TOWER HAMLETS

PENSIONS BOARD

Tuesday, 28 July 2015 at 10.00 a.m.
Council Chamber, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

This meeting is open to the public to attend.

Members:
Chair: Vacancy
Vice-Chair: TBA

Employee Representatives
David Stephen Thompson, Kehinde Akintunde, Vacancy
Employer Representatives
Councillor Dave Chesterton, Andrew Crompton, Minesh Jani

Deputies
Michael Markson, (Representing Retired/Deferred Pension Fund Members)

Contact for further enquiries: Antonella Burgio, Democratic Services. Tel: 0207 364 4881 E-mail: Web: http://www.towerhamlets.gov.uk/committees	Scan this code to your mobile phone to view Committee website.

1. APPOINTMENT OF CHAIR FOR THE DURATION OF THE MEETING

APOLOGIES FOR ABSENCE

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

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. PENSIONS BOARD REPORTS FOR CONSIDERATION

3 .1 Pensions Board, Membership, Quorum and Dates of Meetings (Pages 5 - 6)

To note the composition of the Board and determine the preferred stating time of the Pensions Board meetings.

3 .2 Pensions Board Update July 2015 (Pages 7 - 18)

To inform Members of progress on the establishment of the new Pensions Board under the Public Service Pensions Act 2013

3 .3 LGPS Governance Training (Pages 19 - 28)

To receive a presentation from Ms Tobun Investment & Treasury Manager.

3 .4 Pension Fund Business Plan and Budget for 2015/16 (Pages 29 - 40)

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.

3 .5 Investment in London LGPS Collective Investment Vehicle (CIV) (Pages 41 - 46)

To inform the Committee on the progress of setting up the London Collective Investment Vehicle (CIV), and the work that is currently underway.

3 .6 Pension Fund Investment Performance Review for Quarter End 31 March 2015 (Pages 47 - 242)

To inform Members of the performance of the Fund and its investment managers for the quarter ending 31 March 2015.

3 .7 2014/15 Local Government Pension Fund Annual Report (Pages 243 - 368)

To consider the draft Annual Pension Fund Report and Statement of Accounts.

4. ANY OTHER BUSINESS THE CHAIR CONSIDERS TO BE URGENT

The next meeting will be held at Thursday, 17 September 2015 and Council Chamber, 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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Non-Executive Report of the: **Pensions Board** 28th July 2015	TOWER HAMLETS
Report of: Meic Sullivan-Gould, Interim Monitoring Officer	**Classification:** Unrestricted
Pensions Board, Membership, Quorum and Dates of Meetings	

Originating Officer(s)	Antonella Burgio
Wards affected	All Wards

Summary

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

Recommendations:

The Pensions Board is recommended to:

1. Note its Membership and Quorum as set out in Appendix A to this report.
2. Note the dates of scheduled meetings for the remainder of the Municipal year.
3. Determine the preferred time at which the scheduled meetings will start

1. REASONS FOR THE DECISIONS

1.1 The report is brought to assist new Members by informing them of the framework for the Board's membership and meetings.

2. ALTERNATIVE OPTIONS

2.1 The report asks the Board solely to confirm its arrangements and therefore its Members 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, the Council appointed an elected Member to serve on the Board for the duration of the municipal year.

3.2 The membership of the Pensions Board Committee and its Quorum thereof are set out in Appendix A.

4. Membership

4.1 At Pensions Committee on 24th February 2015 Members agreed the terms of reference et at 7 Members in line with the recommendations of the government guidance.

4.2 To ensure the size of the Board is not cumbersome but representation across the scope of the Pension Fund is retained. A working party agreed that the Board Membership should comprise 7 members composed of:

- 3 employer representatives,
- 3 employee representatives and
- an independent non-voting member to act as Chair of the Board.

4.3 The employer and employee categories were further divided into the following categories:

- Employer Representatives
  1 Elected Member
  1 Tower Hamlets Senior (management) Officer
  1 Admitted/Statutory Bodies (management) Representative

- Employee Representatives
  1 Active Fund Member (Tower Hamlets employee)
  1 Active Fund Member (Admitted/Statutory Bodies employee)
  1 Non-active Fund Member (Retired/deferred fund members)

5. Programme of Meetings

5.1 The Council has agreed a programme of meetings for the municipal year. It is proposed that the Pensions Board follows the pattern agreed for Pensions Committee and so the following calendar of dates for the remainder of the municipal year is placed before Board for consideration:

17 September
26 November
10 March (2016)

5.2 The Pensions Committee is able to determine its preferred meeting time at the Chair's discretion. Members are asked to consider a suitable starting time bearing in mind that the meetings in the suggested schedule above take place on the night of the Pensions Committee. Members may wish to determine their own meeting time in the forthcoming municipal year and are permitted to offer their views to the Chair.

5.3 It is customary also that any meetings that fall during the holy month of Ramadan are scheduled to commence at 5.30pm.

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 composition of the committee. 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 – Pensions Board Membership and Quorum

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 BOARD - MEMBERSHIP

At the Annual General Meeting of the Council held on 24th June 2015 the Council appointed Councillor Dave Chesterton as the elected employer representative to the Pension Board.

The remainder of the appointments are listed below.

Members	Substitutes
EMPLOYER MEMBERS:	
1.Cllr Dave Chesterton (Elected Member rep)	1. none appointed
2. Minesh Yani (LBTH Senior Management rep)	2. none appointed
3. vacant (Admitted/Statutory Bodies Senior Management rep)	
EMPLOYEE MEMBERS:	
1. David Thompson (Pensioner rep)	1. Michael Markson
2. Kehinde Akintunde (Active Scheme Member rep)	2. none appointed
3. vacant (Admitted/Statutory Bodies rep)	3 none appointed
INDEPENDENT CHAIR (non-voting):	
1. vacant	

The quorum of the Pensions Committee is three voting Members.

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Non-Executive Report of the: **PENSIONS BOARD** **28 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 Board is 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

LOCAL PENSION BOARD OF LONDON BOROUGH OF TOWER HAMLETS
TERMS OF REFERENCE

Introduction

1. This document sets out the terms of reference of the Local Pension Board of [LONDON BOROUGH OF TOWER HAMLETS] (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).

2. The Board is established by the Administering Authority and operates independently of the Committee. Relevant information about its creation and operation are contained in these Terms of Reference.

3. The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.

4. Except where approval has been granted under regulation 106(2) of the Regulations the Board shall be constituted separately from any committee or sub-committee constituted under Section 101 of the Local Government Act 1972 with delegated authority to execute the function of the Administering Authority.

Interpretation

5. The following terms have the meanings as outlined below:

'the Act'	The Public Service Pensions Act 2013.
'the Code'	means the Pension Regulator's Code of Practice No 14 governance and administration of public service pension schemes.
'the Committee'	means the committee who has delegated decision making powers for the Fund in accordance with Section 101 of the Local Government Act 1972 (i.e. the Pensions Committee at LBTH).
'the Fund'	means the Fund managed and administered by the Administering Authority.
'the Guidance'	means the guidance on the creation and operation of local pension boards issued by the Shadow Scheme Advisory Board.

'the Regulations'	means the Local Government Pension Scheme Regulations 2013 (as amended from time to time), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended from time to time) including any earlier regulations as defined in these regulations to the extent they remain applicable and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended from time to time).
'Relevant legislation'	means relevant overriding legislation as well as the Pension Regulator's Codes of Practice as they apply to the Administering Authority and the Board notwithstanding that the Codes of Practice are not legislation.
'the Scheme'	means the Local Government Pension Scheme in England and Wales.

Statement of purpose

6. The purpose of the Board is to assist[1] the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

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

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

Duties of the Board

7. The Board should at all times act in a reasonable manner in the conduct of its purpose. In support of this duty Board members should be subject to and abide by the code of conduct for Board members[2].

Establishment

The Board is established on [01 APRIL 2014] subsequent to approval by [FULL COUNCIL] on [26 NOVEMBER 2014].

[1] Please see paragraph 3.28 of the Guidance for more information on what assisting the Administering Authority means.
[2] See paragraphs 7.9 to 7.11 of the Guidance for more information on a Code of Conduct for Boards.

As stated above, the Pensions Board is not explicitly bound by the rules governing Committees established under Section 101 of the Local Government Act 1972, however, for consistency and best practice, the Pensions Board will, where practicable and subject to specific rules set out in these Terms of Reference, operate in the same way as the Council's other Committees as set out in the Constitution. This includes:

- Rules 6 - 10, 17.3, 17.6 and 18 to 25 of the Council Procedure Rules (Part 4 – Rules of Procedures) relating to :
  - Notice and summons to meetings
  - Chair of meeting (except in relation to casting votes)
  - Quorum
  - Duration of meetings
  - Cancellation of meetings
  - Voting (certain rules)
  - Minutes
  - Petitions
  - Record of Attendance
  - Exclusion of the Public
  - Members' Conduct
  - Disturbance by Public
  - Suspension of Amendment of Council Procedure Rules
- Access to Information Procedure Rules (Part 4.2 of the Constitution)
- Code of Conduct for Members (Part 5.1 of the Constitution) – with specific reference to registering and disclosing interests.
- Members' Allowance Scheme (Part 6 of the Constitution) – with particular reference to allowances and expenses payable.

Membership

8. The Board shall consist of [SIX] voting members, as follows:

   [THREE] Member Representatives; and

   [THREE] Employer Representatives.

9. There shall be an equal number of Member and Employer Representatives.

10. There shall also be [ONE] other representatives who is not entitled to vote.

Member representatives

11. Member representatives shall either be scheme members[3] or have capacity to represent scheme members of the Fund.

12. Member representatives should be able to demonstrate their capacity[4] to attend and complete the necessary preparation for meetings and participate in training as required.

[3] Active, deferred or pensioner members
[4] See paragraphs 5.16 to 5.20 of the Guidance which outlines what 'capacity' in this context means.

13. Substitutes [SHALL] be appointed. Where appointed substitutes should be named and must undertake the same training as full members.

14. A total of [THREE] member representatives shall be appointed[5] from the following sources:

    a) [ONE] member representative shall be appointed by the recognised trade unions representing employees who are scheme members of the Fund.

    b) [ONE] member representative shall be appointed by [ADMITTED BODIES FORUM] where that body is independent of the Administering Authority and open to and representative of all scheme members of the Fund.

    c) [ONE] member representative shall be appointed following a transparent recruitment process which should be open to all pensioners and be approved by the Administering Authority.

Employer representatives

15. Employer representatives shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

16. Employer representatives should be able to demonstrate their capacity[6] to attend and complete the necessary preparation for meetings and participate in training as required.

17. Substitutes [SHALL] be appointed. Where appointed substitutes should be named and must undertake the same training as full members.

18. A total of [THREE] employer representatives shall be appointed[7] to the Board from the following sources:

    a) [ONE ELECTED MEMBER] employer representatives shall be appointed by [FULL COUNCIL] to and representative of all employers in the Fund.

    b) [ONE] employer representatives shall be appointed by the Administering Authority.

[5] See paragraphs 5.25 to 5.28 of the Guidance for further information on the process for appointing member representatives.
[6] See paragraphs 5.16 to 5.20 of the Guidance which outlines what 'capacity' in this context means.
[7] See paragraphs 5.25 to 5.28 of the Guidance for further information on the process for appointing employer representatives.

c) [ONE] employer representatives shall be appointed by the Administering Authority where all employers will have been asked to submit their interest in undertaking the role of employer representative on the Board.

Other members[8]

19. [ONE] other member shall be appointed to the Board by the agreement of both the Administering Authority and the Board to act as an Independent Chair.

20. Other members do not have voting rights on the Board.

Appointment of chair

21. Subject to the meeting arrangements in paragraphs 35 to 37 below a chair shall be appointed for the Board as set out below:

    a) *An independent chair to be appointed by the Administering Authority but shall count as an 'other' member under paragraphs 20-21 above. In this respect the term independent means having no pre-existing employment, financial or other material interest in either the Administering Authority or any scheme employer in the Fund or not being a member of the Fund.*

Duties of chair

22. The chair of the Board:

    (a) Shall ensure the Board delivers its purpose as set out in these Terms of Reference,
    (b) Shall ensure that meetings are productive and effective and that opportunity is provided for the views of all members to be expressed and considered, and
    (c) Shall seek to reach consensus and ensure that decisions are properly put to a vote when it cannot be reached. Instances of a failure to reach a consensus position will be recorded and published.

Notification of appointments

23. When appointments to the Board have been made the Administering Authority shall publish the name of Board members, the process followed in the appointment together with the way in which the appointments support the effective delivery of the purpose of the Board.

Terms of Office[9]

[8] When considering whether to have other members on the Board regard should be given to the advice provided in paragraphs 5.21 to 5.24 of the Guidance.

24. The term of office for Board members is [FOUR] years.

25. Extensions to terms of office may be made by the Administering Authority with the agreement of the Board.

26. A Board member may be appointed for further terms of office using the methods set out in paragraphs 15 and 19.

27. Board membership may be terminated prior to the end of the term of office due to:

    (a) A member representative appointed on the basis of their membership of the scheme no longer being a scheme member in the Fund[10].
    (b) A member representative no longer being a scheme member or a representative of the body on which their appointment relied.
    (c) An employer representative no longer holding the office or employment or being a member of the body on which their appointment relied.
    (d) A Board member no longer being able to demonstrate to [LONDON BOROUGH OF TOWER HAMLETS] their capacity to attend and prepare for meetings or to participate in required training.
    (e) The representative being withdrawn by the nominating body and a replacement identified.
    (f) A Board member has a conflict of interest which cannot be managed in accordance with the Board's conflict policy.
    (g) A Board member who is an elected member becomes a member of the Pensions Committee.
    (h) A Board member who is an officer of the Administering Authority becomes responsible for the discharge of any function of the Administering Authority under the Regulations.

Conflicts of interest[11]

28. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

29. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person’s exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.

30. On appointment to the Board and following any subsequent declaration of potential conflict by a Board member, the Administering Authority shall ensure

[9] See paragraphs 5.29 and 5.30of the Guidance which outlines points to consider when setting out the term of office for Board members. In particular consideration should be given to allowing members to retire on a rolling basis to ensure experience is retained.
[10] This includes active, deferred and pensioner members.
[11] See section 7 of the Guidance for more information on Conflicts of Interest.

that any potential conflict is effectively managed in line with both the internal procedures of the Board's conflicts policy and the requirements of the Code.

Knowledge and understanding (including Training)[12]

31. Knowledge and understanding must be considered in light of the role of the Board to assist the Administering Authority in line with the requirements outlined in paragraph 6 above. The Board shall establish and maintain a Knowledge and Understanding Policy and Framework to address the knowledge and understanding requirements that apply to Board members under the Act. That policy and framework shall set out the degree of knowledge and understanding required as well as how knowledge and understanding is acquired, reviewed and updated.

32. Board members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding policy and framework.

33. Board members shall participate in such personal training needs analysis or other processes that are put in place in order to ensure that they maintain the required level of knowledge and understanding to carry out their role on the Board.

Meetings

34. The Board shall as a minimum meet [TWO] times[13] each year.

35. Meetings shall normally take place between the hours of [09:00] and [21:00] at [LBTH TOWNHALL].

36. The chair of the Board with the consent of the Board membership may call additional meetings. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and e-mails.

Quorum

37. A meeting is only quorate when at least one person of each member and employer representatives are present including an independent chair. Or 50% of both member and employer representatives are present.

38. A meeting that becomes inquorate may continue but any decisions will be non-binding.

[12] See section 6 of the Guidance for more information on Knowledge and Understanding.
[13] See 5.35.11 in Guidance for more advice on the number of meetings to hold each year.

Board administration

39. The Chair shall agree with [AN OFFICER FROM DEMOCRATIC SERVICES] (the 'Board Secretary') an agenda prior to each Board meeting.

40. The agenda and supporting papers will be issued at least [SEVEN] working days (where practicable) in advance of the meeting except in the case of matters of urgency.

41. Draft minutes of each meeting including all actions and agreements will be recorded and published within [TWENTY - ONE] working days of the meeting. These draft minutes will be subject to formal agreement by the Board at their next meeting. Any decisions made by the Board should be noted in the minutes and in addition where the Board was unable to reach a decision such occasions should also be noted in the minutes.

    Where necessary any information considered exempt as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or considered confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998 shall be included in a Part II minute that is not made available to the public.

42. The Board Secretary, in consultation with [Investment & Treasury Manager] shall support Board members in maintaining their knowledge and understanding as determined in the Board's Knowledge and Understanding Policy and Framework and other guidance or legislation.

43. The Board Secretary shall arrange such advice as is required by the Board subject to such conditions as are listed in these Terms of Reference for the use of the budget set for the Board.

44. The Board Secretary shall ensure an attendance record is maintained along with advising the Administering Authority on allowances and expenses to be paid under these terms.

45. The Board Secretary shall liaise with the Administering Authority on the requirements of the Board, including advanced notice for officers to attend and arranging dates and times of Board meetings.

Public access to Board meetings and information

46. The Board meetings will be open to the general public (unless there is an exemption under relevant legislation which would preclude part (or all) of the meeting from being open to the general public).

47. The following will be entitled to attend Board meetings in an observer capacity:

    (a) *Members of the Pensions Committee,*
    (b) *Any person requested to attend by the Board.*

Any attendees will be permitted to speak at the discretion of the Chair.

48. In accordance with the Act the Administering Authority shall publish information about the Board to include:

    (a) The names of Board members and their contact details.
    (b) The representation of employers and members on the Board.
    (c) The role of the Board.
    (d) These Terms of Reference.

49. The Administering Authority shall also publish other information about the Board including:

    (a) Agendas and minutes
    (b) Training and attendance logs
    (c) An annual report on the work of the Board to be included in the Fund's own annual report.

50. All or some of this information may be published using the following means or other means as considered appropriate from time to time:

    (a) On the Fund's website.
    (b) As part of the Fund's Annual Report.
    (c) As part of the Governance Compliance Statement.

51. Information may be excluded on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

Expenses and allowances[14]

52. The Administering Authority [SHALL] meet the expenses of Board members in line with the Administering Authority's policy on expenses as set out in the Members Allowances Scheme

Budget

53. The Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Board will be met from the Fund and determined by:

    a) The Board will seek approval from the Corporate Director of Resources for any expenditure it wishes to make.

[14] Provision for the payment of expenses and allowances is a decision to be made locally by each Administering Authority. Full consideration should be given to information in Guidance - see section 9 and paragraphs 5.18 and 5.35.17 for more information. Administering authorities should aim to ensure that no Board member is either better or worse off as a result of fulfilling their duties as a member of the Board.

Core functions[15]

54. The first core function of the Board is to assist[16] the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

    a) *Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.*
    b) *Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.*
    c) *Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.*
    d) *Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.*
    e) *Monitor complaints and performance on the administration and governance of the scheme.*
    f) *Assist with the application of the Internal Dispute Resolution Process.*
    g) *Review the complete and proper exercise of Pensions Ombudsman cases.*
    h) *Review the implementation of revised policies and procedures following changes to the Scheme.*
    i) *Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.*
    j) *Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.*
    k) *Review the complete and proper exercise of employer and administering authority discretions.*
    l) *Review the outcome of internal and external audit reports.*
    m) *Review draft accounts and Fund annual report.*
    n) *Review the compliance of particular cases, projects or process on request of the Committee.*
    o) *Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.*

55. The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core

[15] In determining the role of the Board, further information can be found in paragraphs 3.27 to 3.29 of the Guidance.
[16] Please see paragraph 3.28 of the Guidance for more information on what assisting the Administering Authority means.

function the Board may determine the areas it wishes to consider including but not restricted to:

a) *Assist with the development of improved customer services.*
b) *Monitor performance of administration and governance against key performance targets and indicators.*
c) *Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.*
d) *Monitor investment costs including custodian and transaction costs.*
e) *Monitor internal and external audit reports.*
f) *Review the risk register as it relates to the scheme manager function of the authority.*
g) *Assist with the development of improved management, administration and governance structures and policies.*
h) *Review the outcome of actuarial reporting and valuations.*
i) *Assist in the development and monitoring of process improvements on request of Committee.*
j) *Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.*
k) *Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.*

56. In support of its core functions the Board may make a request for information to the Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing.

57. In support of its core functions the Board may make recommendations to the Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Reporting[17]

58. The Board should in the first instance report its requests, recommendations or concerns to the Committee. In support of this any member of the Board may attend a Committee meeting as an observer.

59. Requests and recommendations should be reported under the provisions of paragraphs 59 and 60 above.

60. The Board should report any concerns over a decision made by the Committee to the Committee subject to the agreement of at least 50% of voting Board members provided that all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate.

61. On receipt of a report under paragraph 63 above the Committee should, within a reasonable period, consider and respond to the Board.

[17] See section 8 of the Guidance for more information on Reporting.

62. Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report.

63. Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee under paragraph 63 and has not been rectified within a reasonable period of time it is under an obligation to escalate the breach.

64. The appropriate internal route for escalation is to the Monitoring Officer and/or Acting Corporate Director of Resources, the Section 151 Officer.

65. The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation.

66. Board members are also subject to the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistle blowing policy].

Review of terms of reference

67. These Terms of Reference shall be reviewed on each material change to those parts of the Regulations covering local pension boards and at least every [THREE] years.

68. These Terms of Reference were [adopted on [01 APRIL 2015].

…………………………………………
Signed on behalf of the Administering Authority

…………………………………………
Signed on behalf of the Board

Published 24 February 2015

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

Agenda Item 3.4

Non-Executive Report of the: **PENSIONS BOARD** **28 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:

- Note the work plan attached as Appendix 1 to this report.
- Note 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

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 Board** **28 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

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Non-Executive Report of the: **Pensions Board** 28 July 2015	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** Unrestricted
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.

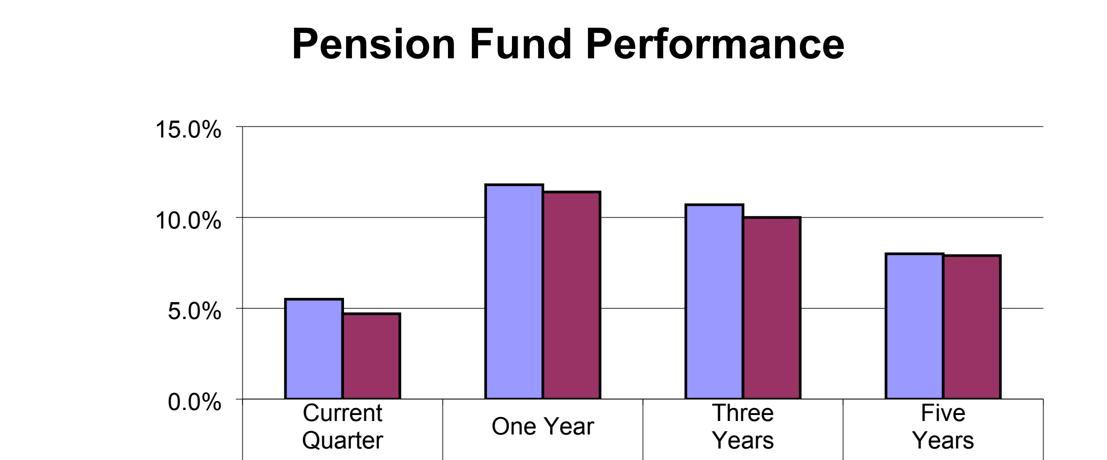
3.10. INVESTMENT PERFORMANCE

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%.

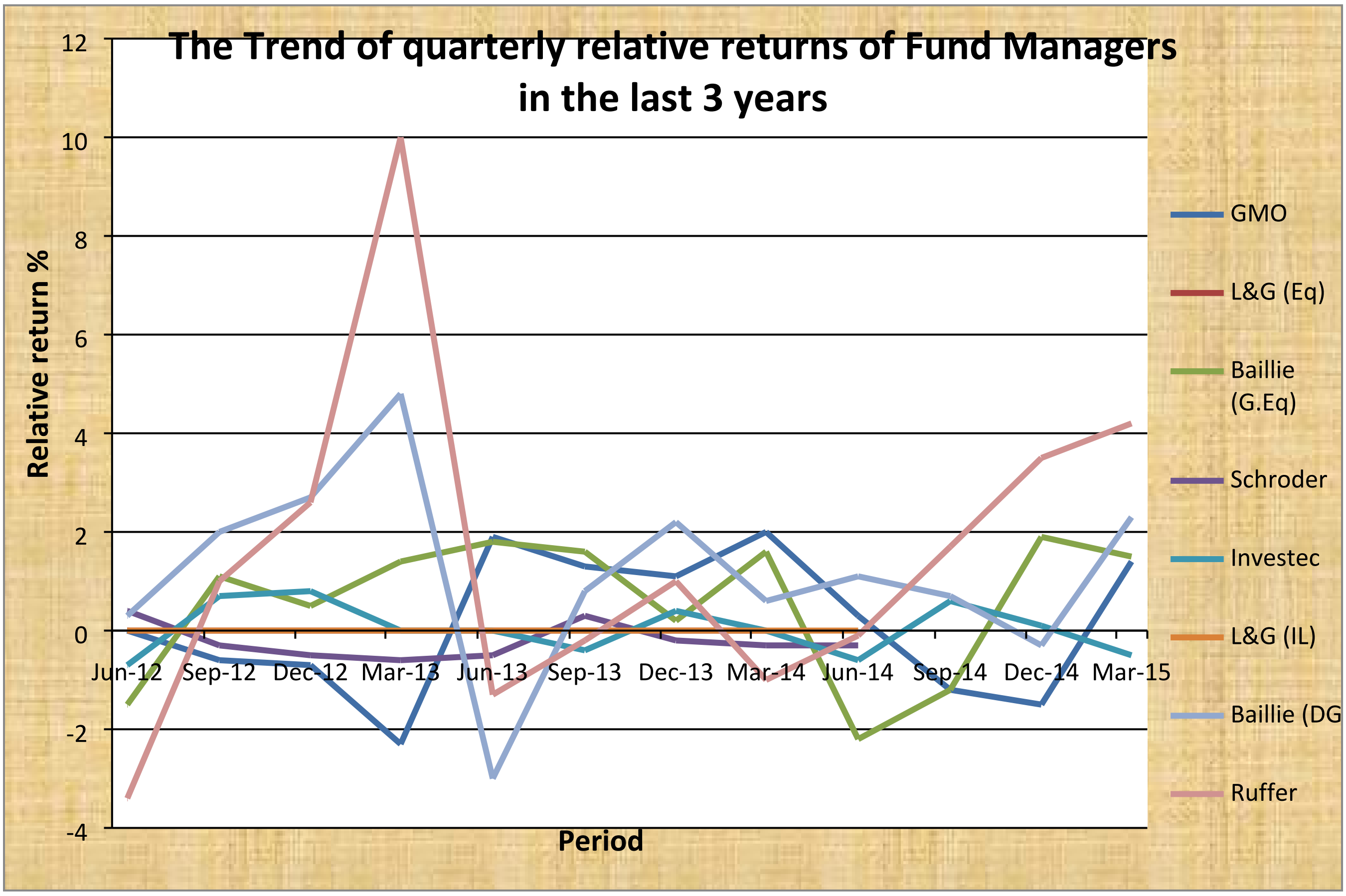
3.10.3 The performance of the fund over the longer term is as set out in the chart below.

Table 1 – Pension Fund Performance



	Current Quarter	One Year	Three Years	Five Years
Fund	5.5%	11.8%	10.7%	8.0%
Bench Mark	4.7%	11.4%	10.0%	7.9%

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 MANAGERS

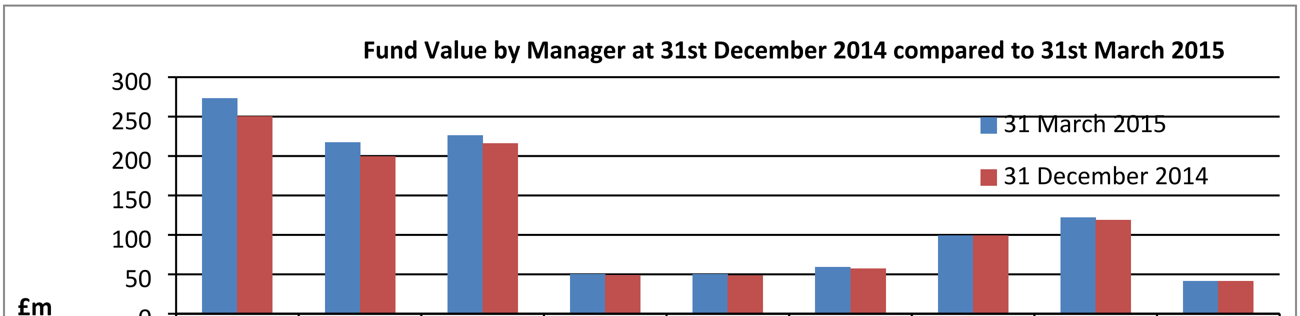
3.11.1 The Fund employs six specialist managers with eight mandates. The managers, mandate and funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value 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.

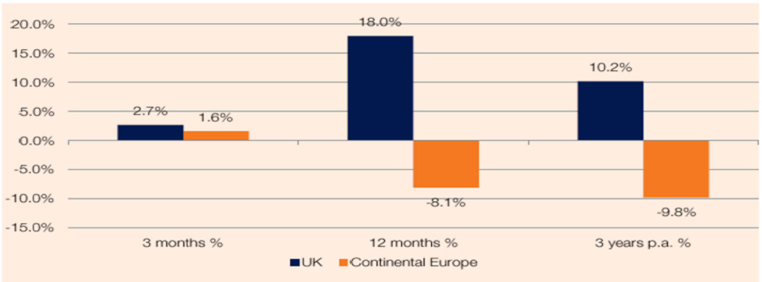
3.17.2 Longer term performance continues to lag the benchmark; with an underperformance 1.0% p.a. over the 5 years to 31 March 2015.

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.

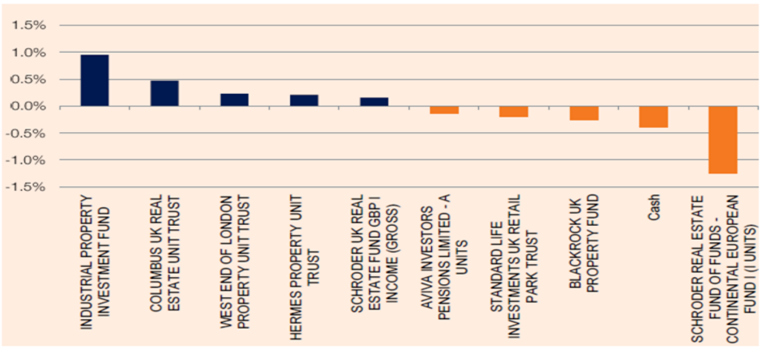
3.17.4 The Continental European Fund (3% of portfolio) produced a positive return this quarter (10.9%), but still remains a drag to total returns in aggregate over the past five years in particular.

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

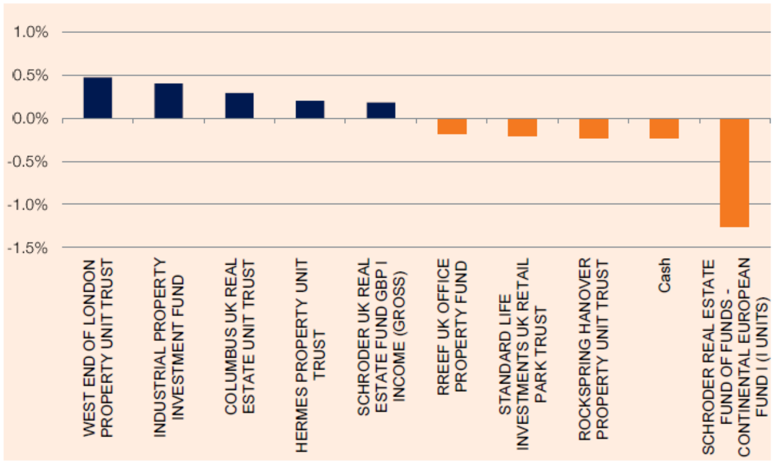
Total return by region
Periods to end 31 Mar 2015



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.

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

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.

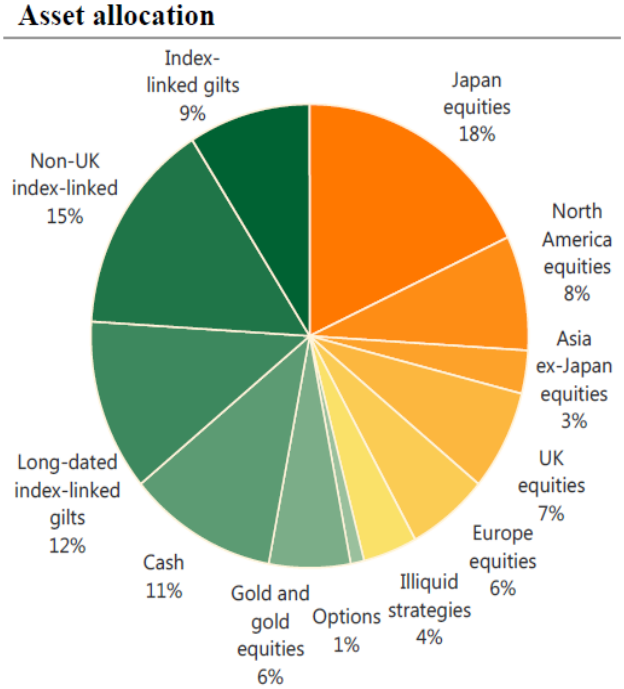
3.19.4 The use of protective options strategies was the primary detractor. The manager put in place protection strategies to protect against the reversal of low bond yields, however the fall in bond yields over the quarter created a drag on performance. The manager believes these options remain an important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

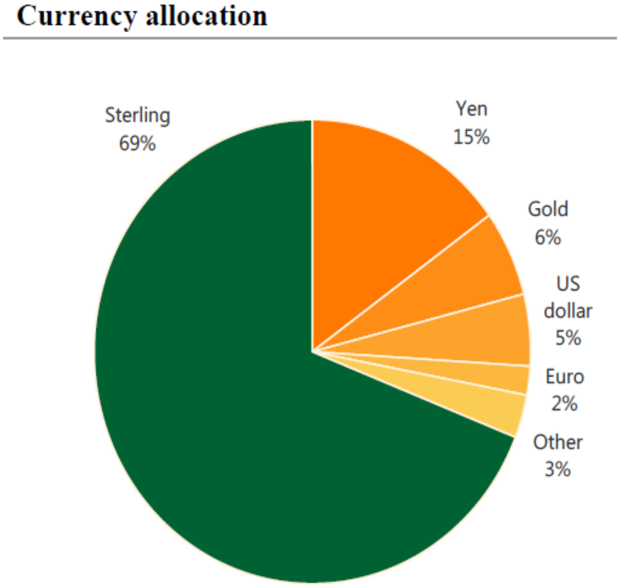
3.19.5 The allocation to US technology stocks also proved detrimental, as the market factored in the impact of ongoing Dollar strength on the sector's overseas earnings.

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

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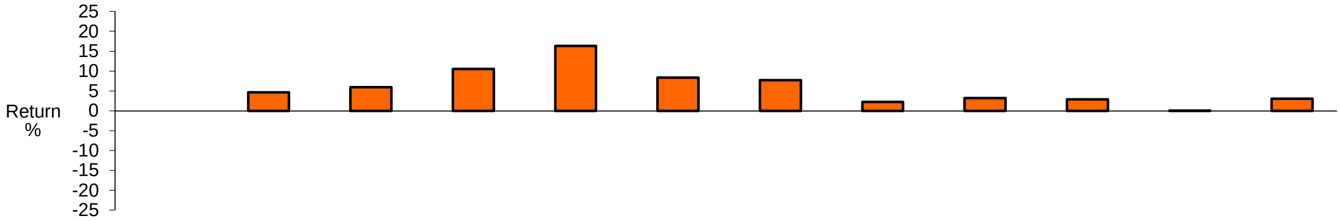
Market Background

Periods to end March 2015
Pound Sterling

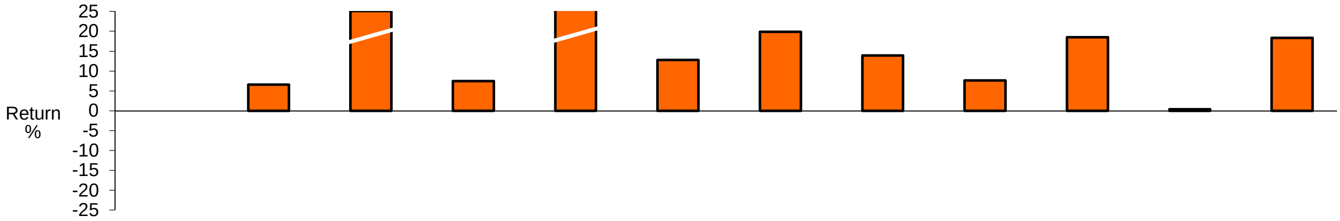
This page details the performance of the major markets.

Latest Quarter



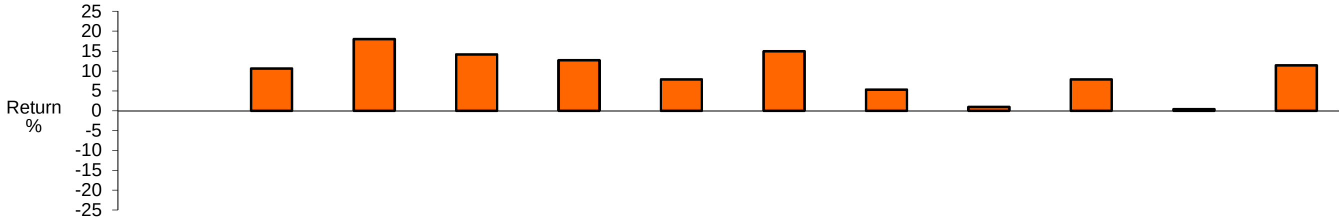
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	4.7	5.9	10.6	16.4	8.4	7.7	2.2	3.2	2.9	0.1	3.0

Last 12 Months



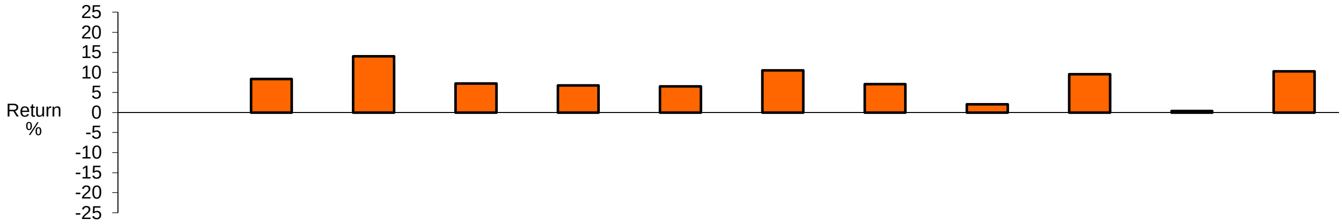
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	6.6	25.1	7.5	27.1	12.7	19.9	13.9	7.6	18.5	0.3	18.3

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
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

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

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

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

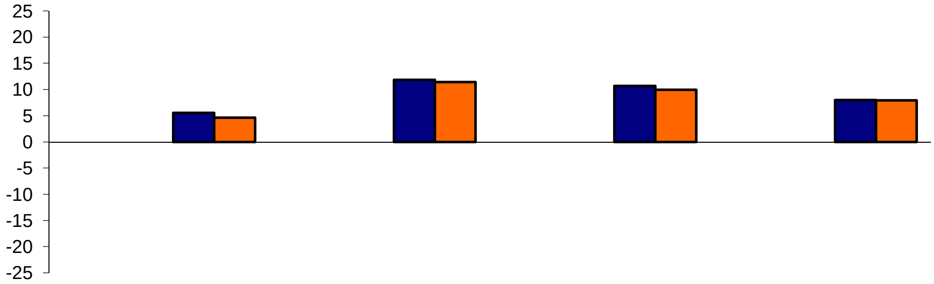
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end March 2015**

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
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

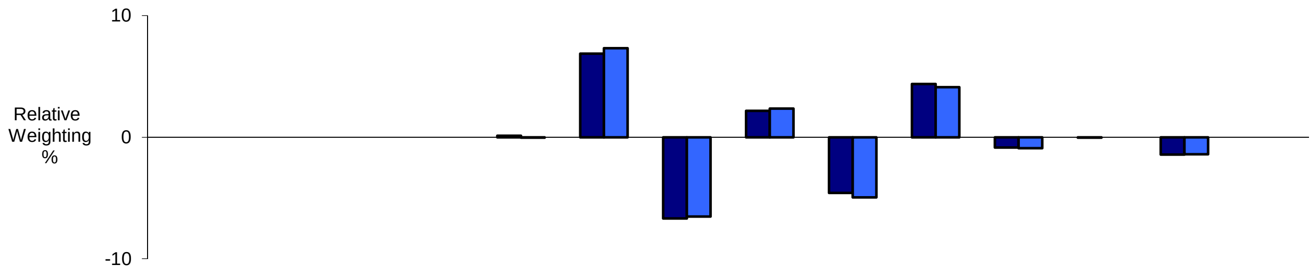
This page analyses in detail the Fund performance over the latest period.

Summary

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

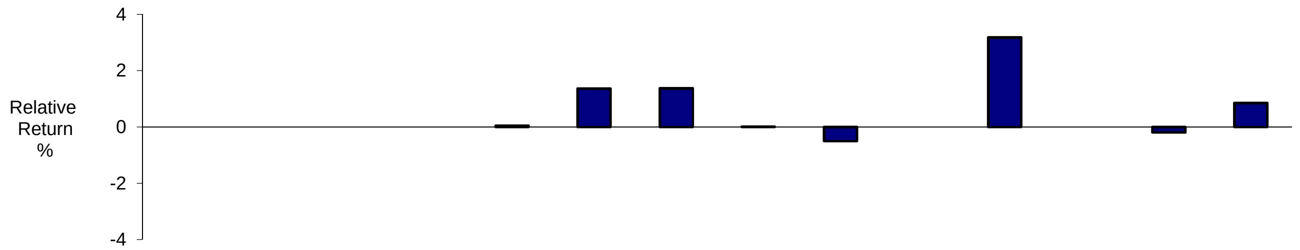
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

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

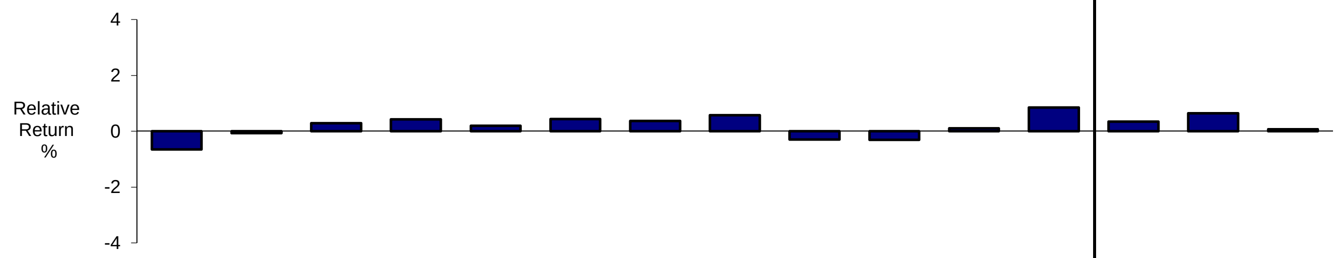
LONDON BOROUGH OF TOWER HAMLETS - TOTAL COMBINED — Periods to end March 2015

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.

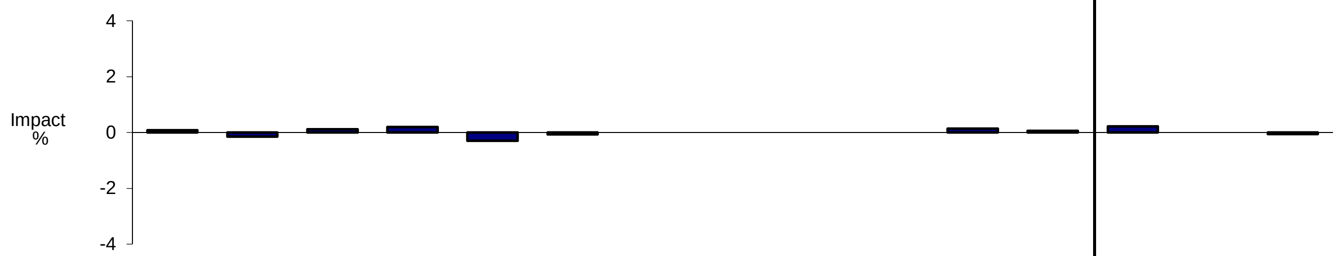
Fund Returns



	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

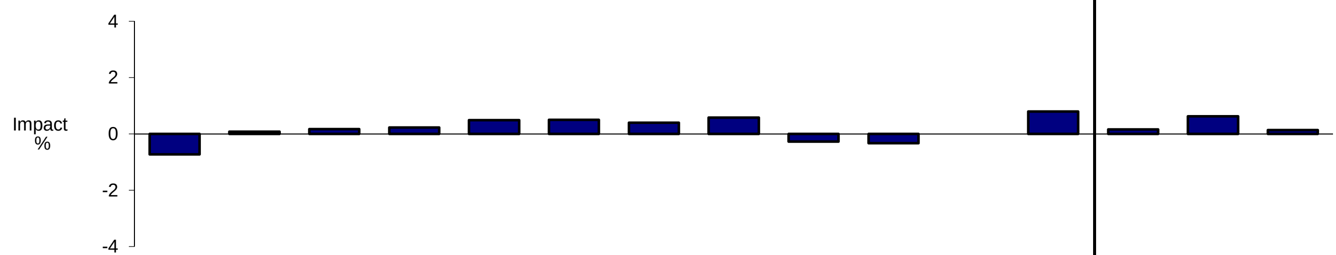
The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:

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.

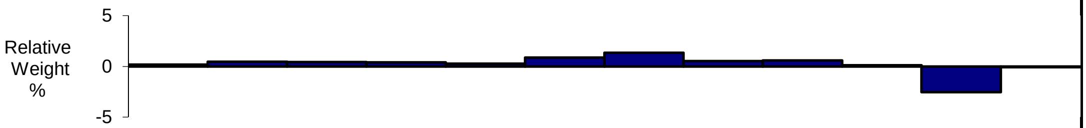
The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

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

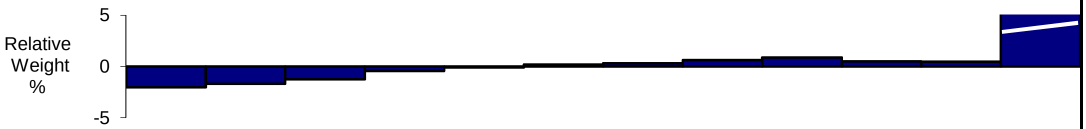
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



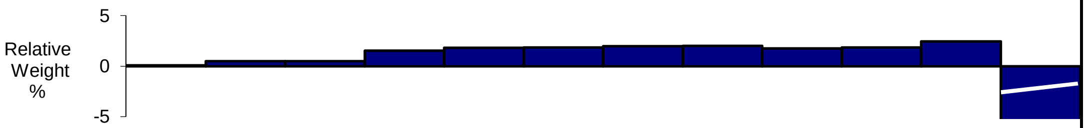
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	22.7	23.0	22.9	22.9	22.8	23.4	23.9	23.0	23.1	22.6	20.0	19.8			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	19.9			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

OVERSEAS EQUITIES



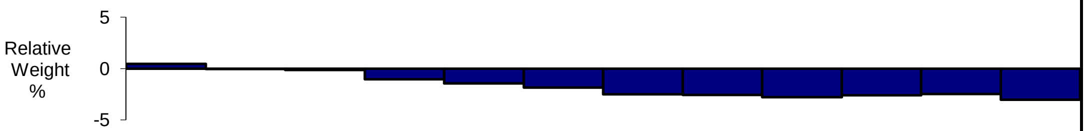
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	20.5	20.8	21.3	22.1	22.4	22.7	22.8	23.1	23.4	23.0	23.0	23.7			
Benchmark	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	16.1			
Impact	-	-	-	-0.1	-	-	-	-	-	-	-	0.2	0.3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

GLOBAL POOLED INC UK



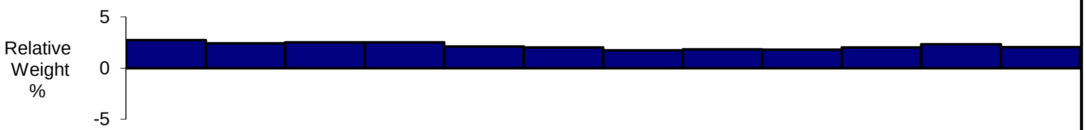
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	16.1	16.5	16.5	17.5	17.8	17.8	18.0	18.0	17.7	17.8	18.4	19.1			
Benchmark	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	25.1			
Impact	-	-	-	-	-	-	-	-	-	-	-	-0.2	-0.2	-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

TOTAL BONDS PLUS INDEX-LINKED



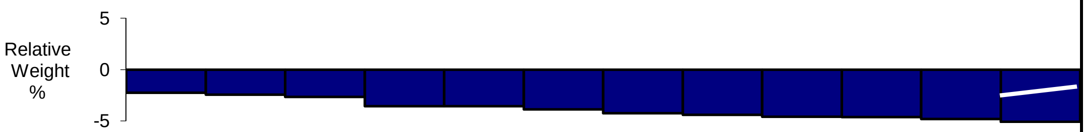
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	17.5	17.0	16.9	16.0	15.6	15.1	14.5	14.4	14.2	14.4	14.5	13.9			
Benchmark	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0			
Impact	-	-0.1	0.1	0.2	-0.2	-	-	0.1	-	0.1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

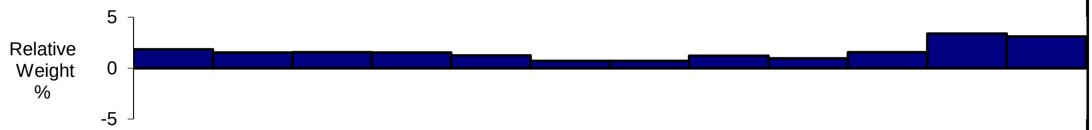
Long Term Asset Allocation

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

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

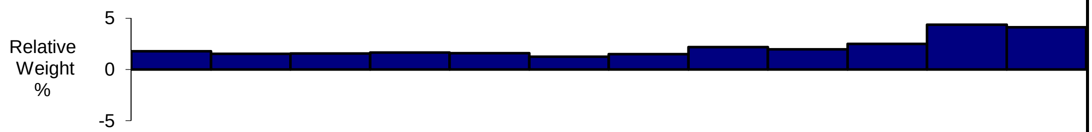
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



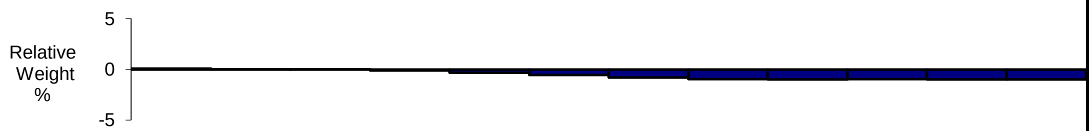
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	11.9	11.5	11.6	11.5	11.3	10.7	10.7	11.2	11.0	11.6	13.4	13.0			
Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.9			
Impact	0.1	-0.1	-	-0.1	-	-	-	-	-	-	-	-0.1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

TOTAL CASH



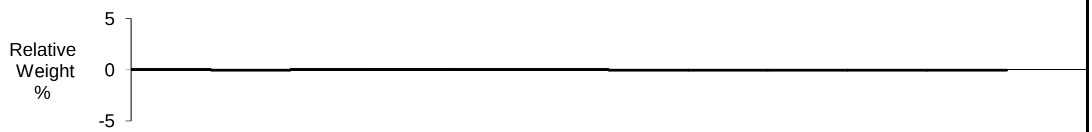
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	1.8	1.5	1.6	1.6	1.6	1.3	1.5	2.2	2.0	2.5	4.4	4.1			
Benchmark															
Impact	0.1	-	-	-0.1	-	-0.1	-	-	-0.1	-	-0.1	-0.2	-0.3	-0.2	-0.2

ALTERNATIVES



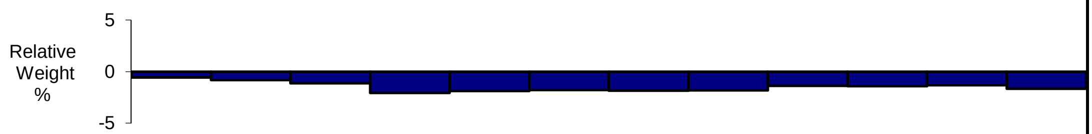
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	10.1	10.0	10.0	9.9	9.7	9.5	9.2	9.0	9.0	9.1	9.0	8.9			
Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.9			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-

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

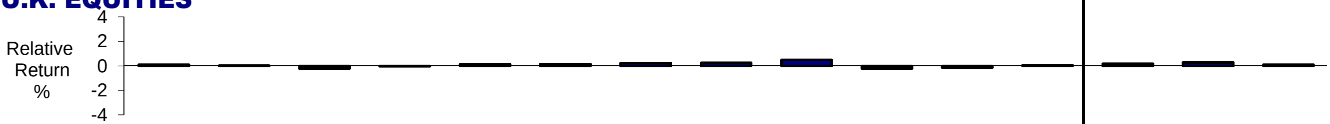
Long Term Stock Selection

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

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

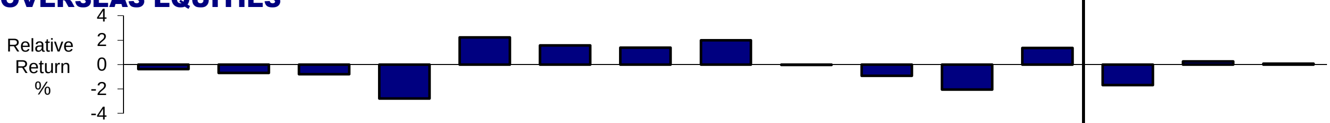
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



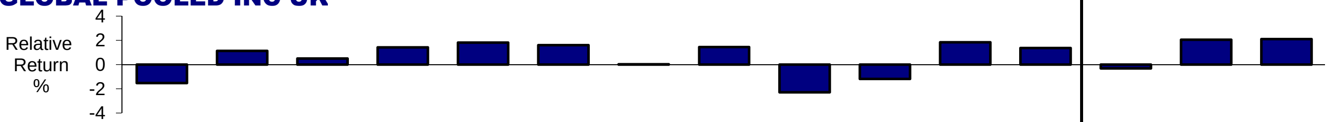
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-2.5	4.7	3.6	10.3	-1.5	5.8	5.7	-0.4	2.7	-1.2	0.4	4.7	6.8	10.9	8.4
Benchmark	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6	2.2	-1.0	0.6	4.7	6.6	10.6	8.3
Impact	-	-	-	-	-	-	0.1	0.1	0.1	-	-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

OVERSEAS EQUITIES



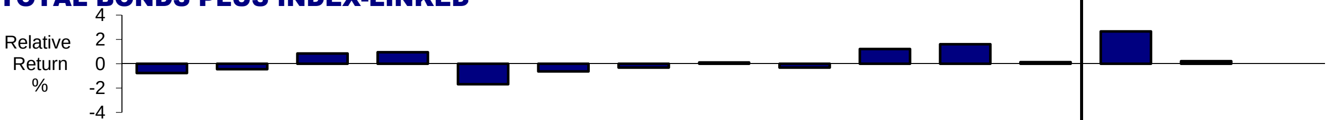
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-4.8	2.9	3.4	11.4	2.8	4.1	5.6	2.4	2.1	0.9	1.7	9.1	14.2	14.2	9.2
Benchmark	-4.5	3.7	4.2	14.6	0.5	2.5	4.2	0.5	2.1	1.8	3.8	7.6	16.1	13.9	9.1
Impact	-0.1	-0.1	-0.2	-0.6	0.5	0.4	0.3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

GLOBAL POOLED INC UK



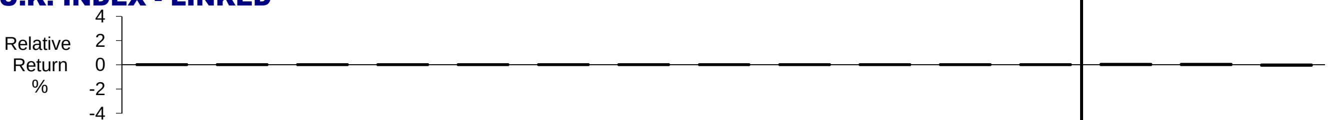
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-5.0	5.1	2.8	15.8	1.7	2.8	5.1	2.0	0.3	1.9	6.4	9.1	18.6	16.4	12.4
Benchmark	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	2.6	3.2	4.5	7.6	19.0	14.1	10.0
Impact	-0.2	0.2	0.1	0.2	0.3	0.3	-	0.3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

TOTAL BONDS PLUS INDEX-LINKED



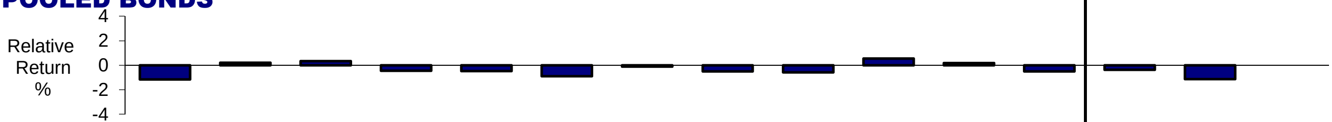
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-0.0	-0.4	2.3	3.1	-2.5	-0.0	0.0	1.3	0.4	2.8	3.8	1.3	8.5	4.0	3.5
Benchmark	0.7	-0.0	1.4	2.1	-0.8	0.6	0.3	1.1	0.7	1.6	2.2	1.2	5.7	3.8	
Impact	-0.1	-	-	-	-	-0.1	-	-	-0.1	0.1	-	-	-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

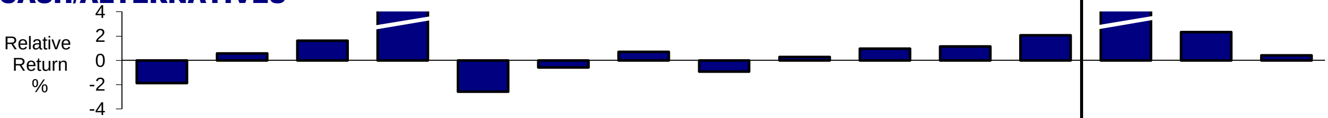
- indicates a value less than 0.05 and greater than -0.05

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**

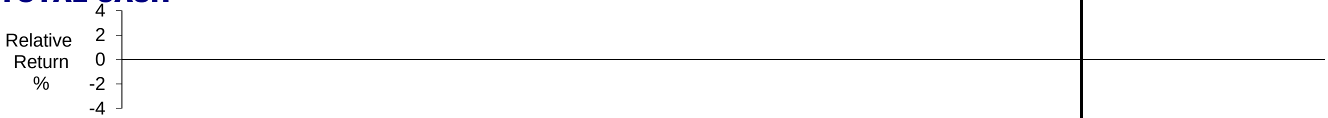
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



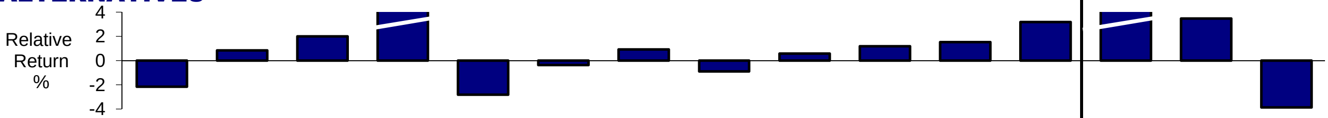
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-1.0	1.4	2.4	6.6	-1.8	0.2	1.5	-0.1	1.1	1.8	2.0	2.9	8.0	5.7	3.3
Benchmark	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	3.3	3.3	2.9
Impact	-0.2	0.1	0.2	0.6	-0.3	-	0.1	-0.1	0.1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

TOTAL CASH



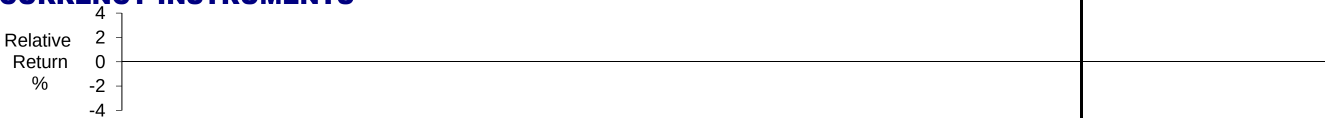
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	0.5	-0.4	0.1	1.5	0.2	-1.0	-0.2	-0.2	-0.2	0.8	0.9	0.6	2.2	0.9	1.0
Benchmark															
Impact															

ALTERNATIVES



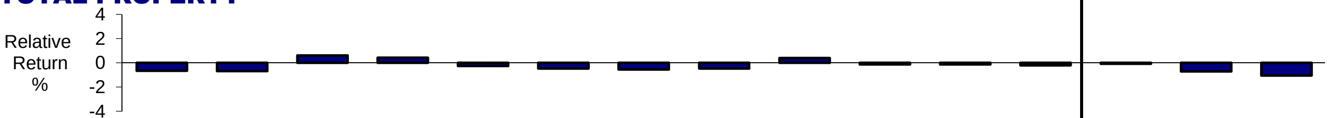
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	1yr	3yrs % pa	5yrs % pa
Fund	-1.3	1.7	2.8	7.4	-2.0	0.4	1.7	-0.1	1.4	2.0	2.4	4.0	10.1	6.9	-1.1
Benchmark	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	3.3	3.3	2.9
Impact	-0.2	0.1	0.2	0.6	-0.3	-	0.1	-0.1	0.1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

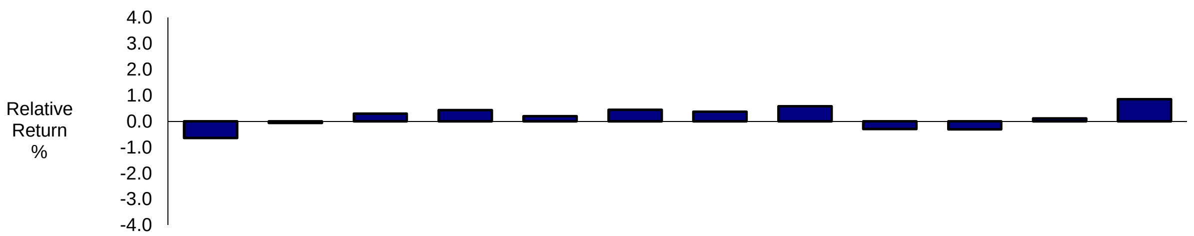
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

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

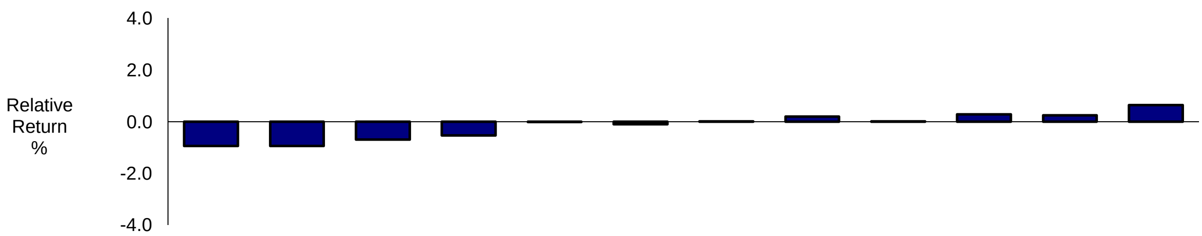
	---------- 2012 ----------			-------------- 2013 --------------				-------------- 2014 --------------				2015
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Values (GBPm's)												
Initial	829.5	809.6	829.0	853.8	929.4	930.3	956.0	998.4	1016.2	1035.1	1049.7	1081.5
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



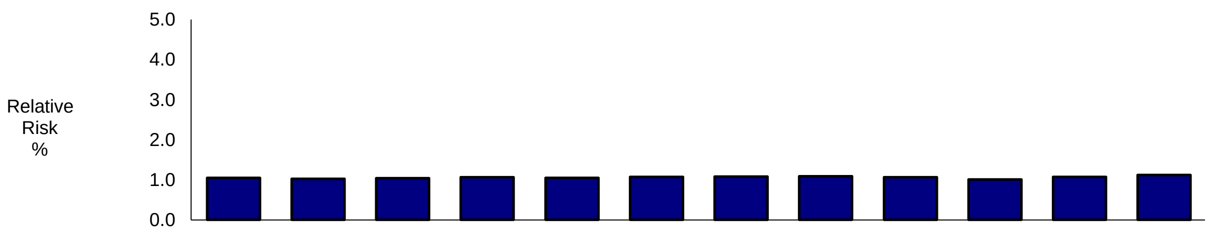
Fund	-2.6	2.6	2.7	8.9	0.0	2.9	4.0	1.3	1.8	1.2	2.8	5.5
Benchmark	-1.9	2.6	2.4	8.4	-0.2	2.5	3.6	0.7	2.1	1.5	2.7	4.7
Relative Return	-0.6	-0.1	0.3	0.4	0.2	0.4	0.4	0.6	-0.3	-0.3	0.1	0.9

Annualised Rolling 3 Year Returns



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



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**

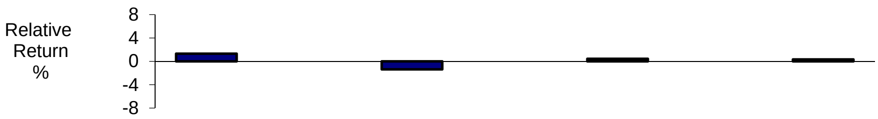
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

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

GMO - TOTAL ASSETS

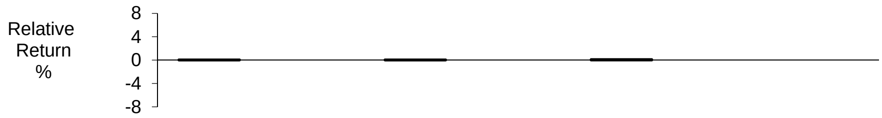
LB OF TOWER HAMLETS - GMO BM



	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

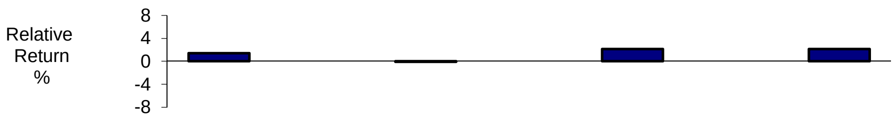
FTSE All Share TR



	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

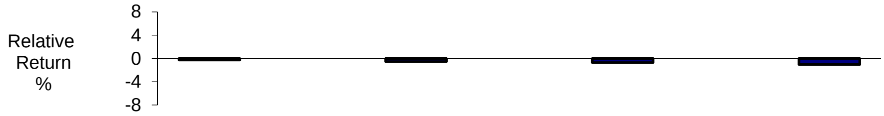
MSCI AC WORLD GDR



	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

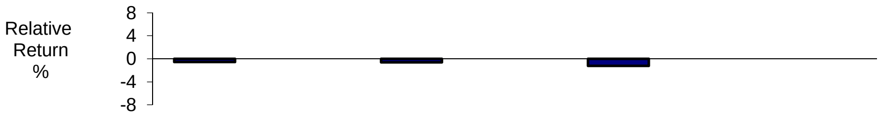
London Borough of Tower Hamlets - Schroders



	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**

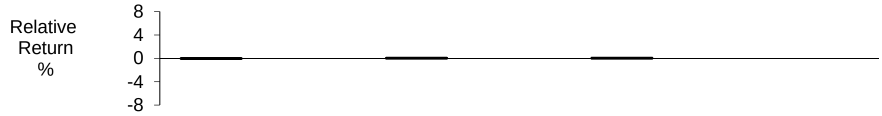
Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

Category - TOTAL ASSETS

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

L&G - TOTAL ASSETS

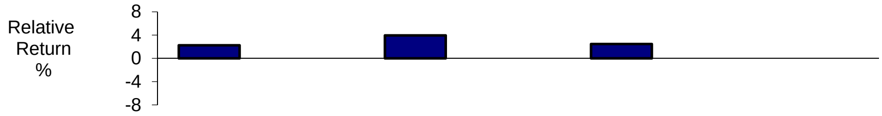
FTSE UK GILTS INDEXED > 5 YRS



	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

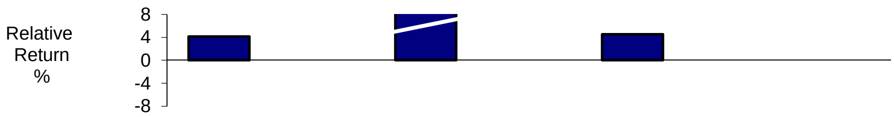
BANK OF ENGLAND BASE RATE + 3.5%



	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

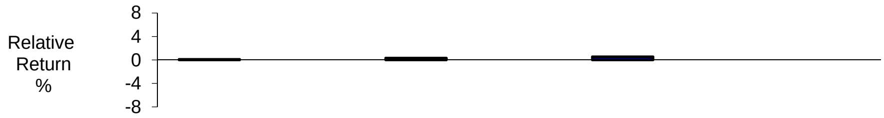
GBP 3 MONTH LIBOR + 2%



	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

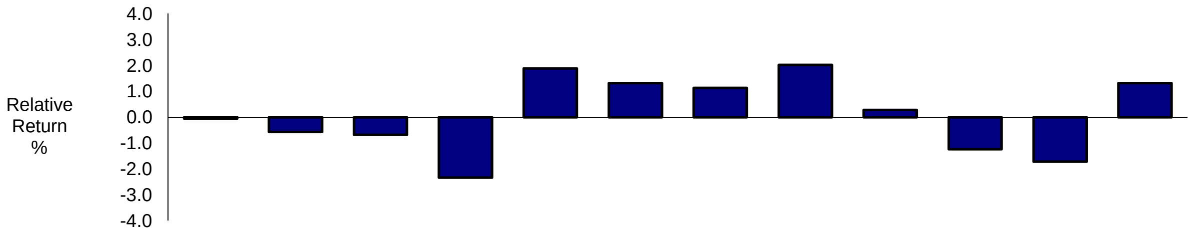
LONDON BOROUGH OF TOWER HAMLETS - GMO	Periods to end March 2015
Benchmark - LB OF TOWER HAMLETS - GMO BM	Pound Sterling

Category - TOTAL ASSETS

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

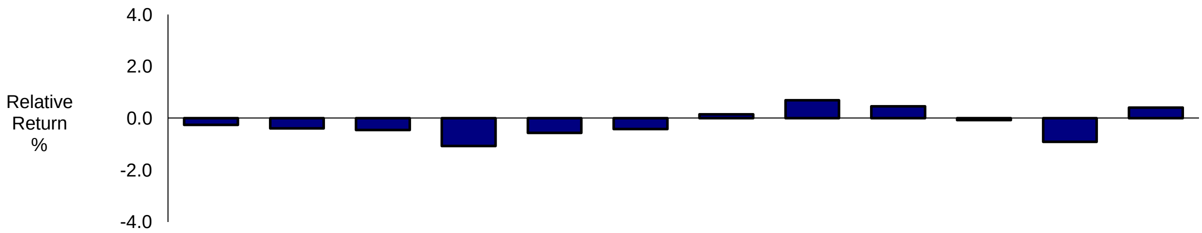
	---------- 2012 ----------			-------------- 2013 --------------				-------------- 2014 --------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	199.0	190.8	196.3	203.5	226.3	231.9	241.1	254.8	260.5	267.0	267.8	250.7
Net Investment	2.7	1.0	1.6	0.8	2.7	1.0	1.7	0.9	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



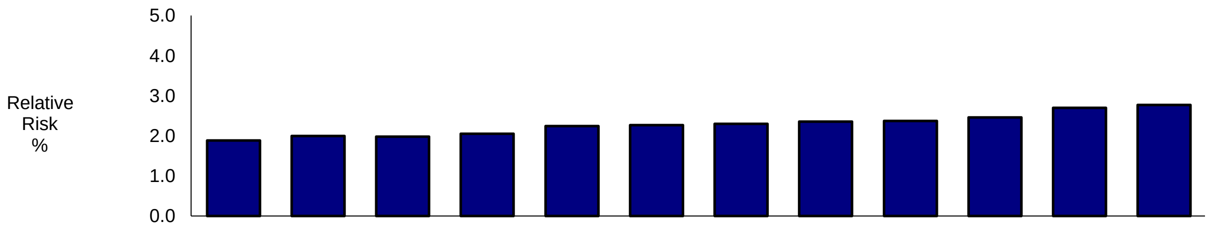
Fund	-4.3	3.1	3.4	11.4	2.3	4.1	5.5	2.4	2.4	0.3	1.3	9.0
Benchmark	-4.3	3.7	4.1	14.1	0.4	2.7	4.3	0.3	2.2	1.6	3.1	7.6
Relative Return	-0.0	-0.6	-0.7	-2.3	1.9	1.3	1.1	2.0	0.3	-1.2	-1.7	1.3

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

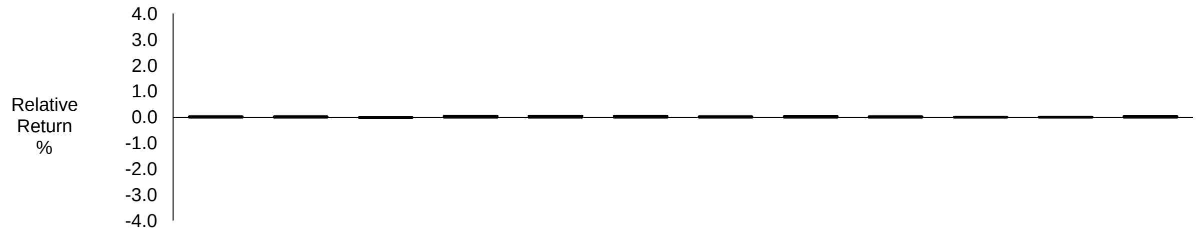
LB OF TOWER HAMLETS - L&G	Periods to end March 2015
Benchmark - FTSE All Share TR	Pound Sterling

Category - TOTAL ASSETS

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

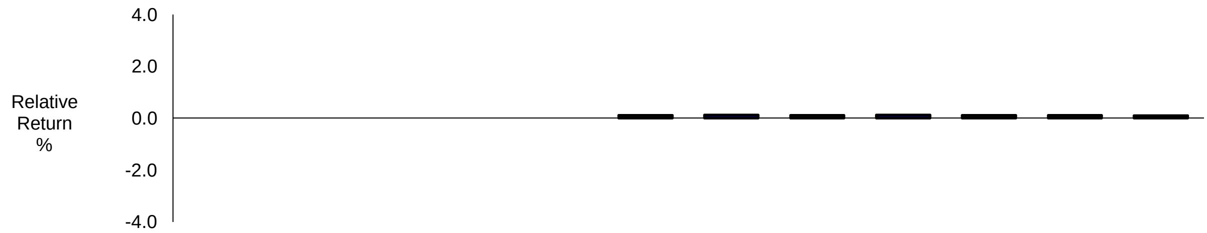
	---------- 2012 ----------			--------------- 2013 ---------------				--------------- 2014 ---------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	166.5	162.2	169.8	176.3	194.6	191.5	202.3	213.4	212.1	216.9	214.8	216.1
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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



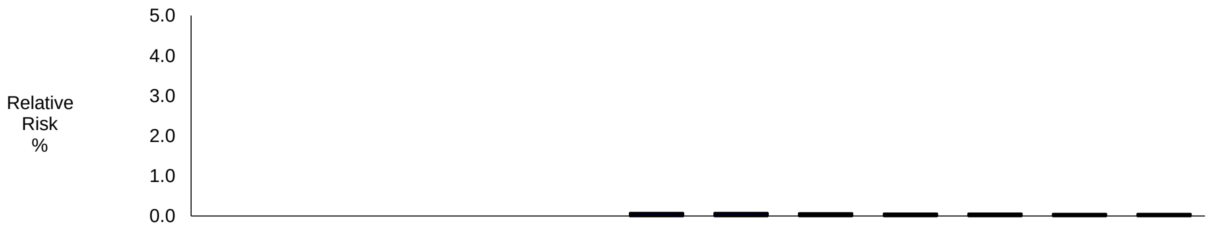
	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Fund	-2.6	4.7	3.8	10.4	-1.6	5.6	5.5	-0.6	2.3	-1.0	0.6	4.7
Benchmark	-2.6	4.7	3.8	10.3	-1.7	5.6	5.5	-0.6	2.2	-1.0	0.6	4.7
Relative Return	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Annualised Rolling 3 Year Returns



	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
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 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						0.1	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**

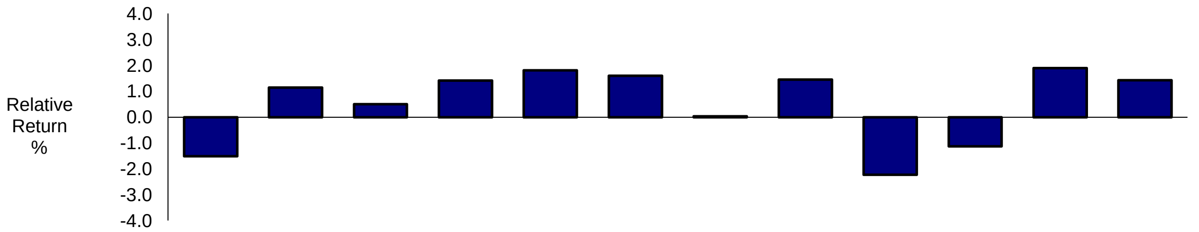
Benchmark - MSCI AC WORLD GDR — **Pound Sterling**

Category - TOTAL ASSETS

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

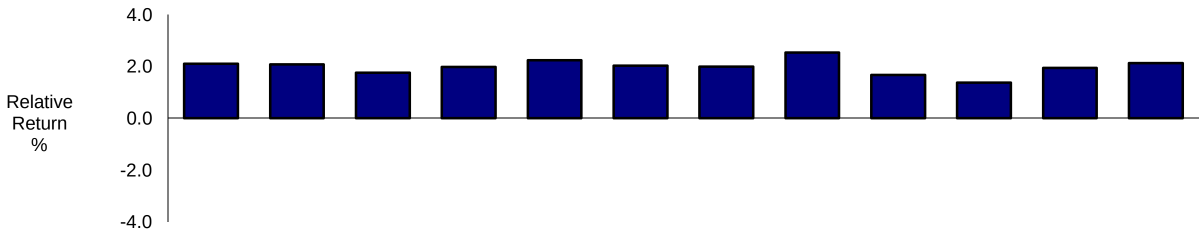
	---------- 2012 ----------			-------------- 2013 --------------				-------------- 2014 --------------				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	137.0	130.1	136.8	140.8	163.1	165.9	170.6	179.4	183.1	183.6	187.3	199.4
Net Investment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	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



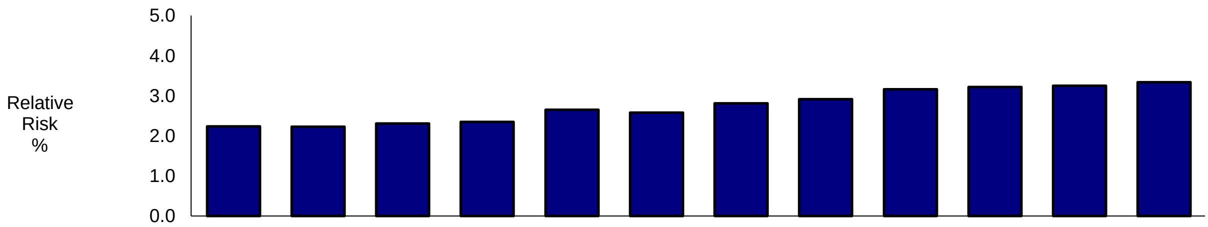
	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Fund	-5.0	5.1	2.8	15.8	1.7	2.8	5.1	2.0	0.3	2.0	6.5	9.1
Benchmark	-3.6	3.9	2.3	14.1	-0.1	1.2	5.0	0.5	2.6	3.2	4.5	7.6
Relative Return	-1.5	1.1	0.5	1.4	1.8	1.6	0.0	1.5	-2.2	-1.1	1.9	1.4

Annualised Rolling 3 Year Returns



	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	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



	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	2.2	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**

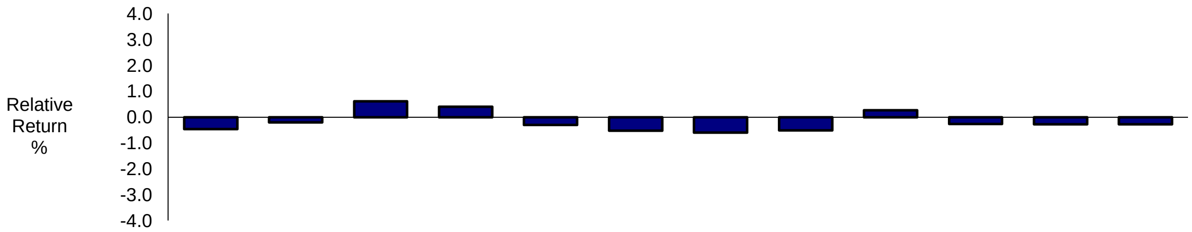
Benchmark - London Borough of Tower Hamlets - Schroders **Pound Sterling**

Category - TOTAL ASSETS

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

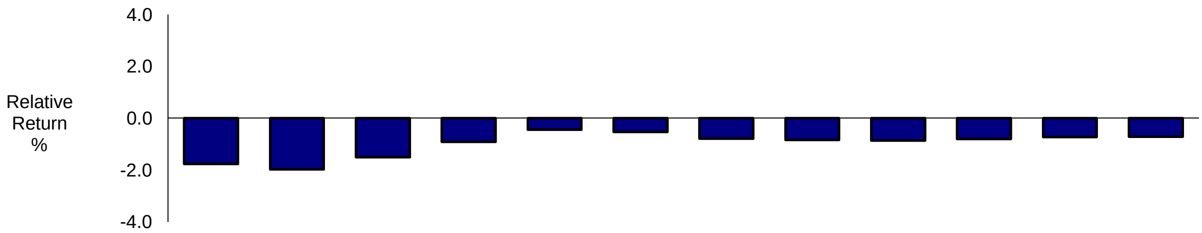
	2012			2013				2014				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Values (GBPm's)												
Initial	95.1	94.8	94.5	94.7	95.8	96.8	98.7	102.3	105.2	110.1	114.3	119.2
Net Investment	1.0	0.8	0.8	0.9	0.8	0.9	0.8	1.0	1.1	1.0	1.0	0.9
Capital Gain/Loss	-1.3	-1.1	-0.7	0.1	0.3	0.9	2.8	1.9	3.8	3.2	3.9	2.1
Final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



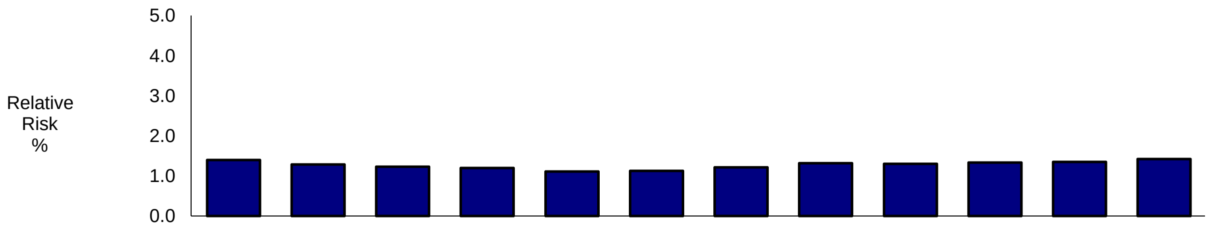
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fund	-0.4	-0.3	0.2	1.2	1.1	1.9	3.6	2.8	4.6	3.7	4.3	2.5
Benchmark	0.1	-0.1	-0.4	0.8	1.4	2.4	4.3	3.3	4.3	4.0	4.6	2.8
Relative Return	-0.5	-0.2	0.6	0.4	-0.3	-0.5	-0.6	-0.5	0.3	-0.3	-0.3	-0.3

Annualised Rolling 3 Year Returns



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
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



	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
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**

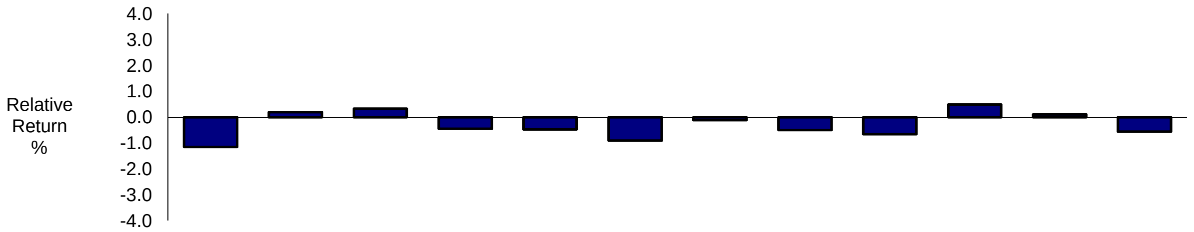
Benchmark - GBP 3 MONTH LIBOR + 2% | **Pound Sterling**

Category - TOTAL ASSETS

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

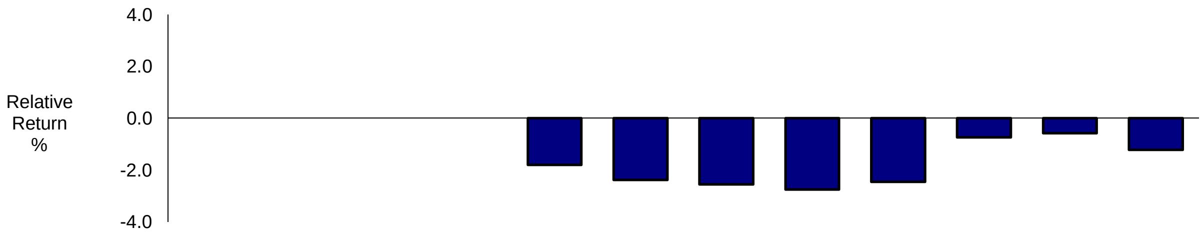
	---------- 2012 ----------			--------------- 2013 ---------------				--------------- 2014 ---------------				2015
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Values (GBPm's)												
Initial	95.5	95.1	96.0	96.9	97.0	97.2	96.9	97.4	97.5	97.5	98.7	99.5
Net Investment	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



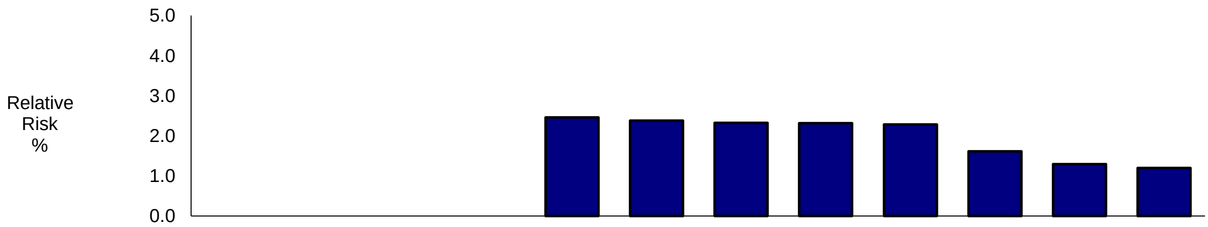
Fund	-0.4	0.9	1.0	0.2	0.1	-0.3	0.5	0.1	-0.0	1.1	0.7	0.1
Benchmark	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Relative Return	-1.2	0.2	0.3	-0.5	-0.5	-0.9	-0.1	-0.5	-0.7	0.5	0.1	-0.6

Annualised Rolling 3 Year Returns



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



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**

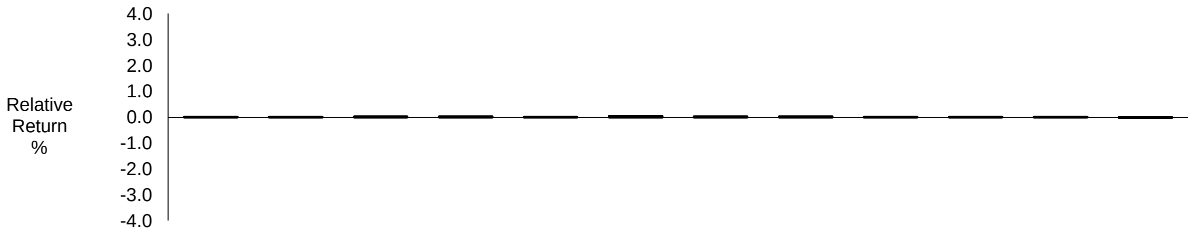
Benchmark - FTSE UK GILTS INDEXED > 5 YRS — **Pound Sterling**

Category - TOTAL ASSETS

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

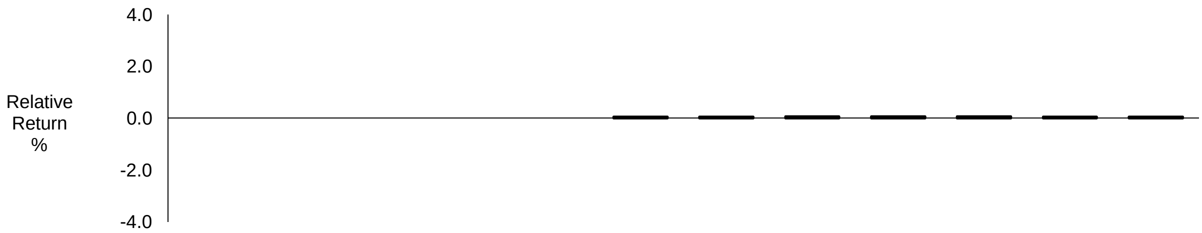
	---------- 2012 ----------			--------------- 2013 ---------------				--------------- 2014 ---------------				2015
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Values (GBPm's)												
Initial	46.0	46.4	44.9	47.2	51.4	47.6	47.9	47.5	49.2	49.7	52.7	57.7
Net Investment	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



	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

	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**

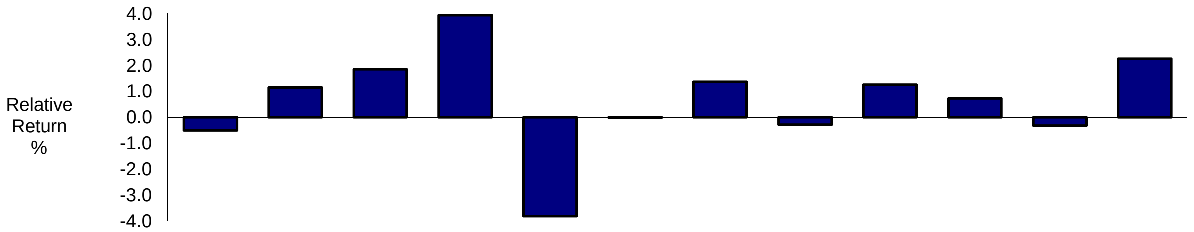
Benchmark - BANK OF ENGLAND BASE RATE + 3.5% — **Pound Sterling**

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 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Fund	0.5	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

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
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

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
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

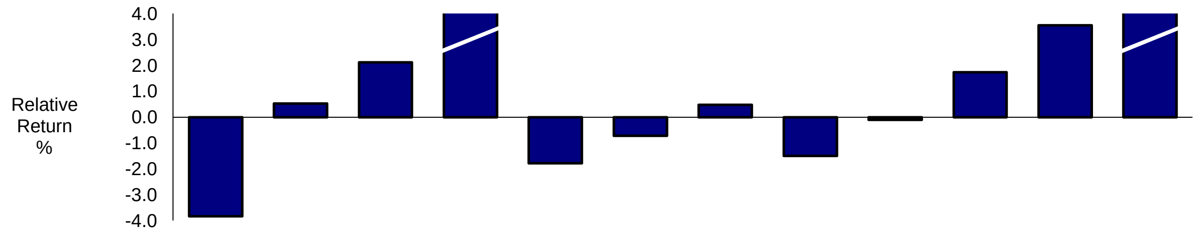
LB OF TOWER HAMLETS - RUFFER INVESTMENT MGMT LTD	Periods to end March 2015
Benchmark - GBP 3 MONTH LIBOR + 2%	Pound Sterling

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



	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	-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

	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								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

	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								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

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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 (%)

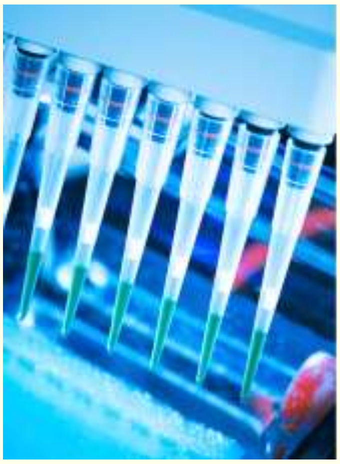
	Fund Gross	Fund Net	Benchmark
Since Inception* (Cumulative)	108.5	101.5	72.1
Since Inception* (p.a.)	10.0	9.5	7.3
Five Years (p.a.)	13.1	12.6	10.0
One Year	19.4	18.9	19.0
Quarter	9.2	9.1	7.6

*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.

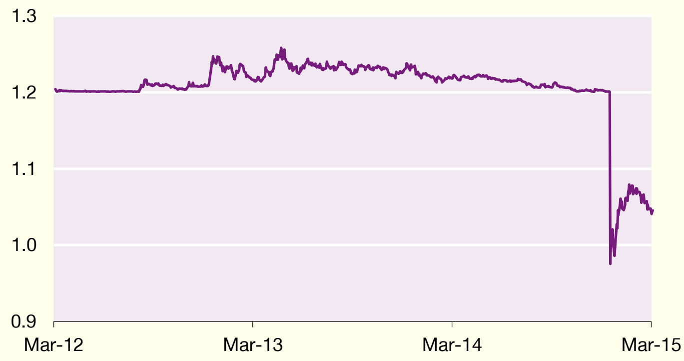
What have we been selling?

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

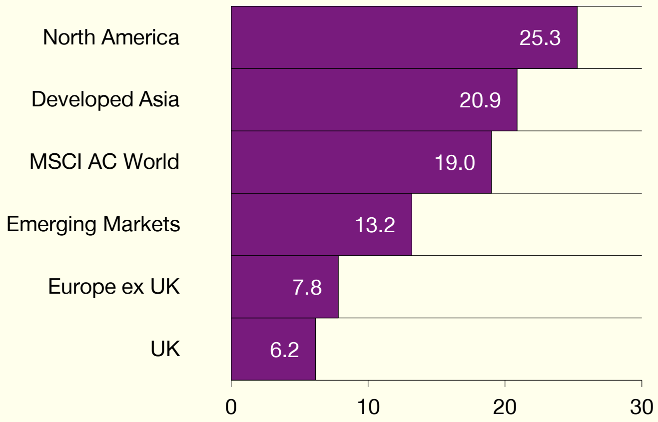
Asset Name
Financial Engines
HDFC
MS&AD Insurance
Zillow Group Inc

Complete Sales During Quarter

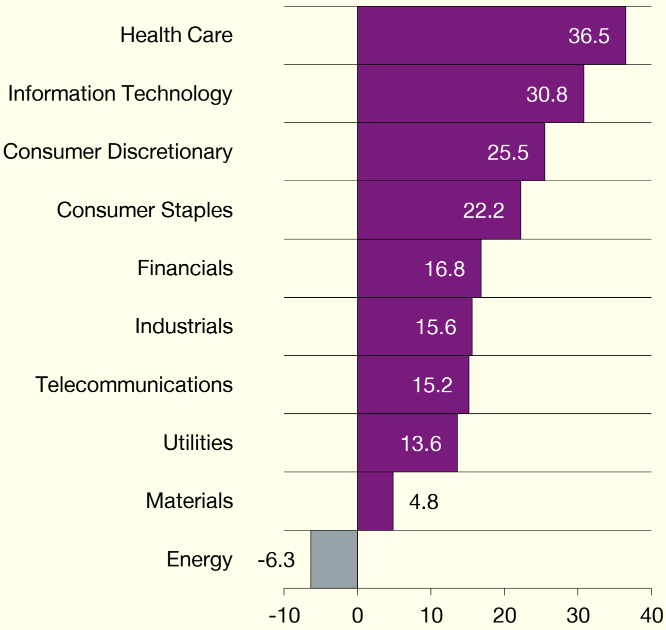
Asset Name
Bank Negara Indonesia
British American Tobacco
Norsk Hydro
Roche
Teradata

Index Information

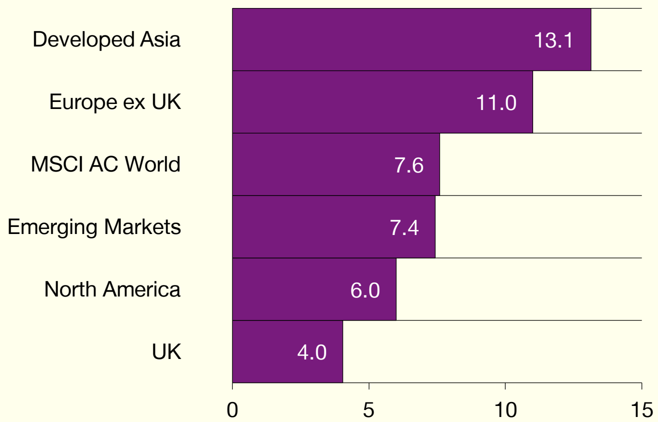
Regional Returns Over One Year (%)



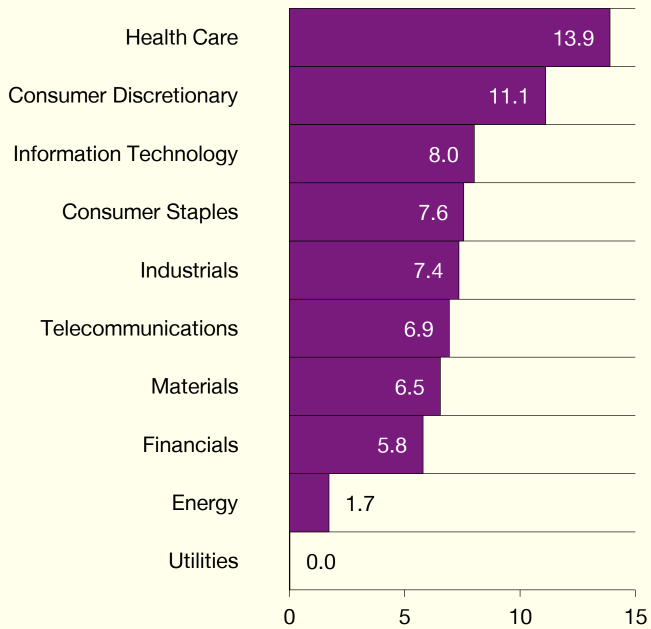
Sector Returns Over One Year (%)



Regional Returns During Quarter (%)



Sector Returns During Quarter (%)



% Change in GBP
Source: Baillie Gifford

Performance Objective

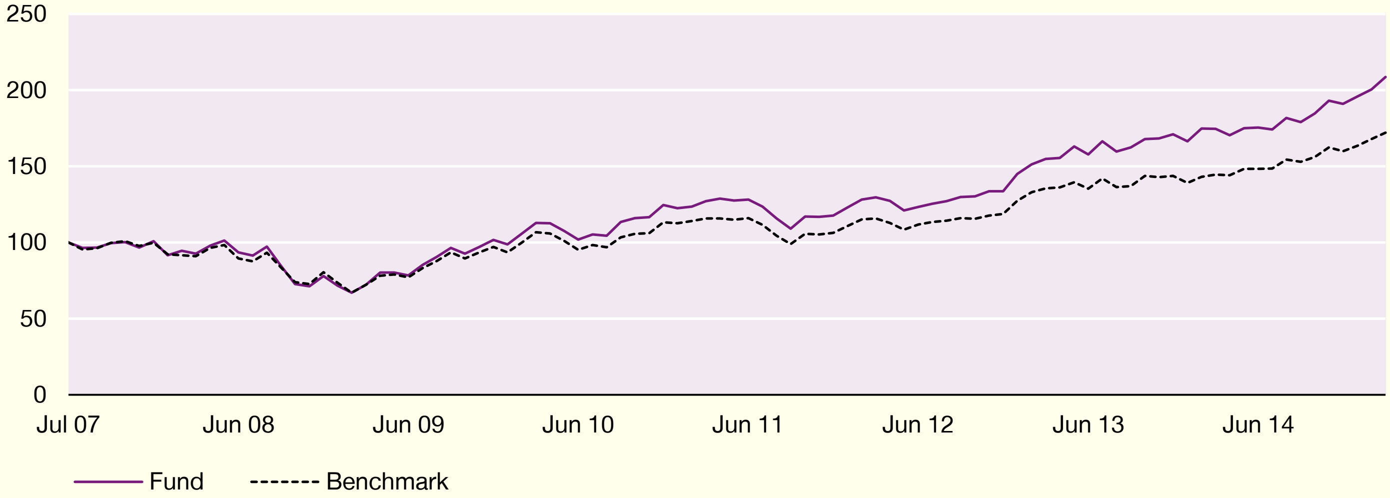
To outperform the MSCI AC World Index by 2.0 - 3.0% per annum (gross) over rolling five year periods.

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

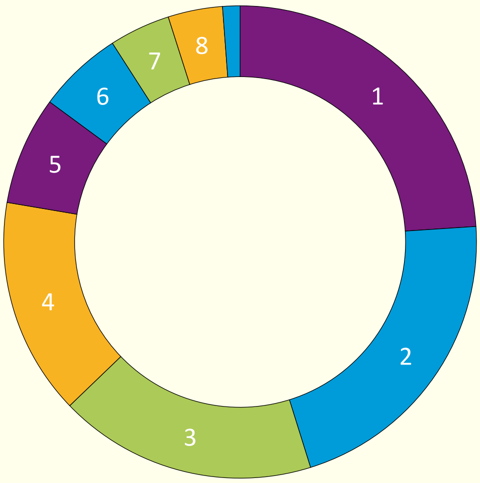
One Year to 31 March 2015

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

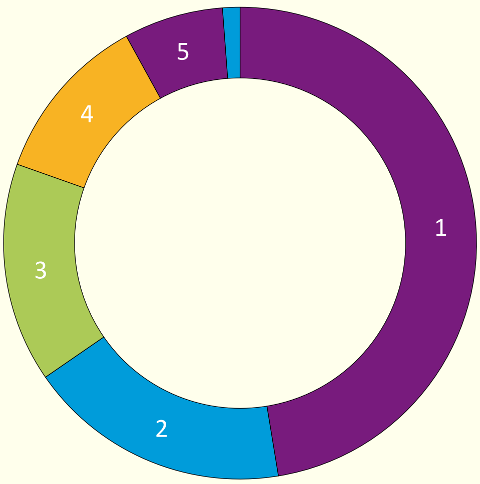
*05 July 2007
Source: StatPro

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

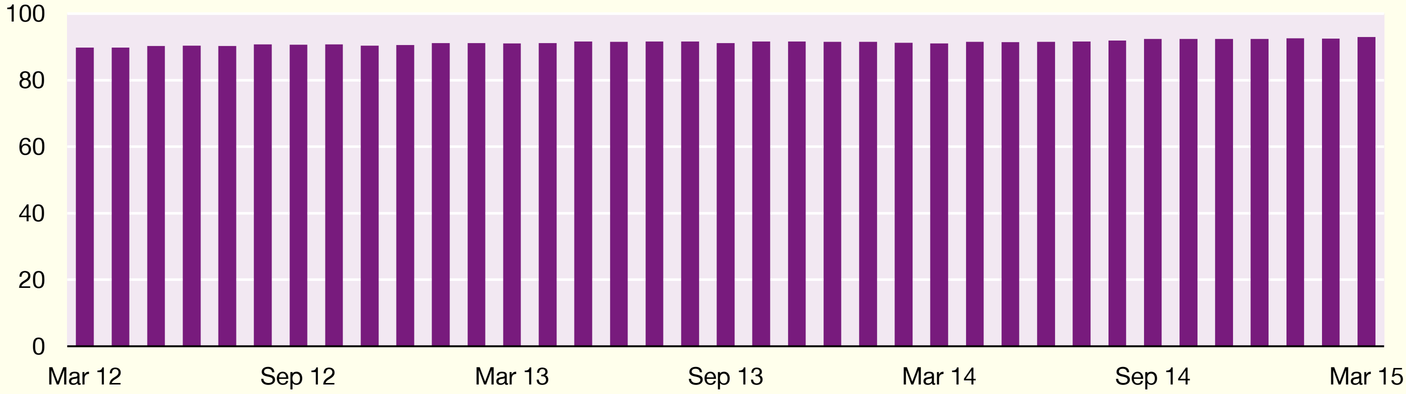
Key Statistics	
Number of Holdings	97
Number of Countries	24
Number of Sectors	8
Number of Industries	39
Active Share	93%
Rolling One Year Turnover	15%

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

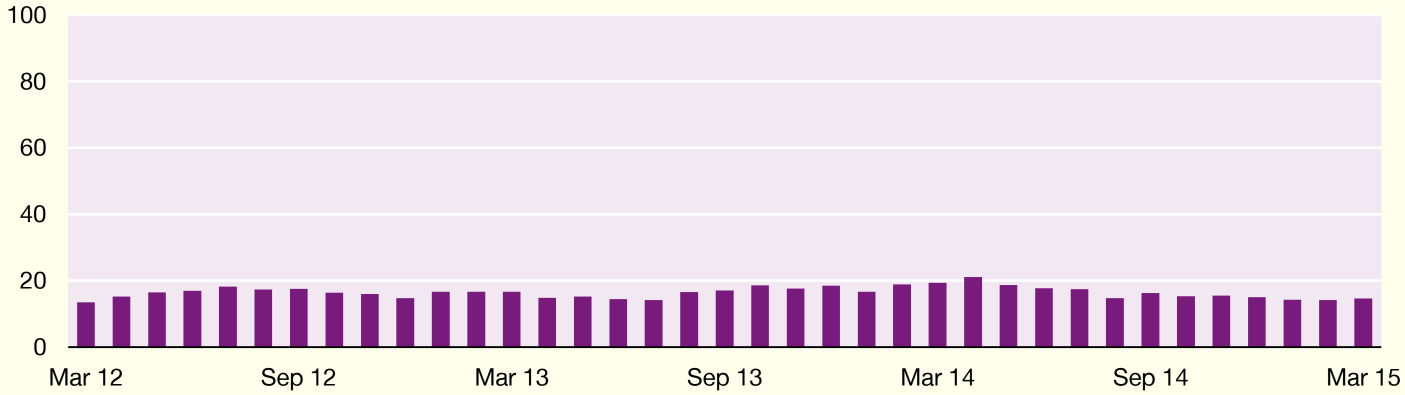
Stock selection of companies across a range of underlying industries contributes to a portfolio bias towards the information technology and consumer-orientated sectors. Your portfolio also continues to be biased away from the healthcare sector

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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BAILLIE GIFFORD

GMO

London Borough of Tower Hamlets
Quarter Ending 31 March 2015

Client Relationship Manager

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Alex.Bark@gmo.com

Investment Management Review

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Quarter Ending 31 March 2015

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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	Annualised 3 Year	Annualised 5 Year	Annualised 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

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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%

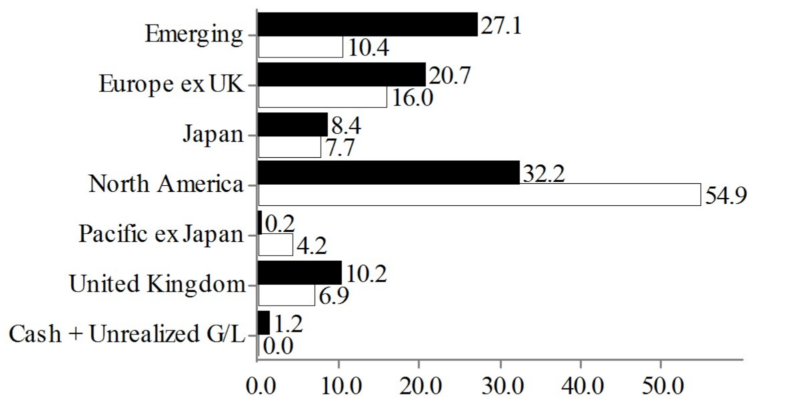
[1] *MSCI ACWI*
[2] *London Borough of TH Custom Benchmark*
[3] *Portfolio holdings are a percent of equity. They are subject to change and should not be considered a recommendation to buy individual securities.*
[4] *Alpha is a measure of risk-adjusted return; Beta is a measure of a portfolio's sensitivity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

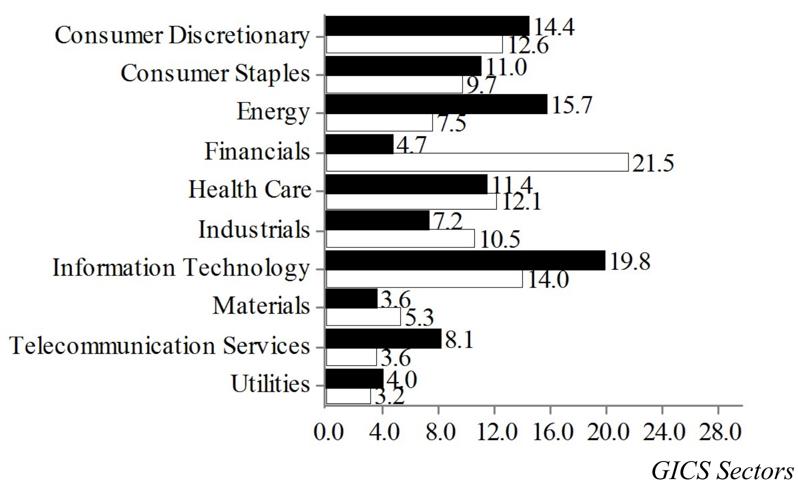
Global Developed Equity Allocation Strategy - Profile Summary

As of 31 March 2015

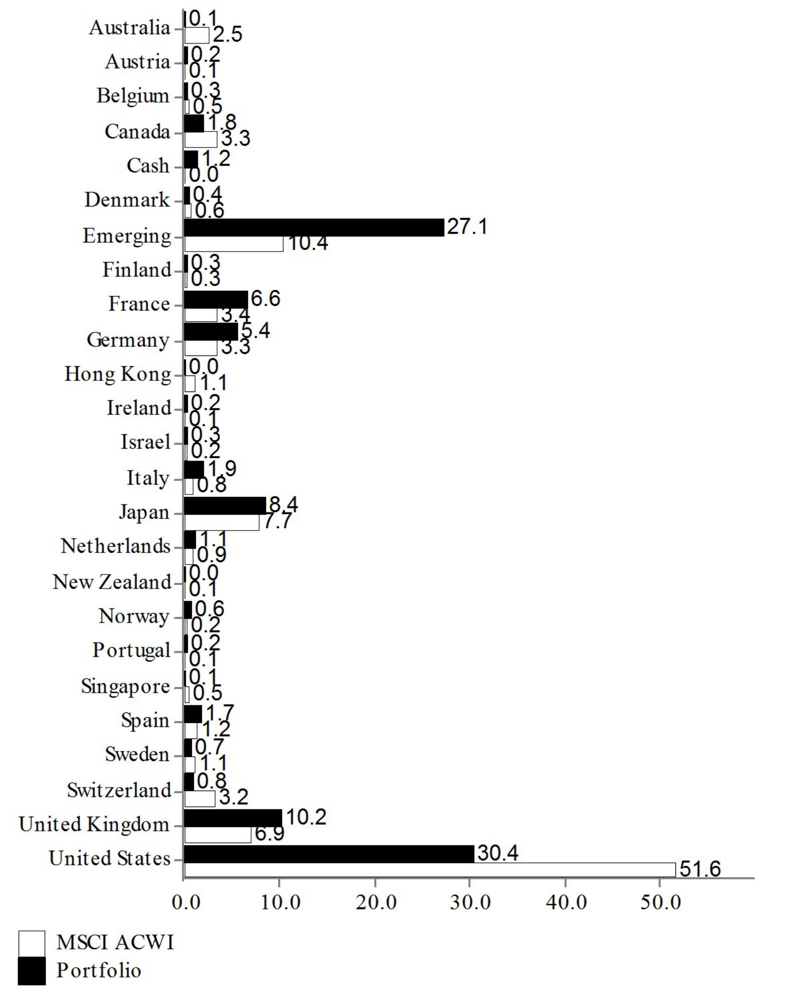
Regional Weights



Sector Weights



Country Allocation



London Borough of Tower Hamlets

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.

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

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.

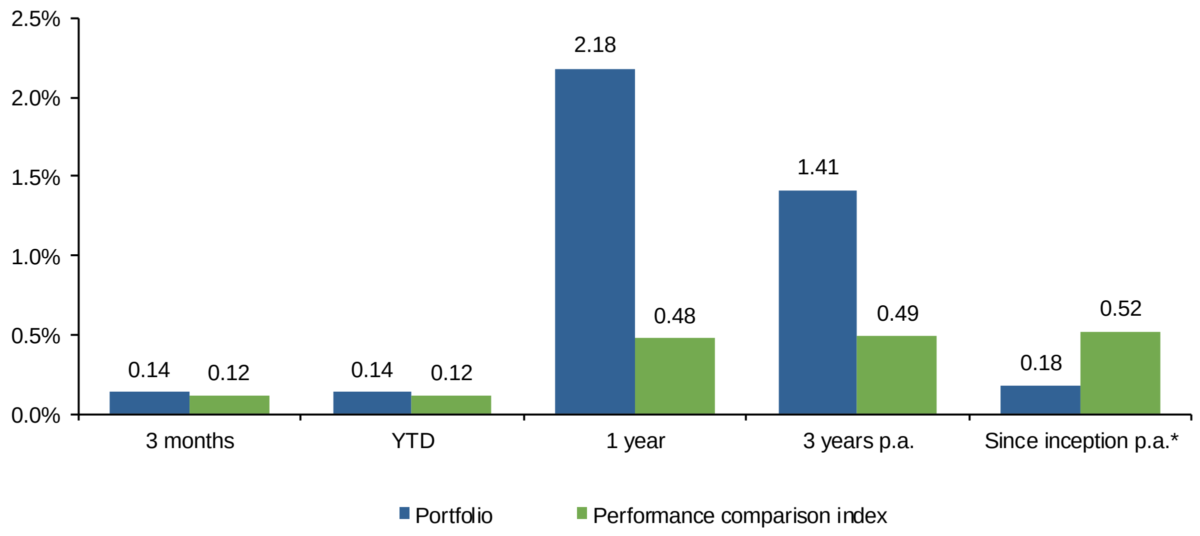
Performance commentary

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



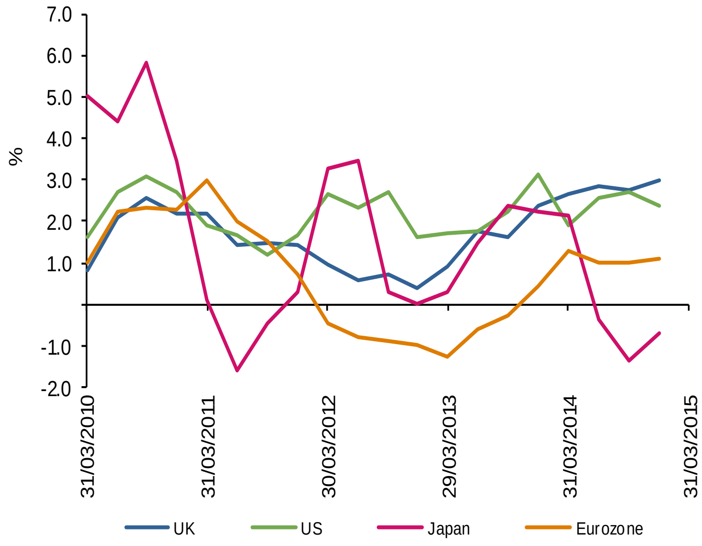
Market value : GBP 99,629,864.34

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

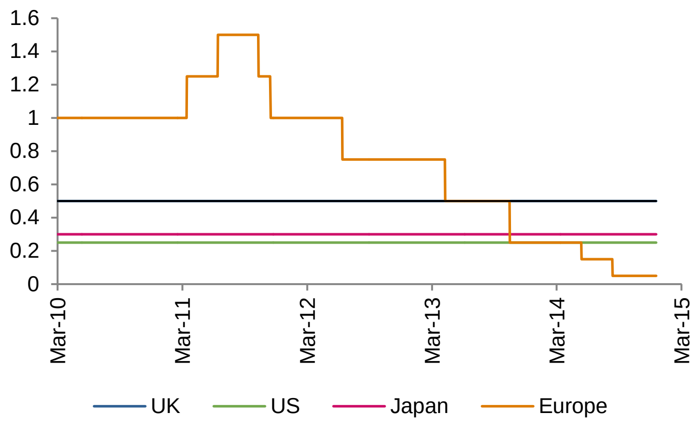
Economic and market review

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.

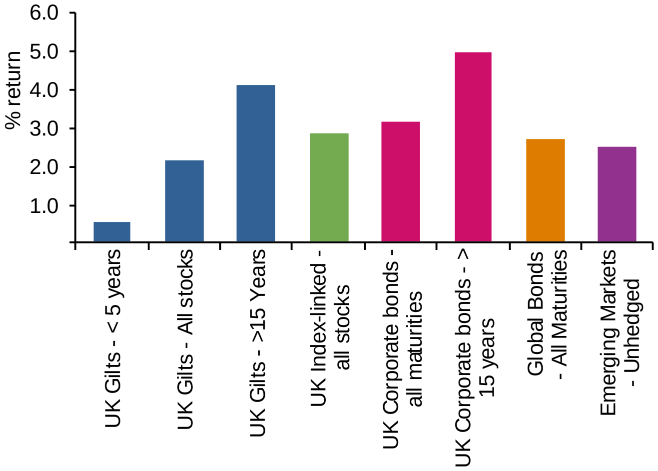
The Fed once again drew significant attention as market participants looked for clues on the intentions of the timing, and subsequent path, of future interest rate hikes. The term "patient" was dropped for the first rate hike, although this was widely expected. Indeed, market perceptions were relatively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

Source: Factset

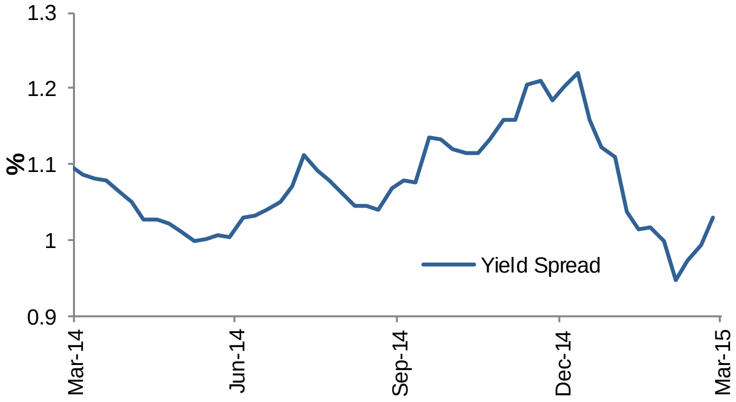
Economic and market review

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

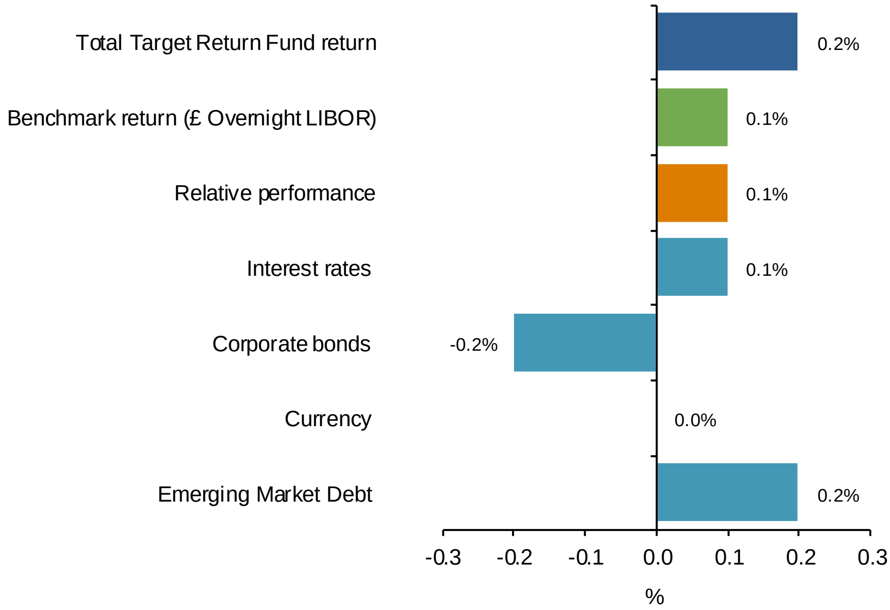
There is increasing dispersion in global bond markets which widely coincides with a higher level of both developed market and emerging market currency volatility. Much of this relates to differing prospects for monetary policy, especially with the US increasingly primed to start hiking interest rates. 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

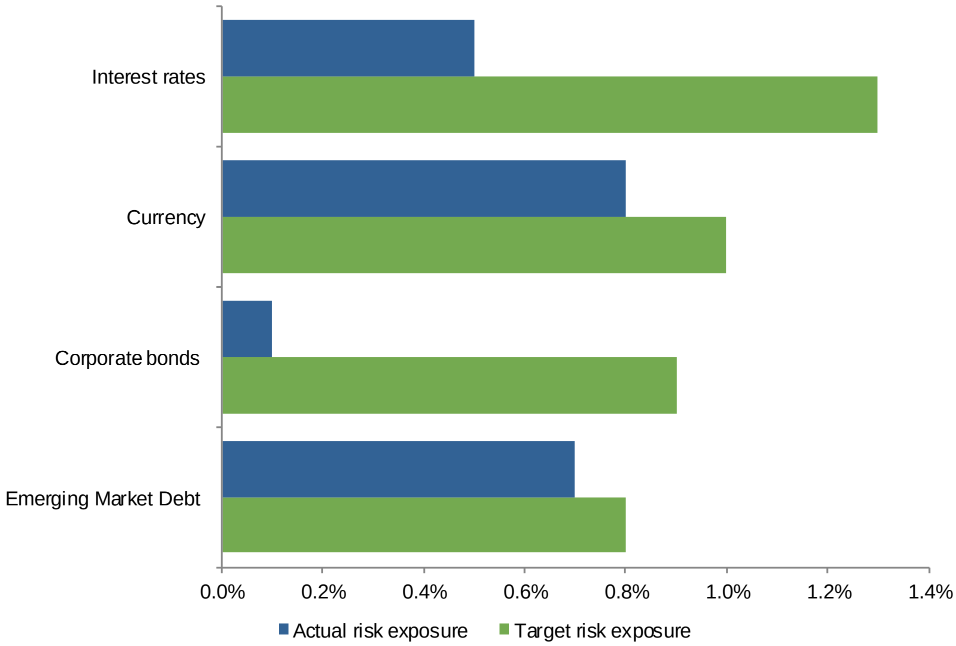
Our emerging market debt exposure added to relative returns over the period. This was predominantly due to us being able to take full advantage of the strength in emerging market bonds at the beginning of the year. However, broad-based weakness towards the end of the quarter proved difficult to escape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

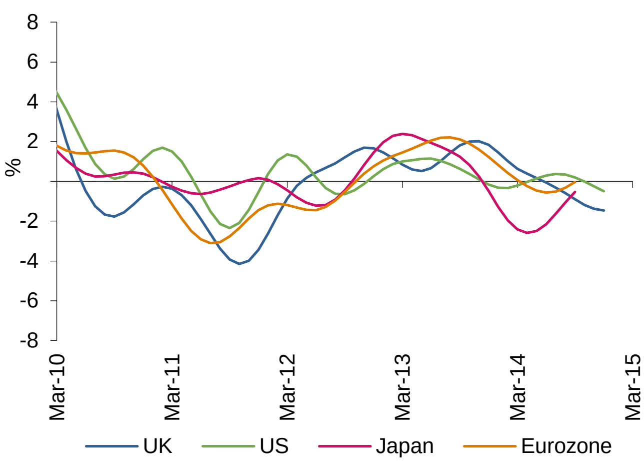
Our emerging market debt remains significantly higher than our average exposure during 2014. Aggregate duration exposure across emerging market bonds was held constant.

Source: Investec Asset Management.

Economic and market review

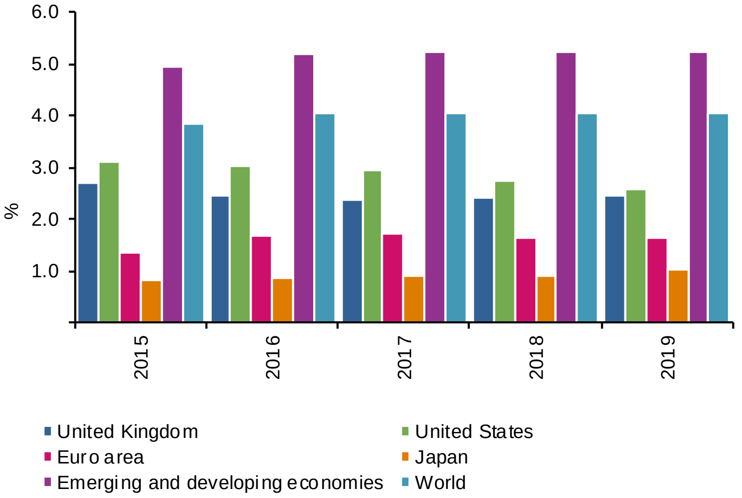
Global economy – quarter ended 31 March 2015

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.

Investec
Asset Management

Your client management team

Please contact a member of your Investec Asset Management team if you have any questions regarding this report.

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LONDON BOROUGH OF TOWER HAMLETS PENSION FUND

report to

31 March 2015

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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

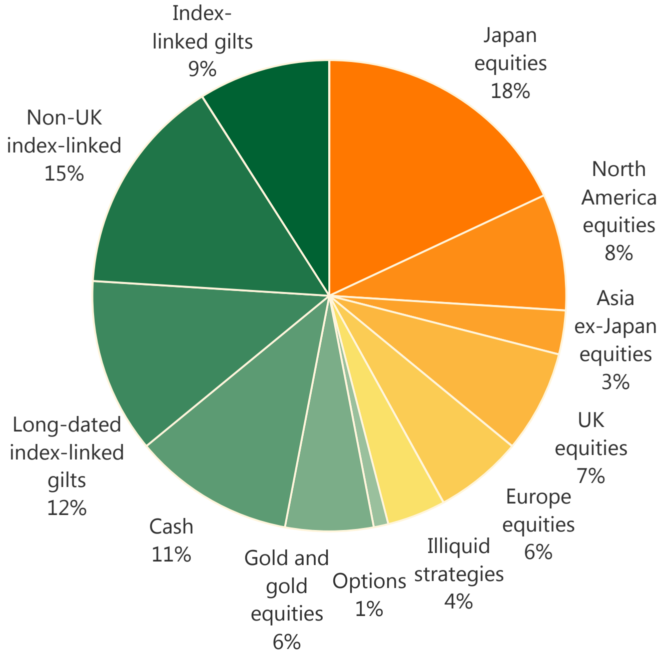
Five largest negative contributions	%
Options	-0.4
Microsoft	-0.2
Viacom	-0.1
Oracle	-0.1
Antofagasta	-0.1

Current investment strategy

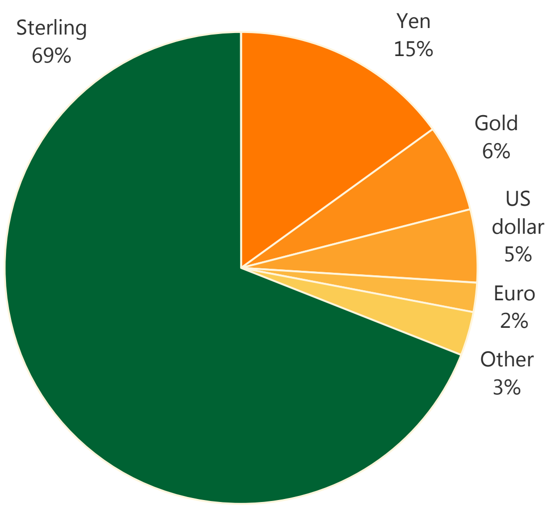
In the accompanying investment review Jonathan Ruffer seeks to encapsulate the present dilemmas and difficulties facing central banks. Six years of quantitative easing and cheap money may have inflated asset values but have had much less success in reigniting economic activity. As the clamour for nominal 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



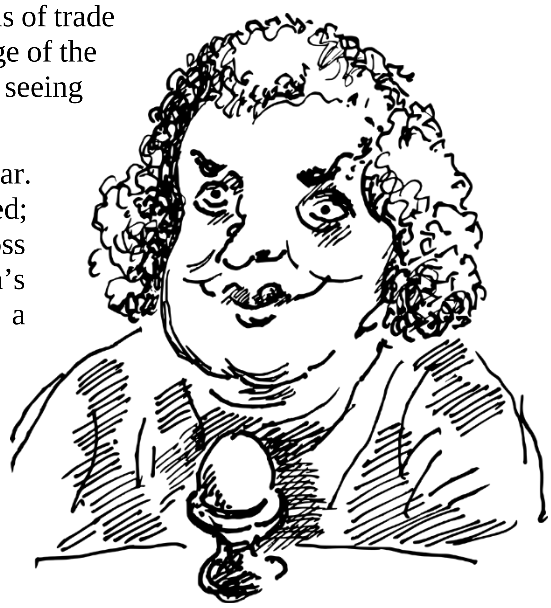
This review is more ambitious in scope than many quarterly offerings from Ruffer. It will cover more ground than is perhaps wise, and the reason for doing this is that we are looking at the many elements which will determine whether we face a deflationary crisis (to which the answer is a near-certain '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

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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 (%)

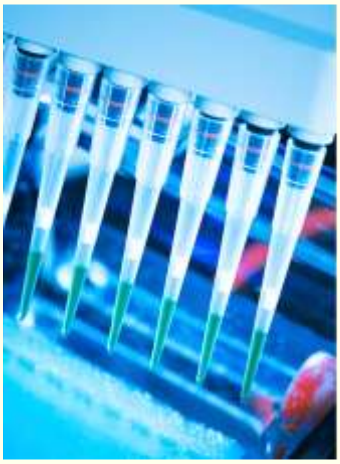
Delivered Volatility	4.4

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)

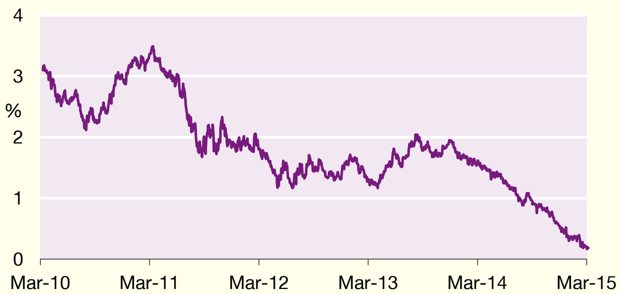
Investment environment

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

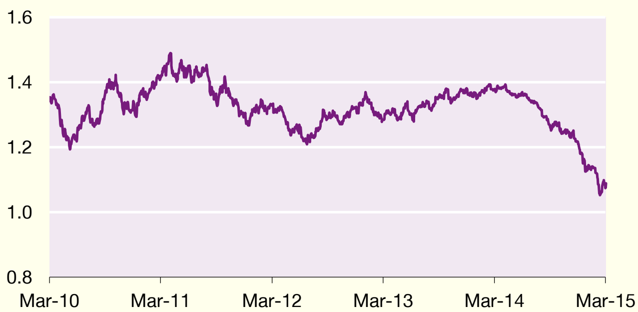


Source: DataStream

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.

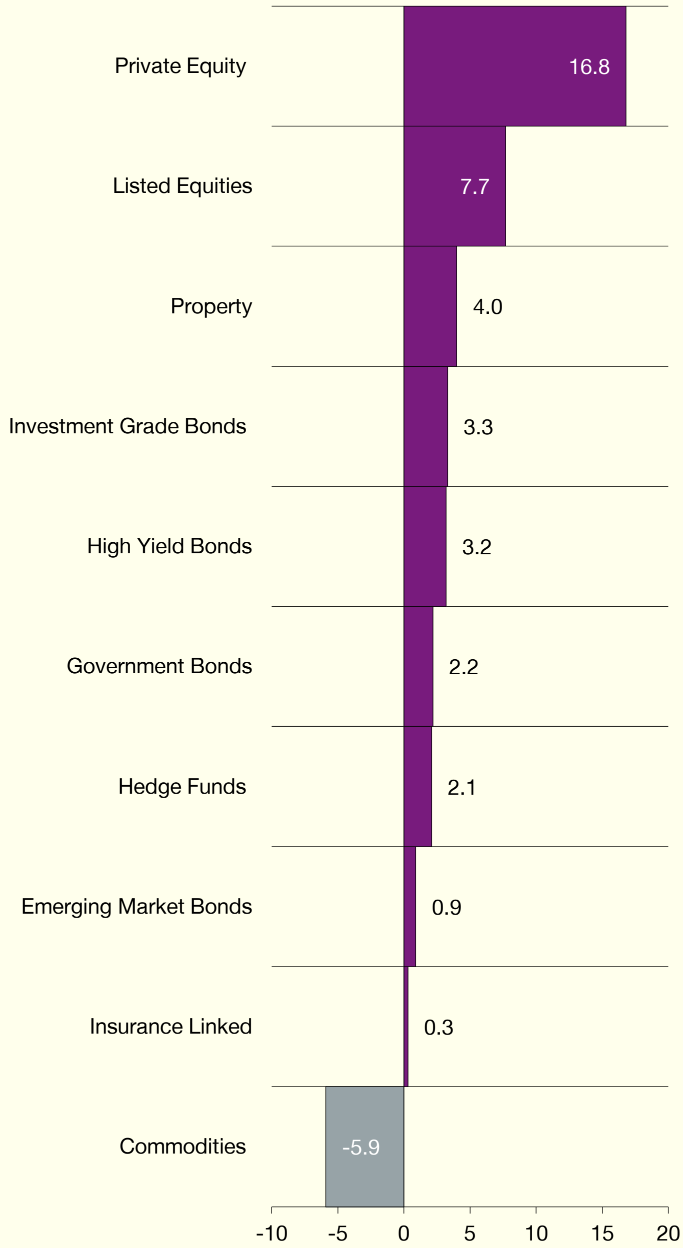
Futures

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.

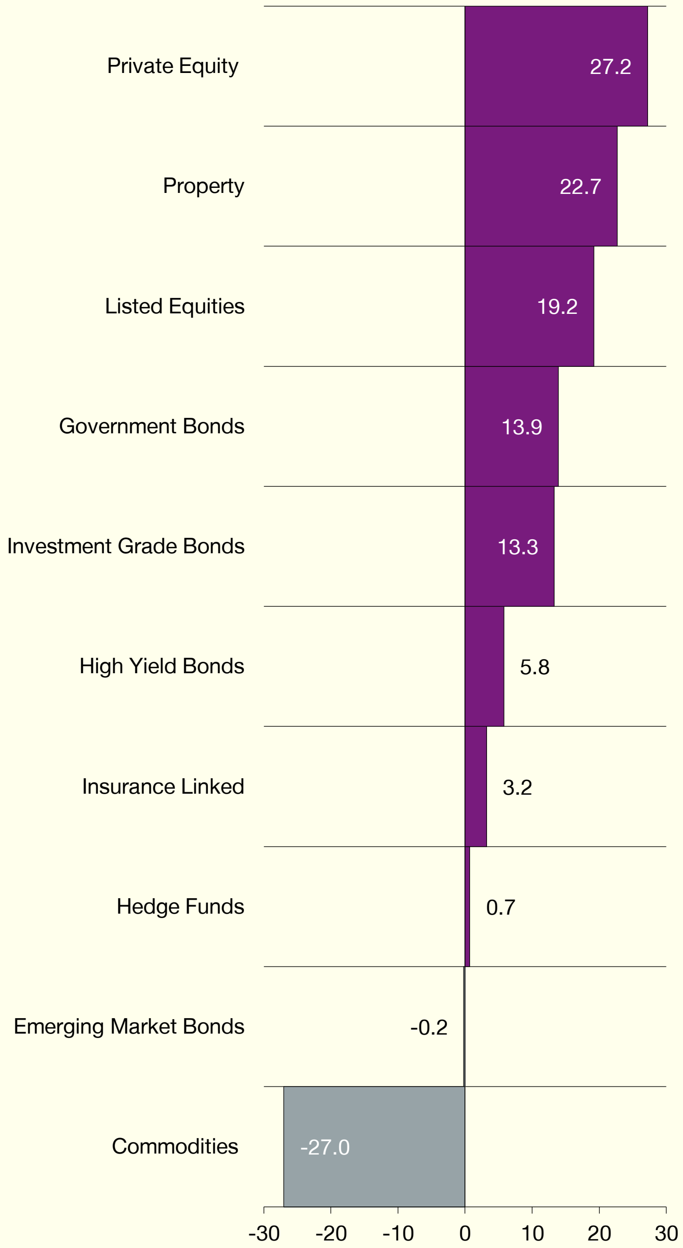
We use exchange traded futures either to gain exposure to asset classes or to hedge existing investments against adverse market movements. When we buy a future to obtain asset class exposure, we notionally allocate an amount of cash to the futures position and its asset allocation weight is therefore 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%.

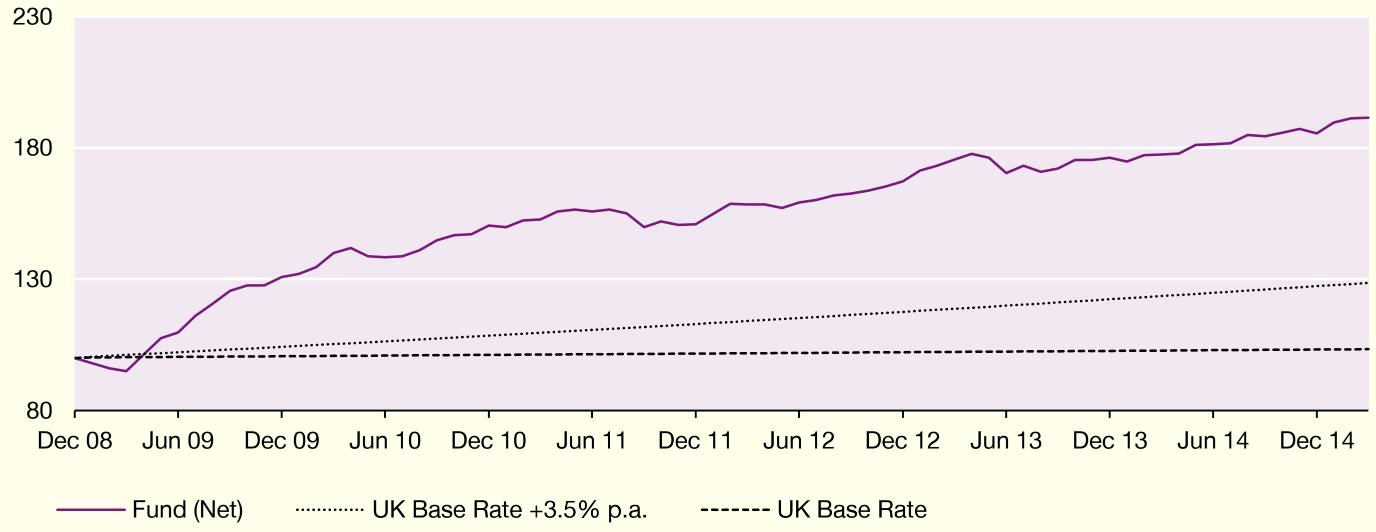
Performance

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

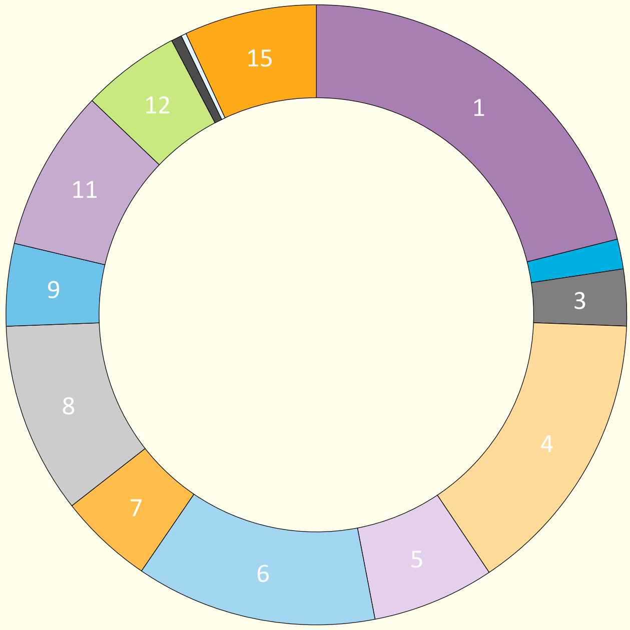
One Year to 31 March 2015

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

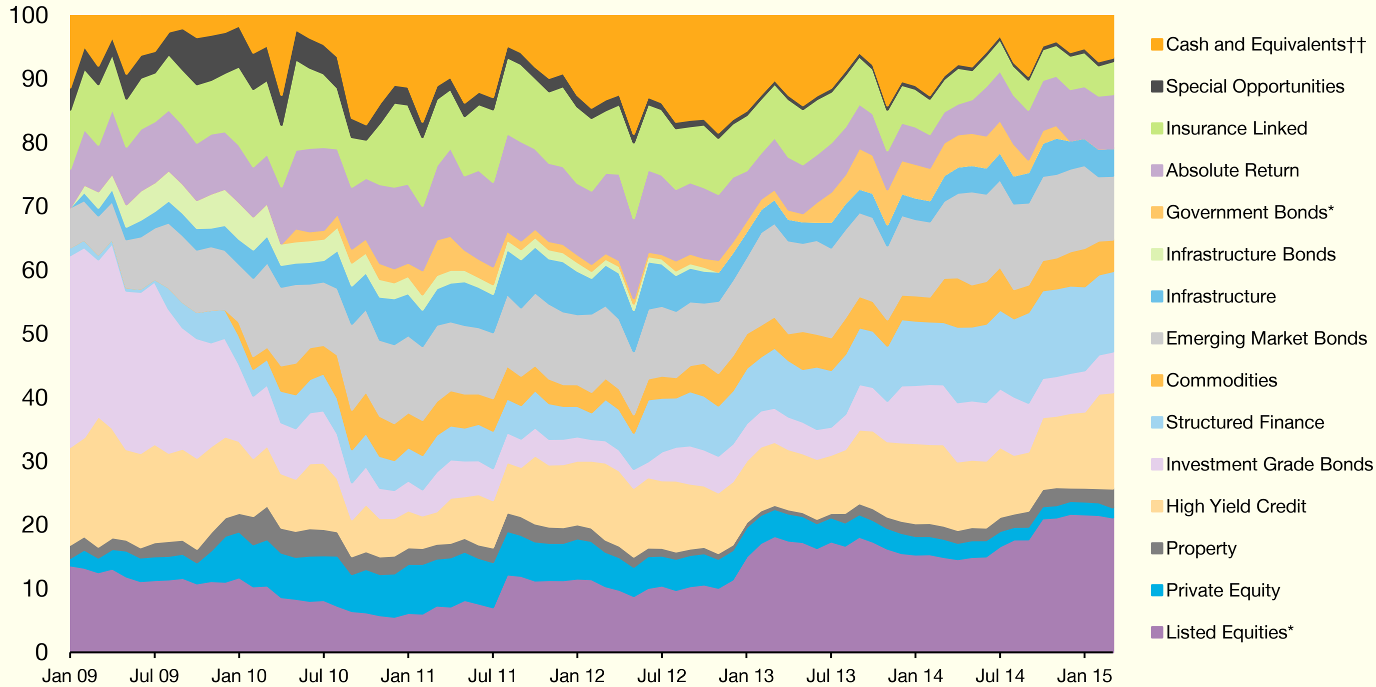
Source: Statpro/Baillie Gifford, gross of fees in sterling. Totals may not sum due to rounding

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

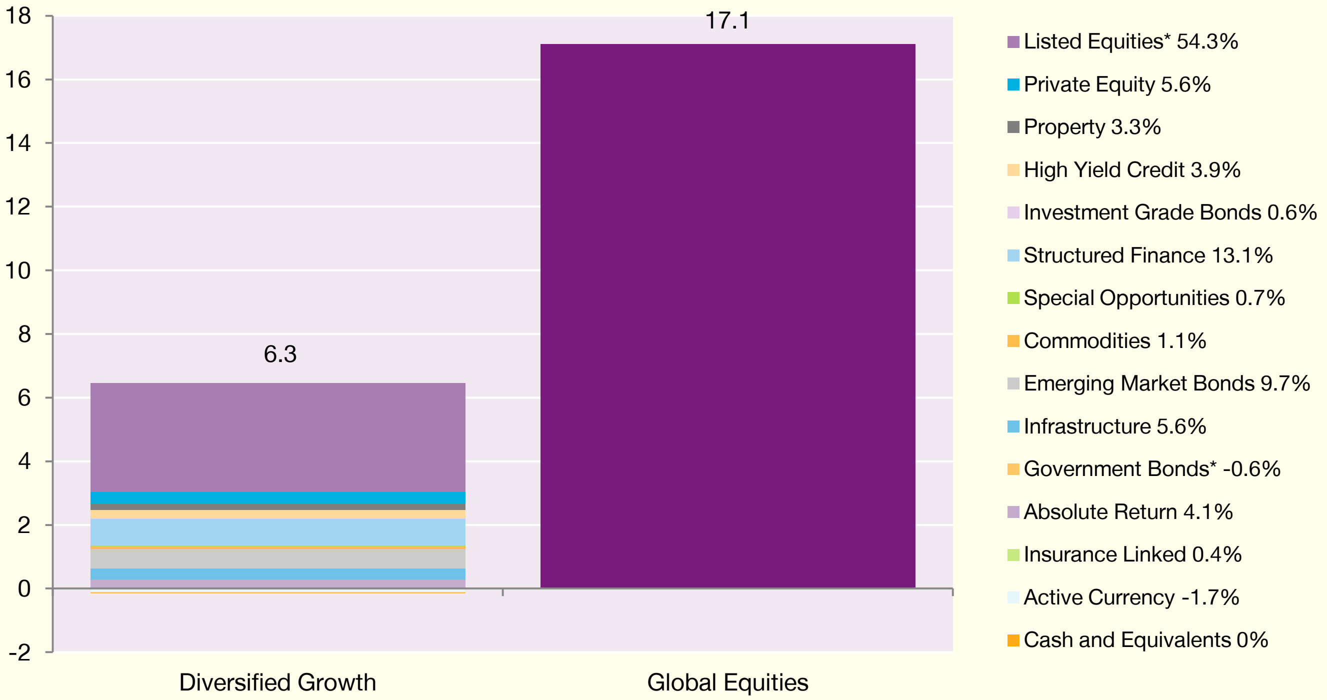
Source: Baillie Gifford, Moody's Analytics UK Limited

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

	Transactions (%)				Commissions Paid (GBP)			Estimated Split of Commission			
								Execution (GBP)		Research (GBP)	
Fund	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Global Income Growth Fund	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
Global Income Growth Fund	0.05
Global Alpha Growth Fund	0.05
Worldwide Japanese Fund	0.07
Pacific Fund	0.13
Long Term Global Growth Fund	0.03

Firm-Wide Comparator	Average Commission Rate
Global	0.04
Global	0.04
Japan	0.04
Pacific (ex Japan)	0.05
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
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London EC2R 5AA

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Fund Report

Management and Distribution of your Assets

- Your Fund's assets are managed by investing in the pooled funds shown in the table below
- The distribution of the Fund is maintained within its control ranges by the application of cash flows and, where necessary, switches between the investment sector funds

INVESTMENT SECTOR FUND	MARKET INDEX	BENCHMARK %	RANGES %
UK Equity Index	FTSE All-Share	83.0	78.0 - 88.0
Over 5y Index-Linked Gilts	FTSE A Index-Linked > 5 Years	17.0	12.0 - 22.0
Total		**100.0**	

Your Fund's Activity and Valuation

- A breakdown of any investments, disinvestments and switches is detailed in the Transaction Statements which have been issued to your nominated recipients. Copies are also available through your website access or upon your request

Investment Sector Fund	Value and Distribution at 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.

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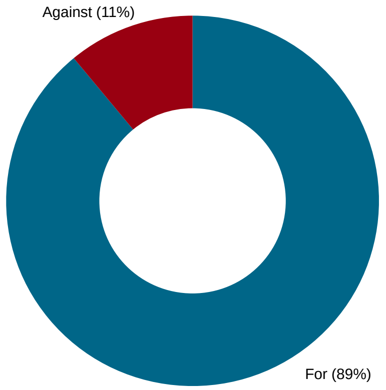
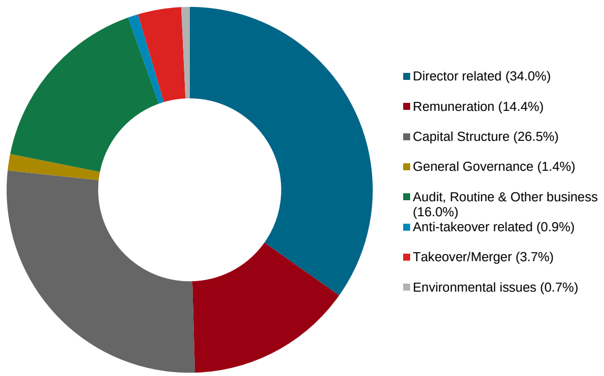
Voting Decisions



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

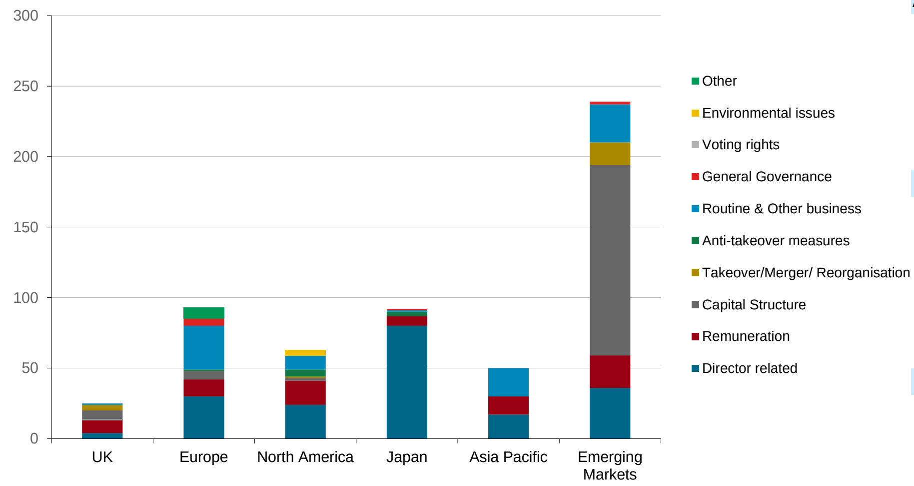
LGIM co-signed a letter sent to the World Bank regarding its draft Environmental and Social Safeguards Framework. We encouraged the World Bank not to loosen its environmental and social lending criteria, and make them more consistent with international human rights law, such as the Guiding Principles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



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

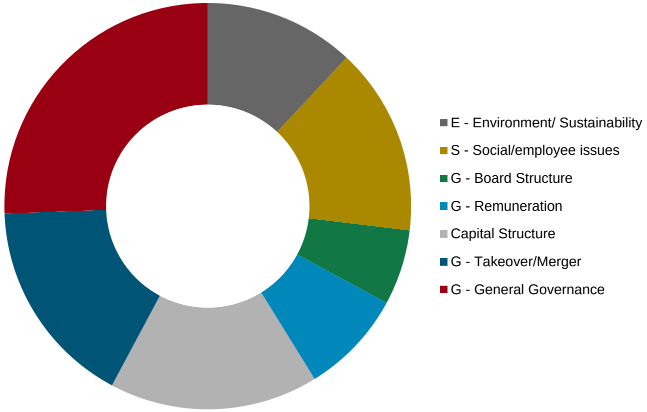
LGIM Voting Summary by Topic and Region

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

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

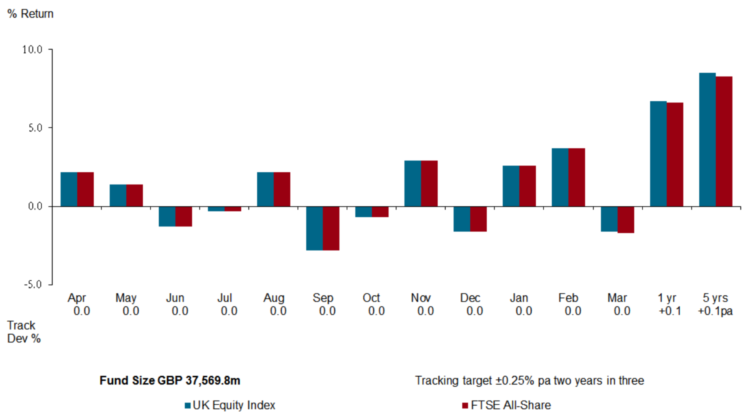
We met Samsung Electronics to assess whether the company made any progress in simplifying its complex ownership structure which is characterised by a web of cross-holdings involving companies within the Samsung universe. This allows the funding family to exercise control over 70 companies, including 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

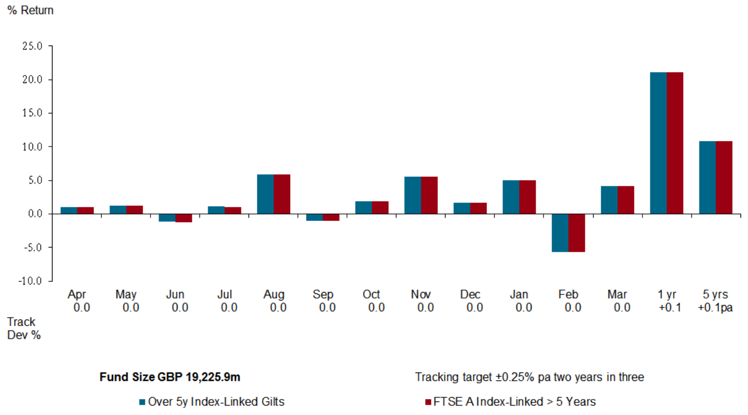
UK EQUITY INDEX - FUND AND INDEX MOVEMENTS - 2014/15



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.

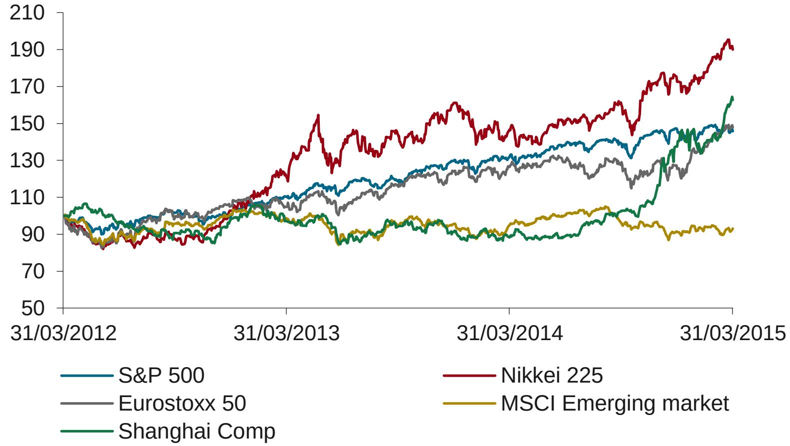
The net result of the economic news was generally positive. As a result, global equities generally finished in positive territory, but with news-flow causing bouts of volatility and some divergence between the major markets.

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.

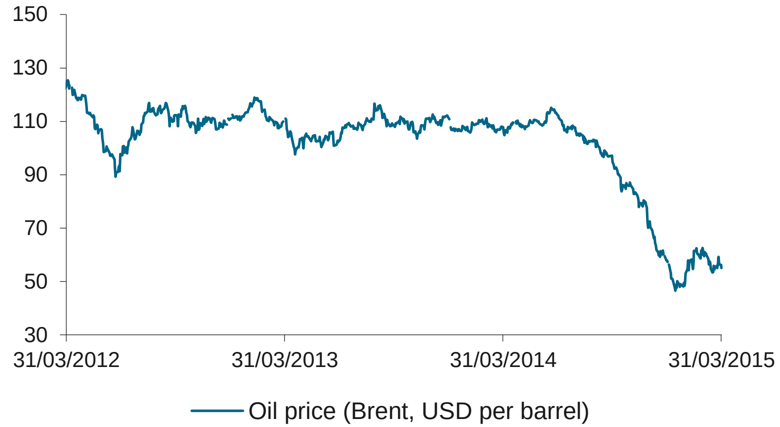
The divergence in central bank policy mirrored a divergence in market performance. Although most major markets produced positive returns in local currency terms, Europe and Japan outperformed most other regions, with the US, UK and emerging markets lagging.

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.

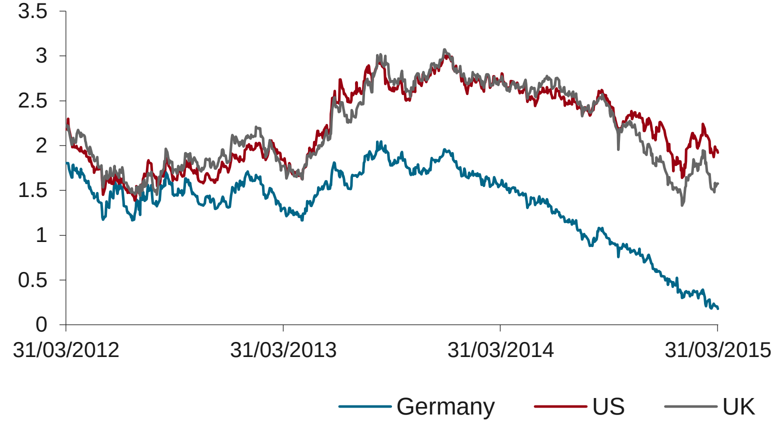
10-year UK gilts delivered positive returns over the first quarter. While revisions to data showed that the UK economy has continued to perform strongly, a fall in consumer price inflation to zero eased any near-term prospect of higher interest rates.

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.

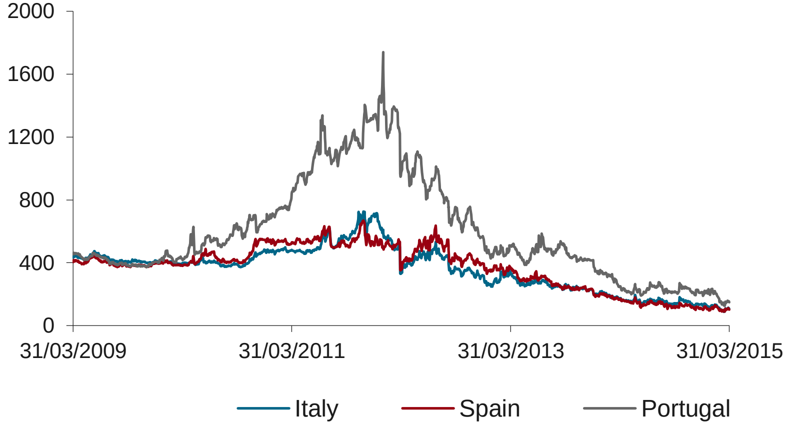
With inflation in the euro zone turning negative and the growth outlook remaining weak, European Central Bank policymakers finally announced the start of a broad-based monetary stimulus package in January, surprising analysts with its larger-than-expected scale. Euro government bonds rallied strongly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

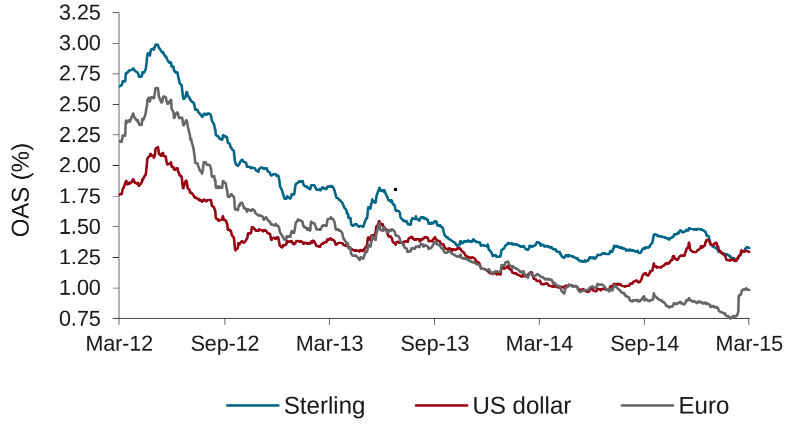
Despite some volatility in the underlying gilt market, sterling corporate bonds delivered robust total returns over the quarter, outperforming US and euro equivalents. Positive economic news-flow in the UK boosted sentiment, along with reasonable earnings data over the quarter. More importantly, technical 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.

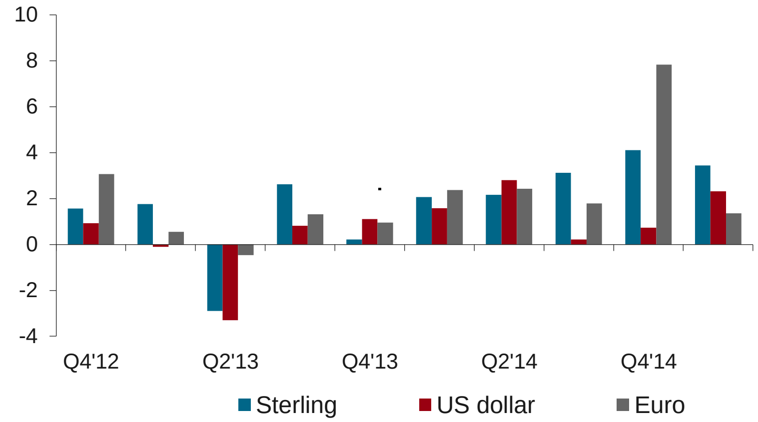
Euro-denominated bonds lagged US dollar and sterling equivalents over the quarter. Although the start of euro zone quantitative easing underpinned sentiment, issuance of euro corporate bonds was at record levels. Issuance from non-euro companies was particularly high, with borrowers looking to take advantage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

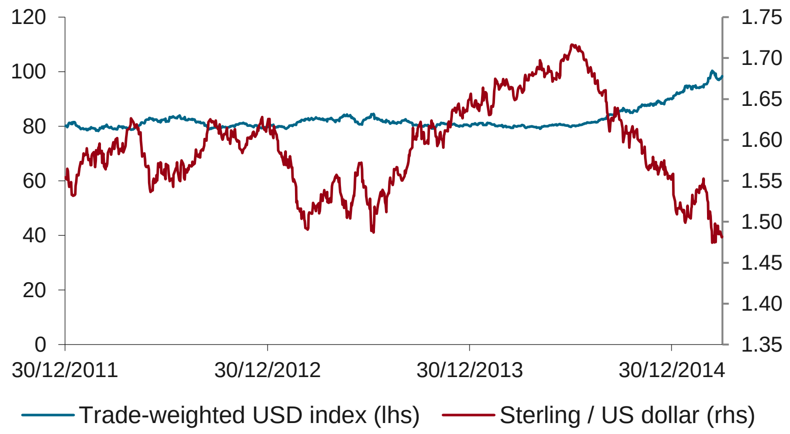
The yen was one of the few currencies to strengthen versus the dollar, continuing the trend seen in the second half of 2014. Helped by the Bank of Japan's on-going quantitative easing programme, the Japanese economy emerged from recession in the latter part of 2014. With earlier yen weakness boosting 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.

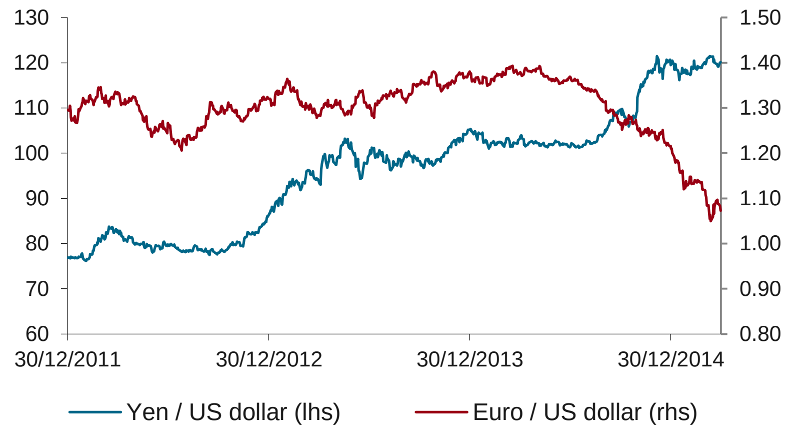
On-going US dollar strength overshadowed the move by the Swiss central bank to remove the ceiling versus the euro early in the quarter. This led to a near 20% increase for the franc against the euro, with some of this correcting as the quarter progressed.

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.

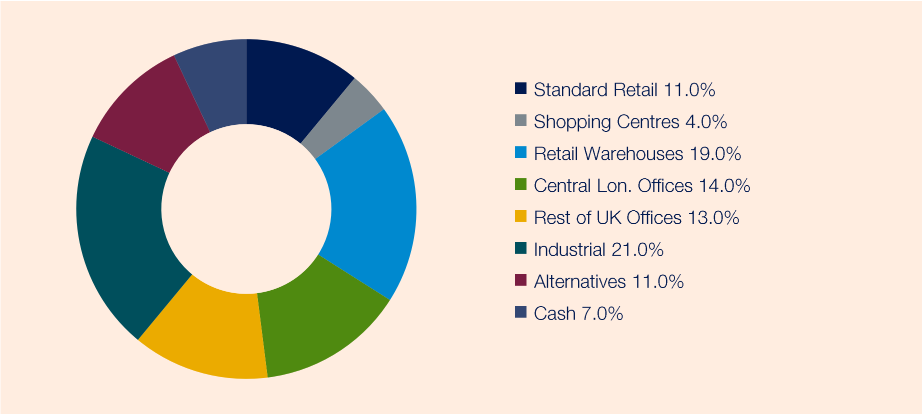
Outlook

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.

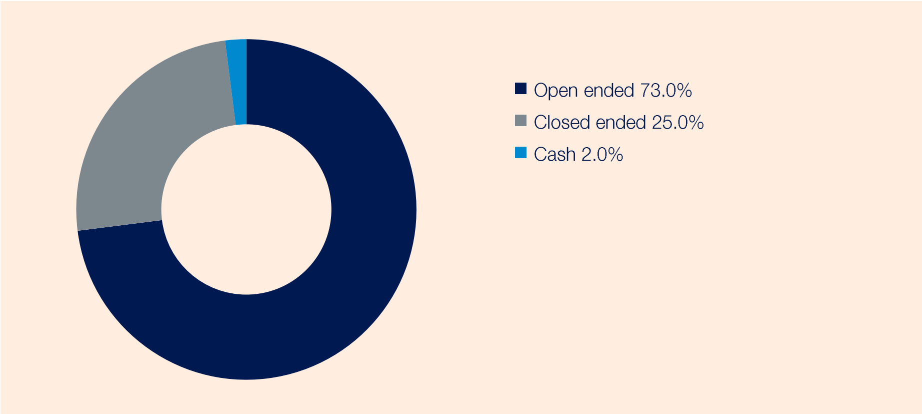
The main upside risk is that the low financing costs and the weight of money targeting real estate triggers an even bigger fall in yields through 2015-2016, boosting total returns in the short-term. The main downside risks are increased uncertainty surrounding the stability of the eurozone following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

Portfolio Analysis

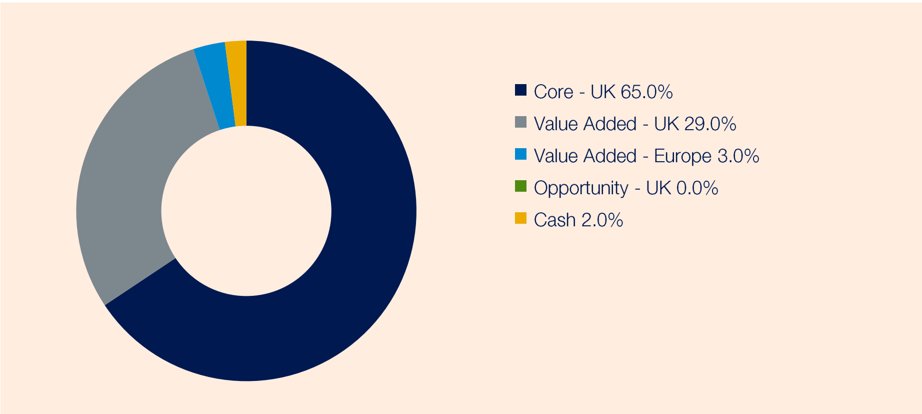
UK Portfolio sector exposure (including cash held by underlying property funds)



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.

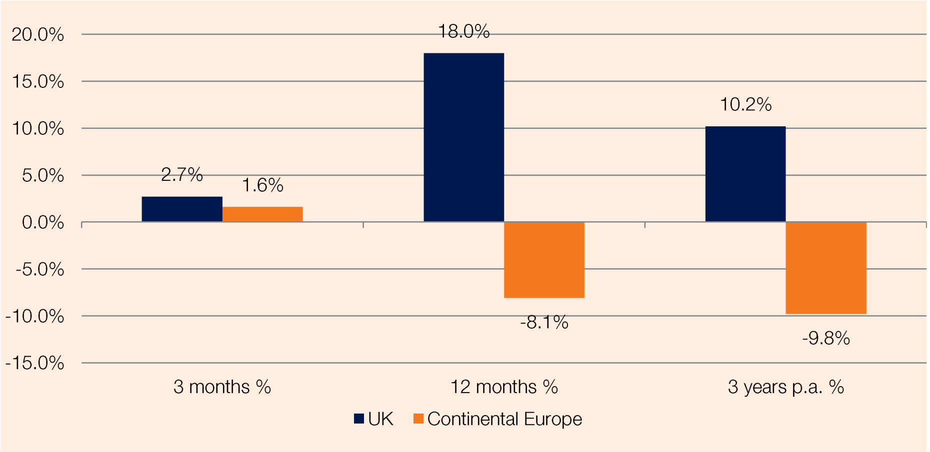
The portfolio's industrial, west end office and alternative real estate exposure have been key positive drivers to performance over the past quarter, one and three year periods. The Industrial Property Investment Fund has benefitted from increasing occupier demand as economic conditions have improved, 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.

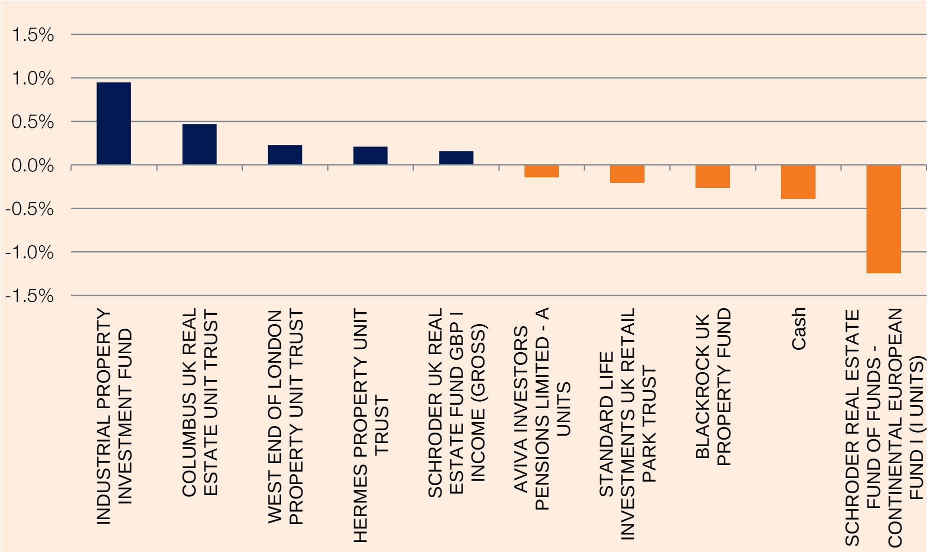
In Europe, the Continental European Fund I (CEF I) produced a positive return of 10.9% in euros in the first quarter of 2015. This has been driven mainly by the sale of CG Malls above valuation and valuation uplifts in AXA European Real Estate Opportunity Fund II, NREP Logistics and Immobiliare Grande 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.

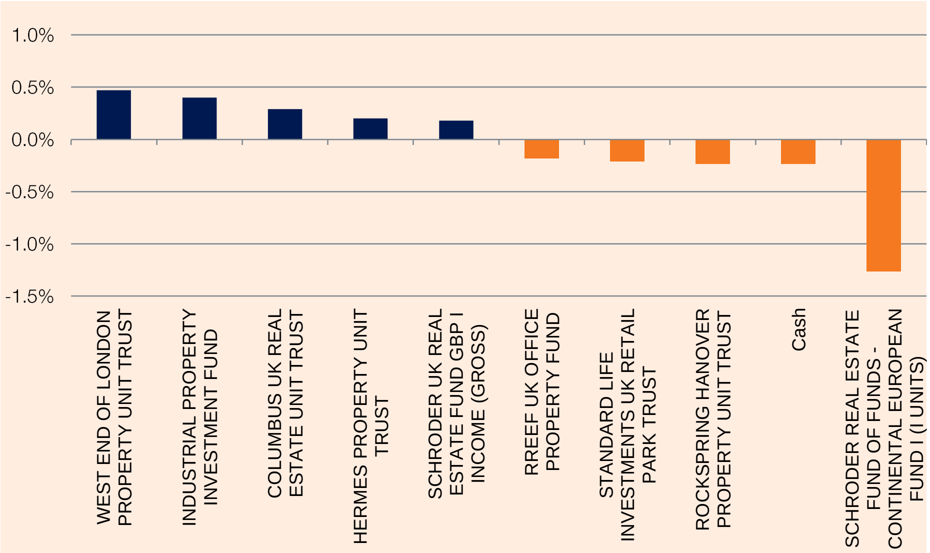
Total return by region
Periods to end 31 Mar 2015



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

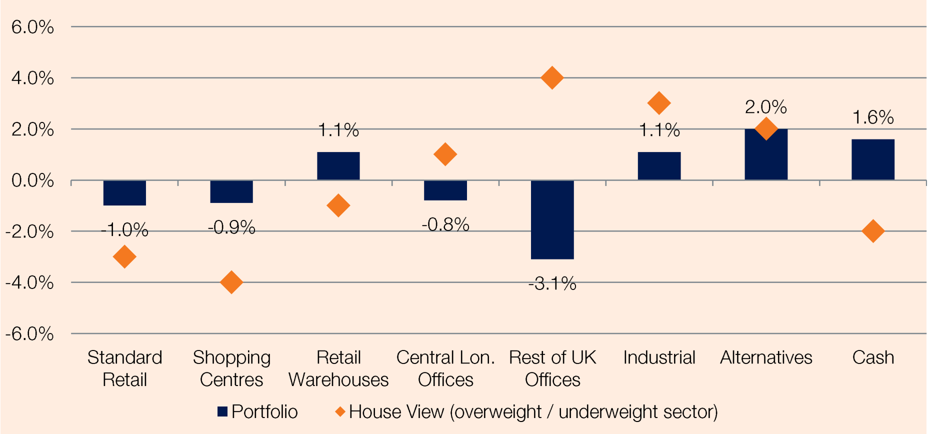
We have been allocating money returned from Central London and Continental Europe to balanced funds, where capital can be deployed efficiently and diversified across all mainstream sectors.

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.

Important Information

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Schroders

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

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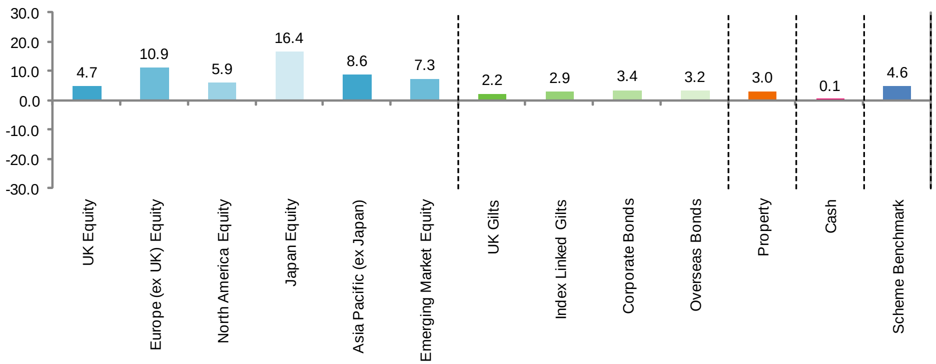
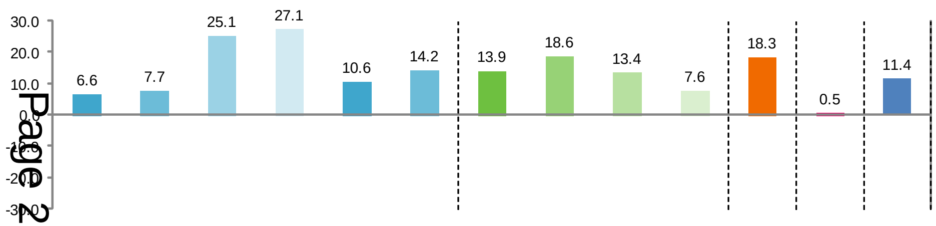
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile 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 (%)



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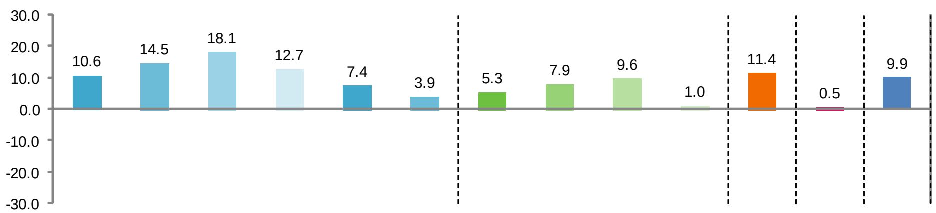
3 Years (% p.a.)



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]

Asset Class	Values (£m) 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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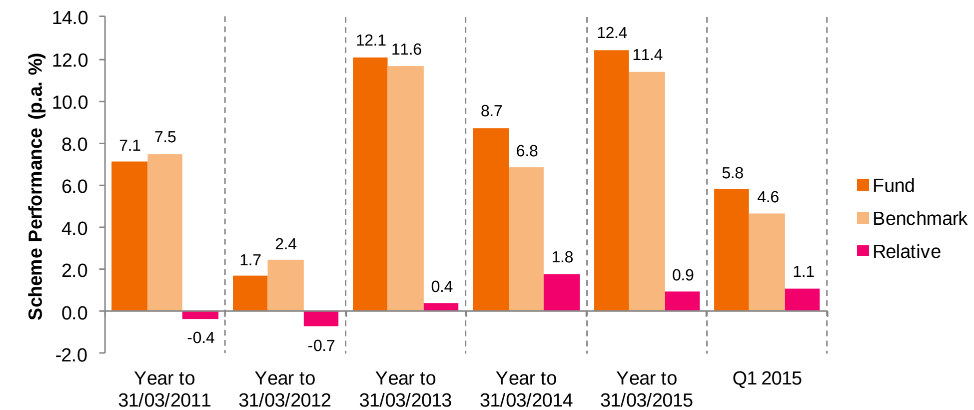
Comments

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.

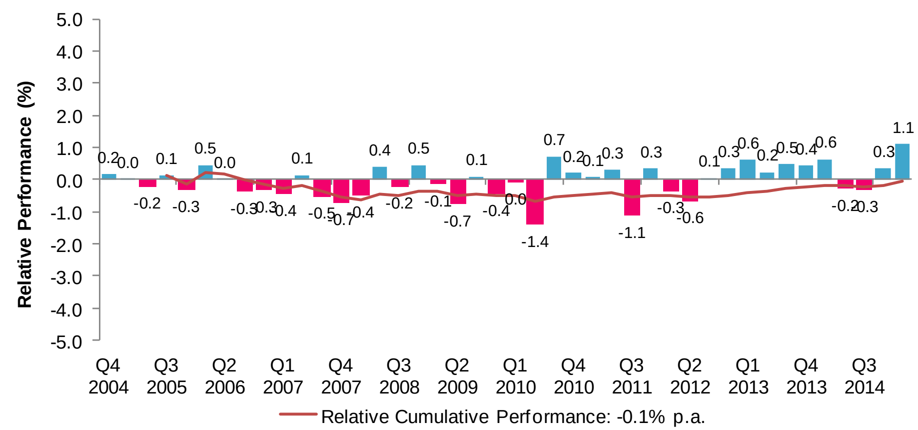
The managers' target benchmark allocations also changed during Q4 2014, resulting in the Officers and Advisers rebalancing 2% of Fund assets from GMO during that quarter. As at the end of Q4 2014, the proceeds from this disinvestment are being temporarily held as cash for later reinvestment to rebalance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

		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

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[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

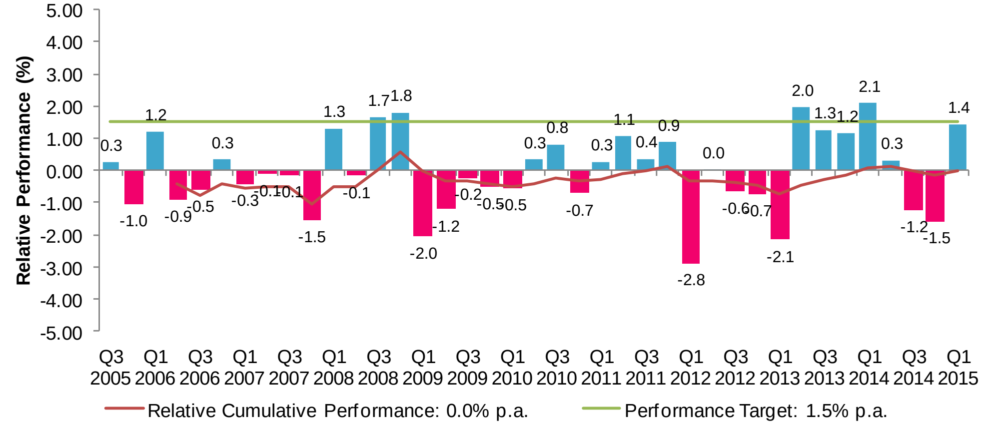
Rating				
Replace ←		On Watch		→ Retain

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.

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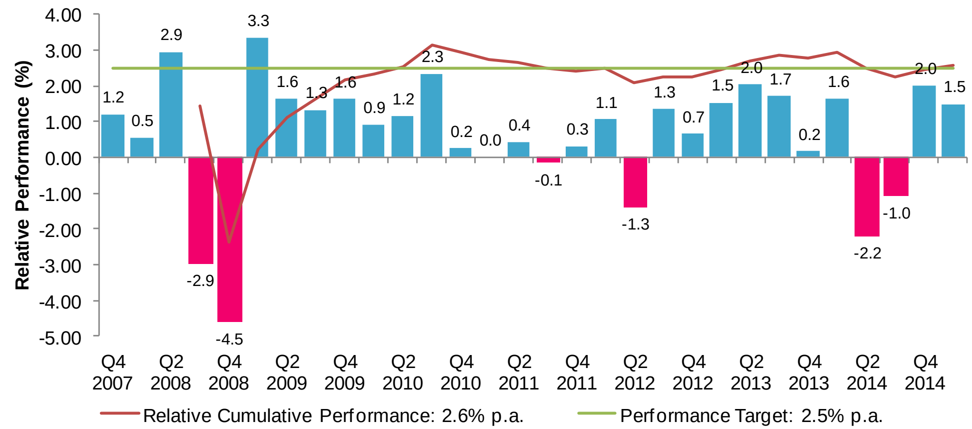
Relative Quarterly and Relative Cumulative Performance [1] [i]



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.

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.

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.

[1] Gross of fees

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

Legal & General Index-Linked Gilts

HR View Comment & Rating

Rating				
Replace		On Watch		Retain ●

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.

Comments

Performance has been in line with the index benchmark (FTSE-A Index-Linked Over 5 Years) over the quarter and since inception.

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.

[1] Gross of fees

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

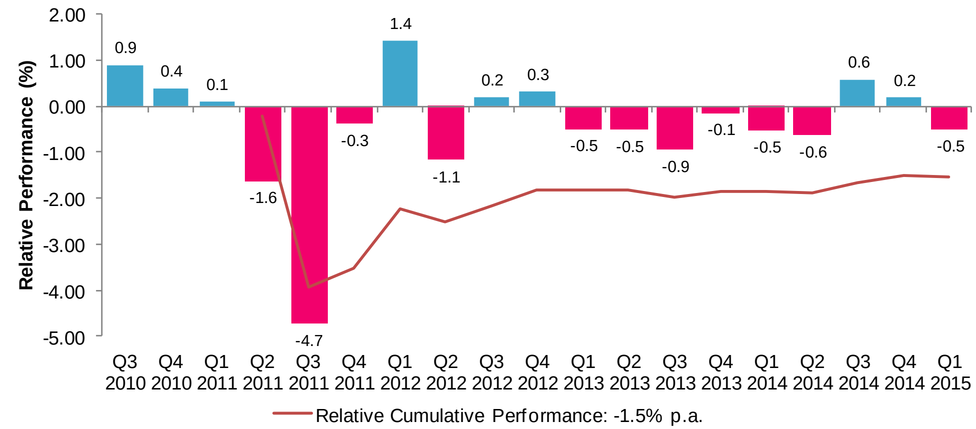
Investec Bonds

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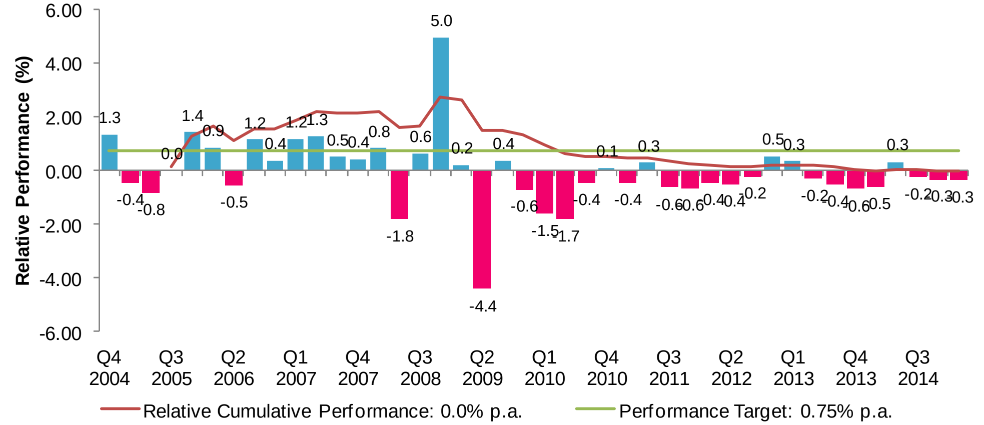
Relative Quarterly and Relative Cumulative Performance [1] [i]



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

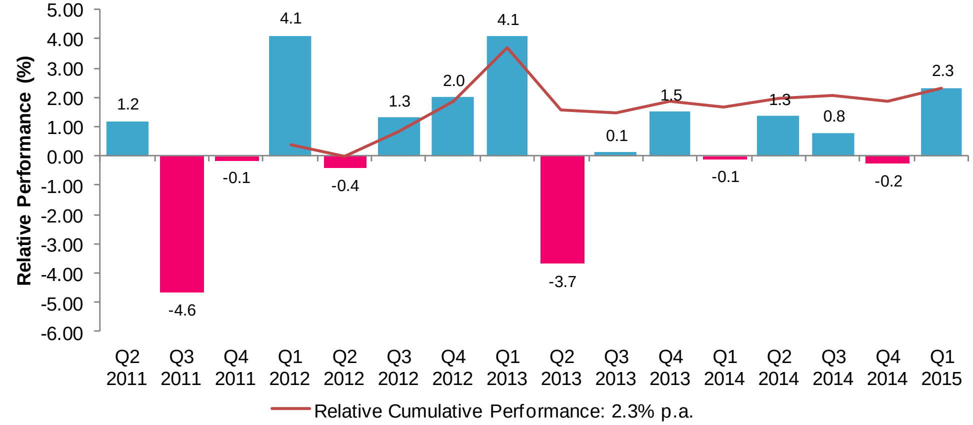
Rating				
Replace		On Watch		Retain ●

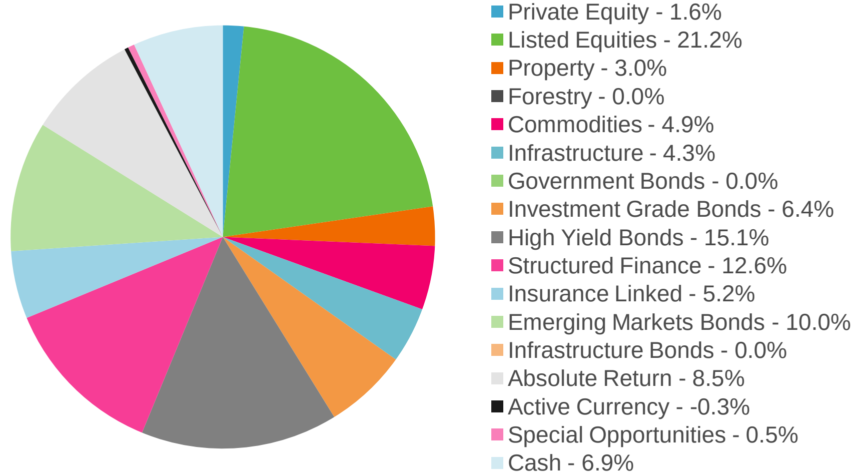
We rate Baillie Gifford at '5-Preferred manager' . During the first quarter Baillie Gifford announced that Mike Brooks, co-manager of the DGF, was resigning. Brooks has been with BG for just over 14 years and helped develop and launch the DGF with Patrick Edwardson, Head of the Diversified Growth team. 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]





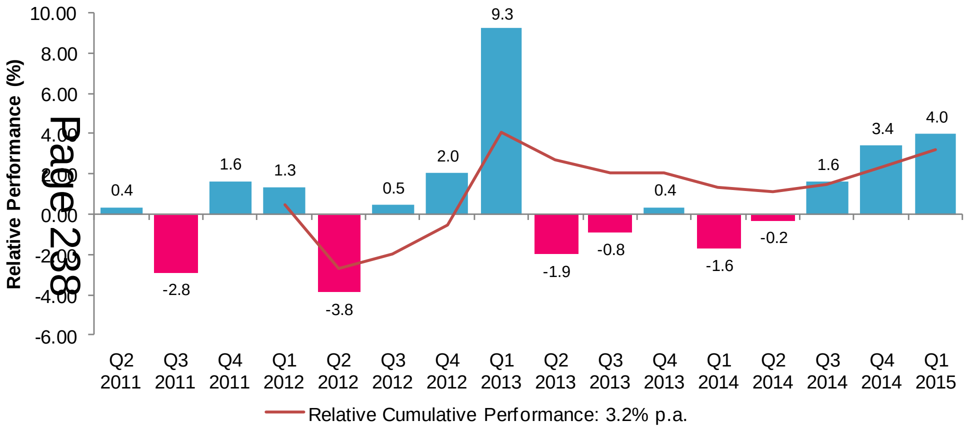
[1] Excludes initial part quarter (22/2/11 to 31/3/11, relative performance +0.3%). Gross of fees. Benchmark is Base Rate +3.5% p.a.

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

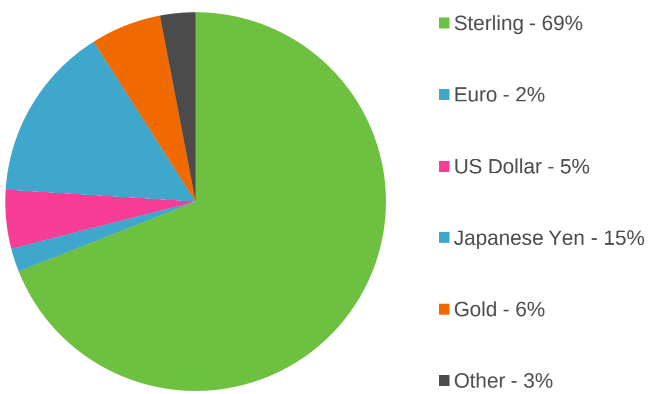
Hymans Robertson LLP

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

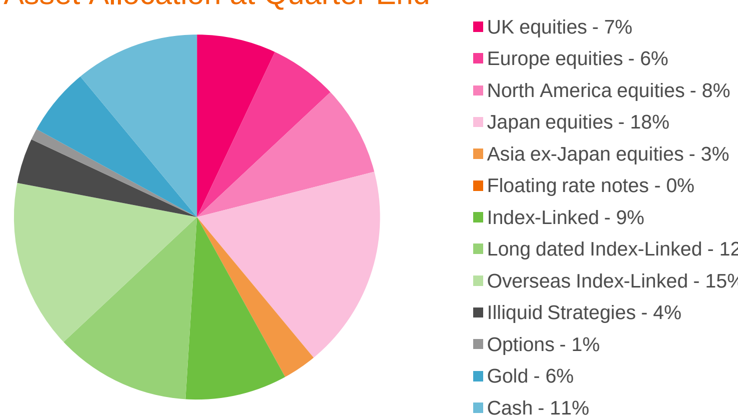
We rate Ruffer '5-Preferred manager'. We are confident in Ruffer's abilities as an absolute return manager. The success of the firm's approach is dependent on its ability to construct portfolios which can outperform cash, regardless of the market direction – which they have been successful in achieving 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

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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**	

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 Board** 28 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 Board is recommended to:

1.1. Members are recommended to:

- Note the Pension Fund Annual Report;
- Note the Pension Fund Statement of Accounts;
- Note the Funding Strategy Statement;
- Note 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

Officer contact details for documents:
- Bola Tobun(Investment & Treasury Manager) x4733

TOWER HAMLETS

The London Borough of Tower Hamlets Pension Fund
DRAFT Annual Report 2014/15

WWW.TOWERHAMLETS.GOV.UK

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Foreword by Chris Holme: Acting Corporate Director, Resources

This is to introduce the London Borough of Tower Hamlets (LBTH) Pension Fund Annual Report and Accounts for 2014/15. The Pensions Committee has the responsibility for the management of all aspects of the Pension Fund including the performance of the professional fund managers appointed to administer its investment portfolio.

The new Local Government Pension Scheme (LGPS) started on 01 April 2014 and it has been a remarkable period for officers communicating the change to scheme members and considerable amount of work has been invested in ensuring that the administration systems would be able to deliver the regulatory changes.

On 1 May 2014, the Government launched a second consultation on further proposed changes to the LGPS entitled: Opportunities for Collaboration, Cost Savings and Efficiencies. The responses received were evaluated. The consultation paper proposed a solution, based on cutting fees, moving all actively managed assets to passive funds, and the establishment of collective investment vehicles (CIVs).

A joint London Borough Pension Working Group led by London Councils launched a Collective investment vehicle to enable London Boroughs to participate in a scheme of joint pension fund investing. It will be an Authorised Contractual Scheme (ACS). This scheme will require FCA (Financial Conduct Authority) approval – this approval is being sought.

LBTH agreed to participate in the CIV at Full Council in 2014 following recommendation by Pensions Committee and Cabinet.

All asset classes delivered a positive performance over the year resulting in an overall increase in the assets under management, notwithstanding there was volatility during the year, particularly with geopolitical concerns in the Ukraine and in the Middle East. The sharp falls in the oil price over the year, helped to boost markets and lower inflation, with even Europe starting to show some tentative signs of recovery by the year end. However, there remain concerns over the timing of any interest rate rises and the effect that this will have on bond markets and any wider implications for equity markets. For some time now, commentators have suggested that government bond markets look overstretched with bond yields remaining at low levels.

A funding update report was prepared and provided by the Fund Actuary to illustrate the estimated development of the funding position from 31 March 2013 to 31 March 2015, for the Fund. It is addressed to London Borough of Tower Hamlets in its capacity as the Administering Authority of the London Borough of Tower Hamlets Pension Fund.

This report illustrate as at 31 March 2015 the funding level has increased to 73.8% with corresponding deficit of £396m, from the funding level at the latest formal valuation of 71.8% with corresponding estimated deficit £365m. This was largely as a result of asset performance being better than expected. This has been offset by a decrease in the discount rate as the liability of the Fund grew from £1,293m as at 31 March 2013 triennial valuation to £1,514m as at 31 March 2015. Although equities have rebounded; bond yields are at record lows potentially raising the valuation of the Fund's liabilities. However, it is worth noting that the Council is a long term investor and has a relatively secure long term income stream. Therefore, the Fund should be able to alter strategy that enables it to ride out periods of market underperformance and should not have to crystallise losses during market downturns.

The Fund has seen continued growth in assets over the year benefiting from continued buoyant and booming of the financial markets, especially equities. The overall value of the portfolio of assets grew by 11.8% in 2014/15 outperforming benchmark by 0.4%. This performance is reflective of average return on pension fund assets nationally and also average gains in financial markets. Markets continue to be volatile therefore the short to medium term outlook for the performance of the Fund remains uncertain.

The Investment Strategy allocates assets across a range of asset classes and further attempts to minimise exposure to significant movements within each asset class by appointing fund managers that pursue contrasting but complementary investment strategies. This approach ensures a diversified and balanced portfolio that targets steady and sustainable growth. However, asset allocation can drift away from target over time due to market or manager performance. To ensure that strategic asset allocation is in line with target and Fund Strategy objectives, the Fund's swing manager, L&G Investment Management is tasked with rebalancing the portfolio between equities and bonds when allocation significantly varies from target.

The Fund net cash flow position remains positive with contributions and transfers in outstripping benefits paid and transfers out by £5.2m plus a further net inflow from investment income of £16.6m. The Pensions Committee monitor this aspect of the Fund closely as they recognised the need for the Fund to be able to pay its liabilities as they fall due and the ongoing austerity programme affecting public services.

In accordance with the new regulatory requirement to have additional governance arrangement in place by creating a Pension Board to assist the Administering Authority, the London Borough of Tower Hamlets, in ensuring compliance with regulations. This board has been established and appointments are currently underway with its first meeting due to take place towards the end of July 2015.

Chris Holme

Governance of the Pension Scheme

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute.

The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets Pension Fund. The Pensions Committee has delegated responsibility for the management of the Fund and oversees the general framework within which the Fund is managed and sets investment policy on behalf of the Council and other employers in the Fund. Therefore, the Pensions Committee considers all investment aspects of the Pension Fund. The Corporate director of Resources has delegated authority for the day to day running of the Fund.

MANAGEMENT AND ADVISERS TO THE PENSION FUND as at 31st March 2015

The pensions Committee during 2014/15 was made up of eight Councillor Members, an Employer Representative and a Scheme Member representative.

Pensions Committee:

Councillors:	Councillor Rajib Ahmed (Chair) Councillor Abdul Asad Councillor Andrew Cregan Councillor Shafiqul Haque Councillor Claire Harrisson Councillor Ayas Miah Councillor Harun Miah Councillor Mohammed Mufti Miah
Trade Union Representative (non-voting):	Frank West (GMB)
Admitted Bodies Representative (non-voting):	John Gray (Circle Anglia Ltd)

Contact details for the Pensions Committee:-
Pensions Committee
London Borough of Tower Hamlets
Town Hall, Mulberry Place
5 Clove Crescent
London, E14 2BG

Staff, Advisers & Investment Managers

The management and administration of the pension Fund is delegated to the Corporate Director of Resources, having responsibility for the day to day management of the Fund.

London Borough of Tower Hamlets Responsible Officers:

Chris Holme – Acting Corporate Director of Resources

Kevin Miles – Chief Accountant

Bola Tobun – Investment & Treasury Manager

Simon Kilbey - Service Head HR and Workforce Development

Anant Dodia – Pensions Manager

Advisers:

Consulting Actuary - Hymans Robertson LLP
Barry McKay - Actuarial Consultant/Adviser

Investment Consultant - Hymans Robertson LLP
Matt Woodman – Senior Investment Consultant

Independent Investment Adviser
Raymond Haines

Custodial Services - State Street Bank

Performance Measurement Services - WM Company

Legal Advisers - Legal Services
London Borough of Tower Hamlets, Town hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

Auditor - KPMG LLP (UK)

Investment Managers:

Baillie Gifford & Co
Calton Square, 1 Greenside Row, Edinburgh EH1 3AN

GMO UK Limited
1 London Bridge, London, SE1 9BG

Investec Asset Management
25 Basinghall Street, London, EC2V 5HA

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

Ruffer LLP
80 Victoria Street, London SW1E 5JL

Schroder Investment Management Limited
31 Gresham Street, London EC2V 7QA.

Governance and Oversight Review

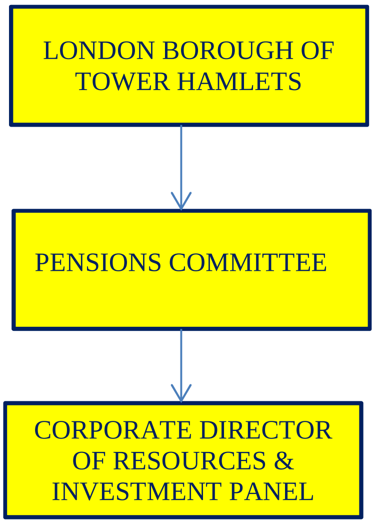
The Pension Fund Regulations require a new additional governance arrangement (Pensions Board) to be in place from 1 April 2015.

Although London Borough of Tower Hamlets is the Administering Authority of the pension Fund, but the delegated responsibility for the management of the pension fund is with the Pensions Committee and the new regulatory requirement is for a Pensions Board to assist the Authority in monitoring compliance with regulations by overseeing the Pensions Committee work in how the Fund is administered.

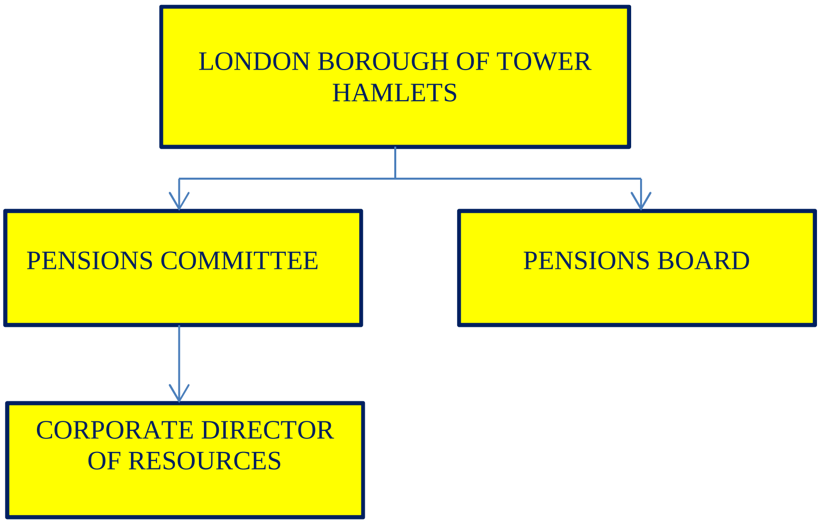
Full Council approved the establishment of the Pensions Board at its meeting in September 2015 with delegation authority for the composition of it and terms of reference to the Pensions Committee. Pensions Committee agreed the composition of the board comprising three Employer Representatives, three Employee Representatives and an Independent Chairman. The first meeting of the Pensions Board will take place in July 2015.

Please see below chart illustrating the old governance arrangement for the reporting year and new governance arrangement for 2015/15.

For Financial Year 2014/15



From Financial Year 2015/16



At the onset of Committee meetings, Committee members are required to make declarations of interest both in relation to membership of the Local Government Pension Scheme and relationship to any employer bodies within the Pension Fund. Further declarations are required as and when agenda items arise where a member may have a conflict of interest. The Governance Officer maintains a record of the Conflicts of Interest which covers Pensions Committee and Pensions Board Members as well as officers closely connected with the Fund.

A legal officer is present at the Committee meetings to provide guidance on legal matters and is also required to comment on other items where there could be conflicts of interest.

Pensions Committee Attendance 2014/15

Attendee	Voting Rights	13-Jul	17-Sep	19-Nov	24-Feb
Member					
Cllr Rajib Ahmed	√		Present	Present	Present
Cllr Abdul Asad	√				Present
Cllr Andrew Cregan	√	Present	Present	Present	
Cllr Shafiqul Haque	√				
Cllr Ayas Miah	√	Present	Present	Present	Present
Cllr Clare Harrisson	√	Present	Present	Present	Present
Cllr Harun Miah	√		Present		
Cllr John Pierce	√	Present			
Cllr Mohammed Mufti Miah	√			Present	Present
John Gray (Non-voting)	x	Present	Present	Present	Present
Frank West (Non-voting)	x	Present	Present	Present	
Officers					
Bola Tobun	x	Present	Present	Present	Present
Kevin Miles	x	Present	Present	Present	Present
Anant Dodia	x	Present	Present	Present	Present
Chris Holme	x	Present	Present	Present	Present
Graham White	x	Present	Present		
Ngozi Adedeji	x		Present	Present	Present
Nishaat Ismail	x	Present	Present	Present	Present
Antonella Burgio	x	Present	Present	Present	
David Knight	x				Present
Public					
Raymond Haines	x		Present		
Matt Woodman (Hymans)	x	Present			

Training was provided to the Committee with a time slot at the Committee meetings. The topics covered in the training programme for the Committee in 2014/15 were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them. The attendance at the training session is the same as set out in the table above for Pensions Committee attendance

Topics covered during the financial year were:

- General pensions framework
- Scheme-specific legislation for LGPS
- Constitutional framework for pension fund committees within administering authorities Pension scheme governance
- Valuations, funding strategy and inter-valuation monitoring
- Investment strategy – Asset Allocation, Fixed income
- Monitoring of investment performance

Knowledge and Skills Policy Statement

CIPFA Code of Practice on Public Sector Pensions – Finance Knowledge and Skills

The adoption of the CIPFA "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010) provides the basis for a training and development programme for the Pensions Committee based on the latest national guidance.
London Borough of Tower Hamlets Pension Fund adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

London Borough of Tower Hamlets recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.

London Borough of Tower Hamlets will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

London Borough of Tower Hamlets will report on an annual basis how these policies have been put into practice throughout the financial year.

London Borough of Tower Hamlets has delegated responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Corporate Director of Resources, who will act in accordance with the organisation's policy statement, and where they are a CIPFA member with CIPFA Standards of Professional Practice.

London Borough of Tower Hamlets recognises the importance of ensuring that it has the necessary resources to discharge its pension administration responsibilities and that all staff and members charged with the financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

London Borough of Tower Hamlets therefore seeks to utilise individuals who are both capable and experienced and it will provide and/or arrange training for staff and members of the pensions decision making and governance bodies, to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS

Core technical areas and areas of knowledge

Legislative and governance framework
- General pensions framework
- Scheme-specific legislation for LGPS
- Pensions regulators and advisors
- Constitutional framework for pension fund committees within administering authorities
- Pension scheme governance

Accounting and auditing standards
- Accounts and Audit regulations
- Role of internal and external audit

Procurement of financial services and relationship management
- Procurement requirements of UK and EU legislation
- Supplier risk management

Investment performance and risk management
- Monitoring of investment performance
- Performance of advisors
- Performance of the Pensions Committee
- Performance of support services

Financial markets and investment products
- Investment strategy
- Financial markets
- Regulatory requirements regarding investment products

Actuarial methods, standards and practices
- Valuations, funding strategy and inter-valuation monitoring
- Ill-health and early retirement
- Admitted bodies
- Outsourcing and bulk transfers

Risk Management

Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision making process for the Committee. The benefits of successful risk management are clear for the Fund; improved financial performance, better delivery of services, and improved Fund governance and compliance.

There are four general approaches to treating risk: avoid, reduce, transfer or accept.

- Avoidance of risk – not undertaking the activity that is likely to trigger the risk
- Reducing the risk – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- Transferring the risk – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- Accepting the risk – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.

The types of risk that the Fund is exposed to fall into the following broad categories:

- Financial – These relate to investment related risks including market, currency, credit and interest rate risks – these are outlined in detail in the Statement of Accounts.
- Strategic – Failure to meet strategic objectives such as performance targets, Funding Strategy Statement objectives, etc.
- Regulatory – Regulatory changes impacting on the Fund, or failure to comply with legislation or meet statutory deadlines.
- Reputational – Poor service damaging the reputation of the Fund.
- Operational – Data maintenance, service delivery targets.
- Contractual – 3rd party providers, failure to deliver, effective management of contracts.
- Communication – Failure to keep all stakeholders notified of things that affect them, be they employers, scheme members or contractors.

The Funding Strategy Statement (appendix 3) explains the fund's key risks and how they are identified, mitigated, managed and reviewed.

The Fund's investment managers and custodian are audited separately and at different times. The Council receives audited assurance reports AAF01/06, SSAE16 and ISAE3402 from their independent auditors. Any exceptions highlighted by their auditors are evaluated by officers.

The council is the primary employer in the Fund and the risks of late payment of contributions are with admitted and scheduled bodies who are treated by the Pension Regulations as part of the Council for pension purposes. All contributions received from external payroll providers are reconciled monthly.

Investment and Performance Review

Major investment markets delivered positive returns over the period as a whole. This outcome could be attributed to several factors including increased investor confidence, the improved economic backdrop, and the continuation of loose monetary policy in many developed countries.

Although there were several geopolitical flashpoints around the world, notably in the Middle East and Ukraine, and these situations created uncertainty in terms of global security, they had a limited impact on investment markets. However, the sharp fall in the oil price in the second half of 2014 and extreme weakness in the Russian currency during December 2014 were of greater concern to investors and caused a rise in volatility in financial markets. However, the falling oil price was beneficial for some countries, businesses such as airlines and cruise companies, and consumers more generally.

The main contributors to the positive performance of **Baillie Gifford Diversified Growth Fund** included economic risk assets such as listed equities, emerging market bonds and property. Allocations to asset classes such as absolute return, structured finance and infrastructure were also helpful. No single asset class detracted from returns over the 12-month period under review. The Fund maintained a broadly diversified portfolio with a substantial allocation to more defensive assets such as investment grade bonds, structured finance and cash.

Looking back at the last twelve months for **Ruffer portfolio**, not only have their equities made useful gains, increasingly led by Japan. The main contributors to the performance in the year were their long-dated inflation-linked bonds. With little inflation expectation built into them, they benefitted from the continued fall in global bonds yields, both real and nominal. Continued low inflation readings, collapsing commodity prices, further Japanese QE and hopes of full-blown Eurozone QE all drove global yields lower, thus raising bond prices. The quest for duration drove the 2068 UK index-linked bond up over 50% during the twelve month period.

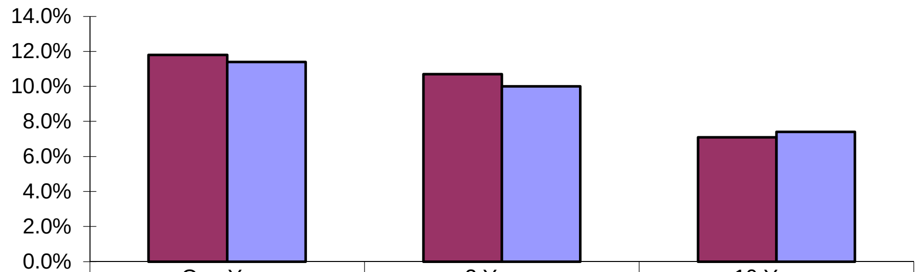
The **Investec** Bond portfolio underperformed the target set over the 12 months period returning 1.9% versus the 2% plus Overnight GBP LIBOR Rate of 2.6%. The investments in currencies made the largest contribution to the returns over the period. These gains were largely down to the manager longer-term positions, which are designed to benefit from macroeconomic trends, such as the position in the US dollar. With the exception of early 2015, the US economy has been growing robustly – and this has translated into dollar strength. Elsewhere, the portfolio's holdings in emerging market bonds made a small positive contribution to returns over the period. These 12 months were a challenging time for emerging market economies, and their bond markets in particular – returns were patchy and prices had a tendency to fluctuate quite wildly. But falling inflation in the second half of 2014 – which boosted bonds – allowed for short periods of positive performance. More negatively, the portfolio's credit positioning detracted from relative returns given the manager's defensive positioning at a time when credit markets ended the period higher.

Investment Performance of the Fund

The Council's Statement of Investment Principles sets the Fund's investment objective as "to follow an investment strategy which will achieve an appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk".

In 2014/15 the fund had a good performance achieving a return on its investment portfolio of 11.8%, outperforming the benchmark of 11.4%. The three year return also outperformed the benchmark with the fund returning 10.7% against a benchmark of 10.0%. The return for 10 year continued to lag the benchmark by 0.3%.

Fund Performance (One, Three and 10 Years)



	One Year	3 Years	10 Years
Fund	11.8%	10.7%	7.1%
Benchmark	11.4%	10.0%	7.4%
Rank	73	59	84

Fund Management Activity

The continued recovery in the equity markets and strong returns from the fund's global equity managers and absolute return funds was a major contributor to the outperformance.

During the year the decision was taken to rebalance the fund to ensure the strategic allocation was in line with target and to reduce the overweight position in equities. This resulted in 2% of the fund's assets from GMO being divested and the proceeds held as cash and being managed internally.

The fund continues to participate in the Collective Investment Vehicle (CIV) and during the year made a further contribution of £50k to the set up and initial running costs of the scheme.

The fund received a positive cash flow from dealings with members of £5.2m and the 2015/16 cash flow forecast predicts that it will continue to be positive.

Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as at 31 March 2015 as set out below. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

Analysis of Asset Allocation

Asset Class	Benchmark	Fund Position	Variance
UK Equities	24.0%	23.5%	-0.5%
Global Equities	37.0%	39.1%	2.1%
UK Index Linked	3.0%	5.2%	2.2%
Pooled Bonds	14.0%	8.7%	-5.3%
Property	12.0%	10.5%	-1.5%
Alternatives	10.0%	8.9%	-1.1%
Cash	0.0%	4.2%	4.2%

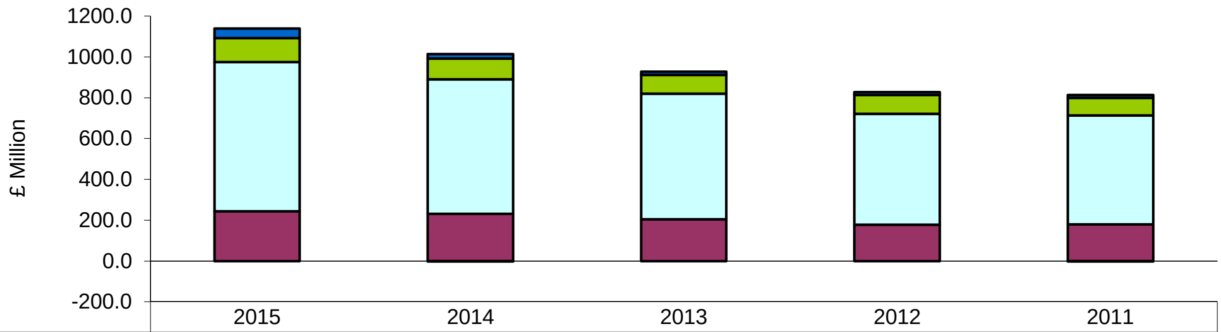
The fund remains close to its strategic allocation although the bond mandate is slightly underweight it is offset to an extent by the overweight position of index-linked gilts.

All investment activity is regulated by the Fund's Statement of Investment Principles which together with the Myners Compliance Statement are set out in Appendix 2.

Financial Accounts

During the financial year 2014/15 the value of the Fund rose by £125.3m to £1,138.2m, an increase of 12.4%. This is principally attributable to the performance of the financial markets in which the Fund held its investments.

ANALYSIS OF ASSET CLASS

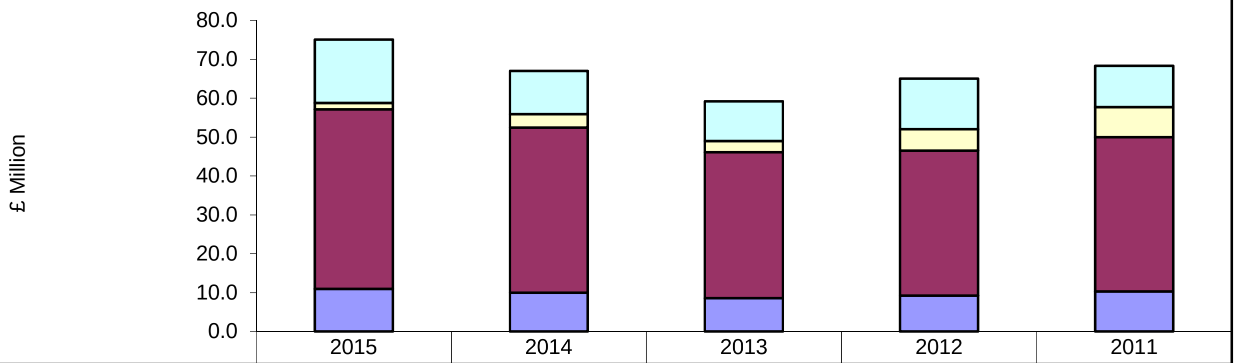


	2015	2014	2013	2012	2011
Cash	47.2	21.6	15.1	14.2	13.5
Derivatives	0	-0.4	0.5	0.2	-0.4
Property Units	116.9	102.1	92.1	92	86.2
Unit Trusts	730	658.7	615.2	542.9	532.8
Equities	244.3	231.0	203.9	177.9	180.1

Fund Income

There was a significant increase in the amount of income received by the Fund in 2014/15 compared to 2013/14.

Fund Income Analysis



	2015	2014	2013	2012	2011
Investment Income	16.3	11.1	10.2	13	10.6
Transfer Values	1.7	3.5	2.9	5.5	7.7
Council Related Contributions	46.1	42.4	37.5	37.3	39.7
Employees Contributions	11.0	10.0	8.6	9.2	10.3

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.

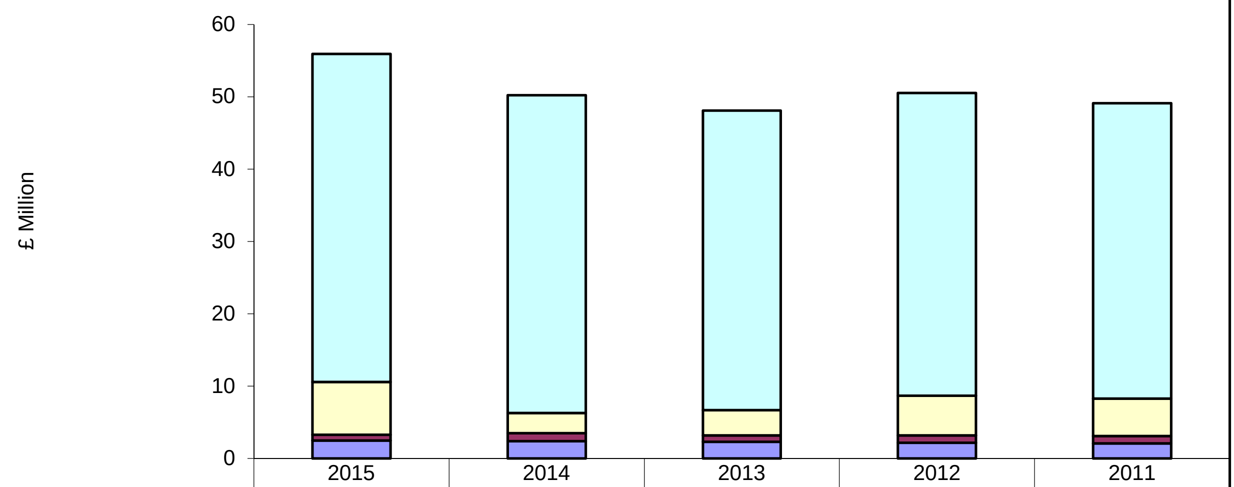
Fund Income Variance Analysis

Type of Income	2015 £m	2014 £m	Variance %
Employees Contributions	11	10	10.0%
Council Related Contributions	46.1	42.4	8.7%
Transfer Values	1.7	3.5	-51.4%
Investment Income	16.3	11.1	46.8%
Total Fund Income	**75.1**	**67**	**12.1%**

Fund Expenditure

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%).

Fund Expenditure Analysis



	2015	2014	2013	2012	2011
Benefits Payable	45.3	43.9	41.4	41.8	40.8
Transfer Values	7.3	2.8	3.5	5.5	5.2
Administration	0.8	1.1	0.9	1.0	1.0
Investment Management	2.5	2.4	2.3	2.2	2.1

The increase in transfers out is principally due to the higher value of transfer payments being made, although the number of staff leaving had increased but not significantly. The substantial reduction in administration costs of £300k (27.3%) shows a return to normal following the additional costs charged in the previous year to accommodate the purchase of the new Altair pension administration system and also the charge for triennial valuation fees. The investment management fees which are performance based have risen in line with the increase in the market value of the funds held.

Fund Expenditure Variance Analysis

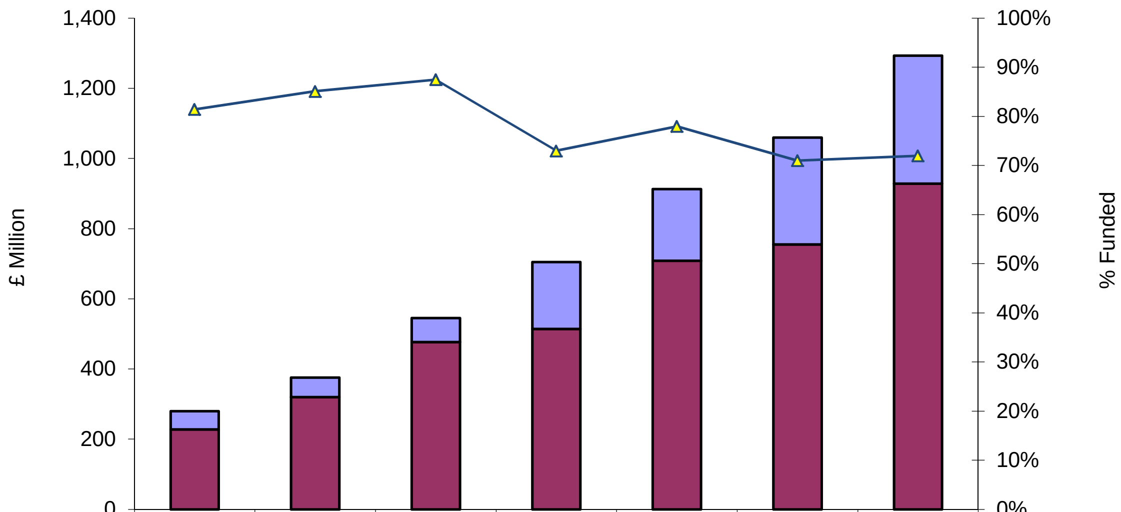
Type of Expenditure	2015 £m	2014 £m	Variance £m	Variance %
Investment Management	2.5	2.4	0.1	4.2%
Administration	0.8	1.1	-0.3	-27.3%
Transfer Values	7.3	2.8	4.5	160.7%
Benefits Payable	45.3	43.9	1.4	3.2%
Total Fund Expenditure	55.9	50.2	5.7	11.4%

Funding Level

The Council is required to value the Pension Fund every three years.

The fund was valued by the consultant actuary Hymans Robertson LLP as at the 31st March 2013. The Actuary calculated that the Pension Fund is 71.8% funded and has a deficit of £365m.

Movement in Funding Level



	1995	1998	2001	2004	2007	2010	2013
Deficit	52.0	56.0	68.1	191.0	204.8	305.0	365.0
Assets	228.0	320.0	477.2	514.0	708.4	755.0	928.0
Funding	81%	85%	88%	73%	78%	71%	72%

The funding position increased by 0.8% between the previous revaluation in 2010 and the 2013 valuation. This is principally attributable to an increase in the market value of assets with a reduction in ill-health retirements and slower rate of increase in salaries having a positive effect too. The deficit increase of £60m was brought about by an increase in the value of the Fund’s liabilities owing to the decrease in the real gilt yield.

On the recommendation of the Actuary, the Council adopted a strategy to recover the deficit over a 20-year period. This will involve the Council paying a lump sum of £18.5m in 2014/15 rising to £20.5m and £22m in 2015/16 and 2016/17 respectively, into the pension fund specifically to recover the deficit.

Although the increase in deficit has necessitated an increase in the overall monetary amounts payable by the Council, the contribution rate element of this has been held at 15.8% of employee pay.

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. It should be recognised that the position is not unique to the Tower Hamlets Fund. All Pension Funds in both the public and private sectors have been subject to declining investment returns and increasing life expectancy, which has resulted in rising deficits in many cases. The 2013 valuation exercise has shown the fund to be gradually maturing as the proportion of employee members has fallen whilst the deferred and pensioner numbers have risen.

The Scheme Details

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute. The main regulations governing the operation of the scheme during the year were the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The Local Government Pension Scheme Regulations 2013 introduced the new 2014 LGPS which amongst other things changed the benefits structure from a final salary to career average revalued earning (CARE) scheme. In addition the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 covers the investment aspects of the funds.

The London Borough of Tower Hamlets is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2016.

The conditions of the Local Government Pension Scheme (LGPS) Regulations made it clear that the benefits that are payable to Scheme members and as such the benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. The contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and as such, are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme as applying during the financial year 2014/15 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

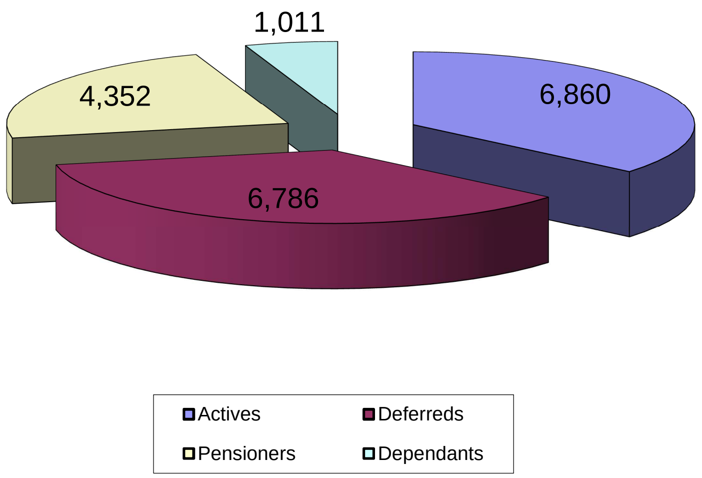
- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earned prior to 1 April 2014.
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.
- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for dependents: - spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living.

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014, although it should be recognised that a large number of scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for spouses/civil and co-habiting partners and children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the CPI.

Scheme Membership
The Fund currently has a membership of 19,009 comprising the following categories as set out in the below chart. Membership to the scheme is automatic for full and part-time employee unless they opt out.



The total pension fund membership has increased by 1.8% between 2013/14 and 2014/15. The number of actives members (those currently contributing to the fund) has increased by 68 (1.0%). The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has increased by 122 (1.8%) and pensioner members by 106 (2.5%). The dependants category saw an increase of 36 (3.5%).

The table below sets out the movement in membership number between the different categories in 2013/14 and 2014/15.

Movement in Fund Membership

Membership Type	31-Mar-15	31-Mar-14	Variance No.	Variance
Actives	6,860	6,792	68	1.0%
Deferreds	6,786	6,664	122	1.8%
Pensioners	4,352	4,246	106	2.5%
Dependants	1011	975	36	3.7%
Total	19,009	18,677	332	1.8%

The membership of the fund over the last five years is as set out below.

Membership Type	31-Mar-15	31-Mar-14	30-Mar-13	30-Mar-12	31-Mar-11
Actives	6,860	6,792	5,298	5,252	5,686
Deferreds	6,786	6,664	6,292	6,060	5,601
Pensioners	4,352	4,246	4,148	4,064	3,914
Dependants	1011	975	979	940	931
Total	19,009	18,677	16,717	16,316	16,132

Fund Employers

London Borough of Tower Hamlets is the administering authority for the fund. The scheme is open to all council employees and scheduled bodies. Admitted bodies require the agreement of the administering authority to participate in the fund. The scheduled and admitted bodies participating in the fund are set out below.

Scheduled Bodies

- Bethnal Green Academy
- Canary Wharf College
- Culloden Primary School
- London Enterprise Academy
- Old Ford Primary School
- Sir William Burrough School
- Solebay Academy
- St Pauls Way Communuity School
- Tower Hamlets Homes Ltd

Admitted Bodies

- Agilisys
- Capita
- Circle Anglia Ltd
- East End Homes
- Ecovert FM Ltd
- Gateway Housing Association
- Greenwich Leisure Ltd
- Look Ahead Housing and Care*
- One Housing Group
- Redbridge Community Housing Ltd

- Swan Housing Association
- Tower Hamlets Community Housing

*Look Ahead Housing and Care ceased to be an admitted body of the fund in September 2014

Contributions to the Fund
Employees pay contributions based on the level of pay they receive with rates being set between 5.5% to 12.5% of pensionable pay. The employers contribution rate used during the financial year ranged from 15.9% to 41.4% of pensionable pay.

The following table shows the contributing employers and the contributions received from each during the year.

Contributing Employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough of Tower Hamlets	6,155	9,730,977	22,356,297
Agilisys	41	111,437	265,384
Bethnal Green Academy	20	45,343	132,334
Canary Wharf College	6	7,599	19,823
Capita	7	9,418	28,056
Circle Anglia Ltd	3	4,600	83,794
Culloden Academy	18	17,765	92,728
East End Homes	35	106,536	445,698
Ecovert FM Ltd	13	3,690	14,053
Gateway Housing Association	1	1,769	32,967
Greenwich Leisure Limited	7	18,496	46,629
London Enterprise Academy	1	2,110	4,924
Old Ford Academy	34	20,109	111,626
One Housing Group	9	14,832	93,802
Redbridge Community Housing Ltd	2	3,718	10,125
Sir William Burrough School	5	12,291	44,908
Solebay Academy	1	861	4,797
St.Pauls Way Community School	17	61,490	156,584
Swan Housing Association	1	1,922	17,749
Tower Hamlets Community Housing	16	56,207	241,218
Tower Hamlets Homes Limited	342	799,836	2,651,086
Total	6,734	11,031,007	26,854,581

* The Council contributed an additional £18.5m in respect of deficit funding

The full accounts are as set out in Appendix 1.

The Council is required to publish a number of statements relating to the operation of the fund. The statements and the associated reports are as set out in the following appendices.

Appendix 2 Statement of Investment Principles
Appendix 3 Funding Strategy Statement
Appendix 4 Communications Strategy Statement
Appendix 5 Governance Compliance Statement
For further information on the Local Government Pension Scheme and your entitlement, please contact Anant Dodia at anant.dodia@towerhamlets.gov.uk or by telephoning 020 7364 4248.

Statement from the Actuary

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2013 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2014 to 31 March 2017 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 71.8% of the Funding Target and the estimated deficit on the Fund at the valuation date was £365m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is £18.5m (2014/15) rising to £20.5m (2015/16) and £22m (2016/17).

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2014 to 31 March 2017 is 35.5% of pensionable pay.

Individual Adjustments are required under Regulation 77 for the period 1 April 2014 to 31 March 2017 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

	Minimum Contribution for the year ending					
Employer Name as per 31 March 2013	Year ending 31 March 2015	Additional Monetary Deficit Payment £	Year ending 31 March 2016	Additional Monetary Deficit Payment £	Year ending 31 March 2017	Additional Monetary Deficit Payment £
London Borough of Tower Hamlets	15.8%	18.5m	15.8%	20.5m	15.8%	22m
Tower Hamlets Community Housing Limited	34.7%		36.1%		37.6%	
Redbridge Community Housing Limited	17.7%		17.7%		17.7%	
East End Homes Limited	31.1%		32.3%		33.6%	
Greenwich Leisure Limited	17.7%		17.7%		17.7%	
Swan Housing Association Limited	26.2%	10k	26.2%	10k	26.2%	11k
Gateway Housing Association (Bethnal Green & Victoria Park)	25.6%	26k	25.6%	27k	25.6%	28k
One Housing Group (Toynbee Island Homes)	41.4%		41.4%		41.4%	
Circle Anglia Limited	27.7%		27.7%		27.7%	
Tower Hamlets Homes	23.1%		23.1%		23.1%	
Look Ahead Housing & Care Limited	19.9%		19.9%		19.9%	
Ecovert FM Limited	22.5%		22.5%		22.5%	
Bethnal Green Academy	20.6%	141k	20.6%	146k	20.6%	152k
Sir William Burrough School	25.3%		23.6%		21.8%	
St Pauls Way Community School	16.7%		17.8%		18.9%	
Capita	19.6%		19.6%		19.6%	
Canary Wharf College	15.9%		15.9%		15.9%	
Agilisys	16.8%		16.8%		16.8%	

In addition to the certified contribution rates, payments to cover the additional liabilites arising from early retirements (other than ill-health) will be made to the Fund by the employers.

The results of the triennial valuation depend on the actuarial assumptions made about the future of the Fund. The effect on the valuation of the Fund of changes to the main assumptions are set out in the table below.

Sensitivity of valuation results to changes in asumptions

		Impact	
Assumption	Change	Deficit (£m)	Future service rate (% of pay)
Discount rate	Increases by 0.5%	Falls by £112m	Falls by 3%
Salary increases	Increases by 0.5%	Rises by £31m	Rises by 2%
Price inflation/pension increases	Increases by 0.5%	Rises by £92m	Rises by 2%
Life expectancy	Increases by 1 year	Rises by £39m	Rises by 1%

This is not an exhaustive list of assumptions but those that are likely to have the biggest impact. The effect of changes are shown in isolation and it is possible that the Fund could experience changes to more than one assumption simultaneously.

The next triennial valuation of the Fund is due as at 31 March 2016. The contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Statement of Responsibilities

The London Borough of Tower Hamlets as Administering Authority of the London Borough of Tower Hamlets Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this council, that officer is the Acting Corporate Director of Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts

Responsibilities of the Acting Corporate Director of Resources

The Acting Corporate Director of Resources is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Acting Corporate Director of Resources has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice, except where otherwise stated.

The Acting Corporate Director of Resources has;

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 19 to 33 have been prepared in accordance with proper practices and that they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31st March 2015 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2015.

Chris Holme
Acting Corporate Director of Resources

Independent auditor's report to the members of the London Borough of Tower Hamlets on the pension fund financial statements published with the Pension Fund Annual Report

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

28 November 2014

The London Borough of Tower Hamlets Pension Fund

Appendix 1

Draft Statement of Accounts 2014/15

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2013/14 £'000	2014/15 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	42,401	46,135
From members	3	9,982	11,031
Transfers in			
Transfers in from other pension funds	4	3,527	1,719
Benefits			
Pensions	4	(35,681)	(37,265)
Lump sum benefits	4	(8,178)	(8,055)
Payments to and on account of leavers			
Refunds of contributions		(3)	(125)
State scheme premiums		(3)	(132)
Transfers out to other pension funds		(2,778)	(7,263)
Administrative expenses	13	(1,087)	(803)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		**8,180**	**5,242**

RETURN ON INVESTMENTS	Note	2013/14 £'000	2014/15 £'000
Investment income	11	11,540	16,581
Taxes on Income		(410)	(329)
Change in market value of investments			
Realised		22,195	23,292
Unrealised	10	46,918	82,933
Investment management expenses	13	(2,364)	(2,450)
NET RETURN ON INVESTMENTS		**77,879**	**120,027**
Net increase in the Fund during the year		86,059	125,269
Add: Opening net assets of the scheme		926,871	1,012,930
CLOSING NET ASSETS OF THE SCHEME		**1,012,930**	**1,138,199**

NET ASSETS STATEMENT AS AT 31ST MARCH	Note	2014 £'000	2015 £'000
Investments Assets			
Equities		230,998	244,335
Pooled Investment Vehicles			
Unit Trusts		566,768	628,744
Property		102,073	116,945
Other		91,918	101,303
Derivative Contracts			
Forward Foreign Exchange Contracts		238	0
		991,995	1,091,327
Cash deposits	6	5,292	5,414
Other investment balances	5	817	978
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(647)	0
Other investment balances	5	0	(223)
Current Assets	5	16,954	42,154
Current Liabilities	5	(1,481)	(1,451)
TOTAL NET ASSETS		**1,012,930**	**1,138,199**

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

The Council is the administering authority for the Pension Fund and has executive responsibility for it. The Council delegates its responsibility for administering the Fund to the Pensions Committee which is responsible for considering all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and other statutes relating to investment issues. The Committee meets quarterly to determine investment policy objectives, appoint investment managers, monitor investment performance and make representations to the Government on any proposed changes to the Local Government Pension Scheme. The Committee is required to obtain proper advice on the investment strategy of the Fund for which it has established an Investment Panel which includes professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the Fund and individual managers and consider technical reports on investment issues. The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

The day to day administration of the Fund and the operation of the management arrangements and administration of the investment portfolio is delegated to the Corporate Director of Resources.

The Fund is operated as a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets and those of bodies admitted to the Fund. These individuals are referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividend receipts and gains on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management - that is the accountability of management for the resources entrusted to it - and the disposition of its assets at the period end.

2. ACCOUNTING POLICIES

(a) **Accounts**

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007 and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Fund is administered in accordance with the Local Governement Pension Scheme Regulations 2013 (as amended) and the Local Governemnt Pension Scheme (Management and Investment of Funds) Regulations 2009.

(b) **Basis of preparation**

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2015. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

Fund Account - Revenue Recognition

Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which it relates. Any amount due in the year but unpaid will be classified as a current asset.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid.

(d) **Investments**

Investments are shown in the Net Assets Statement at market value on the following bases.

(i) Listed securities are shown by reference to bid price at the close of business on 31st March 2015.

(ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2015.

(iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2015.

(iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.

(v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2015. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

(vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.

(vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(e) **Investment Income**

(i) Interest income is recognised in the Fund account as it accrues.

(ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

(iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.

(iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

2 ACCOUNTING POLICIES Cont…

Fund account - expense items

(f) **Management Expenses**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance on accounting for LGPS management costs.

Administrative Expenses

Staff costs of the pensions of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight & Governance Costs

Staff costs relating to oversight and governance are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment Management Expenses

Fund managers' fees are paid in accordance with the terms of each individual management agreement. The fees are based mainly on a percentage of the value of funds under their management and increase or reduce as the value of the investments change.

(g) **Benefits Payable**

Pensions and lump sums payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Net assets statement

Financial Assets

(h) Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid price ruling on the final day of the accounting period.

(ii) Fixed interest securities

Fixed Interest Securities – are recorded at net market value based on their bid price.

(iii) Unquoted investments

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from assumptions and estimates.

There is just one item in the authority's net asset statement as at 31st March 2015 for which there which there is a significant risk of material adjustment in the forthcoming financial year.

Pensions Liability - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2014/15, the Council’s actuaries advised that the net pensions liability had increased by £139.9 million to £628.5 million as a result of falling real bond yields.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 12.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2015 range from 15.9% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £18.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2013/14 £'000	2014/15 £'000
Members normal contributions		
Council	8,849	9,731
Admitted bodies	222	221
Scheduled body	911	1,079
Total members	**9,982**	**11,031**
Employers		
Normal contributions		
Council	21,210	22,356
Admitted bodies	1,064	1,015
Scheduled bodies	2,505	3,484
Deficit funding contributions		
Council	16,500	18,500
Other contributions		
Council	1,122	780
Total employers	**42,401**	**46,135**
Total contributions	**52,383**	**57,166**

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2014/15 employees made contributions of £60,530.28 (£26,465.94 in 2013/14) into the AVC Scheme operated by Aviva (Norwich Union) and £9,455.96 to Equitable Life (£6,444.33 in 2013/14). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index linked to keep pace with inflation. In April 2011, the method of indexation changed from the retail prices index to the consumer prices index.
Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2013/14				2014/15			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(33,852)	(968)	(861)	(35,681)	(35,259)	(1,126)	(880)	(37,265)
Lump sum retirement benefits	(6,817)	(31)	(288)	(7,136)	(6,027)	(307)	(379)	(6,713)
Lump sum death benefits	(990)	0	(52)	(1,042)	(1,232)	(42)	(68)	(1,342)
Total Pensions and Benefits	**(41,659)**	**(999)**	**(1,201)**	**(43,859)**	**(42,518)**	**(1,475)**	**(1,327)**	**(45,320)**
Transfer Values Received	3,527	0	0	3,527	1,719	0	0	1,719
Transfer Values Paid	(2,778)	0	0	(2,778)	(7,263)	0	0	(7,263)
Total	**(40,910)**	**(999)**	**(1,201)**	**(43,110)**	**(48,062)**	**(1,475)**	**(1,327)**	**(50,864)**

5. DEBTORS AND CREDITORS

Unless otherwise stated, all transactions are accounted for on an accruals basis. The following amounts were debtors or creditors of the Pension Fund as at 31st March.

	2013/14 £'000	2014/15 £'000
Debtors		
Other Investment Balances		
Investment sales	27	8
Dividends receivable	514	583
Tax recoverable	276	387
	817	978
Current Assets		
Contributions due from admitted bodies	86	101
London Borough of Tower Hamlets Pension Fund	62	230
	148	331
Total Debtors	**965**	**1,309**
Creditors		
Other Investment Balances		
Investment purchases	0	223
Current Liabilities		
Unpaid benefits	1,171	1,138
Administrative expenses	263	313
London Borough of Tower Hamlets Pension Fund	47	0
	1,481	1,451
Total Creditors	1,481	1,674
Net Debtors	**(516)**	**(365)**

6. CASH

The deposits held by fund managers can be further analysed as follows:

	2013/14 £'000	2014/15 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	3,803	2,930
Schroders: Multi Asset Portfolio	14	15
Schroders: Property Portfolio	1,465	2,458
London Borough of Tower Hamlets Pension Fund	16,806	41,823
TOTAL CASH	**22,098**	**47,236**

7. TAXATION

UK Income Tax
Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property unit trusts.

Value Added Tax
As Tower Hamlets Council is the Administering Authority for the Fund, VAT input tax is recoverable on all Fund activities.

Overseas Tax
Taxation agreements exist between the UK and certain other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 14th November 2014.

9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2015

	2014	2015
London Borough of Tower Hamlets		
Active Members	6,158	6,249
Pensioners	4,043	4,131
Deferred Pensioners	6,332	6,434
Dependants	959	993
	17,492	**17,807**
Admitted & Scheduled Bodies		
Active Members	634	611
Pensioners	203	221
Deferred Pensioners	332	352
Dependants	16	18
	1,185	**1,202**

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilysis
Capita
Circle Anglia Ltd.
East End Homes
Ecovert FM Ltd.
Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
Greenwich Leisure Limited
Look Ahead Housing and Care
One Housing Group (formerly Island Homes)
Redbridge Community Housing Ltd.
Swan Housing Association
Tower Hamlets Community Housing

Scheduled Bodies

Bethnal Green Academy
Canary Wharf College
Culloden Primary School
London Enterprise Academy
Old Ford Primary School
Sir William Burrough School
Solebay Academy
St. Pauls Way Community School
Tower Hamlets Homes Limited

10. INVESTMENTS

The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

Manager	**Mandate**
Baillee Gifford Life Ltd.	Global Equity, Diversified Growth
GMO UK Ltd.	Global Equity
Investec Asset Management	Absolute Return Bonds
Legal & General Investment Management	UK Equity, Index Linked Gilts
Ruffer LLP	Diversified Growth
Schroders Asset Management Property Fund	Property

The value of the Fund, by manager, as at 31st March was as follows:

	2014		2015	
	£ million	%	£ million	%
Baillee Gifford Life Ltd - Diversified Growth	46.9	4.7	50.7	4.6
Baillee Gifford Life Ltd - Equities	183.1	18.4	217.7	19.8
GMO UK Ltd.	261.3	26.2	274.3	25.0
Investec Asset Management	97.5	9.8	99.6	9.1
Legal & General Investment Management - Equities	211.6	21.2	225.7	20.1
Legal & General Investment Management	49.0	4.9	59.4	5.9
Ruffer LLP	45.0	4.5	50.6	4.6
Schroders Asset Management Property Fund	103.1	10.3	119.5	10.9

10. INVESTMENTS (continued)

The movement in the opening and closing value of investments during the year, together with related direct transaction costs, were as follows:

	Market Value as at 1 Apr 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
Baillee Gifford Life Ltd - Diversified Growth	46,889	72	0	3,724	50,685
Baillee Gifford Life Ltd - Equities	183,066	2,004	0	32,600	217,670
GMO UK Ltd.	256,678	196,511	(184,536)	1,984	270,637
Investec Asset Management	97,502	0	0	2,129	99,631
Legal & General Investment Management	260,556	0	0	24,585	285,141
Ruffer LLP	45,030	0	0	5,588	50,618
Schroders Asset Management Property	101,628	12,757	(9,762)	12,322	116,945
	991,349	211,344	(194,298)	82,932	1,091,327

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
UK Investment Assets					
Quoted	734,671	14,833	(9,762)	80,948	820,690
Overseas Investment Assets					
Quoted	257,087	196,511	(184,536)	1,575	270,637
Unquoted	(409)	0	0	409	0
	991,349	211,344	(194,298)	82,932	1,091,327

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2013/14 £'000	2014/15 £'000
Dividends from overseas equities	7,886	10,617
Net rents from properties	3,427	5,234
Interest on cash deposits	58	170
Foreign tax	169	231
TOTAL	**11,540**	**16,252**

12 ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employer's contribution rate is determined by the Actuary as part of the revaluation exercise.

The 2013 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £365 million and the funding level to be 72%. This compares to a deficit at the previous revaluation in 2010 of £305 million and a corresponding funding level of 71%.

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contributions to recover the deficit for the term of the revaluation is as set out below :-

	£m
2014/15	18.50
2015/16	20.50
2016/17	22.00

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2013 determined that this would require a contribution (additional to the future contribution rate) of 15.2% of members' pensionable pay equivalent to £18.5 million per annum.

The Council, as Administering Authority, prepares a Funding Strategy Statement (FSS) in respect of the Fund in collaboration with the Fund's Actuary and after consultation with the employers and investment advisors. The Actuary is required to have regard to this statement when carrying out the valuation. The FSS includes the Fund's funding policy, the objectives of which are:

- to ensure the long-term solvency of the Fund
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Council can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

The basis of valuing the Fund's assets (see note 2) is compatible with the basis of placing a value on members' benefits as both are related to market conditions at the valuation date.

12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2013/14 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2016 and the recommendations implemented from 1st April 2017.

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2013. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

Financial Assumptions	Nominal	Real	
Price inflation (CPI)	2.5%		
Pay increases	3.8%	1.3%	Real rates are nominal rates
Funding basis discount rate	4.6%	2.1%	adjusted for inflation

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.2	24.2
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	24.3	26.4

Actuarial Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.783 million (£1,503 million in 2013/14).

13. MANAGEMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Administration costs	906	714
Investment management expenses	2,364	2,450
Oversight & governance	181	90
	3,451	3,254

14. INVESTMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Management fees	2,278	2,357
Custody fees	86	93
	2,364	2,450

15. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. The aim of investment risk management is to minimise the risk of a reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level.

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

The Council only invests money with institutions with a minimum Fitch credit rating of A+ or higher.

Liquidity risk

This is the risk that the Fund might not have the cash flow required in order to meet its financial obligations when they become due. Over the years contributions have tended to be greater than benefits and this has ensured that sufficient cash has been available to meet payments.

The Fund currently operates two bank accounts. One is held by the Fund's custodian (State Street Bank) and holds cash relating to the investment activities and the other is the LBTH Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

Market risk

This is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises; interest rate risk, currency risk and other price risk. The Fund mitigates these risks as follows:

Interest rate risk

Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

The Fund's direct exposure to interest rate movements as at 31st March 2014 and 31st March 2015 is set out below.

Interest Rate Risk	As At 31st March 2014	As At 31st March 2015
Asset Type	**£'000**	**£'000**
Cash and cash equivalents	5,292	5,414
Cash balances	16,954	42,154
Fixed interest securities	146,517	159,079
Total	**168,763**	**206,647**

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2015	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		**£'000**	**£'000**
Cash and cash equivalents	5,414	54	(54)
Cash balances	42,154	422	(422)
Fixed interest securities	159,079	(1,591)	1,591
Total change in net assets available	**206,647**	**(1,115)**	**1,115**

Interest rate risk - sensitivity analysis

Interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The table below shows the effect of a +/- 100 BPS change in interest rates.

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2014	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		**£'000**	**£'000**
Cash and cash equivalents	5,292	53	(53)
Cash balances	16,954	170	(170)
Fixed interest securities	146,517	(1,465)	1,465
Total change in net assets available	**168,763**	**(1,242)**	**1,242**

15. RISK MANAGEMENT (continued)

Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.3%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2014	As At 31st March 2015
Asset Type	£'000	£'000
Overseas quoted securities	238,710	245,548
Overseas unit trusts	5,949	3,808
Cash	13	14
Total overseas assets	**244,672**	**249,370**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2015	Change in year in net assets available to pay benefits	
		+6.3%	-6.3%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	245,548	261,018	230,078
Overseas unit trusts	3,808	4,048	3,568
Cash	14	15	13
Total change in net assets available	**249,370**	**265,081**	**233,659**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2014	Change in year in net assets available to pay benefits	
		+5.8%	-5.8%
Asset Type		£'000	£'000
Overseas quoted securities	238,710	252,555	224,865
Overseas unit trusts	5,949	6,294	5,604
Cash	13	14	12
Total change in net assets available	**244,672**	**258,863**	**230,481**

The percentage change in the year of 6.3% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

Other Price risk

To mitigate the risk of a loss owing to a fall in market prices the Fund maintains a diverse portfolio of investments. Diversification ensures that the Fund has a balance of investments that offer different levels of risk and return.

The Fund employs a number of investment managers, with differing but complementary styles, to mitigate the risk of underperformance of any single manager and to ensure that any fall in market prices should not affect the Fund as a whole.

Manager performance and asset allocation policy is regularly reviewed by the Pensions Investment Panel. The Fund also uses certain derivative instruments as part of efficient portfolio management.

Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
Asset Type	
UK equities	10.1%
Global equity	10.0%
Total fixed interest	3.4%
Alternatives	4.1%
Cash	0.0%
Pooled Property Investments	2.4%

15. RISK MANAGEMENT (continued)

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	47,236	0.0%	47,236	47,236
Investment portfolio assets				
UK equities	225,693	10.1%	248,488	202,898
Global equity	488,307	10.0%	537,138	439,476
Total fixed interest	159,079	3.4%	164,488	153,670
Alternatives	101,303	4.1%	105,456	97,150
Pooled Property Investments	116,945	2.4%	119,752	114,138
Net derivative assets	0	0.0%	0	0
Investment income due	978	0.0%	978	978
Amounts receivable for sales	0		0	0
Amounts payable for purchases	(223)	0.0%	(223)	(223)
Total assets available to pay benefits	**1,139,318**		**1,223,313**	**1,055,323**

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	22,098	0.0%	22,098	22,098
Investment portfolio assets				
UK equities	211,541	12.1%	237,074	186,008
Global equity	440,153	11.9%	492,311	387,995
Total fixed interest	146,517	2.8%	150,678	142,356
Alternatives	91,919	4.4%	95,963	87,875
Pooled Property Investments	101,628	1.9%	103,518	99,738
Net derivative assets	(409)	0.0%	(409)	(409)
Investment income due	817	0.0%	817	817
Amounts receivable for sales	0		0	0
Amounts payable for purchases	0	0.0%	0	0
Total assets available to pay benefits	**1,014,264**		**1,102,050**	**926,478**

Refinancing risk

The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

16. FINANCIAL INSTRUMENTS DISCLOSURES

The net assets of the Fund are made up of the following categories of financial instruments:

	Long-term 2013/14 £'000	Long-term 2014/15 £'000	Current 2013/14 £'000	Current 2014/15 £'000
Financial Assets				
Loans and receivables	0	0	17,709	42,902
Financial assets at fair value through profit or loss	991,757	1,091,327	5,592	5,593
Total Financial Assets	**991,757**	**1,091,327**	**23,301**	**48,495**
Financial Liabilities				
Payables	0	0	(1,481)	(1,674)
Financial liabilities at fair value through profit or loss	0	0	(647)	0
Total Financial Liabilities	**0**	**0**	**(2,128)**	**(1,674)**

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

Fair Value Hierarchy

IFRS7 requires the Fund to classify fair value instruments using a three-level hierarchy.
The three levels are summarised as follows:

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts

Level 2 - inputs other than quoted prices for identical assets or liabilities in active markets

Level 3 - inputs that are not based on observable data. Such instruments would include unquoted equity investments and hedge fund of funds.

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	244,335	0	0	244,335
Pooled Funds				
Unit Trusts	628,744	0	0	628,744
Property Unit Trust	116,945	0	0	116,945
Other	101,303	0	0	101,303
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	47,467	0	0	47,467
Current Assets	1,079	0	0	1,079
Current Liabilities	(1,674)	0	0	(1,674)
	1,138,199	**0**	**0**	**1,138,199**

During the year ended 31st March 2015 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2014 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	230,998	0	0	230,998
Pooled Funds				
Unit Trusts	566,768	0	0	566,768
Property Unit Trust	102,073	0	0	102,073
Other	91,918	0	0	91,918
Derivative Contracts				
Forward Foreign Exchange Contracts	0	(409)	0	(409)
Cash and bank Deposits	22,160	0	0	22,160
Current Assets	903	0	0	903
Current Liabilities	(1,481)	0	0	(1,481)
	1,013,339	**(409)**	**0**	**1,012,930**

16. FINANCIAL INSTRUMENTS DISCLOSURES

Net gains and losses on financial istruments

	Long-term 2013/14 £'000	Long-term 2014/15 £'000
Financial Assets		
Loans and receivables		180
Financial assets at fair value through profit or loss	69,645	106,225
Total Financial Assets	**69,645**	**106,405**
Financial Liabilities		
Payables		
Financial liabilities at fair value through profit or loss	(532)	409
Total Financial Liabilities	**(532)**	**409**

17. RELATED PARTY TRANSACTIONS

The London Borough of Tower Hamlets Pension Fund is administered by The London Borough of Tower Hamlets.

In accordance with IAS24 'Related Party Disclosure', material transactions with related parties not disclosed elsewhere in the financial statements are detailed below.

The Council incurred costs of £669k (£680k 2013/14) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £18.5m (£16.5m 2013/14) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

During the year no Committee Members or Council Chief Officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2015, the Fund held an average investment of £24.8m (£6.0m 31st March 2014), earning interest of £180k (£62k in 2013/14).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.5m (£2.3m 2013/14) from this company.

Fund administration expenses payable to the administrating authority are as set out in the table below.

Fund Administration Expenses	2013/14 £'000	2014/15 £'000
Payroll / HR Support	374	370
Corporate Finance	306	299
	680	669

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2015 include:
Chief Accountant

The financial value of their relationship with the fund is as set out below

	2013/14 £'000	2014/15 £'000
Short term benefits	18	20
Long term/post retirement benefits	4	4

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2014/15 there were no Members of the Pension Fund Committee who had involvement with other organisations.

Compensation of key management - It was not practical to include costs relating to key management personnel within the Pension Fund Accounts, principally as they are charged to the Council's Accounts and have not been charged to the Pension Fund. All costs are disclosed within note 33 of the Council's main accounts.

18. CONTINGENT LIABILITIES

The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations. The liability as at 31st March 2015 was £9.654m (£1.752m 2013/14).

19. CONTINGENT ASSETS

Admitted body employers in the Fund hold insurance bonds to guard against the possibility of not being able to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

20. IMPAIRMENT LOSSES

During 2014/15 impairment losses were nil (impairment losses in 2013/14 were also nil).

TOWER HAMLETS

The London Borough of Tower Hamlets Pension Fund

Appendix 2

Statement of Investment Principle

Introduction

The Myners Code of Investment Principles

The Government commissioned a report in 2000 entitled “Review of Institutional Investment in the UK”. The Review, which was undertaken by Paul Myners was published in March 2001 and is referred to as The Myners Review. The Pensions Committee of the London Borough of Tower Hamlets believes the Myners Report constitutes an important guide to best practice in the management of pension schemes. Following a review in October 2008 the Treasury published a revised set of six principles. Local authorities are required to state the extent to which the administering authority Compliant with the six principles set out in a document published by the Chartered Institute of Public Finance and Accountancy entitled “CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme Investment in the United Kingdom”.

COMPLIANCE

In accordance with regulation 12(3) of the LGPS (Management and Investment of Funds) Regulations 2009, the Council acting in its capacity as Administering Authority is required to state the extent to which it complies with guidance given by the Secretary of State and where it does not comply the reasons for non-compliance.

The set of six Myners Principles as they apply to Local Authority Pension Funds are:

• Effective Decision Making

• Clear Objectives

• Risk and Liabilities

• Performance Assessment

• Responsible Ownership

• Transparency and Reporting

The Pensions Committee has produced, and maintains, a record of compliance (Myners Code Adherence Document) with these principles.

The extent to which the Scheme complies with these principles is outlined in the table at the end of this document.

BACKGROUND TO THE FUND

The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The Statement must cover the policy on:

(a) the types of investment to be held;

(b) the balance between different types of investments;

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

(d) the expected return on investments;

(e) the realisation of investments;

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

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

(h) stock lending.

THE PENSIONS COMMITTEE

The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets Pension Fund. The Pensions Committee is the body with delegated powers to administer the Fund. The Committee comprised of elected representatives of Tower Hamlets Council and a non-voting employer and scheme member representatives recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local taxpayers.

RESPONSIBILITIES

The Pensions Committee terms of reference as at the date of the publication of this Statement are as follows:

TERMS OF REFERENCE

The Pensions Committee will be responsible for the functions set out below.

1) To act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972, the Local Government Pension Scheme Regulations 1997 (as amended) and the Local Government Pension Scheme Management and Investment of Funds) Regulations 1998 (as amended).
2) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, advisers, investment managers and custodian's and periodically to review those arrangements.
3) To formulate and publish a Statement of Investment Principles.
4) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium term plan to deliver the objectives.
5) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
7) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
8) To receive and approve an Annual Report on the activities of the Fund prior to publication.

9) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
10) To keep the terms of reference under review.
11) To determine all matters relating to admission body issues.
12) To focus on strategic and investment related matters at two Pensions Committee meetings.
13) To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan
14) To maintain an overview of pensions training for Members.
15) The Pension Committee will also co-opt a non-voting employer representative and a non-voting scheme representative.

The Committee is also responsible for reviewing performance of the investment managers (including the AVC manager), the expertise and sustainability of the investment process, procedures, risk management, internal controls, transaction costs and key personnel. It is also responsible for reviewing social, environmental and ethical matters and the exercise of rights including voting rights.

Members of the Committee receive training in their responsibilities as quasi trustees to the Pension Fund and in the operation of the pension scheme, with training primarily provided as part of the formal Committee meeting process to ensure that as many Members as possible are in attendance.
The Fund's investment advisor, officers of the Council and other external providers will provide the training itself with the Committee reviewing the programme of training to be administered to ensure that it is appropriate to the Committee's needs. The Pensions Committee has embraced the CIPFA Knowledge and Skills Framework and has undertaken a training programme to ensure that Committee Members have the requisite knowledge and skills to be able to fulfil their responsibilities as 'trustees' of the Pension Fund.

The Council's Corporate Director of Resources is responsible for ensuring the following are provided to the Committee for decision making, where appropriate including: -
(a) Budget setting and monitoring
(b) Annual Report and Accounts
(c) Preparation of Statement of Investment Principles
(d) Obtaining the Actuarial Report
(e) Developing and maintaining the Funding Strategy Statement
(f) Scheme Communications

The responsibilities of the following are set out below:

(a) **Investment Manager** – Day-to-day decisions on investment of the Fund's assets within the mandates approved by Committee and set out by the Investment Management Agreement. Exercise of corporate actions within the policy set by this Statement of Investment Principles. Reporting to the Executive Officers and Pensions Committee on performance against established benchmarks.

(b) **Custodian** – Providing safe keeping for the share certificates and other documents of title to Fund investments. Receiving and accounting for dividends and corporate actions.

(c) **Actuary** – Carrying out the actuarial valuation of the Fund's assets and liabilities every three years in accordance with the regulations. The valuation report specifies the level of funding to cover accrued liabilities and the consequent changes (if any) to the employer's contribution rates. The actuary is also responsible for negotiating bulk transfer arrangements and determining contribution rates for new employers where these are established between triennial valuations.

(d) **Investment Consultant** – The investment consultant is there to provide the Pension Committee and officers of the Council with investment related advice pertinent to the management of the Pension Fund to ensure that its investments are appropriate and prudent.

(e) **Administrators** – The Council is the Fund administrator that undertake the day-to-day administration of the Pension Fund, including the payment of pension benefits and maintenance of pension benefit records.

Advice

The Committee takes expert professional financial advice to assist it with managing the Fund Regulation 12(3) also requires Administering Authorities to have regard to guidance given by the Secretary of State on investment decision making and to state in their Statement how far they comply with that guidance.
Advice to the Members of the Pension Committee is given by the executive officers of the Council (including, but not limited to, the Corporate Director of Resources and the Director Law Probity and Governance & Monitoring Officer).
The Pension Fund has access to the use of external providers for actuarial and investment services for advice. The Pension Fund employs the services of an actuary to provide ongoing actuarial advice and to carry out a valuation of the Fund every three years (the triennial valuation) in accordance with the Local Government Pension Scheme Regulations 2013. In addition the Fund also uses an appointed investment advisor to provide professional advice to the Committee on investment related issues.
The Pensions Committee monitors the level of fees that are paid to the advisers in order to ensure that the advice is charged at an appropriate level, and represents value for money. The Committee will carry out procurement exercises at appropriate intervals to ensure that this continues to be the case.

Fund Objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Council aims to fund the Scheme in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Scheme's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Therefore the primary investment objective of the Fund is to ensure that due regard is paid to the best financial interests of all its stakeholders. Against this background, the Fund's approach to investing is to:

- Optimise the return on investment consistent with a prudent level of risk;
- Ensure that there are sufficient assets to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

INVESTMENT STRATEGY

The Pensions Committee has translated these objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to the Scheme's authorised investment managers. The strategic benchmark has been translated into benchmarks for the Scheme's investment managers which are consistent with the Scheme's overall strategy. The Scheme benchmark is consistent with the Pensions Committee views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used on an ongoing basis).

The Pensions Committee monitors strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme.

To achieve its objectives the Pensions Committee has agreed the following:

Choosing Investments: The Pensions Committee is responsible for the appointment of investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Pensions Committee, after seeking appropriate investment advice, has given the managers specific directions as to the asset allocation, but investment choice has been delegated to the managers, subject to their specific benchmarks and asset guidelines.

Risk: The Pensions Committee provides a practical constraint on Scheme investments deviating greatly from its intended approach by adopting a specific asset allocation benchmark and by setting manager-specific benchmark guidelines. The Pensions Committee monitors the managers' adherence to benchmarks and guidelines. In appointing more than one investment manager, the Pensions Committee has considered the risk of underperformance of any single investment manager.

Kinds of investment to be held: The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and pooled funds. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management. The Pensions Committee considers all of these classes of investment to be suitable in the circumstances of the Scheme. The Fund's structure and benchmarks are set out in the table below.

Current Managers and Mandates		
Manager	**Mandate**	**Target**
Baillie Gifford	Global Equities Diversified Growth	Outperform benchmark by 2-3% over a rolling 3 year period 3.5% above UK Base Rate
GMO	Overseas Equities	Outperform benchmark by 1.5% over a rolling 3 year period
Investec	Pooled Bonds	3 month LIBOR +2% pa
Legal & General	UK Equities UK Index Linked	FTSE All share FTSE A Gov Index Linked >5yrs
Ruffer	Diversified Growth	Greater than the expected return on cash
Schroders	Property	Outperform benchmark by 0.75% over a rolling 3 year period

Balance between different kinds of investments: The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market the managers will maintain diversified portfolios of investments through direct holdings or pooled vehicles. The asset allocation varies over time due to the impact of changing market conditions and manager performance creating an imbalance between target and actual allocation. When the Fund moves more than 5% away from target then consideration is given to rebalancing.

Expected return on investments: Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Scheme. In the short term returns are measured against a peer group benchmark.

Realisation of investments: The majority of investments held within the Scheme may be realised quickly if required. As the Fund is cash flow positive there will not be a need to realise investments quickly at least in the medium term.

Social, Environmental and Ethical Considerations: The Council has a fiduciary responsibility to obtain the best level of investment return consistent with the defined risk parameters as embodied in the strategic benchmark. However, the Council recognises that Social, Ethical and Environmental issues are factors to be taken into consideration in assessing investments. The investment managers have confirmed they pay due attention to these factors in the selection, retention and realisation of investments. The Pensions Committee will monitor the managers' statements and activities in this regard.

Exercise of Voting Rights: The Pensions Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their processes and practices in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending

The Fund does not currently participate in a stock lending arrangement.

Additional Voluntary Contributions (AVCs): The Pensions Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Appendix 1

Principle	Compliance	Compliance
Principle 1: Effective Decision Making Administering authorities should ensure that: Decisions are taken by persons or organisations with the skills, knowledge, advice and resources to make them effectively and monitor their implementation; Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	The Council has a Pensions Committee who meets on a quarterly basis for decision making purposes. The Fund's Governance Compliance Statement sets out the governance structure, Terms of Reference, delegations and representation. All members and officers of the Committee are required to undertake training on a periodic basis to ensure that they attain the necessary knowledge and skills with which to undertake their duties effectively. To ensure that they are fully aware of their statutory and fiduciary responsibilities new members are provided with a handbook containing the Committee's terms of reference, standing orders and operational procedures. Two training days per year are arranged for the committee members to deliver training. The committee intends to use the CIPFA knowledge and skills framework as the basis for a training programme to assess the training needs of its members and to actively monitor the progress made. The Fund contracts an actuary, a professional investment advisor and an independent investment advisor all of who attend committee meetings throughout the year and provide advice to committee members. Other expert advisors attend as required.	Compliant
Principle 2: Clear Objectives An overall investment objective should be	The Fund's aims and objectives are set out in its Funding Strategy Statement and Investment Management Agreements are in place on the segregated mandates held by the Fund. The funding strategy is	Compliant

set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	reviewed at each triennial valuation and the actuarial position and financial impact on scheme employers and tax payers is considered when formulating the investment strategy. All external procurement is conducted within EU procurement regulations and the authority's own procurement rules. The Fund is aware of the investment management fees charged by the investment managers and transaction related costs, and this is considered when letting and monitoring contracts for investment management.	
Principle 3: Risk and Liabilities In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Following each triennial valuation the Committee assesses the structure of the Fund's liabilities and, where necessary, amends its investment strategy to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed by all employers. The Fund's liabilities are long term in nature and the investment strategy reflects this liability profile by investing in long term generating assets. The Fund's benchmark includes a significant holding in equities in pursuit of long term higher returns. Allowances are made for periods of underperformance in the short term. The triennial valuation sets out the liability profile for each individual employer. The strength of covenant of each employing body and risk of default is taken into consideration when setting the employer contribution rate. The Fund has an active risk management programme in place. The risk management process is outlined in the Fund's Annual Report and Accounts. The Committee receives the external auditor's Annual Governance Report which states their assessment of the risk management process.	Compliant

Principle 4: Performance assessment Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.	The Fund's Pensions Committee meets quarterly to review the Fund's performance against its investment objective. In consultation with the Fund's investment advisors the Committee will assess the performance of the investment managers and consider whether any action is required. The fund managers attend the Pensions Committee meetings periodically. The Fund employs the WM company to measure the performance of its investment managers. The Fund's Annual Report is presented to the Committee explaining the Fund's activities and decisions taken during the year. This allows the Pensions Committee to reflect on the effectiveness of its strategy and also the management of the fund managers to deliver against agreed benchmarks.	Compliant
Principle 5: Responsible ownership Administering authorities should: Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the statement of investment principles. Report periodically to scheme members on the discharge of such responsibilities.	The Fund requires its investment managers to adopt the Institute Shareholders Committee Statement of Principles. The extent to which these principles are taken into account in the selection, retention and realisation of investments is left to the manager's discretion. The manager's activities in this regard are reviewed by the Pensions Committee. The Fund's approach to responsible ownership is set out in its Statement of Investment Principles. Any significant issues arising over the year are reported in the Fund's Annual Report.	Compliant
Principle 6: Transparency and reporting Administering authorities act in a transparent manner, communicating with stakeholders on issues relating to their	The Fund publishes a Governance Policy Statement, a Communications Strategy, a Funding Strategy Statement, and a Statement of Investment Principles. The statements are reviewed and updated when required and are approved by the Pensions Committee.	Compliant

management of investment, its governance and risks, including performance against stated objectives. Provide regular communication to scheme members in the form they consider most appropriate.	Fund manager performance data is included in the Fund's Annual Report and Accounts. The statements form part of a suite of annual report documentation which may be found on the website http://www.towerhamlets.gov.uk An Annual Benefits Statement is sent hard copy to active and deferred members of the Fund. Pensioner members receive an annual newsletter detailing any information affecting pensions in payment.	

The London Borough of Tower Hamlets Pension Fund

Appendix 3

Funding Strategy Statement

FUNDING STRATEGY STATEMENT

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Tower Hamlets Pension Fund ("the Fund"), which is administered by London Borough of Tower Hamlets, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1st April 2014.

1.2 What is the London Borough of Tower Hamlets Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Tower Hamlets Fund, in effect the LGPS for the London Borough of Tower Hamlets area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in **Appendix B.**

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,

- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in **Appendix A**.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions and cessations;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Anant Dodia in the first instance at e-mail address anant.dodia@towerhamlets.gov.uk or on telephone number 020 7364 4248.

2 Basic Funding issues

(More detailed and extensive descriptions are given in **Appendix D**).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in **Appendix E**.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report which will be issued by 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenants, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non-ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see **Appendix A**.

3. Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Local Authorities**	**Police, Fire, Colleges etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)			Attained Age approach (see Appendix D – D.2)		Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No employers of this type	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	NA	14 years	20 years	Future working lifetime of remaining active members	Outstanding contract term

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Deficit recovery payments – Note (d)	Monetary amount	NA	% of payroll	% of payroll	Monetary amount	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	NA	Spread over recovery period	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Preferred approach: contribution s kept at future service rate. However, reductions may be permitted by the Admin. Authority
Phasing of contribution changes	Covered by stabilisation arrangement	NA	Maximum of 3 years	3 years - Note (e)	3 years - Note (e)	Maximum of 3 years
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)

Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).	Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

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Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to the London Borough of Tower Hamlets Council.

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Employer	London Borough of Tower Hamlets
Max contribution increase	+£2m
Max contribution decrease	-£2m

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same approach to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

(i) the employer is relatively mature, i.e. has a large deficit recovery contribution rate because of a small or decreasing payroll; or

(ii) the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;

- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

iii) Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

a. above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
b. redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the

Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.3 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.4 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.5 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.6 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.7 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This may require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on an ad-hoc basis.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a* ***clear and transparent fund-specific strategy*** *which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain* ***as nearly constant employer contribution rates as possible****; and*
- *to take a* ***prudent longer-term view*** *of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on 27 January 2014 for comment;

b) Comments were requested within 22 days; and

c) Following the end of the consultation period the FSS was updated where required and the report will be published on 1st December.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.towerhamlets.gov.uk;
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;

- A summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Committee] and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.towerhamlets.gov.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- advise the Actuary of any new or ceasing employers;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers

Risk	Summary of Control Mechanisms
	relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures such as deficit spreading and phasing are also in place to limit sudden increases in contributions,
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative

Risk	Summary of Control Mechanisms
	investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non-ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections through employers paying monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.

Risk	Summary of Control Mechanisms
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;

- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this a change from the 2010 valuation where 1.4% was used). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add around 0.5 years of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its

future service rate at each **valuation**.

Funding level The ratio of assets value to **liabilities** value: for further details (see 2.2).

Future service rate The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.

Gilt A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee / guarantor A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

Liabilities The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

LGPS The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery

periods; higher discount rates; or some combination of these.

Theoretical contribution rate The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

Valuation An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

The London Borough of Tower Hamlets Pension Fund

Appendix 4

Communications Strategy Statement

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Introduction
This is the Communications Strategy Statement of London Borough of Tower Hamlets Pension Fund.
The Fund liaises with over 12 employers and approximately 15,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

Any enquiries in relation to this Communication Strategy Statement should be sent to:

London Borough of Tower Hamlets
Town Hall
Human Resources
Payroll & Pensions Services
Mulberry Place
5 Clove Crescent
London E14 2BG

Telephone: 020 7364 4251
Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

Regulatory Framework
This Policy Statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme (LGPS) Regulations 1997. The provision requires us to:
"….prepare, maintain and publish a written statement setting out their policy concerning communications with:
(a) members.
(b) representatives of members.
(c) prospective members.
(d) employing authorities."

In addition it specifies that the Statement must include information relating to:
"(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employing authorities."

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remains very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*.

The draft Code of Practice[3] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

Responsibilities and Resources

Within the Pension Section, the responsibility for communication material is performed by our Pensions Manager with the assistance of two Principal Pensions Officers.

Although, the team write all communications within the section, all design work is carried out by the Council's Creative & Technical team. The Pensions team are also responsible for arranging all forums, workshops and meetings covered within this Statement.

All printing is carried out by an external supplier, which is usually decided upon by the Council's Creative & Technical team.

Communication with key audience groups

Our audience

We communicate with a number of stakeholders. For the purposes of this Communication Policy Statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities (scheme employers and admitted bodies);
- senior managers;
- union representatives;
- elected members/the Pension Panel;
- Pensions Section staff;

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Department for Communities and Local Government, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

How we communicate

General communication

We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will compliment this by

[3] Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

use of electronic means such as our intranet. We will accept communications electronically, for example by e-mail and, where we do so, we will respond electronically where possible.

Our pension section staffs are responsible for specific tasks. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person.

Branding

As the Pension Fund is administered by London Borough of Tower Hamlets, all literature and communications will conform to the branding of the Council.

Accessibility

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically. However, on all communication from the Pension Fund office we will include a statement offering the communication in large print, Braille, on cassette or in another language on request.

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees.
- for better education on the benefits of the LGPS.
- to provide more opportunities for face to face communication.
- as a result of improved communication, for queries and complaints to be reduced.
- for our employers to be employers of choice.
- to increase take up of the LGPS employees.
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail beneath the table:

Scheme booklet	Paper based and on intranet	At joining and major scheme changes	Post to home address/via employers	Active
Newsletters	Paper based and on intranet	Annually and after any scheme changes	Via employers for Actives. Post to home address for deferred & pensioners	Separately for active, deferred and pensioners
Pension Fund Report and Accounts	Paper based and on intranet	Annually	On request	All
Pension Fund Accounts – Summary	Paper based	Annually	Via employers for actives. Post to home address for deferred and pensioners	All
Estimated Benefit Statements	Paper based/via intranet	Annually	Post to home address/via employers for active members. To home address for deferred members.	Active and Deferred.
Factsheets	Paper based and on intranet	On request	On request	Active, deferred & pensioners
Intranet	Electronic	Continually available	Advertised on all communications	All
Road shows/ Workshops	Face to face	Annually	Advertised in newsletters, via posters and pensioners payslips	All
Face to face education sessions	Face to face	On request	On request	All
Joiner packs	Paper based	On joining	Post to home addresses	Active members
Pay advice slip/P60	Paper based	Conditional	Post to home address	Pensioners

Explanation of communications

Scheme booklet - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Newsletters - An annual/biannual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming road shows, a summary of the accounts for the year, contact details, etc.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Estimated Benefit Statements – For active members these include the current value of benefits as well as the projected benefits as at their earliest retirement date and at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pension's increases.

Intranet – The intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (such as newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Road shows/Workshops – Every year a number of staff will visit the schools/offices around the Borough, providing the opportunity to have a face to face conversation about your pension rights

Face to face education sessions – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights.

Joiner packs – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

Pay advice slip/P60 – The Pay advice slips are sent when the address, pension or tax code changes. The P60 information is communicated using this medium on an annual basis.

Policy on promotion of the scheme to Prospective Members and their Employing Authorities

Our objectives with regard to communication with prospective members are:

- to improve take up of the LGPS.
- for the LGPS to be used as a tool in the attraction of employees.
- for our employers to be employers of choice.
- for public relations purposes.

As we, in the Pension Team Section, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

Overview of the LGPS leaflet	Paper based	On commencing employment	Via employers	New employees
Educational sessions	As part of induction workshops	On commencing employment	Face to face	New employees
Promotional newsletters/flyers	Paper based	Annually	Via employers	Existing employees
Posters	Paper based	Ongoing	Via employers	New and existing employees

Explanation of communications

Overview of the LGPS leaflet - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so.

Educational sessions – A talk providing an overview of the benefits of joining the LGPS.

Promotional newsletters/flyers – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the Scheme and provide guidance on how to join the Scheme.

Posters – These will be designed to help those who are not in the LGPS understand the benefits of participating in the scheme and provide guidance on how to join the Scheme.

Policy on communication with Employing Authorities

Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.
- to ensure smooth transfers of staff.
- to ensure they understand the benefits of being an LGPS employer.

- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

Employers' Guide	Paper based and intranet	At joining and updated as necessary	Post or via email	Main contact for all employers
Newsletters	Electronic (e-mail) and intranet	Annually or more frequent if necessary	E-mail	All contacts for all employers
Employers' focus groups	Face to face	At least quarterly/half yearly	Invitations by e-mail	Either main contacts or specific groups (e.g. HR or payroll) depending on topics
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for all employers
Meeting with adviser	Face to face	On request	Invite sent by post or email	Senior management involved in funding and HR issues.

Explanation of communications

Employers' Guide - A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pensions Section and Scheme members.

Newsletters – A technical briefing newsletter that will include recent changes to the scheme, the way the Pensions Section is run and other relevant information so as to keep employers fully up to date.

Employers' focus groups – Generally workgroup style sessions set up to debate current issues within the LGPS.

Pensions Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.
Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

Policy on communication with senior managers

Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS
- to ensure that they understand costs/funding issues
- to promote the benefits of the Scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Committee papers	Paper based and electronic	In advance of Committee	Email or hard copy	All

Explanation of communications

Briefing papers – a briefing that highlights key issues or developments relating to the LGPS and the Fund, which can be used by senior managers when attending meetings

Committee paper – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members

Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the Scheme to their members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the Scheme
- to engage in discussions over the future of the Scheme
- to provide opportunities to Education Union representatives on the provisions of the Scheme

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All
Pension Committee	Meeting	Quarterly	Via invitation when appropriate	All

Explanation of communications

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Face to face education sessions – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the Scheme, or to explain possible changes to policies.

Pensions Committee – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the Scheme (policies, etc) are taken.

Policy on communication with elected members/Pensions Committee

Our objectives with regard to communication with elected members/Pensions Committee are:

- to ensure they are aware of their responsibilities in relation to the Scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the Scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Training sessions	Face to face	When there is a new Pensions Committee and as and when required	Face to face or via the Employers Organisation for local government	All members of the Pensions Committee as well as other elected members
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pensions Committee
Pension Committee	Meeting	Quarterly	Members elected onto Pension Committee	All members of the Pensions Committee

Explanation of communications
Training sessions – providing a broad overview of the main provisions of the LGPS, and elected members responsibilities within it.

Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund.

Pension Committee - a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the Scheme (policies, etc) are taken.

Policy on communication with pension section staff
Our objectives with regard to communication with Pension Section's staff are:

- ensure they are aware of changes and proposed changes to the scheme
- to provide on the job training to new staff
- to develop improvements to services, and changes to processes as required
- to agree and monitor service standards

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Face to face training sessions	Face to face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All
Software User Group meetings	Face to face	Quarterly	By email, paper based.	Principal Administrators
Regional Officer Group meetings	Face to face	Quarterly	By email, paper based.	Pension Manager/ Principal Administrators

Explanation of communications

Face to face training sessions – which enable new staff to understand the basics of the Scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the Scheme

Staff meetings – to discuss any matters concerning the local administration of the Scheme, including for example improvements to services or timescales

Attendance at seminars – to provide more tailored training on specific issues

Software User Group meeting – to discuss any issues concerning the computer software used to administer the scheme, including future upgrades and improvements

Regional Officer Group meetings - discussion group of principal officers from other administering authorities.

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide access to key information in relation to the management of the scheme
- to outline the management of the scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund Report and Accounts	Paper based and on website	Annually	Post	All, on request
Pension Fund Committee Papers	Paper based and on website	As and when available	Post	All, on request

Explanation of communications

Pension Fund Report and Accounts – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Pension Fund Committee Papers - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contributions (AVC) scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports • Rates and Adjustments (R&A) certificates • Revised R&A certificates • Cessation valuations	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	Government Departments /HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representative s, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	Government Departments /HMRC/the Pensions Regulator

Explanation of communications

Pension Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

Details of new employers – a legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission of third party service providers into the scheme)

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – various questionnaires that my received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund

Performance Measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Scheme booklet	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS
Estimated Benefit Statements as at 31 March	Active members	On request	31 July each year
Telephone calls	All	Not applicable	95% of phone calls to be answered within 30 seconds
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	95% of retirement benefits to be issued within 10 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within one month of notification
Transfers in	Joiners/active members	Within two months of request	Within one month of request
Issue of forms i.e. expression of wish	Active/deferred members	N/A	Within five working days
Changes to Scheme rules	Active/deferred and pensioner	Within two months of the change	Within one month of change coming

	members, as required	coming into effect	into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within ten working days

Quality

Active and deferred members	Paper based survey with annual benefit statements	All services	
All member types	Annual paper based survey on completion of specific tasks	Service received during that task	One task to be chosen each quarter from: retirements new starts and transfers in transfers out deferred leavers
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types. To include union representatives.
Employers	Focus Groups	Their issues	Regular feedback sessions.

Results

Details of the performance figures are reported to the Head of Pay, Pension, & e-HR on a quarterly basis. Feedback is received from the Service Head and from various focus /discussion groups.

Review Process

We will review our Communication Policy to ensure it meets audience needs and regulatory requirements at least annually. A current version of the Policy Statement will always be available on our intranet and paper copies will be available on request.

The London Borough of Tower Hamlets Pension Fund

Appendix 5

Governance Compliance Statement

Governance and Compliance Statement

The London Borough of Tower Hamlets Council is the Administering Authority of the London Borough of Tower Hamlets Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Aims and Objectives
Tower Hamlets Council recognises the significance of its role as Administering Authority to the London Borough of Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 15,000 current and former members of the Fund, and their dependants
- over 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure
The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people.
The Constitution sets out the framework under which the Pension Fund is to be administered as described below.

The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.

The governance structure is supported by:

- The Pensions Committee

- Officers of the Council; and
- Professional Advisors

Terms of Reference for the Pensions Committee

The Constitution allows for the appointment of a Pensions Committee which has responsibility for the discharge of all non-executive functions assigned to it.

The following are the terms of reference for the Pensions Committee:

To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and other pension legislation.

1) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodian's and periodically to review those arrangements.
2) To formulate and publish a Statement of Investment Principles.
3) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
4) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
5) To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
6) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
7) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
8) To receive and approve an Annual Report on the activities of the Fund prior to publication.
9) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
10) To keep the terms of reference under review.
11) To determine all matters relating to admission body issues.
12) To focus on strategic and investment related matters at two Pensions Committee meetings.
13) To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan
14) To maintain an overview of pensions training for Members.

In addition the Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme member representative.

Membership of the Pensions Committee

The Council decides the composition and makes appointments to the Pensions Committee. Currently the membership of the Pensions Committee is a minimum of 7 elected Members from Tower Hamlets Council on a politically proportionate basis and the Pensions Committee will elect a Chair and Vice Chair. All Tower Hamlets Council elected Members have voting rights on the Committee and three voting members of the Committee are required to be able to deem the meeting quorate.

In addition there are two co-opted non-voting members representing employer and Scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Committee, they have access to all Committee Advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process.

Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees as the Pension Fund with all the legal responsibilities that this entails, it was not felt appropriate to apply the same legal definition to the lay members of the Committee and hence their role as non-voting members.

Members of the Pensions Committee, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Meetings

The Pensions Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee to include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund's Investment Advisor.

The Council will give at least five clear working days' notice of any meeting by posting details of the meeting at the Tower Hamlets Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website www.towerhamlets.gov.uk.

Other Delegations of Powers

The Pensions Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee has a clear fiduciary duty in the performance of their functions, they have to ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. Appendix B outlines the areas that the Pensions Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Corporate Director of Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Corporate Director of Resources will delegate aspects of the role to other officers of the Council including the Investment & Treasury Manager and to professional advisors within the scope of the LGPS Regulations.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Tower Hamlets Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Tower Hamlets Pension Board established by Tower Hamlets Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

Role of the Pension Board

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pensions Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers.

Membership of the Pension Board

The Pension Board consists of 7 members as follows:

- Three Employer Representatives
- Three Scheme Member Representatives
- One Independent Member (non-voting) to act as chair of the Pension Board

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the six Employer and Scheme Member Representatives are present, and where the Board has an Independent Member they must also be present.

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

Meetings

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. The Pension Board will be treated in the same way as a Committee of Tower Hamlets Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pension Committee.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can either be found on the Pension Fund Website www.towerhamlets.gov.uk or by writing to the address given at the end of this document.

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The areas covered in the statement of investment principles are as follows:

- Types of investments to be held.

- Balance between different types of investments.
- Risk.
- Expected return on investments.
- Realisation of investments.
- The extent to which social, ethical and environmental considerations are taken into account.
- The extent to which the Council complies with the 6 Myners principles of investment practice (2008).

Governance Compliance Statement
This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy
Tower Hamlets Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.
To assist in achieving these objectives, the London Borough of Tower Hamlets Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and
- the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least on annual basis.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the website www.towerhamlets.gov.uk

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website www.towerhamlets.gov.uk

Discretions Policies

Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Tower Hamlets' Employing Authority Discretions can be found on the website www.towerhamlets.gov.uk

Pension Administration Strategy and Employer Guide

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website www.towerhamlets.gov.uk.

This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Tower Hamlets Pensions Committee meeting on XXXXX following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration.

Contact Information
Further information on the London Borough of Tower Hamlets Pension Fund can be found as shown below:
London Borough of Tower Hamlets Pension Fund
Mulberry Place
5 Clove Crescent
London
E14 2BG

Email: pensions@towerhamlets.gov.uk
Website: www.towerhamlets.gov.uk
http://moderngov.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=392

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pensions Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Pensions Committee is presented at the following Pensions Committee. All key recommendations of the Pensions Committee are ratified by the Pensions Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Pensions Committee are also members of the Pensions Committee.
REPRESENTATION	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Pensions Committee are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Pensions Committee have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	The Pensions Committee/ Pensions Committee does not currently confer voting rights on non-Councillors in line with common practice across the local government sector.
TRAINING/FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pensions Committee.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
MEETINGS (FREQUENCY/ QUORUM)	That an administering authority's main committee or committees meet at least quarterly.	Compliant	Meetings of the Pensions Committee are arranged to take place quarterly.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Meetings of the Pensions Committee are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund.
ACCESS	That subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	Panel meeting papers are circulated at the same time to all members of the Pensions Committee/ Pensions Committee.
SCOPE	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Pensions Committee considers are range of issues at its meetings and therefore has taken steps to bring wider scheme issues within the scope of the governance arrangements.
PUBLICITY	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report.

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