Valeant Pharmaceuticals 7.5% 2021 144A	0.1
Windstream Corporation 7.75% 2021	0.1
Post Holdings 6.75% 2021	0.1
Navient 5.5% 2019	0.1
Linn Energy 8.625% 2020	0.1
Icahn Enterprises 4.875% 2019	0.1
Alcoa 5.72% 2019	0.1

Asset Name	Fund %
MGM Resorts 7.75% 2022	0.1
Rite Aid 9.25% 2020	0.1
Clear Channel Worldwide 7.625% 2020	0.1
Citgo Petroleum 6.25% 2022 144A	0.1
Peabody Energy Group 6% 2018	0.1
First Trust Senior Floating Rate	0.1
DPL 7.25% 2021	0.1
Genon Energy Inc 7.785% 2017	0.1
HarbourVest Senior Loans Europe	0.0
Total High Yield Credit	15.1
Investment Grade Bonds	
BG Worldwide Global Credit Fund C USD Acc	6.4
Total Investment Grade Bonds	6.4
Structured Finance	
Galene Fund	3.8
Metreta Fund	3.0
Julius Baer Multibond ABS Fund	2.7
Sorrento Park CLO A-1	0.4
TwentyFour Income Fund	0.4
German Residential Funding 2013-1 D	0.3
Babson CLO 2014-2 A1	0.2
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
Granite 2007-1 3M2	0.2
Blackstone/GSO Loan Financing Fund	0.2
Carador Income Fund	0.2
German Residential Funding 2013-1 E	0.1
Granite 2007-1 6A1	0.1
Taberna 2005-1A A1A	0.1
Phoenix Park 1X A2	0.1
Sorrento Park CLO A-2	0.1
St Pauls CLO V B	0.1
Babson CLO 2014-2 B1	0.0
Carlyle CLO 2014-3 A-2A	0.0
Total Structured Finance	12.6
Commodities	
Source Physical Gold P-ETC	2.0
ETFS Physical Palladium	0.9

Asset Name	Fund %
Source Physical Palladium P-ETC	0.7
Source Physical Platinum P-ETC	0.6
ETFS Physical Platinum	0.5
ETFS Brent Crude	0.3
Total Commodities	4.9
Emerging Market Bonds	
Baillie Gifford Emerging Mkts Bond Fd C Gross Acc	7.6
Brazil CPI Linked 6% 15/08/2050	0.8
Mexico IL 4% 15/11/2040	0.7
Brazil CPI Linked 6% 15/08/2022	0.4
Brazil CPI Linked 6% 15/05/2045	0.2
Colombia 7.5% 26/08/2026	0.2
Colombia 7% 04/05/2022	0.1
Total Emerging Market Bonds	10.0
Infrastructure	
EDP Renovaveis	0.7
3i Infrastructure	0.6
Greencoat UK Wind	0.5
OHL México	0.4
Renewables Infrastructure Group	0.3
National Grid	0.3
John Laing Environmental Assets Group	0.3
NextEnergy Solar Fund	0.3
Foresight Solar Fund	0.3
Bluefield Solar Income Fund	0.2
Terna	0.2
Snam Rete Gas	0.2
Total Infrastructure	4.3
Government Bonds**	
US 10yr Note Future Jun 15 (Short)	0.0
Total Government Bonds	0.0
Absolute Return	
Allianz Merger Arbitrage Strategy	2.9
Aspect Diversified Trends Fund	2.4
Amundi Volatility World Equities	1.1
Ferox Salar Convertible Absolute Return Fund	0.9
Winton Futures Fund	0.6
MS Broadmark Tactical Plus UCITS Fund	0.5
Boussard & Gavaudan	0.2

Asset Name	Fund %
Total Absolute Return	8.5
Insurance Linked	
Everglades Re 2014-1 A	0.8
Tar Heel Re 2013-1 A	0.6
Merna Re 2015-1	0.5
Everglades Re 2013-1 A	0.4
Alamo Re 2014-1 A	0.4
Lakeside Re III A	0.4
Embarcadero Re 2012-2 A	0.4
Tradewynd Re 2014-1 3B	0.3
Pelican Re 2012-1 A	0.2
CatCo Reinsurance Opportunity Fund	0.2
Blue Capital Reinsurance Holdings Fund	0.1
East Lane Re V 2012 B	0.1
Tradewynd Re 2013-2 3B	0.1
Blue Capital Global Reinsurance Fund	0.1
Vitality Re VI 2015-1 A	0.1
MultiCat Mexico 2012-1 B	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	5.2
Special Opportunities	
Juridica Investments	0.2
Burford Capital	0.2
DP Aircraft I	0.1
Doric Nimrod Air Two	0.1
Total Special Opportunities	0.5
Active Currency†	
Total Active Currency	-0.3
Cash and Equivalents	
UK T Bills	4.6
BG Worldwide Active Cash Plus Fund C GBP Acc	1.8
Cash on Deposit	0.5
Total Cash and Equivalents	6.9
Total	100.0

Exchange traded futures are used either to gain exposure to asset classes (with all such ‘long’ positions fully backed by cash and therefore shown at their exposure weight) or to hedge existing investments against adverse market movements (with all such ‘short’ positions shown at their net unrealised profit or loss).

* As at 31 March 2015, the allocation to listed equities includes a long position in European dividend futures (equivalent to 2.9% of Fund) and a short position in S&P 500 Index futures (equivalent to 3% of Fund) as a hedge against a fall in equity markets.

** As at 31 March 2015, the allocation to government bonds includes a short position in US 10 Year Treasury futures (equivalent to 2.6% of Fund) as a hedge against portfolio exposure to interest rate risk.

† The number shown against active currency reflects the net unrealised profit or loss of open positions in the Fund as at 31 March 2015.

Fund Name	Update
Baillie Gifford Diversified Growth Fund	This quarter, we reduced the portfolio's exposure to US equities and US government bond yields by, respectively, taking short positions in S&P 500 Index futures and US 10 Year Treasury futures. Prior to these transactions, the Fund had a 5% position in US equities (on a look-through basis), and had exposure to US interest rates through investment grade and high yield credit positions, emerging market government bond investments as well as through equities, albeit less directly. These short futures positions reduced the US equity weighting to around 2% and also lowered the Fund's US rate duration. In establishing the S&P 500 hedge, we took account of a view that the US stock market is more highly valued than other regional markets, while also being most exposed to both a change in monetary policy and pressure on corporate profits brought about by the strength of the US dollar. We further reduced our allocation to listed equities by selling our 1% long Eurostoxx position during the quarter. This had been purchased last autumn, since when European stock markets have rallied significantly. One of the arguments for reducing equity exposure, and US equity exposure in particular, is that interest rates may soon rise in the US. This could also prove a difficult environment for US bonds and for fixed income markets globally. We therefore established a short position on US 10 Year Treasury bonds. We are exposed to movements in interest rates in various different ways across the portfolio, notably through our holdings in corporate bonds as well as our emerging market government bonds. This short position in US Treasury bonds should provide general protection against an adverse move in US interest rates and bond yields. In terms of economic exposure, it is equivalent to 2.5% of the Fund. Further, we invested 3% of the portfolio in a basket of US high yield bonds, following an indiscriminate sell-off on the back of the sharp fall in the oil price which raised concerns about the credit-worthiness of energy-related issuers. The aforementioned US 10 Year Treasury hedge allowed us to take advantage of this increase in spreads without bearing the associated interest rate risk. We also took the opportunity to reduce our exposure to emerging market government bonds, with reductions to the Colombian and Mexican bond holdings, the complete sale of Peru and the complete sale of a dollar bond issued by the African Export Import Bank. These transactions were all on valuation grounds. Elsewhere in the portfolio, we achieved a small net increase in the property allocation as we sold the holding in LEG Immobilien, a German residential REIT, while adding to or buying a number of UK commercial property REITS (the new names were British Land, Land Securities and UK Commercial Property Trust). We also made small additions to some of the renewable energy and US loan funds and were profitably active, albeit on a small scale, in oil markets with first an addition and then reductions in a Brent crude oil ETF.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	16	Companies	1	Companies	1
Resolutions	103	Resolutions	2	Resolutions	3

During the quarter, there were two trips to Japan, and many more meetings with European companies

Stewardship Codes now seem to be proliferating

In the US, shareholders continue to use their voice to influence corporate governance practices

Company Engagement

Engagement Type	Company
Corporate Governance	Sony Corp
AGM or EGM Proposals	CATCo-Re Ltd., CrediCredit Suisse Nova Lux Global Loans Fund, EDP Renovaveis, JZ Capital Partners Limited, Qunar

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

High activity levels within the team in the opening quarter of 2015 reflect the growing importance of corporate governance to companies and the broader number of countries acknowledging its significance. During the quarter, there were two trips to Japan, and many more meetings with European companies. We also witnessed a shareholder-led initiative in the US aimed at influencing the content of AGM agendas – so-called proxy access. Meanwhile, this growth in activity continues to add to our workload, so we have recruited a senior analyst who joined the team in March.

As a firm, Baillie Gifford has substantial exposure to Japanese equities and, for many years, we have been involved in conversations discussing governance practices in Japan. However, there has recently been a notable change there in terms of attitude and urgency. With government and regulatory backing, the Japanese Stewardship Code was introduced in 2014 and a Corporate Governance Code has been implemented this year. These developments have changed the openness and frequency of company engagement that is focused on governance. To add some context, as recently as 2007 we had difficulty translating the term *'corporate governance'* into Japanese. Now we have senior corporate figures, such as the CFO of Sony, asking for our perspective on how to implement good governance practices. Indeed, our head of governance was among the presenters at a recent high-profile conference in Japan. Furthermore, it is encouraging that both small and large companies are equally engaged in the discussions.

Stewardship Codes now seem to be growing in popularity. Prior to recent developments in Japan, the UK had set the trend in 2010, and we have recently had a stewardship consultation document from the Hong Kong Securities and Futures Commission. Other countries are discussing the introduction of a code but we are yet to see any content. It will be interesting to see if this momentum continues and how the concept of Stewardship expands in developed and emerging markets.

Elsewhere, we have been receiving a growing number of engagement requests from European companies with non-executive directors and chairmen providing us with more opportunities to discuss governance topics. This is another reason to feel positive about the progress being made although, at present, these discussions are primarily focused on the AGM agenda. Next year we will be more explicit in stating that we want to incorporate broader engagement on strategic and operational matters. It is valuable to be able to speak directly to a chairman or a member of the board.

In the US, shareholders continue to use their voice to influence corporate governance practices. Proxy access proposals seeking amendments to company bylaws to allow long-term shareholders to nominate board candidates are developing into the main issue ahead of the 2015 voting season. We are supportive in principle and are engaging with investee companies in order to implement appropriate policies for each.

And finally, as already mentioned, with corporate governance assuming ever greater importance, we have moved to strengthen our team. Michelle O'Keefe has joined as an analyst. She brings a background in climate change, resource governance and European resource policy assessments.

Company	Engagement Report
Sony Corp	We met the CFO to discuss governance matters and the challenges stemming from the recent cyber hack event. We discussed the implications for the company of the introduction of the Stewardship Code and the consultation about the Japanese Corporate Governance Code. There is no direct translation for the word 'engagement' and we explained that our meeting we were having to discuss ESG issues was an engagement. With regards to cyber risk, this is now on the board's agenda. Our engagement with the company on both subjects will continue.

Votes Cast in Favour

Companies	Voting Rationale
Allianz Merger Arbitrage Strategy, CVC Credit Partners European Opportunities EUR, CVC Credit Partners European Opportunities GBP, CatCo Reinsurance Opportunity Fund, Credit Suisse Nova (Lux) Global Senior Loan Fund, DP Aircraft I, Eaton Vance Floating Rate Income Trust, Ediston Property Investment Company, Electra Private Equity, Fondul Proprietatea, Foresight Solar Fund, ING (L) Flex Senior Loans Fund, Nuveen Floating Rate Income Fund, Nuveen Senior Income Fund, Target Healthcare REIT, UK Commercial Property Trust	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
JZ Capital Partners	EGM 26/02/15	O.1	We opposed amendments to the company's investment policy as we do not believe they are in shareholders' best interests.

Companies	Voting Rationale
JZ Capital Partners	We opposed the amendments to the Articles of Association.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Credit Suisse Nova (Lux) Global Senior Loan Fund	OGM 17/03/15	1	We abstained on the resolution to approve the Report of the Board because of a lack of disclosure.
Credit Suisse Nova (Lux) Global Senior Loan Fund	OGM 17/03/15	2	We abstained on the resolution to approve the Auditor report because of a lack of disclosure.
Credit Suisse Nova (Lux) Global Senior Loan Fund	OGM 17/03/15	3	We abstained on the resolution to approve the Annual report because of a lack of disclosure.

Votes Withheld

We did not withhold on any resolutions during the period.

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	80,073,058	0.0	80.4	19.6	66,219	55,251	10,968	59,440	0	6,778	0
JP Morgan Chase Bank NA	51,822,462	0.0	90.3	9.7	51,035	46,773	4,262	41,195	0	9,839	0
Citigroup Inc	36,217,659	0.0	8.3	91.7	25,352	2,116	23,236	18,933	0	6,419	0
Stifel Nicolaus Europe Ltd	34,857,657	25.3	74.7	0.0	26,053	26,053	0	18,237	0	7,816	0
ITG Europe Ltd (POSIT-MTP) (Crossing Network)	32,217,496	0.6	0.0	99.4	9,665	0	9,665	9,665	0	0	0
Jefferies International (Holdings) Ltd	21,060,426	26.1	49.1	24.7	12,163	10,349	1,814	10,093	0	2,070	0
Canaccord Genuity Limited	15,090,096	0.0	100.0	0.0	15,090	15,090	0	4,527	0	10,563	0
Numis Securities Ltd	14,010,618	0.0	89.1	10.9	13,209	12,143	1,067	9,807	0	3,402	0
Royal Bank of Canada	4,708,301	100.0	0.0	0.0	0	0	0	0	0	0	0
Investec Bank plc	4,078,830	0.0	24.3	75.7	3,153	991	2,161	2,855	0	297	0
Other Brokers *	15,283,215	20.1	16.4	63.5	9,827	2,509	7,318	7,296	0	2,531	0
Total	309,419,817	7.2	58.7	34.1	231,766	171,275	60,491	182,051	0	49,715	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	7.2	58.7	34.1	100.0	73.9	26.1	78.5	0.0	21.5	0.0
BG Average *	100.0	5.2	21.5	73.3	100.0	44.2	55.8	90.0	0.0	10.0	0.0

Baillie Gifford Diversified Growth Fund Average Commission Rate	0.0749 %
BG Average *	0.0448 %
Total commission paid as a percentage of the value of the fund	0.0039 %

* 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	40,451,834	0.0	2.2	97.8	18,988	2,721	16,268	17,688	0	1,301	0
Global Alpha Growth Fund	90,403,412	5.8	30.3	63.8	46,475	21,201	25,274	43,527	0	2,948	0
Worldwide Japanese Fund	754,182,218	0.0	48.1	51.9	548,665	362,597	186,068	483,219	0	65,446	0
Pacific Fund	54,953,080	0.0	47.8	52.2	71,298	52,988	18,310	56,008	0	15,290	0
Long Term Global Growth Fund	15,788,683	0.0	33.5	66.5	5,483	2,191	3,292	5,483	0	0	0

Comparative Analysis

Fund	Average Commission Rate	Firm-Wide Comparator	Average Commission Rate
Global Income Growth Fund	0.05	Global	0.04
Global Alpha Growth Fund	0.05	Global	0.04
Worldwide Japanese Fund	0.07	Japan	0.04
Pacific Fund	0.13	Pacific (ex Japan)	0.05
Long Term Global Growth Fund	0.03	Global	0.04

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
HSBC	0	3,641,836,401	3,641,836,401
Deutsche Bank AG London	0	3,430,023,127	3,430,023,127
Barclays Bank plc	0	2,803,734,214	2,803,734,214
National Australia Bank	0	2,014,079,180	2,014,079,180
Royal Bank of Canada	0	1,214,713,656	1,214,713,656
Royal Bank of Scotland plc	0	914,123,177	914,123,177
Bank of New York Mellon (Custodian)	478,761,313	0	478,761,313
UBS	86,902,029	0	86,902,029
Brown Brothers Harriman	19,035,280	0	19,035,280
Northern Trust Company	14,895,510	0	14,895,510
Total	599,594,132	14,018,509,754	14,618,103,886

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

Direct Bond Transactions

Counterparty	Trading Value (GBP)
Deutsche Bank AG	109,747,774
Citigroup Inc	79,676,414
Jefferies International (Holdings) Ltd	67,290,357
Credit Suisse	55,914,693
Merrill Lynch International	55,790,044
BBVA Banco Bilbao Vizcaya Argentaria S.A	55,369,129
Morgan Stanley	34,913,991
JP Morgan Chase Bank NA	32,064,790
Aon Capital Markets Ltd	27,114,967
Royal Bank of Canada	20,602,542
BNP Paribas	6,615,944
Wells Fargo Securities LLC	5,927,436
Goldman Sachs & Co	5,773,015
Numis Securities Ltd	4,153,344
Total	560,954,443

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

Direct Futures Transactions

Counterparty	Consideration Paid*	Commission Paid
UBS AG London	0	19,888
Total	0	19,888

*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

IA 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 Association (IA) 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.

	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	0.01	0.02	0.91

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		18,467	
Accrued Interest		0	
		18,467	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			18,467
Net Accrued Interest			0
Total			18,467

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							
27/01/15 27/01/15	Baillie Gifford Diversified Growth Pension Fund B3CRJ02	9,575.639 GBP 1.93		18,467		26,151,484.025	40,255,220
Total Purchases				18,467			
Total Net Investment/Disinvestment UK							18,467
Total Net Investment/Disinvestment Diversified Growth							18,467
Total							18,467

Asset Name	Nominal Holding	Market Price	Book Cost (GBP)	Market Value (GBP)	Fund (%)
Diversified Growth					
Baillie Gifford Diversified Growth Pension Fund	26,151,484.025	GBP 1.94	40,255,220	50,684,191	100.0
Total Diversified Growth			40,255,220	50,684,191	100.0
Total			40,255,220	50,684,191	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 31 December 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 31 March 2015 (GBP)
Diversified Growth				
Baillie Gifford Diversified Growth Pension Fund	49,084,047	18,467	1,581,677	50,684,191
Total Diversified Growth	49,084,047	18,467	1,581,677	50,684,191
Total	49,084,047	18,467	1,581,677	50,684,191

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 31 December 2014			
Diversified Growth		40,236,753.73	49,084,047.19
		40,236,753.73	49,084,047.19
Income			
Management Fee Rebate	18,466.62		
	18,466.62		
Net Total Income and Charges		18,466.62	18,466.62
Change in Market Value of Investments		0.00	1,581,677.38
As at 31 March 2015		40,255,220.35	50,684,191.19
Of which:			
Diversified Growth		40,255,220.35	50,684,191.19
Total		40,255,220.35	50,684,191.19

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Investment Report

London Borough of Tower Hamlets Pension Fund
Investment Report for the
Quarter ended 1 April 2015

Legal & General Investment Management
One Coleman Street
London EC2R 5AA

Telephone: 020 3124 3277
Email: clientreportingteam@lgim.com

Contents

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 31 December 2014**		**Net Transactions**	**Value and Distribution at 31 March 2015**		**Benchmark Distribution**
	GBP (Mid)	**%**	**GBP**	**GBP (Mid)**	**%**	**%**
UK Equity Index	216,077,750	78.9	-	226,256,257	79.2	83.0
Over 5y Index-Linked Gilts	57,653,555	21.1	-	59,547,095	20.8	17.0
Total Assets	**273,731,305**	**100.0**	**-**	**285,803,352**	**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 index or comparator, referred to below as the 'Index'
- 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 MARCH 2015

	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	+4.7	+4.7	+0.0	+6.7	+6.6	+0.1	+10.8	+10.6	+0.2	+10.5	+10.3	+0.2
Over 5y Index-Linked Gilts	+3.3	+3.3	+0.0	+21.1	+21.1	+0.0	+9.0	+8.9	+0.1	+11.7	+11.7	+0.0
Total Assets	**+4.4**	**n/a**	**n/a**	**+9.4**	**n/a**	**n/a**	**+10.4**	**n/a**	**n/a**	**+10.6**	**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

Corporate Governance & Responsible Investment

Policy and Practice

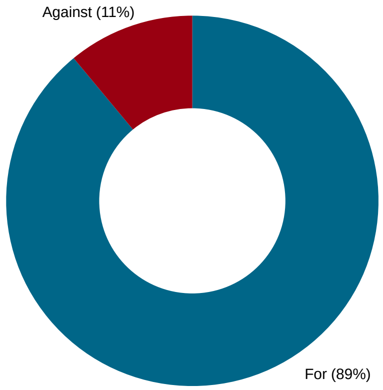
We aim to maximise and protect shareholder value on behalf of our clients by exercising their voting rights. We also engage with companies both directly and collaboratively with other investors to reduce risks of corporate failure and promote best practice. We comply with the principles set out in the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

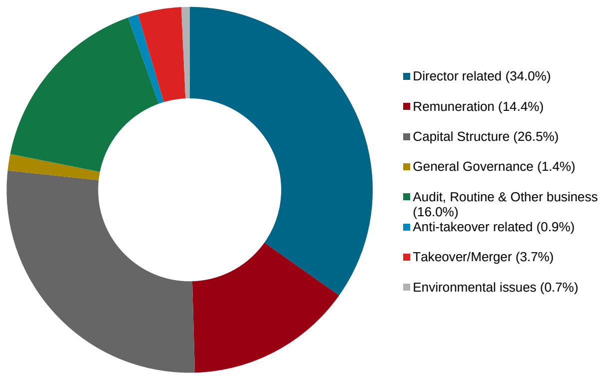
We have extended our public voting disclosure to cover the North American and Japanese markets. These can also be found on our webpage.

LGIM votes in all major developed markets including: Europe, North America, Japan and Asia Pacific, and have minimised 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

CG Annual Report

We will shortly be releasing our 2014 Corporate Governance Annual Report. We provide lots of examples of our activities across a variety of topics. The report will be available on our website.

Diversity

LGIM continues to work hard with companies on improving diversity on boards, especially in relation to gender, as we consider this an important board effectiveness issue. In the latest Women on Boards publication from the government's Davies Committee, LGIM has been recognised as an investor which "continues to lead the way" in pushing for positive change at companies.

France – Double voting rights

In France, the Florange Act provides for the automatic granting of double-voting rights to any shares held in a registered form by the same shareholder for at least two years provided that the company does not prohibit double-voting rights in its bylaws. The Act allows companies to amend their bylaws with shareholders' approval to opt-out of this automatic granting of double voting rights. LGIM wrote to all companies in the CAC40 plus a further 50+ companies asking them to uphold the principle of one share one vote by opting out in their bylaws. We featured in the Financial Times on this issue.

International Corporate Governance Network (ICGN) conference in Madrid

We were a speaker at the ICGN conference in Madrid on the importance of the role of company secretaries in promoting good governance. Over 120 European investors and corporates were in attendance.

Global Law Summit

LGIM were specifically asked to talk at the summit on shareholder activism. Lawyers globally attended on different approaches to active ownership. It is pleasing to see LGIM as a major active investor.

US climate change – disclosure

LGIM has signed up to a collaborative letter to the SEC asking for improved disclosure of carbon asset risks by oil and gas companies. The letter discusses the carbon asset risks to these companies and investor efforts to improve disclosure through letters, dialogues, resolutions and "disclosure expectations" documents.

World Bank letter

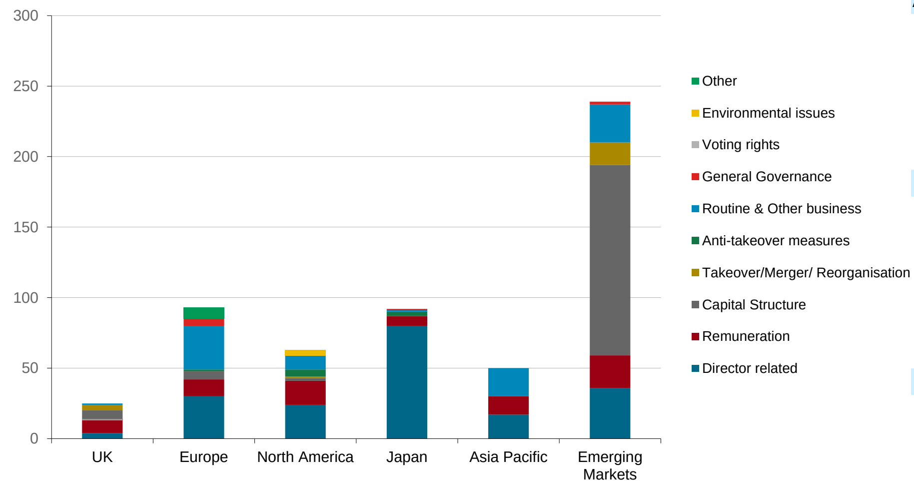
LGIM co-signed a letter sent to the World Bank regarding its draft Environmental and Social Safeguards Framework. We encouraged the World Bank not to loosen its environmental and social lending criteria, and make them more consistent with international human rights law, such as the Guiding Principles on Business and Human Rights and the UN Declaration on the Rights of Indigenous Peoples.

Japan

A draft Corporate Governance Code was published last December by the Financial Services Authority, to which we submitted our response in their consultation in January. The Code has since been finalised and is now being incorporated into the listing rules at Tokyo Stock Exchange. We again submitted our view in their consultation, this time to the Stock Exchange, to push for progressive changes needed to transform the corporate cultures in Japan.

Corporate Governance & Responsible Investment

Regional Breakdown of AGAINST Votes by Topic



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Key Voting Decisions

United Kingdom

Countrywide M.Cap: £1.2bn Real Estate UK

We voted against the resolution at the EGM to approve a waiver on a tender-bid requirement since it could enable the major shareholder to gain creeping control without paying a bid premium to minority shareholders. 26% of investors voted against this resolution.

Diploma M.Cap: £925m Industrials UK

During the year to September 2014, the Remuneration Committee exercised its discretion to increase the CEO's bonus despite EPS targets not being met in full. The bonus enhancement came in the context of increases to bonus limits in 2014 and significant increases to base for 2015. We voted against the Remuneration Report due to the discretion applied to the annual bonus outcome. At the AGM, 37.4% of shareholders voted against and 13% abstained.

Euromoney Institutional Investor M.Cap: £1.5bn Media UK

At the company's AGM, we voted against the re-elections of four directors due to significant concerns over independence on the board and the composition of the key committees. These resolutions received between 8.6% and 10.4% votes against from investors. We also voted against the Remuneration Policy since it is not in line with best practice and the Remuneration Report due to a pay and performance disconnect and uncapped awards. These items received 12.1% and 3.1% respectively.

US

Apple M.Cap:$734bn Technology US

We continue our long term engagement with Apple and at their AGM in February; we had concerns around the remuneration awarded to Ms Angela Ahrendts in connection with her recruitment to the company. We discussed our concerns with the company expressing that such awards should be linked to the long term success of the company and that pay structures could potentially cause reputational damage. The vote received only 75% support from shareholders, down from the 97% received last year.

Qualcomm M.Cap:$111bn Technology US

The company awarded a $45m retention grant to the previous CEO which was purely time based rather than performance based. LGIM considers that retention issues should be handled within existing long term awards as discretionary extra awards are hard for us to link to performance and so difficult to approve. We voted against the say on pay vote as did 41% of shareholders, a significant vote.

Japan

Kyowa Hakko Kirin Co M.Cap: JPY981bn Pharmaceuticals Japan

We voted against the election of four inside directors, as the candidates are affiliated with the controlling shareholder of the company and the board consists of less than one-third outside directors.

Asia –Pacific

CITIC Limited M.Cap: HK$359bn Industrials Hong Kong

We opposed the election of five non-executive non-independent directors because of lack of independence at board level. Even though one-third of independent directors featured on the board, in compliance with requirements outlined by the Listing Rules, one of the five independent directors had served for 21 consecutive years on the board of CITIC Limited. His extremely long tenure compromises his ability to make independent and objective judgements, and hence cannot be considered independent. We voted against 5 non-executive non-independent directors, as the independent director was not on the ballot.

Daelim Industrial M.Cap: KRW2.6tn Construction South Korea

We opposed management's proposal to amend the company's Articles of Incorporation, as it envisaged extending directors' term of office to three years instead of one, thus reducing their accountability to shareholders. Moreover, we voted against the election of three directors designated by management as independent, but who were employees of companies engaged in substantial transactions with Daelim Industrial. The potential conflicts of interest of directors could compromise their independence and objectivity.

Guangzhou Baiyunshan Pharmaceutical M.Cap: CNY42.4bn Pharmaceuticals China

We opposed management's proposals to issue A shares which represented 24.5% of total issued shares at a significant discount. The issuance of A shares was non-public and targeting exclusively the controlling shareholder and its connected companies which would have increased their stake in the company from 45.2% to 57.4%. Moreover, the share issuance would have had a considerable dilutive impact on our holdings.

Corporate Governance & Responsible Investment

LGIM Voting Summary by Topic and Region

Between 01/01/2015 and 31/03/2015		UK			Europe			North America			Japan			Asia Pacific			Emerging Markets			Total
		FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	
Management Proposals	Director related	496	4		304	28	2	362	9	11	395	79	1	269	17		233	36		2246
	Remuneration	132	9		61	11		73	12		20	7		121	13		25	23		507
	Capital structure	260	6		91	6		15	2		4			6			213	135		738
	Voting rights																			
	General governance																			
	Audit, Routine and company business	333	1		293	16	3	67	9		37			268	20		194	26		1267
	Anti-takeover related	54			2	1		22	1			3								83
	Takeover/merger/reorganisation	19	4		4			16	1		12			8			133	16		213
	Social issues																			
Shareholder Proposals	SP – Anti-takeover measures																			
	SP – Director related							2	4								4			10
	SP - Remuneration					1		1	5											7
	SP - Capital structure																			
	SP - Voting rights																			
	SP – Corporate Governance					5		1				1					1	2		10
	SP - Routine and company business				2	12		2	1			1					1	1		20
	SP – Health/Environment								4											4
	SP - Social issues								1											1
	SP - Other					8		3	4											15
Total Votes		1294	24		757	88	5	564	53	11	468	91	1	672	50		804	239		
Total number of resolutions		1318			850			628			560			722			1043			5121
Annual General Meetings (AGM)		82			46			46			45			117			33			369
Extraordinary General Meetings (EGM)		40			8			19			0			8			113			187
Number of companies voted at		113			52			63			45			121			124			517

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

Corporate Governance & Responsible Investment

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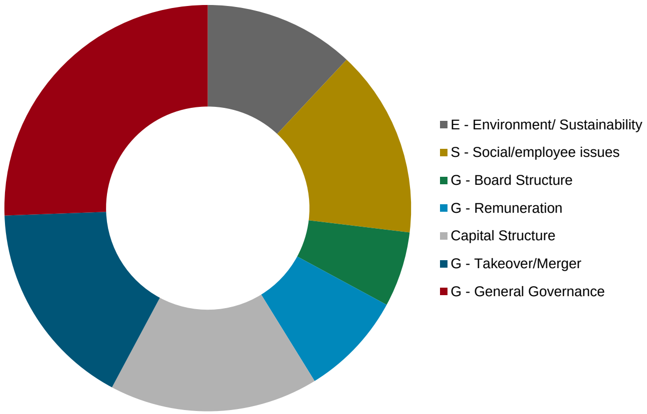
Engagement Topics & Frequencies



Meetings covering one or more of ESG and F topics*				Number of meetings
E	**S**	**G**	**F**	157
36	**45**	**120**	**48**	
Environment/sustainability				36
Social/employee issues				45
Board Structure				18
Remuneration				25
Capital Structure				
Takeover/merger				
General Governance**				77

*Please note meetings may be double counted as we often discuss more than one issue in a meeting.

**General Governance category covers topics including general corporate governance issues, company performance and strategy, audit and risk, and voting rights.

Key Company Engagements on E(Environmental), S(Social), G(Governance) and F(Financial) Topics

Standard Chartered	M.Cap: £27.2bn	Banks	UK	G

Subject: Board structure

In 2014 we engaged with the Senior Independent Director (SID) to understand the time line for change on the board of the company. At the end of 2014 we also met the executives to discuss business strategy as well as capital requirements and regulation in the US following significant lapses in its anti-money-laundering procedures which resulted in receiving a significant fine. We held a further meeting with the SID in January to discuss progress amid much press speculation. In February the company announced changes to the CEO later this year and the chairman in 2016, as well as reducing the size of the board to 14 members.

Microsoft	M.Cap: $341bn	Technology	US	ES

Subject: Environmental and Social Issues

We have been engaging with Microsoft for several years not only on governance issues but also around their work on sustainability. We met the head of CSR to discuss issues such as cyber security and data surveillance, climate change, and the enhancement of the auditing process of their supply chain to improve transparency and accountability around this important area.

Chevron	M.Cap: $201bn	Oil & Gas	US	E

Subject: Climate change

We are focused on the climate change issue with Chevron as we believe the company needs to be involved in the debate around how regulation in this area will affect their business strategy. The company states that they have done an assessment in this area but are reticent to disclose this analysis to shareholders. We have warned the company that this could be translated as a lack of concern and focus. We also discussed general governance updates and the accountability on the board for environmental issues.

Mitsubishi Corp	M.Cap: JPY4tn	Industrial	Japan	EG

Subject: General Corporate Governance and Environment

At the beginning of the year, we engaged with Mitsubishi Corp., one of Japan's largest general trading companies, focusing especially on corporate governance-related issues, including board structure and independence. While we acknowledged the company's progressive approach towards corporate governance, compared to its Japanese peers, we have encouraged Mitsubishi to further introduce truly independent directors with business experience at other listed companies that have had no related transactions with Mitsubishi. Besides, given that the company owns stakes in fossil fuel projects, such as coal mines, and derives parts of its revenues from fossil fuel trade, we have questioned the long term viability of such activities and whether it recognises the risk of those assets becoming stranded.

Samsung Electronics	M.Cap: KRW245tn	Technology	South Korea	G

Subject: Shareholder Rights

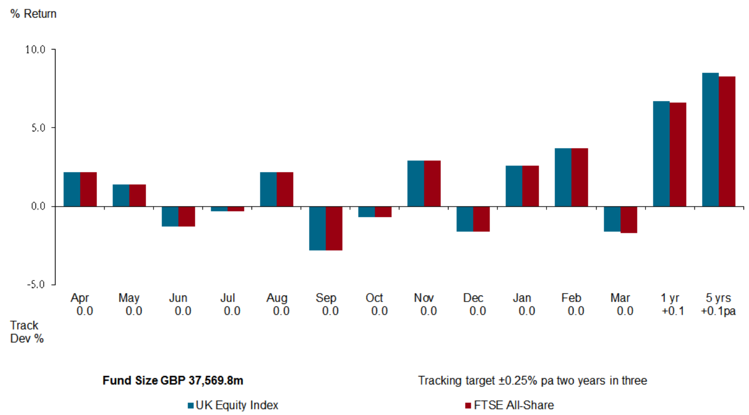
We met Samsung Electronics to assess whether the company made any progress in simplifying its complex ownership structure which is characterised by a web of cross-holdings involving companies within the Samsung universe. This allows the funding family to exercise control over 70 companies, including Samsung Electronics, in spite of owning only a small fraction of the outstanding shares. Although the company plans to sell its minority stakes in non-business related sectors, such as chemicals and defence, this move will do little to simplify the capital structure of the company and will not remove cross-holdings. The company failed to provide in-depth information on how it plans to approach the issue which seems to affect other large conglomerates in Korea. We will, thus, continue our conversation with the company.

Fund Activity & Performance

UK Equity Index

- The Fund returned 4.7% matching the index return over the quarter
- At the quarterly index review AA, Virgin Money Holdings, Petropavlovsk and Oxford Biomedica were added, whilst Hardy Oil & Gas was deleted
- Mecom Group was acquired by Belgium media group De Persgroep Publishing NV for £0.2bn in cash, whilst Ophir Energy (constituent) acquired Salamander Energy. Other corporate activity included Qatar Airways purchasing a 9.99% stake in International Consolidated Airlines Group, resulting in a freefloat decrease. Spire Healthcare Group, Merlin Entertainments, Inmarsat, Polypipe and SPP all saw their freefloats increase after strategic holders reduced their stakes
- BT Group, Poundland, Charles Taylor, IP Group and Anglo Pacific Group all raised cash to fund expansion, while Serco and AA raised cash to strengthen the balance sheet and reduce debt costs respectively

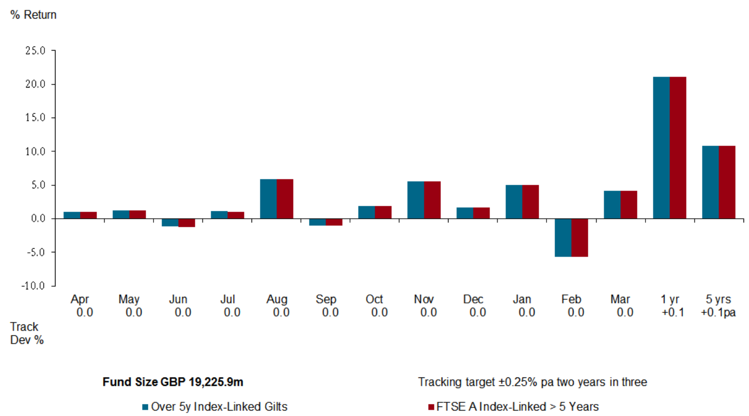
UK EQUITY INDEX - FUND AND INDEX MOVEMENTS - 2014/15



Over 5y Index-Linked Gilts

- The Fund returned 3.3% matching the index return over the quarter
- UK 2014 Q4 GDP was confirmed at 3.0% year on year. RPI inflation continued its fall, down to 1.0% in February and with consumer confidence at a 15-year high, we now enter the most unpredictable General Election in a generation
- During the first quarter, there were auctions of 2024, 2037, 2044 and a single syndication of 2058 maturity bonds. These raised approximately £9.2bn for government funding
- The Fund held all 21 stocks contained within the benchmark index. The Fund and index had a modified duration of 22.98 and 22.96 years respectively at the end of the quarter and the real yield was -0.94% (yield curve basis)

OVER 5Y INDEX-LINKED GILTS - FUND AND INDEX MOVEMENTS - 2014/15



Market Background

Global equities: market background

Global equities

Three key themes dominated global economic news over the first quarter of 2015: oil prices, inflation (or lack thereof), and central bank activity in the major economies.

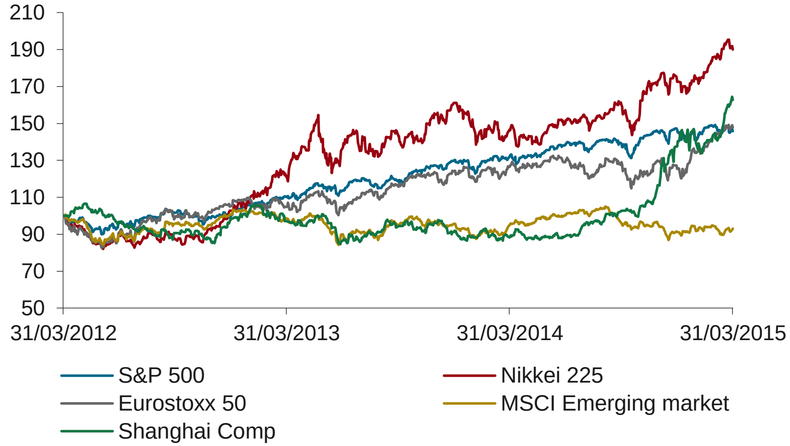
The net result of the economic news was generally positive. As a result, global equities generally finished in positive territory, but with news-flow causing bouts of volatility and some divergence between the major markets.

Oil supply has surged over the last few years and prices fell steadily throughout 2014. Although prices stabilised slightly in the first quarter, the effects of the fall continued to permeate various global economies, boosting personal income and lowering global inflation figures. Indeed, inflation in Europe turned negative for the first time in decades while UK CPI fell to zero. This put central banks in the spotlight, with the EU and China using various mechanisms to stimulate growth, while the US continued to discuss raising rates.

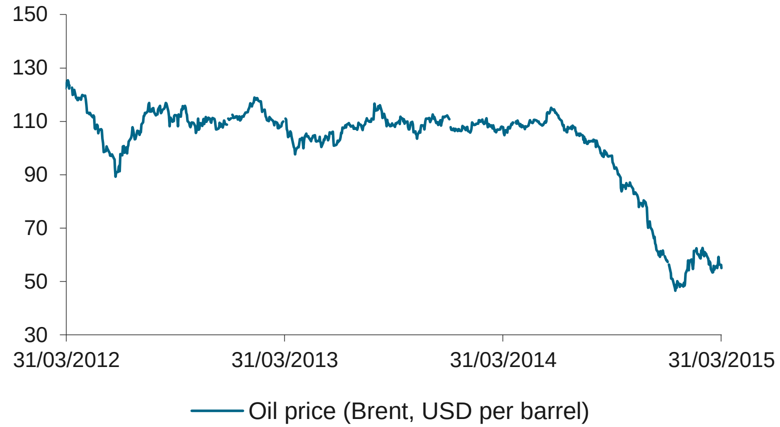
The divergence in central bank policy mirrored a divergence in market performance. Although most major markets produced positive returns in local currency terms, Europe and Japan outperformed most other regions, with the US, UK and emerging markets lagging.

Despite the relatively modest gain, US equities hit fresh all-time highs in early March and have now risen for nine consecutive quarters. In the UK, the FTSE 100 index breached the previous high set in late 1999 towards the end of the quarter.

Global equity markets (LC)



Oil price



Global government bonds: market background

Global government bonds

Government bonds performed broadly well over the first quarter, as recent falls in the oil price continued to push inflation lower. There was volatility across the asset class due to election uncertainty, speculation over central bank actions and the on-going Greek crisis.

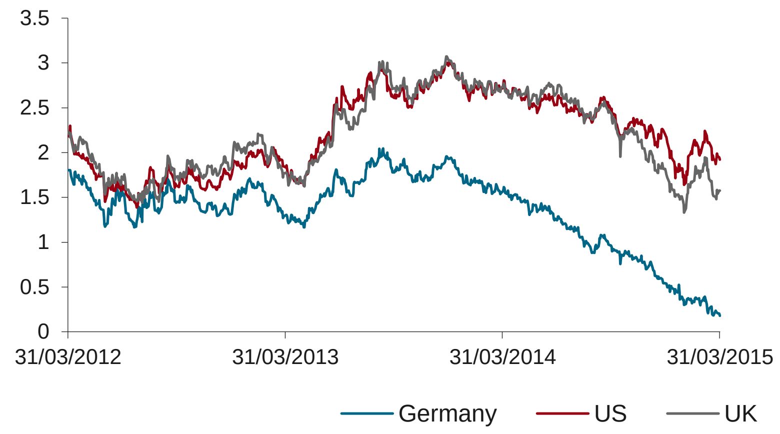
10-year UK gilts delivered positive returns over the first quarter. While revisions to data showed that the UK economy has continued to perform strongly, a fall in consumer price inflation to zero eased any near-term prospect of higher interest rates.

US 10-year government bonds also delivered a positive return. Despite a robust jobs market, the more moderate pace of recent US economic growth, along with comments from Federal Reserve Chair, Yellen eased concerns of an early start to interest rate rises.

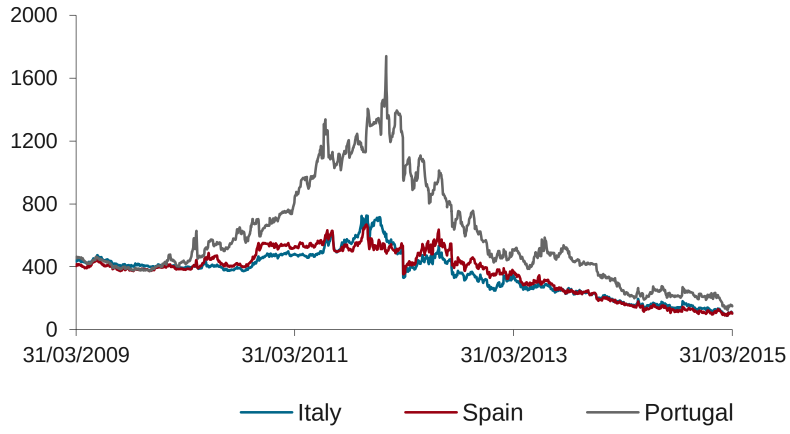
With inflation in the euro zone turning negative and the growth outlook remaining weak, European Central Bank policymakers finally announced the start of a broad-based monetary stimulus package in January, surprising analysts with its larger-than-expected scale. Euro government bonds rallied strongly over the quarter as a result.

Japanese government bonds marginally improved during the quarter. The Japanese economy emerged from recession late in 2014, albeit with a fairly feeble degree of growth as a result of sluggish business investment. Meanwhile, lower oil prices and muted demand saw inflation dip to 2.2%, the lowest level in 10 months.

Government 10-year yields (%)



Peripheral spreads over bunds (bps)



Global corporate bonds: market background

Global corporate bonds

Global corporate bonds produced positive total returns over the quarter, with spreads generally slightly tighter but falling underlying government bond yields accounting for the majority of returns.

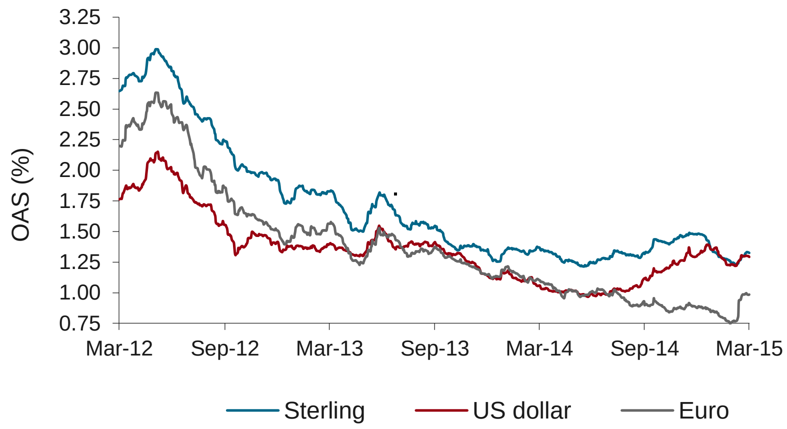
Despite some volatility in the underlying gilt market, sterling corporate bonds delivered robust total returns over the quarter, outperforming US and euro equivalents. Positive economic news-flow in the UK boosted sentiment, along with reasonable earnings data over the quarter. More importantly, technical factors played a part, as strong demand was met with very little supply and light dealer inventories.

US corporate bonds also delivered solid positive returns across the credit spectrum, despite muted equity markets and the end of quantitative easing by the US Federal Reserve last year. Spreads narrowed only slightly however, again as US governments also rallied over the quarter after the US Federal Reserve signalled that a rate rise would probably not happen in June.

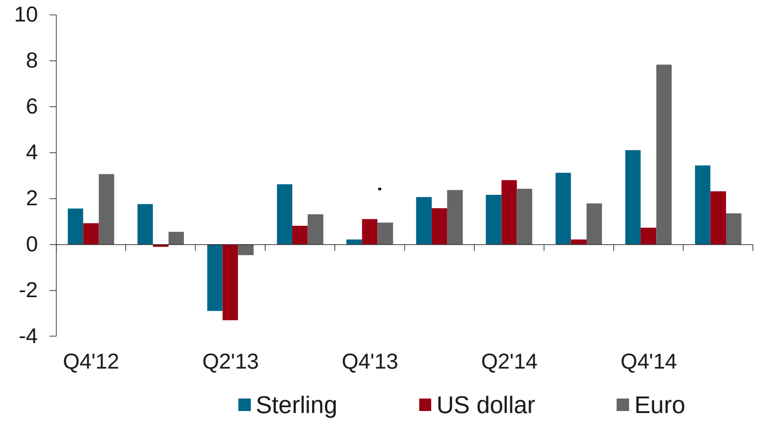
Euro-denominated bonds lagged US dollar and sterling equivalents over the quarter. Although the start of euro zone quantitative easing underpinned sentiment, issuance of euro corporate bonds was at record levels. Issuance from non-euro companies was particularly high, with borrowers looking to take advantage of the low funding levels.

In sector terms, subordinated financials have outperformed senior paper, while in non-financials, the oil & gas sector was very weak in January, before recovering over the rest of the quarter. This effect was most noticeable in US investment grade and high yield markets, where oil & gas is a larger sector.

Credit spreads over government bonds (%)



Corporate bond total returns (%)



Currency: market background

Currency markets

The dollar extended its 2014 gains as stronger economic data raised the possibility of a rise in interest rates. Although US growth slowed towards the end of 2014, strength in the jobs market saw Federal Reserve officials suggest that rates will rise gradually later this year.

The euro experienced significant falls against the US dollar. Although economic growth in the euro zone marginally beat forecasts, this effect was completely overwhelmed by the announcement of a larger-than-expected quantitative easing programme by the European Central Bank.

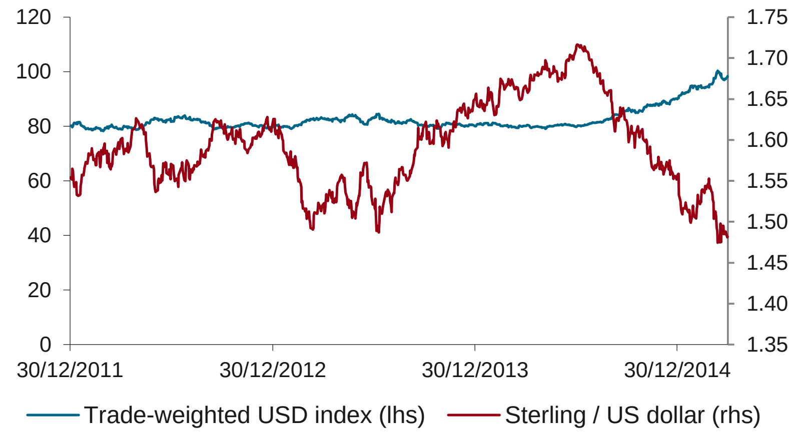
The yen was one of the few currencies to strengthen versus the dollar, continuing the trend seen in the second half of 2014. Helped by the Bank of Japan's on-going quantitative easing programme, the Japanese economy emerged from recession in the latter part of 2014. With earlier yen weakness boosting corporate profits, hopes remained that cash-rich companies could increase business spending and wages.

Sterling experienced mixed fortunes over the first quarter, falling against the dollar but gaining sharply versus the euro. The UK economy continued to show signs of a strengthening recovery, but falling inflation meant that expectations of near-term rate increases have decreased.

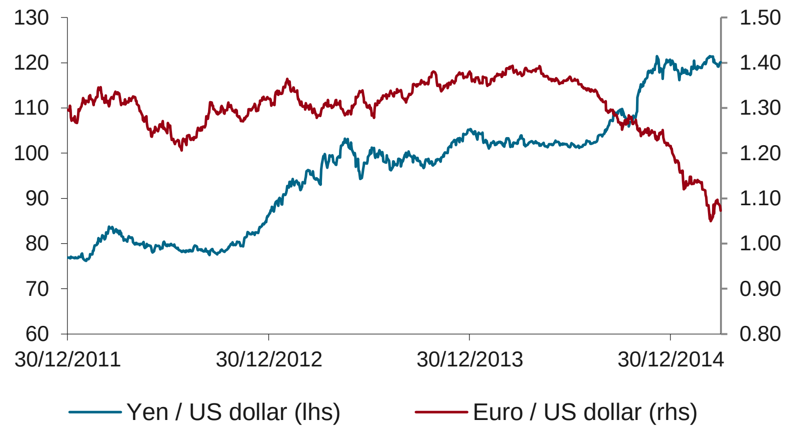
On-going US dollar strength overshadowed the move by the Swiss central bank to remove the ceiling versus the euro early in the quarter. This led to a near 20% increase for the franc against the euro, with some of this correcting as the quarter progressed.

Emerging market currencies stabilised over the quarter, with a significant recovery in the Russian rouble on the back of hopes for a settlement of the Ukrainian crisis.

Dollar strength



Yen and euro divergence



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

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Q1 2015 Investment Report

For professional investors only

Schroders
The London Borough of Tower Hamlets Superannuation Fund

Investment Report
Schroder Real Estate Capital Partners

Schroders

Q1 2015

Schroders

The 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 31 Dec 2014	GBP	119,210,385
Net cash flow	GBP	-
Value at 31 Mar 2015	**GBP**	**122,202,426**

Performance Periods to 31 Mar 2015

Total returns GBP	3 months %	12 months %	3 years % pa	5 years % pa
Portfolio (gross)	2.5	16.2	8.6	7.3
Portfolio (net)	**2.5**	**16.0**	**8.4**	**7.1**
AREF/IPD UK Quarterly Property Fund Index All Balanced Funds Weighted Average	2.8	16.6	9.4	8.4
Difference	**-0.3**	**-0.6**	**-1.0**	**-1.3**

Breakdown of performance

UK Investments (Gross)	2.7	18.0	10.2	8.9
European Investments (Gross)	1.6	-8.1	-9.8	-7.9

Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 31 March 2015.
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 current combination of UK GDP growth running at 2.8% and zero inflation is probably as good as it gets in the short-term. Schroders expects inflation to increase to 1.5% by the end of 2015, as the fall in oil prices drops out of the calculation, and for GDP growth to slow slightly to 2.6% this year and to 2.0% in 2016. Part of the deceleration in growth will be due to a gradual increase in interest rates – we expect the Bank of England to make its first move in November – and part will be due to a tightening in fiscal policy after the general election. In addition, the housing market appears to have lost momentum following the introduction of new rules on mortgage lending last year.

The latest IPF (Investment Property Forum) Consensus Forecast suggests that commercial real estate could achieve total returns of 12% in 2015. Our view is that total returns in 2015 should probably be closer to 15%, although the more yields fall this year, the greater the risk of a potential correction in the future.

The portfolio returned 2.5% over the first three months of 2015, which was 0.3% below the benchmark. Central London and industrial specialist funds have been positive drivers of performance, while cash and reinvestment costs associated with a high volume of transactions over the reporting period (£5.8 million) have temporarily held back returns.

The UK portfolio (97% portfolio value) continues to perform well, outperforming the benchmark by 1.4%, 0.8% pa and 0.5% pa over the past one, three and five years respectively. The portfolio's Continental European holding produced positive performance over the past quarter (10.9% q/q in Euros) but remains a drag to total returns in aggregate over the past five years in particular.

Portfolio Strategy

We have been recycling cash received from selling down part of the portfolio's central London exposure to existing balanced fund holdings where capital exposure can be diversified across all mainstream property sectors.

In the past few quarters we have focused on positioning the portfolio for income. To that end, we have increased the portfolio's exposure to industrials by acquiring a further stake in Ashtenne Industrial Fund.

Alternative real estate sectors also remain favoured, in particular those sectors which deliver attractive yields and relatively resilient income streams

UK Property Market Summary

Economy

The current combination of UK GDP growth running at 2.8% and zero inflation is probably as good as it gets in the short-term. Schroders expects inflation to increase to 1.5% by the end of 2015, as the fall in oil prices drops out of the calculation, and for GDP growth to slow slightly to 2.6% this year and to 2.0% in 2016. Part of the deceleration in growth will be due to a gradual increase in interest rates – we expect the Bank of England to make its first move in November – and part will be due to a tightening in fiscal policy after the general election. In addition, the housing market appears to have lost momentum following the introduction of new rules on mortgage lending last year.

Occupational Market

While office rental growth in the regions is a long way behind that in central London (+11% in 2014), there are some bright spots. Brighton, Cambridge, Cardiff, Edinburgh, Reading and Manchester all saw office rental growth of 3% or more in 2014 (source: Investment Property Databank (IPD)). The main impetus has come from professional services, IT and bank back offices. We expect office rental growth in the regions will probably continue at 2-4% a year through 2015-2016, and 1-2% a year from 2014-2019 (see chart). We are cautious partly because some cities still have quite high vacancy rates and partly because there are likely to be further cuts in public sector jobs after the general election.

Despite strong consumer spending, large parts of the retail property market remain in the doldrums. While certain retailers are expanding (e.g. discount stores and restaurants), this growth is outweighed by store closures (e.g. banks, bookmakers, fashion and phone shops), reflecting the rapid increase of mobile banking, internet gambling and online sales. Online clothing and footwear sales jumped by 17% in 2014 (source: ONS). Moreover, the recent U-turn in the expansion plans of the major supermarkets, which are now closing or sub-letting space in their big stores, will add to out-of-town vacancies. The Javelin Group of retail consultants estimates that the amount of space in hypermarkets and superstores could shrink by 25% over the next five years.

In the industrial sector, most regions are now seeing steady rental growth of 2-3% a year. The market is benefiting from both the growth in express parcels generated by online retailing and a cyclical recovery in small and medium sized enterprises (SMEs). The number of SMEs has grown by 10% in the last three years (source: Department for Business Innovation & Skills). In addition, the amount of space in standard industrial units has fallen over the last decade as estates have been redeveloped for housing, particularly in London and the South East.

Investment Market

The investment market was very busy in 2014 and the total value of real estate transactions at £63 billion matched the previous annual record set in 2006 (source: Property Data). Central London offices were once again the most liquid part of the market, but last year also saw a pick-up in shopping centre and industrial transactions, along with a number of deals in student accommodation and healthcare. Although the fall in oil prices means that interest from Middle Eastern and Russian buyers is likely to wane in 2015, we expect that Japanese and Taiwanese pension funds and Chinese insurers will become more active.

As a result of strong competition in the investment market, the IPD all property initial yield fell to 5.3% at the end of February 2015, its lowest level since early 2008. On the one hand, this looks reasonable in the context of 10-year gilt yields at 1.5% and given prospects for steady rental growth over the next few years. Our pricing model suggests that the gap over gilts could narrow to 1.5-2.0% without putting real upward pressure on real estate yields. On the other hand, we are aware that certain parts of the investment market have got ahead of occupier fundamentals (e.g. prime West End offices, shopping centres and distribution warehouses). We are therefore tilting our portfolios towards those assets and sectors (e.g. alternatives and multi-let industrials) which should be relatively resilient if investor sentiment turns.

Outlook

The latest IPF (Investment Property Forum) Consensus Forecast suggests that commercial real estate could achieve total returns of 12% in 2015. Our view is that total returns in 2015 should probably be closer to 15%, although the more yields fall this year, the greater the risk of a potential correction in the future.

The other immediate uncertainty is the general election and the risk that business confidence will be shaken, either by the prospect of an EU referendum, or by large increases in corporation tax and the minimum wage. The former could be problematic for London, given it is a hub for international financial and business services, whereas a jump in the minimum wage would particularly affect care homes, hotels, leisure, pubs and retailers.

Continental European Property Market Summary

Economy

After a pause in the middle of last year, the eurozone economy is gathering strength. All the major economies except Italy grew in the fourth quarter of 2014 and the recent rally in business confidence suggests that companies are coming to terms with the Ukraine crisis and the risk of Greece leaving the euro. Schroders expects the strongest levels of growth from Spain and Germany at 2% per annum through 2015-2016. Conversely, growth in France and Italy is expected to be weaker, at 1% and 0.6% per annum, respectively. The collapse in oil prices and low inflation has boosted households' real incomes and most eurozone governments have now completed or eased their austerity programmes. In addition, the start of quantitative easing (QE) has cut borrowing costs in southern Europe and triggered a sharp depreciation in the euro versus the dollar and sterling, which will benefit exporters.

Occupational Market

Office markets in continental Europe fall into two main camps. In the big German cities and Stockholm, employment in finance, business services and new media & IT has been growing steadily since 2011, vacancy rates have fallen below equilibrium levels and office rents are rising in most locations. Conversely, in Brussels, Copenhagen, Madrid and Paris, a lot of recent lettings have involved occupiers rationalising their space in order to cut costs, resulting in vacancy rates above their long-term averages. However, even in these cities there are attractive sub-markets with low vacancy rates (e.g. southern Paris, the Centre and Leopold districts of Brussels, and Madrid's central business district) and we expect them to lead the upswing in rents as demand recovers later this year.

On a positive note, there are no signs that deflation is leading consumers to defer purchases. Eurozone retail sales grew by a healthy 3.7% in volume terms over the 12 months to January. However, demand for retail space remains tepid because many retailers are focusing on their online offering and improved logistics. Online accounted for 10% of German retail sales in 2014, up from 4% in 2010, and this trend is echoed in many other eurozone countries. The strongest parts of retail real estate are big dominant shopping centres, major tourist destinations, small shopping centres with a strong food offer and big "boxes" in towns with good population growth and active housing markets.

After a prolonged period of oversupply, the logistics market has got back to equilibrium. Take up in western Europe rose by 10% in 2014, as retailers and logistics operators reconfigured their supply chains and prime rents rose slightly in Dusseldorf, Frankfurt and Rotterdam. Looking ahead, our real concern is that speculative development will bounce back quickly, given short lead times. We therefore favour mid-sized warehouses close to big cities, where supply is restricted.

Investment Market

The total value of investment transactions in continental Europe rose by 10% in 2014 to €145 billion (source: RCA) as liquidity rippled out from the core markets of France and Germany to Benelux, Italy, Portugal and Spain. The majority of capital invested was equity, but the last year has seen a definite increase in real estate lending, as finance costs have fallen further to rates of 1-2% and new entrants, such as insurers and debt funds, have come into the market.

The weight of capital means that prime office and shopping centre yields have fallen to 4-5% in most major cities in western Europe, while yields on prime logistics-related properties are down to 6%. This might look rational in the context of 10-year government bond yields at 0.2-1.25%, but investors are increasingly concerned that pricing of prime assets has become indiscriminate. We see better value in central business district offices that have short leases, or which can be repositioned, offices in mixed-use areas with a good range of amenities, convenience retail, mid-sized warehouses around big cities and certain alternative types (e.g. hotels). Yields on these assets are typically 0.5-2.0% above those on prime assets and we expect them to outperform over the medium-term, assuming the eurozone economy continues to grow.

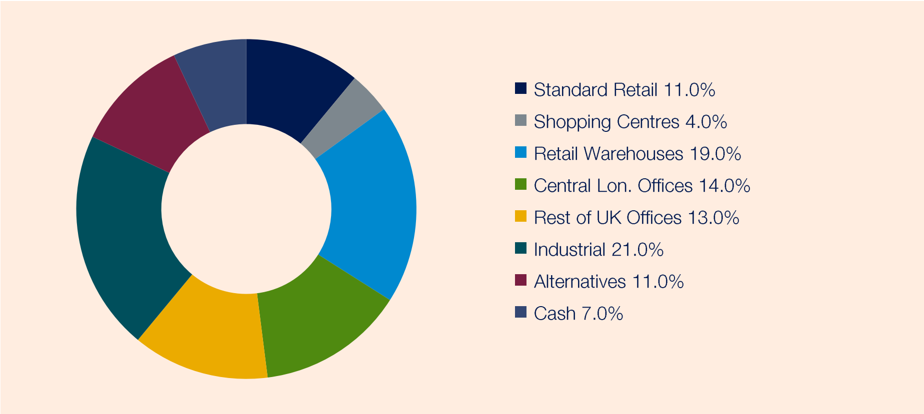
Outlook

We forecast total returns on average investment grade European real estate will be 7-9% per year between end-2014 and end-2018. Total returns and capital growth are likely to be front loaded, benefiting from yield compression in 2015-2016 and rental growth from 2016 onwards.

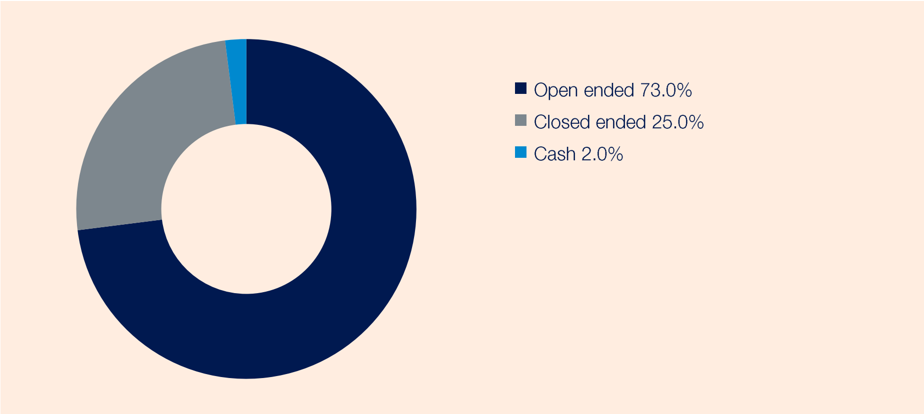
The main upside risk is that the low financing costs and the weight of money targeting real estate triggers an even bigger fall in yields through 2015-2016, boosting total returns in the short-term. The main downside risks are increased uncertainty surrounding the stability of the eurozone following a potential Greek exit of the euro and elections in Spain, or that deflation becomes entrenched.

Portfolio Analysis

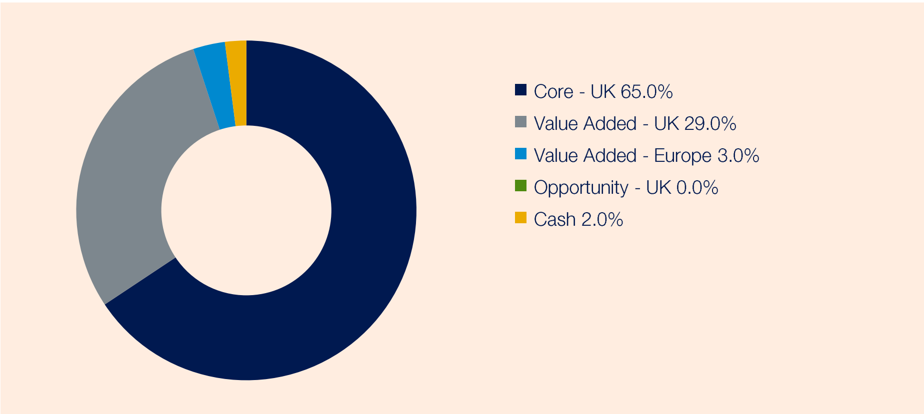
UK Portfolio sector exposure (including cash held by underlying property funds)



Open/closed-ended exposure



Fund style exposure



Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 31 Mar 2015. Totals subject to rounding. Cash included looks through cash in underlying holdings in the top chart.

Largest Stock Positions

at 31 Mar 2015

Largest Positions	Style	% of NAV
BLACKROCK UK PROPERTY FUND	Core	13.2
SCHRODER UK REAL ESTATE FUND GBP I INCOME (GROSS)	Core	12.7
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	6.9
INDUSTRIAL PROPERTY INVESTMENT FUND	Value-added	6.3
SCHRODER REAL ESTATE REAL INCOME FUND A UNITS	Value-added	5.8
METRO PROPERTY UNIT TRUST	Core	5.3
HERCULES UNIT TRUST	Value-added	4.1

Full details of holdings can be found in the Appendix

Performance Review

The portfolio returned 2.5% over the first three months of 2015, which was 0.3% below the benchmark. Central London and industrial specialist funds have been positive drivers of performance, while cash and reinvestment costs associated with a high volume of transactions over the reporting period (£5.8 million) have temporarily held back returns.

The UK portfolio (97% portfolio value) continues to perform well, outperforming the benchmark by 1.4%, 0.8% pa and 0.5% pa over the past one, three and five years respectively. The portfolio's Continental European holding produced positive performance over the past quarter (10.9% q/q in Euros) but remains a drag to total returns in aggregate over the past five years in particular.

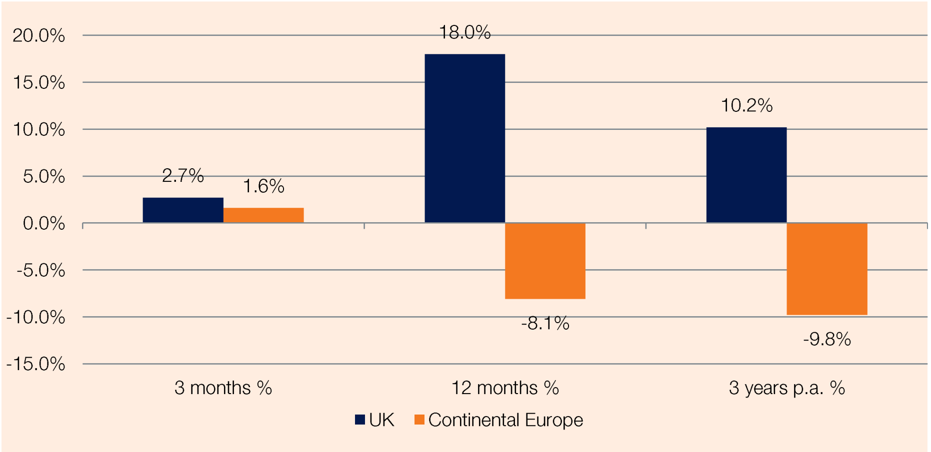
The portfolio's industrial, west end office and alternative real estate exposure have been key positive drivers to performance over the past quarter, one and three year periods. The Industrial Property Investment Fund has benefitted from increasing occupier demand as economic conditions have improved, in addition to strong investor appetite for the sector given its relatively high income return. Similarly, WELPUT has benefitted from strong rental growth to the extent that we have sold down some exposure to lock in profits and move the portfolio modestly under-weight to central London offices. In the alternative sectors the Real Income Fund has benefitted from increasing valuations in the student accommodation sector.

Hercules Unit Trust has been the largest negative contributor to performance over the past three months, whilst cash and transaction costs have also been dilutive to performance. However, this impact will reduce as the level of investment activity within the portfolio moderates from the high levels seen over the past six months.

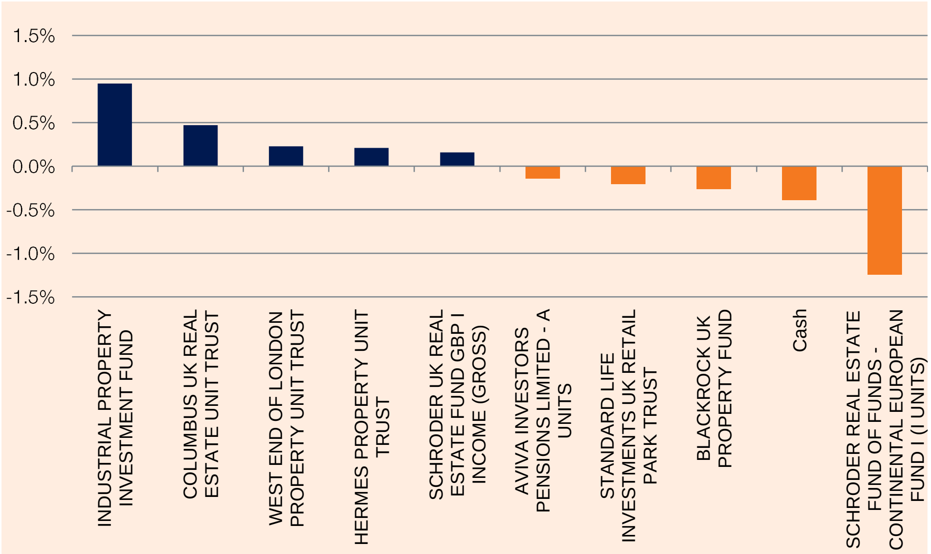
In Europe, the Continental European Fund I (CEF I) produced a positive return of 10.9% in euros in the first quarter of 2015. This has been driven mainly by the sale of CG Malls above valuation and valuation uplifts in AXA European Real Estate Opportunity Fund II, NREP Logistics and Immobiliare Grande Distribuzione. However, a reduction in Euro/Sterling of 6.8% over the quarter served to offset some of these gains.

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

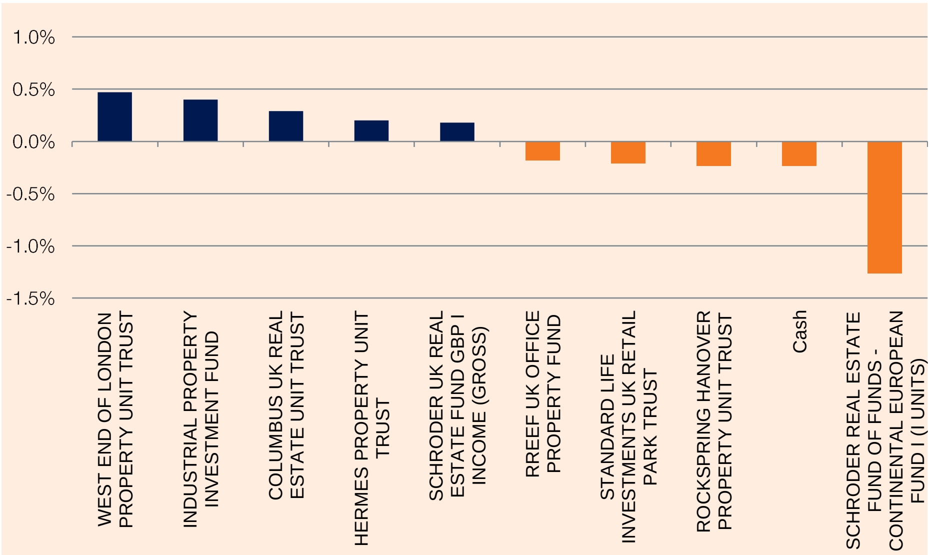
Total return by region
Periods to end 31 Mar 2015



Total return attribution relative to benchmark top & bottom five contributors
12 months to 31 Mar 2015



Total return attribution relative to benchmark top & bottom five contributors
3 years to 31 Mar 2015



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

The past three months have been active for the portfolio with £5.8m of transactions completed. Despite the volume of trades, the portfolio's uncommitted cash position stood at £0.1m (0.1% portfolio value) at quarter end. As a consequence we expect the negative impact of cash and transaction costs on portfolio returns to diminish over coming months.

Purchases

Fund	Investment GBP	No. of units	Entry cost/(discount) (%)
ASHTENNE INDUSTRIAL FUND UNIT TRUST	987,463	2,129,274.00	4.0
BLACKROCK UK PROPERTY FUND	1,503,745	38,206.00	-0.1
MAYFAIR CAPITAL PROPERTY UNIT TRUST	392,760	333.13	3.4
METRO PROPERTY UNIT TRUST	999,999	2,371.69	3.3

Sales

Fund	Disinvestment GBP	No. of units	Realised loss/gain GBP
ASHTENNE INDUSTRIAL FUND UNIT TRUST	49,322	n/a	n/a
SCHRODER REAL ESTATE FUND OF FUNDS - CONTINENTAL EUROPEAN FUND I (I UNITS)	1,105,741	n/a	-128,294
SCHRODER REAL ESTATE FUND OF FUNDS - CONTINENTAL EUROPEAN FUND I (I UNITS)	88,659	n/a	-6,599
WEST END OF LONDON PROPERTY UNIT TRUST	354,618	-484.05	212,665
WEST END OF LONDON PROPERTY UNIT TRUST	406,246	-554.53	243,627

Commentary on Activity

Purchases	
Ashtenne Industrial Fund	We added to this existing holding over the quarter by acquiring units on the secondary market at a 4% premium to net asset value (NAV). The acquisition increased the portfolio's exposure to industrials towards the level or our house view, while increasing exposure to a fund with an attractive 7.5% income distribution yield.
BlackRock UK Property Fund	Income and sale proceeds were recycled into this existing balanced fund on the secondary market at mid price.
Mayfair Capital PUT	Funds were drawn over the quarter to facilitate the purchase of two offices in Crawley and Redhill and a diverse portfolio of twelve other assets following an in specie transfer. The portfolio purchase had the benefit of increasing the fund's exposure to the industrial sector, reducing single asset and single tenant concentration, increasing the portfolio's average unexpired lease term, reducing the vacancy rate and improving the overall quality of income.
Metro PUT	Funds were drawn over the quarter to purchase a car dealership in Maidstone. The asset is let on a new 25-year lease with annually compounded RPI uplifts, reviewable every 5 years, collared and capped at 1.5% and 4% per annum, respectively.

Sales	
West End of London Property Unit Trust	Proceeds were received following redemptions that were served in July 2014. It has been our stated strategy to reduce exposure to the central London office market following a prolonged period of very strong returns.

Return of Capital	
Ashtenne Industrial Fund	The fund continues to sell assets in line with its business plan and has returned capital to unitholders.
Schroder Real Estate Fund of Funds - Continental European Fund I	Distribution in Jan: CEF I continues to distribute capital in line with receipt of proceeds from underlying investments. Over Q4 2014 AXA European Added Value Fund and FREO Germany II Partners returned capital following the sale of assets. Distribution in Feb: CEF I declared an interim capital distribution of over 20% of NAV in February 2015. The distribution consisted of proceeds from the sale of IRUS European Retail Property Fund on the secondary market at a premium to valuation and a further tranche of capital received from Corestate German Residential Fund.

Redemptions Outstanding

Fund	Curr	Est. proceeds	No. of units	Date proceeds expected	Notice date
Standard Life Investments Retail Warehouse Fund	GBP	4,248,018	4327	H2 2015	September 2014

Portfolio Commitments

Fund	Curr	Initial commitment	Drawn	Balance	Latest possible drawdown
Mayfair Capital Property Unit Trust	GBP	1,800,000	392,760	1,407,229	n/a
Multi-let Industrial Property Unit Trust	GBP	1,500,000	547,274	952,726	n/a

Strategy

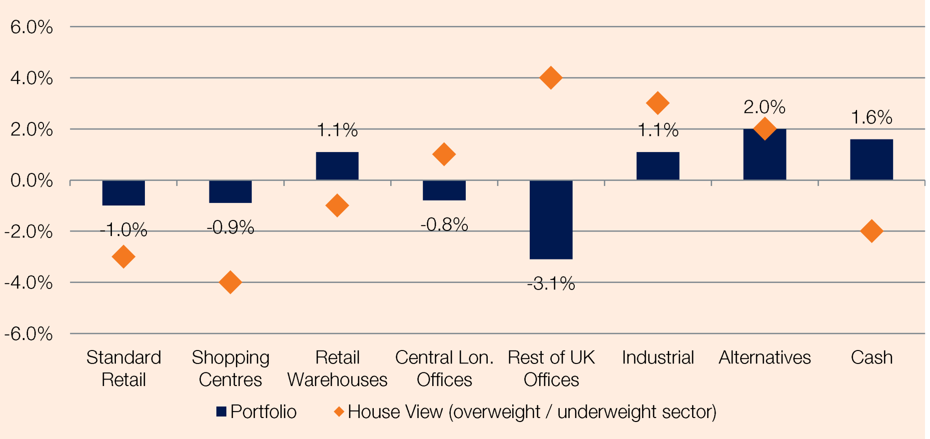
We have been allocating money returned from Central London and Continental Europe to balanced funds, where capital can be deployed efficiently and diversified across all mainstream sectors.

Investment has also been earmarked for two bespoke strategies we have created exclusively for our clients: Mayfair Capital PUT and Multi-Let Industrial PUT. Both of these investments reflect our aim to position the portfolio for income which we expect will be the key driver of returns over the coming three year period. Our preference is for industrials, where yields are attractive and where supply/demand fundamentals are positive. In addition we continue to favour alternatives where rental growth is less correlated with the performance of the economy, income yields are attractive and total returns are relatively resilient.

We are looking to increase our exposure to regional opportunities, which look set to benefit from the broadening economic recovery. This would balance the current portfolio bias to London and the South East. Our preference is for office and industrial assets.

Although retail sales are increasing, much of the growth is online. Vacancy rates remain high across many locations and the prospects for rental growth are dim. In our portfolios, our focus continues to be on local convenience retail, which is benefiting from the switch to "small basket shopping" and retail warehouses, which provide retailers with efficient and affordable space.

UK portfolio sector weightings relative to benchmark



Source: Schroders & AREF/IPD UK Quarterly Property Fund Index, 31 Mar 2015

Governance

Investment Resolution	Date	Voting Recommendation
None		

Appendix

Investment Restrictions

Parameters	Restriction	Current status
Max. exposure to any common investment fund (CIS)	30%	13.2%
Max. in Schroder in-house funds (Manager & Adviser)	60%	17.7%
Min. exposure to open-ended funds	45%	75.4%
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%	3.1%

Source: Schroders, to 31 March 2015.

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 31 Dec 2014 GBP	Value at 31 Mar 2015 GBP	Portfolio Value %
AVIVA INVESTORS PENSIONS	Core	10,011,486	10,264,084	8.4
BLACKROCK UK PROPERTY FUND	Core	14,461,291	16,183,538	13.2
HERMES PROPERTY UNIT TRUST	Core	10,247,420	10,468,399	8.6
MAYFAIR CAPITAL PROPERTY UNIT TRUST	Core	7,960,320	8,440,659	6.9
METRO PROPERTY UNIT TRUST	Core	5,339,001	6,420,675	5.3
SCHRODER UK REAL ESTATE FUND GBP I INCOME (GROSS)	Core	15,189,158	15,554,010	12.7
STANDARD LIFE POOLED PENSION PROPERTY FUND	Core	12,270,570	12,551,232	10.3
Sub total Core		**75,479,245**	**79,882,596**	**65.4**
ASHTENNE INDUSTRIAL FUND UNIT TRUST	Value Add	990,149	1,898,952	1.6
COLUMBUS UK REAL ESTATE UNIT TRUST	Value Add	2,245,804	2,283,788	1.9
HERCULES UNIT TRUST	Value Add	5,140,009	5,068,719	4.1
INDUSTRIAL PROPERTY INVESTMENT FUND	Value Add	7,324,157	7,664,122	6.3
LOCAL RETAIL FUND	Value Add	2,152,993	2,156,446	1.8
MULTI-LET INDUSTRIAL PUT	Value Add	525,769	542,822	0.4
SCHRODER REAL ESTATE REAL INCOME FUND A UNITS	Value Add	6,960,026	7,117,746	5.8
STANDARD LIFE INVESTMENTS UK RETAIL PARK TRUST	Value Add	4,270,433	4,248,018	3.5
WEST END OF LONDON PROPERTY UNIT TRUST	Value Add	5,628,058	5,059,567	4.1
Sub total Value Add		**35,237,397**	**36,040,179**	**29.5**
GRESHAM REAL ESTATE FUND II LP	Opportunity	11,889	13,544	0.0
Sub total Opportunity		**11,889**	**13,544**	**0.0**

Portfolio Valuation

MID and NAV values

Fund	Description	Value at 31 Dec 2014 GBP	Value at 31 Mar 2015 GBP	Portfolio Value %
SCHRODER REAL ESTATE FUND OF FUNDS - CONTINENTAL EUROPEAN FUND I (I UNITS)	Europe	4,960,812	3,807,809	3.1
Sub total Europe		**4,960,812**	**3,807,809**	**3.1**
GBP Cash	Cash	3,459,031	2,458,297	2.0
GBP Income Receivables	Cash	62,011	0	-
Sub total Cash		**3,521,042**	**2,458,297**	**2.0**
Total		**119,210,385**	**122,202,426**	**100.0**

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 March 2015.

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

HYMANS ROBERTSON

London Borough of Tower Hamlets Pension Fund

Review of Investment Managers' Performance for the First Quarter of 2015

Prepared By:

Matt Woodman - Senior Investment Consultant
Mike Burns - Investment Analyst

For and on behalf of Hymans Robertson LLP

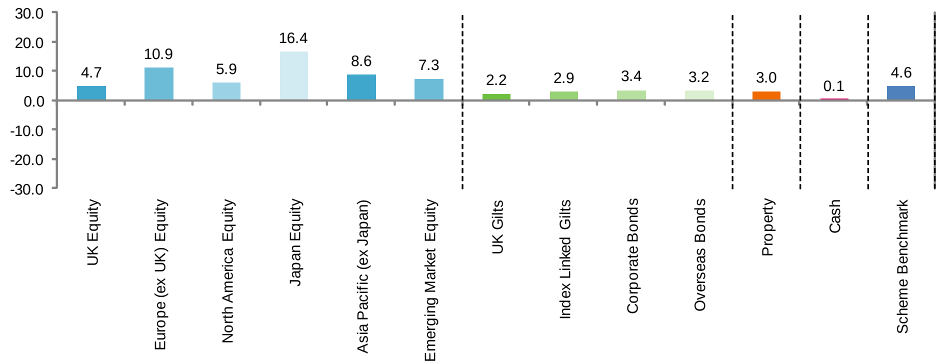
June 2015

Contents

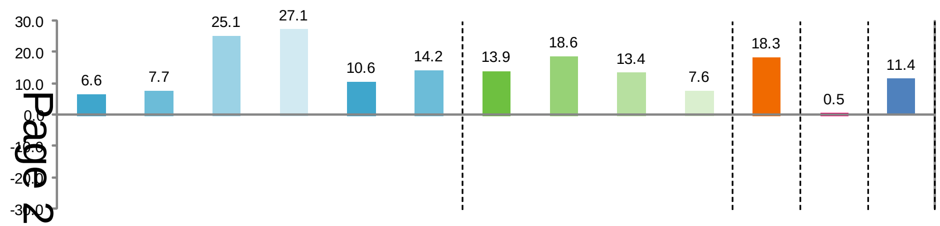
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Historic Returns for World Markets to 31/03/2015

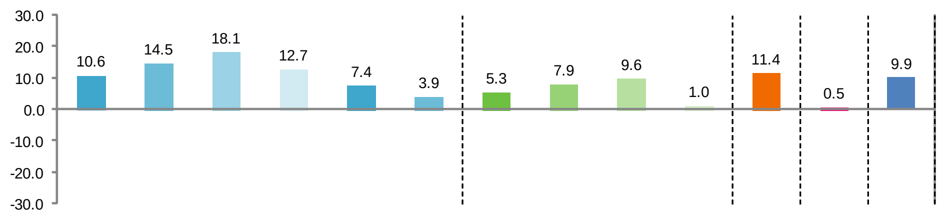
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

Global equity and bond markets rose during the first quarter of 2015. A major support was lower inflation, which lessened investors' concerns about short-term interest rates being raised, at least in the immediate future.

Economic news was varied. Although the US has enjoyed higher economic growth than other major markets, news during the quarter was a little disappointing. Poor weather and the impact of the strong dollar were contributory factors. In contrast, data relating to the Eurozone indicated some improvement, albeit from a very low base. The European Central Bank launched a programme of quantitative easing in March. This will result in the purchase of up to €1.1tn of government and private debt over the next eighteen months.

In the UK, official estimates for economic growth in 2014 were revised from 2.6% to 2.8%, the highest rate since 2007, and estimates for 2015 remain strong. In February, the Governor of the Bank of England expressed the view that inflation could temporarily fall below zero because of falling oil prices.

A recurring theme throughout the quarter was when and by how much the US might start to 'normalise' short-term interest rates from the current record low. This difficult task has to be handled with extreme care in the US, and ultimately in other major financial centres.

Key events during the quarter included;

Global Economy

· Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
· UK inflation (CPI) fell to 0% in February (lowest since records started in 2008);
· Modest deflationary pressures persisted in the Eurozone throughout the quarter;
· The US Central Bank gave mixed signals over potential rises in short-term interest rates;
· Japan's economic growth remained subdued, after emerging from recession in late 2014;
· China set 2015 growth target at 7.0%, lower than that achieved (7.4%) in 2014.

Equities

· The strongest sectors relative to the FTSE All World Index were Health Care (+5.4%) and Consumer Services (+2.6%); the weakest were Utilities (-7.0%) and Oil & Gas (-5.4%);
· Corporate activity included $50bn merger of Heinz and Kraft Foods (US) and £10.3bn acquisition of O2 (UK) by Hutchison Whampoa of Hong Kong.

Bonds and currencies

· The Euro fell to 11 year low against US$, unsettled by Eurozone quantitative easing;
· German five year bonds sold at a negative yield, joining Denmark, Finland and Netherlands.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Portfolio Summary

Valuation Summary [1]

	Values (£m)				
Asset Class	Q4 2014	Q1 2015	Actual Proportion %	Target Proportion %	Difference %
Global Equity	659.0	715.0	62.6	61.0	1.6
Bonds	157.1	159.2	13.9	17.0	-3.1
Property	115.7	119.7	10.5	12.0	-1.5
Alternatives	97.4	101.3	8.9	10.0	-1.1
Cash	11.8	5.8	0.5	0.0	0.5
Trustee Bank Account	41.5	41.9	3.7	0.0	3.7
Total inc. Trustee Bank Account	**1082.5**	**1142.9**	**100.0**	**100.0**	

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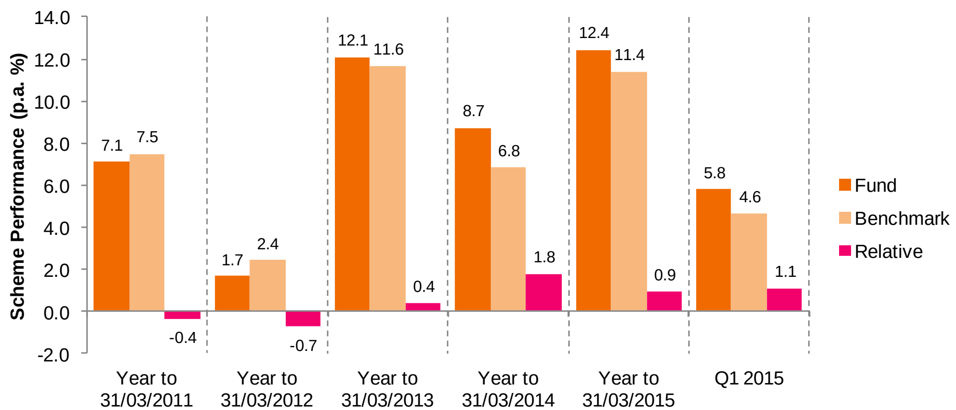
Comments

Performance was ahead of the benchmark over the quarter, mainly due to the strong performance of the two global equity mandates (Baillie Gifford and GMO) and the two absolute return funds (Ruffer and Baillie Gifford). As before, the Absolute Return Managers' benchmarks include their respective performance targets.

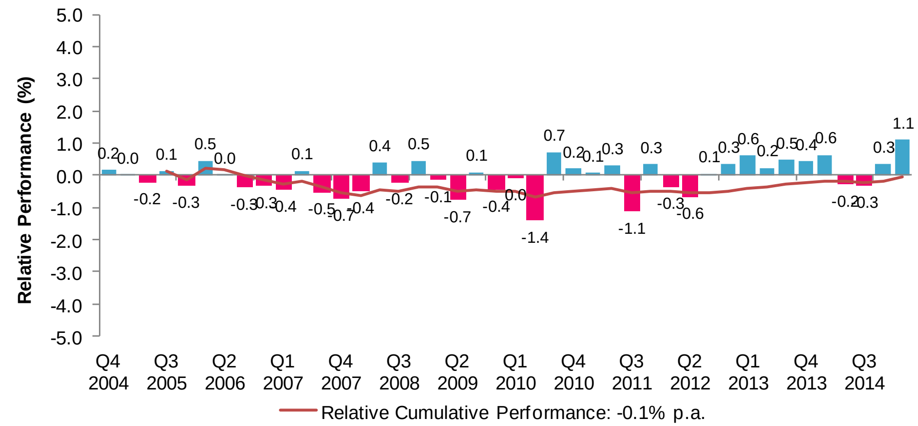
The managers' target benchmark allocations also changed during Q4 2014, resulting in the Officers and Advisers rebalancing 2% of Fund assets from GMO during that quarter. As at the end of Q4 2014, the proceeds from this disinvestment are being temporarily held as cash for later reinvestment to rebalance the overall allocation.

The Fund remains close to its strategic asset allocation (within the +/-5% tolerance ranges around the 83% "growth and equity like", 17% Bonds target), although the underweight to Investec's bond mandate continues to grow resulting in a 5.3% underweight to this mandate (offset to some extent by the overweight position in index-linked gilts).

Performance Summary [2] [i]



Relative Quarterly and Relative Cumulative Performance [3] [ii]



[1] Cash is that held within Schroders Property and Baillie Gifford & GMO Global Equity Mandates, [2] Gross of fees, [3] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

Manager Summary

Manager Valuations

Manager	Value (£m) Q4 2014	Q1 2015	Actual Proportion %	Target Proportion %	Difference %
Baillie Gifford Global Equity	199.4	217.7	19.0	18.0	1.0
GMO Global Equity	251.8	274.4	24.0	23.0	1.0
Legal & General UK Equity	216.1	226.3	19.8	20.0	-0.2
Baillie Gifford Diversified Growth Fund	49.1	50.7	4.4	5.0	-0.6
Ruffer Total Return Fund	48.3	50.6	4.4	5.0	-0.6
Investec Bonds	99.5	99.6	8.7	14.0	-5.3
Legal & General Index-Linked Gilts	57.7	59.5	5.2	3.0	2.2
Schroder Property	119.2	122.2	10.7	12.0	-1.3
Trustee Bank Account	41.5	41.9	3.7	0.0	3.7
Total	**1082.5**	**1142.9**	**100.0**	**100.0**	0.0

Manager Summary [1]

Manager	Investment Style	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *				
Baillie Gifford Global Equity	Active	05 Jul 2007	MSCI AC World Index	+2% to 3% p.a. (Gross) over rolling 3-5 year periods					●
GMO Global Equity	Quantitative	29 Apr 2005	Bespoke	1.5% (net)		●			
Legal & General UK Equity	Passive	02 Aug 2010	FTSE All Share Index	Track Benchmark					●
Baillie Gifford Diversified Growth Fund	Diversified Growth	22 Feb 2011	UK Base Rate	Outperform by 3.5%p.a. (net) over rolling 5 years with annual volatility of less than 10%					●
Ruffer Total Return Fund	Absolute Return	28 Feb 2011	Cash	Preserve capital and deliver consistent, positive returns over longer term					●
Investec Bonds	Target Return	26 Apr 2010	3 Month LIBOR	Outperform by 2%p.a.				●	
Legal & General Index-Linked Gilts	Passive	02 Aug 2010	FTSE Index-Linked Over 5 Years	Track Benchmark					●
Schroder Property	Fund of Funds	30 Sep 2004	IPD All Balanced Funds Weighted Average	+0.75% (Net)				●	

* For information on our manager ratings, see individual manager pages

Key:- Replace - On-Watch - Retain

[1] In this report, we show the absolute return manager's benchmarks including performance target. For Ruffer, we show a benchmark the same as Baillie Gifford's to enable comparison between the two managers. The Trustee Bank Account balance as at 31 March 2015 includes assets disinvested from GMO in December 2014.

Performance Summary Net of fees

Performance Summary [1] [i]

Period	Measure	Baillie Gifford Global Equity	GMO Global Equity	Legal & General UK Equity	Baillie Gifford Diversified Growth Fund	Ruffer Total Return Fund	Investec Bonds	Legal & General Index-Linked Gilts	Schroder Property	Total Fund
3 Months (%)	Absolute	9.1	8.9	4.7	3.2	4.8	0.1	3.3	2.5	5.7
	Benchmark	7.6	7.5	4.7	1.0	1.0	0.6	3.3	2.8	4.6
	Relative	1.4	1.4	0.0	2.2	3.7	-0.6	0.0	-0.3	1.0
12 Months (%)	Absolute	18.9	13.6	6.6	8.0	12.4	1.9	20.9	16.0	12.1
	Benchmark	19.0	15.0	6.6	4.1	4.0	2.5	21.0	16.6	11.4
	Relative	-0.1	-1.2	0.0	3.7	8.1	-0.6	0.0	-0.6	0.7
2 Years (% p.a.)	Absolute	15.5	14.1	7.7	4.5	5.4	0.9	7.6	12.7	10.3
	Benchmark	12.7	11.3	7.7	4.0	4.0	2.5	7.5	14.2	9.1
	Relative	2.5	2.5	0.1	0.5	1.3	-1.5	0.0	-1.3	1.1
3 Years (% p.a.)	Absolute	16.6	13.8	10.7	6.6	7.2	1.0	8.9	8.5	10.7
	Benchmark	14.1	13.3	10.6	4.0	4.0	2.6	8.9	9.4	9.9
	Relative	2.2	0.4	0.1	2.5	3.1	-1.5	0.0	-0.8	0.7

[1] Performance, for periods up to 5 years (gross of fees) is shown in the appendix. Baillie Gifford DGF, Ruffer and Investec benchmarks include outperformance target.

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

GMO Global Equity

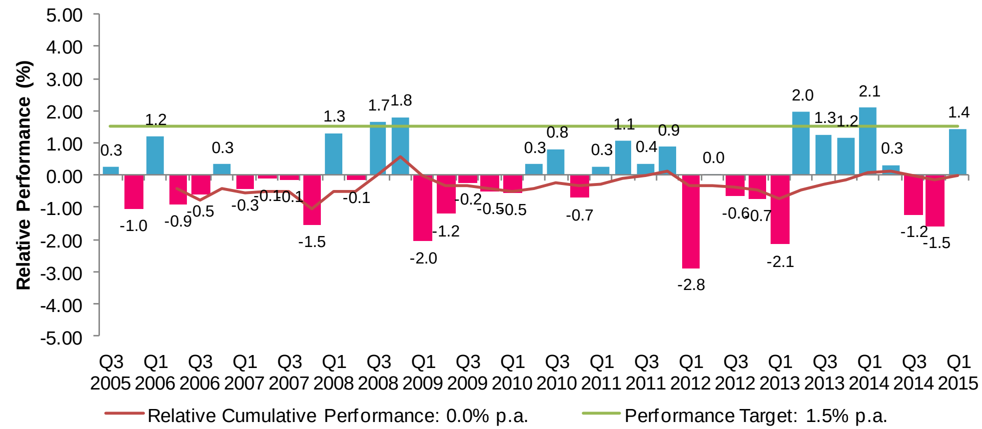
HR View Comment & Rating

We rate GMO's global equity capability at '2 – Sell, review options'. At this point we are maintaining our negative rating on GMO's quantitative, value tilted strategies, having downgraded to '2' as a result of substantive process changes implemented over 2013 / 2014 and our lack of conviction that GMO's 7 year asset class forecasts can be successfully expanded and adapted to drive allocation decisions on its long only equity strategies.

Following the process changes implemented in 2013/2014, the Officers and Advisers undertook a substantial review of the GMO portfolio and decided to maintain the mandate for the current time given the diversification offered against Baillie Gifford and costs of any transition. However, the portfolio remains on close watch for a further potential review of the appointment.

There were no relevant business issues reported over the period.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

The global equity mandate outperformed the benchmark again over the quarter, delivering a strong absolute return of 9.0% gross of fees. The two previous quarters of underperformance preceded by a period of strong outperformance, highlight the volatility and long term nature of this portfolio.

The portfolio's allocation to Japanese value stocks proved beneficial over Q1 2015, both due to the overweight allocation and also positive stock selection. Stock selection also proved successful in the European market.

As in previous quarters, the portfolio remains overweight to high quality US stocks, however during Q1 2015 this detracted from returns as this segment underperformed the broader US market. The effect of individual stock selection in this segment also detracted from relative returns. The fund's emerging market exposure also proved to be a marginal drag on returns, with Brazilian stocks performing poorly on the back of continued concerns about political and economic stability in the country.

Performance Summary [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	9.0	13.8	14.1	9.9
Benchmark	7.5	15.0	13.3	9.9
Relative	1.4	-1.0	0.7	0.1

* Inception date 29 Apr 2005.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.7	1.5

[1] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

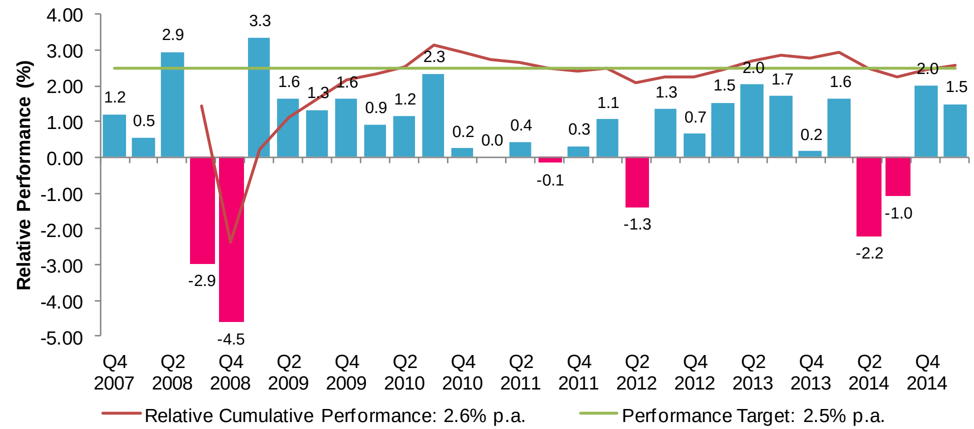
Baillie Gifford Global Equity

HR View Comment & Rating

We rate Baillie Gifford Global Alpha at '5 – Preferred strategy'. This remains a very consistent organisation and team. Portfolios of c.100 stocks have high active share, low turnover and a quality/growth style which has become slightly less pronounced over the past few years.

Baillie Gifford has managed the £1bn Monks investment trust for decades and in March it was announced that the Global Alpha team would take over direct management of the assets. Global Alpha is closed to non-Baillie Gifford clients. On 1 April the firm announced that Charles Plowden, joint senior partner and one of the three co-managers on the firm's Global Alpha Equity strategy, would be taking a 3 month sabbatical from the end of April 2015. Sabbaticals are not uncommon at Baillie Gifford; in the last couple of years James Anderson, head of the Long Term Global Growth equity team took a six month sabbatical. During Plowden's absence the Global Alpha assets will continue to be managed by co-portfolio managers, Malcolm MacColl and Spencer Adair. In addition, Jenny Davis, an analyst with the Global Alpha team, will step up as the third decision maker while Plowden is away. We are comfortable with both these announcements.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

The Baillie Gifford Global Alpha Fund achieved a performance of 9.2% (gross of fees), outperforming the benchmark by 1.5%. Since inception, the Fund has outperformed the benchmark by 2.4% p.a.

Amongst the largest contributors to performance was Naspers, the South African pay TV and social media company. Naspers has a significant stake in the Chinese gaming site, Tencent, to which its share price is highly correlated. Tencent released strong fourth quarter results which showed strong increases in revenues and net income. This was driven by the growing video advertising revenue. The company's market share remains at very high levels with around 40% of Chinese mobile gaming users, and its pipeline of future games appears to be solid.

Anthem, the US health insurance business, had a good quarter following stronger than expected earnings results for the final quarter of 2014. Positive news that its acquisition of Simply Healthcare in Florida will almost certainly go ahead, also boosted the company's share price.

The two largest detractors during the quarter were Apple and Baidu. The Fund does not hold Apple, the US Technology company, and the stock's strength over the reporting period has hindered performance relative to the benchmark. Baidu, the Chinese online search engine, released results slightly below consensus due to higher than expected costs, including investment in online payments. The company has a dominant position in mobile search, and the manager believes that accelerating 4G Smartphone penetration will lead to a significant rise in mobile data usage.

Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	9.2	19.3	17.1	9.9
Benchmark	7.6	19.0	14.1	7.3
Relative	1.5	0.3	2.7	2.4

* Inception date 05 Jul 2007.

3 Year Relative Return

Actual % p.a.	Target % p.a.
2.7	2.5

[1] Gross of fees. GMO benchmark is TH custom benchmark up until 17 November 2014 and MSCI ACWI thereafter, [2] Since inception performance in table differs from chart above as chart excludes initial part quarter.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Legal & General UK Equity

HR View Comment & Rating

We rate Legal and General Investment Management's market cap index-tracking equity capability at '5 – Preferred strategy'.

In addition to the leadership changes announced previously, including the retirement later this year of Ali Toutounchi, Managing Director Index Funds, LGIM has also announced in March the departure of Joseph Molloy, Head of Index Equities, who has subsequently joined HSBC. LGIM is currently assessing internal and external candidates to replace Molloy. Due to the continuity of a systematic investment process such as indexation, we are not changing our rating at this point. However, there is clearly significant change taking place in the senior management at LGIM and in particular we will be keeping a close eye on the manager's progress in finding replacements for Molloy and, eventually, Toutounchi.

Performance Summary [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	6.7	10.7	10.5
Benchmark	4.7	6.6	10.6	10.3
Relative	0.0	0.1	0.1	0.1

* Inception date 02 Aug 2010.

Comments

Performance has been broadly in line with the index benchmark (FTSE-All Share) over the quarter and since inception. Index changes, corporate actions, sampling and stocklending had little impact on returns over the period.

[1] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson

Legal & General Index-Linked Gilts

HR View Comment & Rating

LGIM announced the addition of a senior fixed income portfolio manager during Q1.

We do not see this addition as having a significant impact on the manager's passive fixed income business and we continue to rate the manager "5 - our preferred provider" for passive fixed income.

Performance Summary [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.3	21.0	9.0	11.7
Benchmark	3.3	21.0	8.9	11.7
Relative	0.0	-0.0	0.0	0.0

* Inception date 02 Aug 2010.

Comments

Performance has been in line with the index benchmark (FTSE-A Index-Linked Over 5 Years) over the quarter and since inception.

[1] Gross of fees

Source: [i] DataStream, Fund Manager, Hymans Robertson

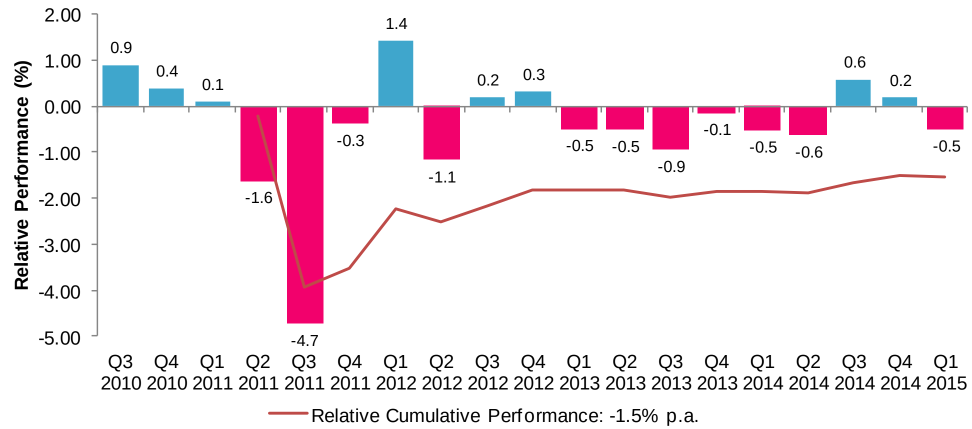
Investec Bonds

HR View Comment & Rating

No significant changes to report over the quarter to end March 2015.

The Committee may be surprised with the rating given relative performance achieved. However, Investec have retained a consistently defensive position expecting a return of market volatility that has so far not materialised. We are wary of terminating the mandate given the recent strength of markets and the defensive characteristics this allocation provides the Fund.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

Investec performed broadly in-line with the cash benchmark over the quarter. Good emerging markets performance was offset by credit positioning leading to the flat return. However, this was c0.5% behind their performance target over the quarter.

12 month performance is reasonable given Investec's performance is measured relative to target rather than benchmark. Longer term performance continues to be underneath target, partly as a result of Investec's defensive stance, but also given the very weak third quarter of 2011 that remains in the longer term numbers.

Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.1	2.2	1.4	0.2
Benchmark	0.6	2.5	2.6	2.7
Relative	-0.5	-0.3	-1.1	-2.5

* Inception date 26 Apr 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-1.1	2.0

[1] Gross of fees. Benchmark is Cash +2% p.a., [2] Gross of fees.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder Property

HR View Comment & Rating

The Schroder UK Property Fund was renamed during Q1, 2015 following the rebranding of the Schroder Property business to Schroder Real Estate Investment Management during 2014. Since 16 March 2015, the UK Balanced Property Fund has been called the Schroder UK Real Estate Fund (SREF). This change was approved by the FCA.

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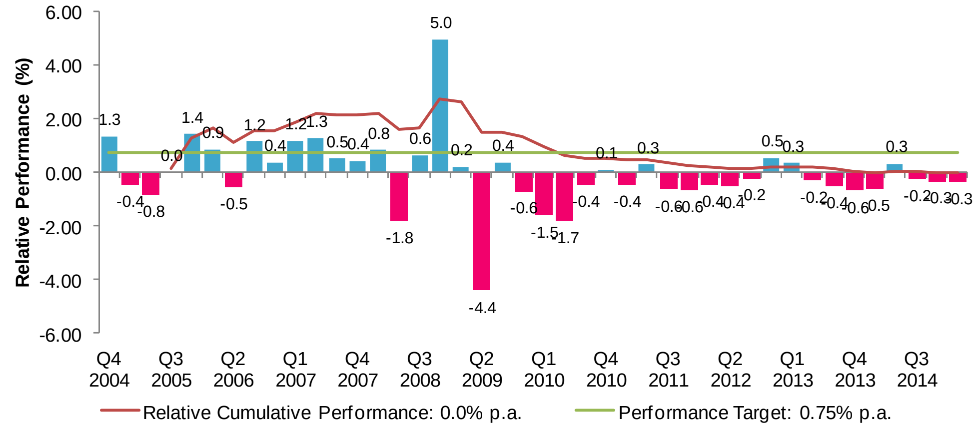
Relative Quarterly and Relative Cumulative Performance [1] [i]



Comments

The Schroder property fund slightly underperformed the benchmark over the quarter as a result of transaction costs (unavoidable costs relating to the reallocation of monies to more attractive opportunities) and the continental European holdings, that were positive performers, but lagged the strength of the UK market.

Absolute returns within the property sector have remained consistently strong since the financial crisis and Schroder have delivered a good proportion of that return. They accept that their Continental European was an error. Given the potential transaction costs involved in any manager change, we do not propose a review of the appointment.

Performance Summary [2] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.5	16.2	8.7	7.3
Benchmark	2.8	16.6	9.4	8.6
Relative	-0.3	-0.4	-0.6	-1.1

3 Year Relative Return

Actual % p.a.	Target % p.a.
-0.6	0.8

[1] Gross of fees, [2] Gross of fees.

Source: [i] Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] Fund Manager, Hymans Robertson, Investment Property Databank Limited

Baillie Gifford Diversified Growth Fund

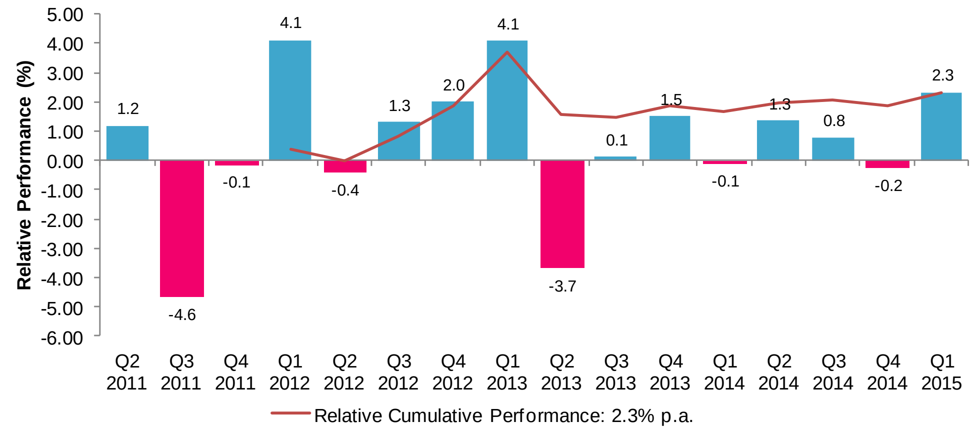
HR View Comment & Rating

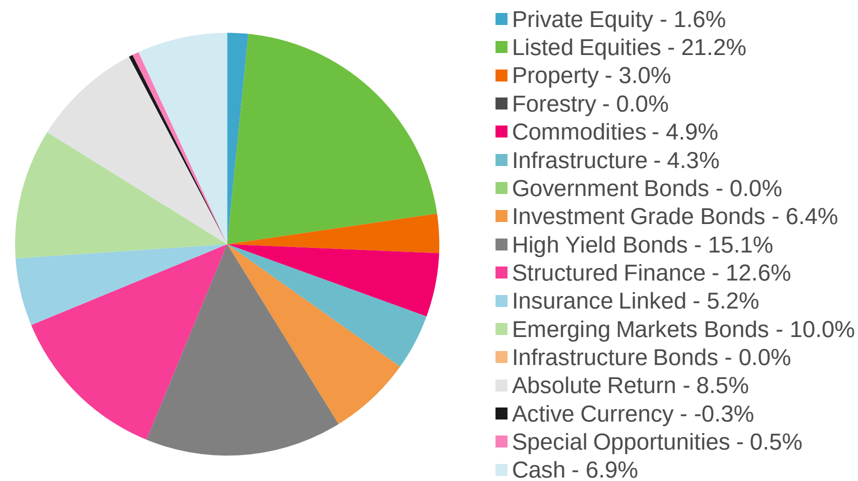
We rate Baillie Gifford at '5-Preferred manager' . During the first quarter Baillie Gifford announced that Mike Brooks, co-manager of the DGF, was resigning. Brooks has been with BG for just over 14 years and helped develop and launch the DGF with Patrick Edwardson, Head of the Diversified Growth team. It goes without saying that Brooks is a key decision maker for the fund and his departure represents a significant loss, however the fund did not rely solely on him.

Following Brooks's departure, the Diversified Growth team will consist of three fund managers (Patrick Edwardson, James Squires and David McIntyre), three analysts and two investment assistants, and will continue to be headed up by Patrick. Squires and McIntrye have been with BG for 8 and 6 years respectively. The DGF team draws its ideas from its own research and from the 74 other Baillie Gifford investment managers and analysts in the firm. The specific areas where BG benefits from specialists in the wider firm are listed equities, fixed income (high yield, investment grade and emerging market bonds), property, and an active currency overlay managed by the rates and currencies team. We do not think Brooks' departure is significant to warrant a rating change.

A general positive market background in the majority of risk assets added to returns over the quarter, with active currency returns being particularly beneficial. Such a positive contribution form the majority of asset classes is obviously a great result, but would be generally considered an unusual outcome (diversification is generally implemented to offset volatility levels) and the Committee should not expect this every quarter.

Relative Quarterly and Relative Cumulative Performance [1] [i]





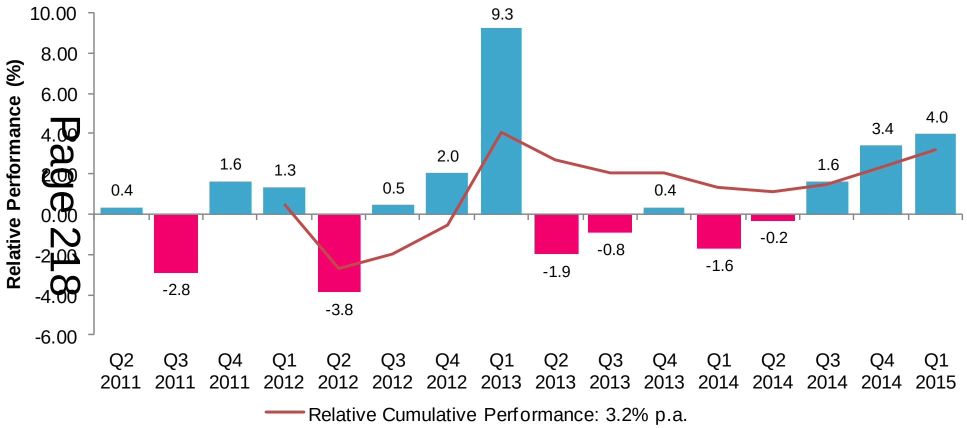
[1] Excludes initial part quarter (22/2/11 to 31/3/11, relative performance +0.3%). Gross of fees. Benchmark is Base Rate +3.5% p.a.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] Fund Manager

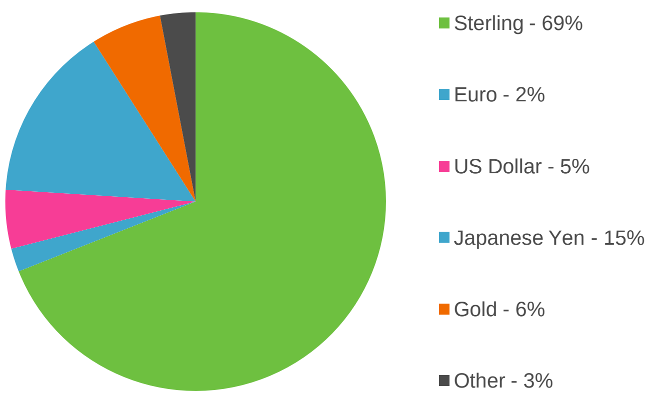
Hymans Robertson LLP

Ruffer Total Return Fund

Relative Quarterly and Relative Cumulative Performance [1]



Currency Allocation at Quarter End



[1] Excludes initial part quarter (28/2/11 to 31/3/11, relative performance -1.0%). Gross of fees. Benchmark shown is Base Rate +3.5% p.a. (to aid comparison with Baillie Gifford DGF)

HR View Comment & Rating

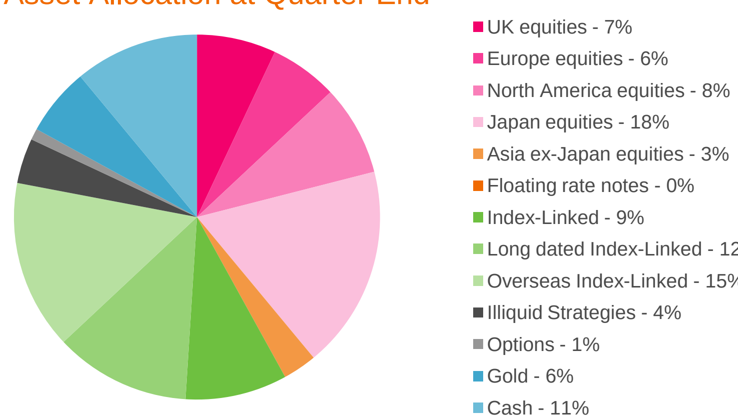
We rate Ruffer '5-Preferred manager'. We are confident in Ruffer's abilities as an absolute return manager. The success of the firm's approach is dependent on its ability to construct portfolios which can outperform cash, regardless of the market direction – which they have been successful in achieving since inception and in particular during the difficult period of 2008/09. Our only concern is the durability of the business as assets under management and the team both grow and adapt to Jonathan Ruffer's lesser input. However to date this does not appear to have had a detrimental impact on the strategy.

In Q1 2015 Ruffer asked investors to approve the inclusion of new illiquid strategies, designed to provide protection against the tail-risk associated with credit markets. These investments have a 5 year illiquidity term and are not therefore appropriate for all investors.

Ruffer's Absolute Return Fund outperformed its cash benchmark by 4.7% over the quarter, delivering a positive absolute return of 4.8%. Over 12 months and since inception, the fund is ahead of benchmark by 10.5% and 12.9% respectively. Exposure to inflation linked bonds made a notable positive contribution to portfolio returns over the quarter, as the announcement of a reduction in issuance and the impact of quantitative easing by the ECB combined to drive down yields in long-dated bonds. The allocation to Japanese equities also added value, boosted by a change in policy towards domestic equities by the Japanese Government Pension Investment Fund. Exposure to the US Dollar had a positive impact on performance, as the currency remained strong in anticipation of a rise in US interest rates.

The use of protective options strategies was the primary detractor. The manager put in place protection strategies to protect against the reversal of low bond yields, however the fall in bond yields over the quarter created a drag on performance. The manager believes these options remain an important strategy in the current yield environment. The allocation to US technology stocks also proved detrimental, as the market factored in the impact of ongoing Dollar strength on the sector's overseas earnings. In terms of portfolio activity, the equity holdings were trimmed slightly over the quarter as the manager sought to lock in profits. There was also a substantial reduction in US Dollar exposure, which had been maintained as protection against an equity market collapse. The manager locked in profits following recent Dollar strength, and at the same time increased exposure to the Japanese Yen to provide the same 'safe haven' protection.

Asset Allocation at Quarter End



Performance Summary (Gross of Fees)

Performance [1] [i]

		Baillie Gifford Global Equity	GMO Global Equity	Legal & General UK Equity	Baillie Gifford Diversified Growth Fund	Ruffer Total Return Fund	Investec Bonds	Legal & General Index-Linked Gilts	Schroder Property	Total Fund
3 Months (%)	Absolute	9.2	9.0	4.7	3.4	5.0	0.1	3.3	2.5	5.8
	Benchmark	7.6	7.5	4.7	1.0	1.0	0.6	3.3	2.8	4.6
	Relative	1.5	1.4	0.0	2.3	4.0	-0.5	0.0	-0.3	1.1
12 Months (%)	Absolute	19.3	13.8	6.7	8.5	13.4	2.2	21.0	16.2	12.4
	Benchmark	19.0	15.0	6.6	4.1	4.0	2.5	21.0	16.6	11.4
	Relative	0.3	-1.0	0.1	4.3	9.1	-0.3	0.0	-0.4	0.9
3 Years (% p.a.)	Absolute	17.1	14.1	10.7	7.1	8.3	1.4	9.0	8.7	11.1
	Benchmark	14.1	13.3	10.6	4.0	4.0	2.6	8.9	9.4	9.9
	Relative	2.7	0.7	0.1	3.0	4.1	-1.1	0.0	-0.6	1.0
5 Years (% p.a.)	Absolute	13.0	9.4	10.5	6.4	7.0	0.2	11.7	7.3	8.3
	Benchmark	10.0	9.0	10.3	4.0	4.0	2.7	11.7	8.6	7.9
	Relative	2.7	0.4	0.1	2.3	2.8	-2.5	0.0	-1.1	0.4

[1] 5 Year performance figure is since inception for Investec Bond mandate (26/04/10), L&G UK Equity and Index-Linked Gilts mandates (02/08/10), Baillie Gifford DGF mandate (22/2/11) and Ruffer mandate (28/2/11). Baillie Gifford DGF, Ruffer and Investec benchmark performances include outperformance target (c.f. page 6).

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

Asset Allocation

Summary of Benchmarks

	Total Fund		Baillie Gifford Diversified Growth Fund		Baillie Gifford Global Equity		GMO Global Equity		Investec Bonds	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
UK Equity	24.0	-0.5	-	-	6.9	-0.1	10.0	0.2	-	-
North American Equity	15.0	2.0	-	-	54.9	-6.3	30.0	2.2	-	-
European Equity	10.0	-1.6	-	-	15.8	2.2	30.0	-9.3	-	-
Pacific Basin Equity	9.0	-4.7	-	-	11.9	-0.3	25.5	-16.9	-	-
Emerging Market Equity	3.0	6.4	-	-	10.5	4.5	4.5	22.6	-	-
Bonds	14.0	-5.3	-	-	-	-	-	-	100.0	0.0
UK Index-Linked Gilts	3.0	2.2	-	-	-	-	-	-	-	-
Property	12.0	-1.5	-	-	-	-	-	-	-	-
Alternatives	10.0	-1.1	100.0	0.0	-	-	-	-	-	-
Cash	0.0	0.5	-	-	-	-	0.0	1.2	-	-
Trustee Bank Account	0.0	3.7	-	-	-	-	-	-	-	-
Proportion of Total Assets	**-**	-	**5.0**	-0.6	**18.0**	1.0	**23.0**	1.0	**14.0**	-5.3

Asset Allocation (Cont.)

Summary of Benchmarks

	Legal & General Index-Linked Gilts		Legal & General UK Equity		Ruffer Total Return Fund		Schroder Property		Trustee Bank Account	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
UK Equity	-	-	100.0	0.0	-	-	-	-	-	-
North American Equity	-	-	-	-	-	-	-	-	-	-
European Equity	-	-	-	-	-	-	-	-	-	-
Pacific Basin Equity	-	-	-	-	-	-	-	-	-	-
Emerging Market Equity	-	-	-	-	-	-	-	-	-	-
Bonds	-	-	-	-	-	-	-	-	-	-
UK Index-Linked Gilts	100.0	0.0	-	-	-	-	-	-	-	-
Property	-	-	-	-	-	-	100.0	-2.0	-	-
Alternatives	-	-	-	-	100.0	0.0	-	-	-	-
Cash	-	-	-	-	-	-	0.0	2.0	-	-
Trustee Bank Account	-	-	-	-	-	-	-	-	100.0	0.0
Proportion of Total Assets	**3.0**	2.2	**20.0**	-0.2	**5.0**	-0.6	**12.0**	-1.3	**0.0**	

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Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

Non-Executive Report of the: **PENSIONS COMMITTEE** **23 July 2015**	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** Unrestricted
Pensions Board Update July 2015	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Summary

This report outlines the progress of the establishment of the new pensions Board under the Public Service Pensions Act 2013. Full Council at its September 2014 meeting delegated to the Pensions Committee, the authority to create the Pensions Board for the Tower Hamlets Pension Fund by 1st April 2015 as stipulated by the regulation.

Pensions Committee considered and approved the terms of reference for the Board at its February 2015 meeting. The Recruitment for the Board started March 2015 and it is at the final stage. This report provides an update on the recruitment process and summarises the next steps for the newly established Board.

Recommendations:

Members of the Pensions Committee are asked to:

1. Note the contents of the report.

1. REASONS FOR THE DECISIONS

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

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

1.3 Aside from reform to the administration of the pension scheme, the 2013 Act also gives the Secretary of State power to implement changes to the governance arrangements introducing additional requirements alongside increased flexibility to the structure of the decision making bodies

2. ALTERNATIVE OPTIONS

2.1 No alternative as this is a regulatory requirement.

3. DETAILS OF REPORT

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

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

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

3.4 The Public Service Pensions Act 2013 sets out the need for Pension Boards to assist scheme managers to be established for all public sector schemes, including the LGPS. Final regulations setting out the requirements for the boards were laid before Parliament in January 2015. Under the regulations, the boards were to be established in Council constitutions no later than 1st April 2015 and must be operational by 1st August 2015.

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

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

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

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

3.9 RECRUITMENT PROCESS

3.9.1 The Terms of Reference for the London Borough of Tower Hamlets Pension Board have been drawn up in line with the Regulations. Full Council approved the inclusion of the Board in the Council's constitution on 25th June 2014, fulfilling the requirement of the Regulations to establish a Pension Board by 1st April 2015. The Council as the administering authority must now ensure that the Board is fully operational by 1st August 2015.

3.9.2 The Terms of Reference for the Board sets out requirement for 3 scheme member representatives and 3 employer representatives. These roles were initially advertised by writing to all scheme members and scheme employers in April 2015. To apply to be a representative, applicants were required to fill out a short application form, explaining why they wished to become a Board member and providing a brief summary of their skills and experience. Applications were received from a number of experienced individuals who were further analysed.

3.9.3 The process for appointment of Board members was overseen by the Councils' legal officer, governance officer and resources officers.

3.9.4 The Appointments Panel has now made its final decisions regarding the applicants, although these have not yet been formally announced. 3 scheme member and 3 employer representatives have been appointed, as per the Terms of reference. An Independent Chair for the board is being sought. At the time of writing, the appointments are being finalised, but Pensions Committee Members will be notified of the Pensions Board Members at or in advance of the Committee meeting.

3.9.5 The appointed Board Members would be asked to attend the Pensions Committee meeting on the 23rd July in order to be introduced to the Committee and also to attend the training session. The Board Members will be welcome to stay for the remainder of the meeting in an observer capacity only to help them to develop their understanding of the decision making process. In addition there are a number of specific Committee papers being presented, which will be of interest to Board Members.

3.10 PENSIONS BOARD

3.10.1 The newly formed Pensions Board will hold its first meeting in July, therefore meeting the regulatory requirement for the Board to be operational by 1st August 2015. The new Board members will be briefed on their role by the Board Secretary prior to the first Board meeting.

3.10.2 Board members will be required to maintain an appropriate level of knowledge and understanding of Pensions matters in accordance with the regulations. To ensure that the LBTH Pension Board meets this requirement, training options for members are currently being explored; it is expected that members will attend an initial training session, with ongoing training provided alongside the Pension Committee’s training programme.

3.10.3 Under the regulations, responsibility for decision-making with regards to the management of the Fund remains with the Pensions Committee; the Pension Board is not a decision-making body. The Board will, however, have a broad remit to review the decision-making process of the Pensions Committee in matters of scheme administration and governance. As such, members of the Pension Board will be provided with the final reports, minutes and agendas relating to all Pensions Committees and may attend Committee meetings as observers.

3.10.4 The Board will meet at minimum, four times per calendar year and will provide minutes of each meeting to the Pensions Committee and the Corporate Director of Resources. Members of the Pensions Committee and others specified in the Terms of Reference may attend meetings of the Pensions Board as observers.

3.10.5 The Board may make reports or recommendations to Pensions Committee; these must be provided at least 28 days in advance of the next Committee meeting. Additionally, the Chair of the Pension Board will prepare an annual report, which will be distributed to Pensions Committee, the Cabinet Member for Resources, the Corporate Director of Resources, the Service Head HR and Workforce Development and the Service Head - Legal Services. In the event that the Board considers that a matter brought to the attention of the relevant Directors and the Pensions Committee has not been acted upon within a reasonable period of time, it may also provide a report to Council.

3.11 FINANCIAL IMPLICATIONS

3.11.1 Members of the Pension Board will be asked to attend training to ensure they are able to demonstrate the necessary understanding and capacity required by the regulations. In recognition of this commitment, it is proposed that members of the Board should receive an allowance, with the costs being met by the Pension Fund.

3.11.2 Allowances will be by the Pensions Board Working Group in conjunction with the Corporate Director of Resources, with reference to the Members Allowances Scheme for co-opted members of Committees. The costs are not expected to be significant and should help to further demonstrate the good governance of the Fund.

3.11.3 Other costs are likely to arise in terms of ensuring that there are sufficient resources to be able to service the Board and that where required costs of training are met by the Fund. Again, in the context of the Fund, these additional costs are not expected to be significant.

3.11.4 The establishment of a Scheme Advisory Board at a national level will lead to additional costs to be met by individual local government pension funds. The costs of funding the Board are still unknown, but the Fund is including an estimated cost for this within the Pension Fund budget 2015/16 for £10,000.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

5.1 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.

5.2 When discharging its Pensions functions, 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). The Committee may take the view that the establishment of a Pensions Board will assist the Pensions Committee to properly discharge its functions as the administering authority of the LBTH pension fund.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 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.

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 Improving the governance arrangements of the Fund can lead to better decision making which can result in governance dividends to the fund.

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 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.

9.2 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.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 The monitoring arrangement for the Pension Fund and the work of the Pensions 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.

Linked Reports, Appendices and Background Documents

Linked Report
- NONE

Appendices
- NONE

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
- NONE

Officer contact details for documents:
- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

LBTH Pension Fund

Roles, Responsibilities and Statutory Documents

Presentation

Bola Tobun

There are many different roles involved in the management of an LGPS fund

These include:

- the investments or pensions committee
- the fund administrator
- the administering authority
- employers
- investment managers
- custodians
- the actuary
- professional advisers

Investments or Pensions Committee

The responsibility of an investments or pensions committee may include:

- ensuring all investment activity complies with the requirements of current regulations and best practise
- approving the statement of investment principles, funding strategy statement, communications strategy and governance policy
- appointing investment managers, a fund actuary, custodian(s) and professional advisors
- reviewing and taking action on actuarial valuations

Investments or Pensions Committee (2)

- agreeing a rebalancing strategy between different portfolios when asset allocations change due to different market movements of different sectors
- regularly reviewing investment managers' performance and expertise against agreed benchmarks and determining any action required
- ensuring that the fund investments are sufficiently diversified and that the fund is investing in suitable investments

Investments or Pensions Committee (3)

The responsibility of an investments or pensions committee may include:

- monitoring budgets for the fund ensuring there is adequate budgetary control
- promoting the fund within the authority
- ensuring the administration of the fund is appropriately resourced, is effective and meets performance standards.

Fund Administrator

An officer (usually the chief finance officer) is responsible as fund administrator for:

- ensuring compliance with the statutory rules governing the investment of LGPS assets, including the various policy documents and statements required under the regulations
- acting as a professional advisor to the fund
- ensuring effective audit and governance arrangements

Fund Administrator (2)

- as Section 151 officer alerting the investments or pensions committee or the council to any problems with the funding level or the administration of the fund in accordance with Section 151 responsibilities
- ensuring the effective administration and preparation of the accounts including the annual statement of accounts.

Administering Authority (1)

The responsibilities of the administering authority include:

- collecting and accounting for employer/employee contributions and transfer values
- investing monies not required for payment benefits, transfers and administration costs
- paying pension benefits, transfer values and ensuring cash is available to meet the funds future liabilities
- maintaining an accurate data base
- managing the fund valuation process
- preparing and maintaining the statutory statements

Administering Authority (2)

The responsibilities of the administering authority include:

- monitoring and managing all aspects of the fund’s performance
- managing communications with employers, members and pensioners
- setting up and maintaining individual member records
- administering and managing records and member decisions
- appointing a person for the scheme's IDRP
- appointing an additional voluntary contribution provider
- providing assistance to employers on the pension implications of outsourcing services and on dealing with bulk transfers of pension rights

Employers

Employers fall into three categories:

- Scheduled
- Designated (resolution) bodies
- Admitted bodies

Employers

Responsibilities of employers include:

- providing scheme information and determining employee eligibility
- deducting pension contributions and together with employer contributions, remitting to the administering authority in accordance with the required timescale
- exercising benefit discretions in accordance with the agreed policy and keeping the administering authority informed
- notifying the administering authority of all relevant membership changes (e.g. retirement) and other required issues
- securing an independent medical officer to determine ill-health retirement
- complying with the valuation timetable and administering authority information requests.

Investment Managers

Investment manager responsibilities include:

- investment of pension fund assets in compliance with current LGPS legislation, any constraints set by the investments or pensions committee in the statement of investment principles and investment management agreement
- asset allocation if a balanced manager, otherwise as directed by the investments or pensions committee
- selection of securities within asset classes
- attending meetings and presenting reports to the investments or pensions committee as required, including regular reports on performance, voting and transactions
- active management of any cash balances (unless this responsibility is delegated to the custodian)
- engaging with companies and taking shareholder action in accordance with the fund's policy

Custodian(1)

The custodian(s) is responsible for the safekeeping of the fund's securities. This function may be carried out by a custodian appointed directly by the fund, or via appointed fund managers. Current best practice is for funds to appoint their own custodian(s).

Responsibilities may include:

- settlement of purchases and sales
- advising managers of cash available for investment
- safe custody of securities and cash
- acting as banker to the fund

Custodian(2)

Responsibilities may include:

- cash reconciliations
- collection of dividends, income and overseas tax reclaims
- ensuring correct actions including rights issues, bonus issues and acquisitions are correctly dealt with
- ensuring the necessary approvals are in place to invest in certain overseas markets
- providing (monthly) valuations of scheme assets, details of all transactions and accounting reports.

Actuary

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
- agree a timetable for the valuation with the administering authority
- prepare timely advise and calculations in connection with transfers to other funds and schemes and advise on benefit matters
- undertake new employer contribution calculations and cessation valuations for employers leaving the scheme.

Professional Advisors

Advisors may be needed for advice on:

- asset allocation strategies
- the selection of new managers and custodians
- the preparation of the various strategy documents required under LGPS regulations
- to assist in reviewing and monitoring managers' performance
- Legal advice will need to be available to the fund, which might involve the appointment of specialist legal advisers for particular aspects of fund management, i.e. appointing a private equity manager

Statutory Documents

- Funding Strategy Statement
  - Responsibility/solvency/target funding levels
  - Risk/control
  - Approach to employer contribution rates/employer risk
- Communication Policy
  - Information/publicity/promotion
  - Format/frequency/distribution

Statutory Documents(2)

- Governance Compliance Statement
  - Delegation arrangements
  - Frequency of meetings/membership
  - Compliance with CLG guidance
- Statement of Investment Principles
  - Investment types, balance, risk and return
  - Social, environmental and ethical considerations
  - Voting rights, stock lending

Statutory Documents(3)

- Annual Report
  - Review of performance
  - Actuary statement
  - Fund account
- Pensions Administering Strategy
  - Communication with employers
  - Performance/ pay over of contributions requirements

Non-Executive Report of the: **PENSIONS COMMITTEE** **23 July 2015**	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** Unrestricted
Pension Fund Business Plan and Budget for 2015/16	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Summary

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.

Recommendations:

Members are asked to:

- Agree the work plan attached as Appendix 1 to this report.
- Agree the revenue budget for 2015/16 attached as Appendix 2 to this report.

1. REASONS FOR THE DECISIONS

1.1 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.

1.2 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.

1.3 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.

2. ALTERNATIVE OPTIONS

2.1 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.

3. DETAILS OF REPORT

3.1 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.

3.2 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.

3.3 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

3.4 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.

3.5 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.

3.6 WORK PLAN

3.6.1 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.

3.7 PENSION FUND REVENUE ACCOUNT

3.7.1 The budget estimate outlined in this report will assist the Council in monitoring expenditure of the Fund's revenue account in accordance with its requirement to manage resources effectively. The report provides details of the actual figures as at 31st March 2015 and revenue budget estimates for 2015/16 in respect of income and expenditure elements of the Pension Fund.

3.7.2 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.

3.8 2014/15 Actual

3.8.1 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.

3.8.2 Total expenditure (benefits payable) of £48.9m budgeted in 2014/15 increased to an actual amount of £53.6. This is due to an increase in pension payments and transfer values out.

3.8.3 Transfer of internal cash may be made to fund managers this year to rebalance the Fund. Some of the cash held in house will be deployed to fund the investment opportunities as they become available. Cash held internally is invested in line with Tower Hamlets Council's treasury management strategy, which is delegated to the Corporate Director of Resources to implement.

3.9 2015/16 Proposed Budget

3.9.1 The budget 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. The following paragraphs set out some of the assumptions behind the proposed 2015/16 budget estimates:

3.10 Notes to Appendix 2

a) 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.

b) 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.

c) Other Income

The budget figure is based on 2014/15 Internal interest earned on revenue balances.

d) Benefits Payable

The budget figure is based on 2014/15 activity levels plus a 2.5% increase to reflect the 2015/16 pay award.

e) Payments to and on account of leavers

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.

f) 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.

g) *Investment Income*

Investment Income is assumed at 4% on assets of £1.085 billion and over 2/3rd is subsequently re-invested by the Fund Managers.

h) *Change in Market Value of Investments*

An investment of £1.139m 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.

i) *Fund Managers Fees*

Fund managers' fees are calculated at an average rate of 0.25% on assets of £1.15 billion.

j) *Global Custodian Fees*

The fee is set at £90,000 as per fees schedule.

k) *Tax on Dividends*

Net tax on dividends is based on 8% of budgeted investment Income.

3.11 FINANCIAL IMPLICATIONS

a) The performance of the Pension Fund's investments affects the required level of contributions due from employers.

b) The employers' contribution rate for the London Borough of Tower Hamlets is currently set at 15.8%, this rate did not change following the 2010 triennial review however, following the 2013 triennial valuation the total implied employers contribution rate (based on current pensionable pay) for the Council increased from 1 April 2014. As before the deficit funding aspect has been defined as cash value so if establishment numbers fall, a cash lump sum reimbursement will need to be paid to the fund by the Council to ensure the level of deficit funding is maintained. The estimated shortfall cash contribution for 2015/16 is £20.5m, up from £18.5m in 2014/15. The next valuation exercise will occur in 2016 with the results taking effect from 1 April 2017.

c) LGPS regulations specify that any net sums not immediately required should be invested in accordance with regulations. The investment of Pension Fund cash has been kept separate from Tower Hamlets Council's investments but invested in accordance with the Council's Treasury Management Strategy.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

5.1 In discharging their functions under the Local Government Pension (Management and Investment of Funds) Regulations 2009, the Pensions 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.

5.2 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.

5.3 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.

5.4 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).

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 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.

6.2 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.

7. BEST VALUE (BV) IMPLICATIONS

7.1 A work plan and budget should result in a more efficient process of managing the Pension Fund.

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 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.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report
- NONE

Appendices
- NONE

Local Government Act, 1972 Section 100D (As amended)
List of “Background Papers” used in the preparation of this report
- NONE

Officer contact details for documents:
- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

PENSIONS FUND MANAGEMENT WORK PLAN 2015/16 APPENDIX 1

Activity	Responsible Person	Pensions Committee/ Adviser & Officers Meeting	Meeting July 2015	Meeting Sep 2015	Meeting Nov 2015	Meeting Mar 2016
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			√	√

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Appendix 2

Pension Fund Budget 2015/2016

	Account as at 31st Mar 2014 £,000	Original Budget 20014/15 £,000	Actual as at 31st Mar 2015 £,000	Variance 2014/15 £,000	**Budget 2015/16 £,000**
Contributions Receivable					
- from Employer	42,401	**43,673**	46,135	*(2,462)*	**47,520**
- from Employees	9,982	**10,281**	11,031	*(750)*	**11,360**
Transfer Values In	3,527	**3,633**	1,719	*1,914*	**1,770**
Other Income		**55**	179	*(124)*	**185**
Sub - Total Income	55,910	**57,642**	59,064	*(1,422)*	**60,835**
Benefits Payable					
- Pensions	35,681	**36,751**	37,265	*(514)*	**38,385**
- Purchase of Pensions					
- Lump Sums: Retirement Allowances	7,136	**7,350**	7,050	*300*	**7,260**
- Lump Sums: Death Grants	1,042	**1,073**	1,005	*68*	**1,035**
Payments to and on account of leavers					
- Refunds of Contributions	3		125	*(125)*	**130**
- Transfer Values Out	2,778	**2,861**	7,263	*(4,402)*	**7,480**
- Other payments	3		132	*(132)*	**140**
Administrative and other expenses borne by the scheme					
- Administration and processing	686	**707**	661	*46*	**685**
- Actuarial fees	50	**30**	30	*0*	**30**
- Audit fees	21	**25**	21	*4*	**20**
- Legal and other professional fees	212	**100**	46	*54*	**50**
Sub - Total Expenses	47,612	**48,898**	53,598	*(4,700)*	**55,214**
Total Net Additions (Withdrawals) from Dealings with Members	***8,298***	***8,745***	***5,466***	***3,282***	***5,621***
RETURNS ON INVESTMENTS					
Investment Income	11,130	**13,360**	16,073	*12,521*	**13,010**
Change in Market Value of Investments	69,113	**50,645**	106,225	*63,000*	**7,825**
Investment management Expenses					
-Fund Managers Fees	(2,364)	**(2,604)**	(2,450)	*(2,811)*	**(2,550)**
-Performance Measurement Fees	(15)	**(20)**	(20)	*(20)*	**(20)**
-Investment Consultancy Fees	(103)	**(45)**	(25)	*(45)*	**(55)**
Total Return On Investments	**77,761**	**61,400**	119,803	*72,645*	**18,286**
NET INCREASE (DECREASE) IN THE FUND DURING THE YEAR	86,059	**70,145**	125,269	*75,927*	**26,801**
OPENING NET ASSETS OF THE SCHEME	926,871	**1,012,930**	1,012,930		**1,138,199**
CLOSING NET ASSETS OF THE SCHEME	1,012,930	**1,083,075**	1,138,199	*(55,124)*	**1,165,000**

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Non-Executive Report of the: **Pensions Committee** 23 July 2015	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** [Unrestricted]
2014/15 Local Government Pension Fund Annual Report	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All wards

Summary

This report presents the amended draft Annual Pension Fund Report and Statement of Accounts.

The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules and is now presented for consideration by the Pensions Committee.

Recommendations:

The Pension Committee is recommended to:

1.1. Members are recommended to:

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

1. REASONS FOR THE DECISIONS

1.2. The Local Government Pension Scheme (Administration) Regulation 2008 requires the Authority as the administering body for the London Borough of Tower Hamlets Pension Fund to approve and publish an annual report by 1 December following the year end.

1.1 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets

2. ALTERNATIVE OPTIONS

2.1 The final Pension Fund Annual Report and Statement of Accounts are presented to Members following the conclusion of the audit carried out by the Council's external auditors, the Audit Commission.

2.2 There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is a legislative requirement.

3. DETAILS OF REPORT

3.1 The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.

3.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP).

3.3 The Councils auditors, KPMG are concluding the audits and they are preparing their statement of opinion under a separate cover.

3.4 The Department Communities and Local Government (DCLG) have introduced an additional requirement for Councils to publish before the 1st December an annual report which incorporates elements of the financial accounts.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

5.1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 imposes a duty on the Council as an administering authority to prepare a pension fund annual report.

5.2 The report should deal with the following matters:

(a) management and financial performance during the year of the pension;

(b) an explanation of the investment policy for the fund and a review of performance;

(c) a report on arrangements made during the year for administration of the fund;

(d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;

(e) a Governance Compliance Statement;

(f) a Fund Account and Net Asset Statement;

(g) an Annual Report dealing with levels of performance and any other appropriate matters;

(h) the Funding Strategy Statement;

(i) the Statement of Investment Principles;

(j) statements of policy concerning communications with members and employing authorities; and

(k) any other material which the authority considers appropriate.

5.3. THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

5.3.1 The Accounts comprise two main statements with supporting notes. The main statements are:

- Dealings with Members Employers and Others which is essentially the funds revenue account
- The Net assets Statement which can be considered as the funds balance sheet.

5.3.2 The return on investment section of the Accounts sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:

- The financial transactions relating to administration of the fund.
- The transactions relating to its role as an investor.

5.3.3 The fund income section of the Report principally relates to the receipt of contributions from employers and active members and the payment of pensions benefits. The section indicates that the Fund is cash positive in that the receipt of contributions exceeds the pension payments £5.2m in 2014/15 compared to £8.2m in 2013/14 and £3.2m in 2012/13.

5.3.4 Whilst the Fund net cash flow position in 2014/15 is 36% less than the previous year. Investment income increased over the year by £5.2m (46.8%) mainly due to an increase in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) decreased by £1.8m (51.4%). It is not possible to predict the value of transfer value payments as they are dependent on an individual's length of service and salary and as such may vary significantly. Employee contributions rose by £1.0m (10.0%), the increase being attributable to the new CARE scheme which sees contributions deducted from all additional pay and also to the increase in the banding rate which sees higher rates of pay subject to a contribution rate of up to 12.5%. Employer contributions went up by £3.7m (8.7%) due to an increase in the employer's deficit funding payment of £2m.

5.3.5 In 2014/15 the overall Fund expenditure increased by £5.7m (11.4%). The major contributor to the increase was the rise in transfers out of £4.5m (160.7%). There was a modest increase in investment management costs of £0.1m (4.2%) while administration costs fell by £0.3m (27.3%). Benefits payable rose by £1.4m (3.2%).

5.3.6 Overall, fund membership has increased. The active members increased marginally by 68 (1%) and deferred and retired membership numbers by 122 (1.8%) and 106 (2.5%) respectively.

5.3.7 The investment performance section of the Report details returns on the investment portfolio and the impact of managers' activities and investment markets on the value of investments. The Fund achieved a return on its investment portfolio of 11.8% in 2014/15 outperforming benchmark return of 11.4% by 0.4%. The Fund posted 3 year return of 10.7% which is marginally better than the benchmark return of 10.0% and delivered a 10 year return of 7.1% lagged benchmark return of 7.4% by 0.4%.

5.3.8 Overall, fund assets increased by £125m. The increase was mostly due to gains made from performance of financial markets in which the Fund held its investments and a net gain between fund income and expenditure.

5.3.9 The net asset statement represents the net worth (£1,138m) of the fund as the 31st March 2015. The statement reflects how the transactions outlined in the other statement have impacted on the value of the fund's assets.

5.3.10 The Annual report also includes three key statements (Funding Strategy Statement, Statement of Investment Principles and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.

5.3.11 The Funding Strategy Statement undergoes a detailed review and was updated after the triennial valuation. The 2013 triennial valuation outcome was reported, discussed and approved at the Pensions Committee meeting of 27th February 2014.

5.3.12 The purpose of the Funding Strategy statement is threefold:

- To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory framework to maintain as nearly constant employer contributions rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

5.3.13 The Statement of Investment Principles facilitates adherence to best practice in the management of pension schemes as set out by the revised Myners Principles and the Fund is required to state the extent to which it has complied with these principles.

5.3.14 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 [The Pension Fund Accounts demonstrate financial stewardship of the fund's assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive for the Council.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The monitoring arrangement for the Pension Fund and the work of the officers, advisers and consultants should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

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 Accounts provide an effective mechanism to safeguard the Council's assets and assess the risks associated with its activities.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no any Crime and Disorder Reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- NONE

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- NONE

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