

London Borough of Tower Hamlets Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2013

 Prepared By:

Matt Woodman - Senior Investment Consultant
David Millar - Senior Investment Analyst

For and on behalf of Hymans Robertson LLP
October 2013

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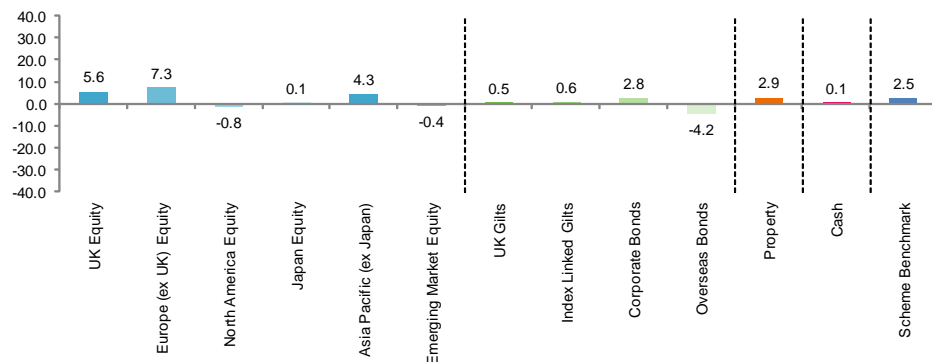
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in 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.

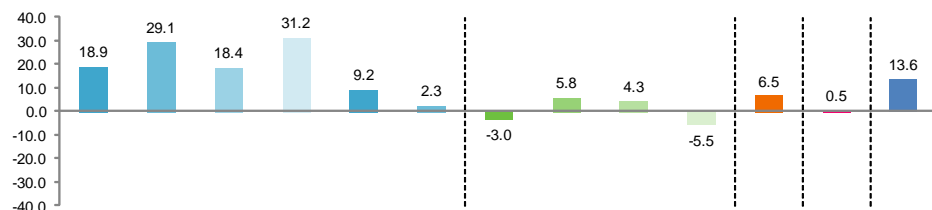
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Historic Returns for World Markets to 30/09/2013

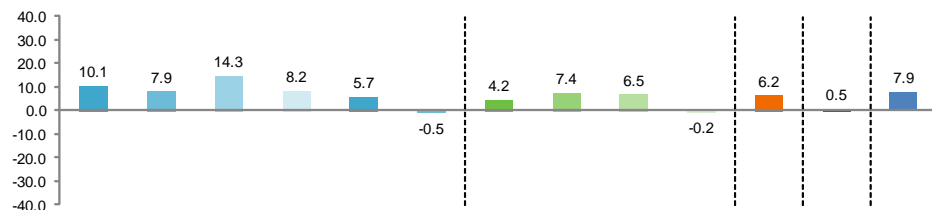
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

The quarter to end September 2013 contained a mix of positive economic news and more nuanced financial events. The Eurozone emerged from recession, although there remains a wide divergence in the performance of individual members. In the UK, data published in July indicated strong economic growth, prompting the Chancellor of the Exchequer to comment that the economy is 'turning a corner' and to cite 'signs of a balanced, broad based and sustainable recovery'. Positive economic developments were also evident in the US and, to a lesser extent, in Japan.

Notwithstanding positive economic data, action by central banks tended to reflect a more cautious attitude. Short-term interest rates in the UK, Eurozone and US were held at record lows. In the US, the Federal Reserve indicated there would be no immediate unwinding of monetary support (currently \$85bn a month), a step back in tone from the preceding quarter. In addition, both the UK and European central banks provided forward guidance on monetary policy for the first time. The underlying message from the major central banks was, and remains, that economic conditions, whilst improving, still need very careful management.

Global ten year bond yields rose (prices fell) but then stabilised. At the end of the quarter, investors were unsettled by concerns that the US may not renew its debt ceiling by the mid October deadline.

Key events during the quarter were:

Global Economy

- Forecasts for UK economic growth were revised upwards by the Bank of England and IMF;
- Global economic growth forecasts were revised down by the IMF;
- China announced a series of measures to boost economic growth;
- Short-term interest rates were unchanged in UK, US and Eurozone;
- The Eurozone economy recovered from recession, after four consecutive quarters of economic contraction.

Equities

- The best performing sectors relative to the 'All World' Index were Basic Materials (+3.9%) and Industrials (+2.8%); the worst were Utilities (-3.6%) and Consumer Goods (-2.2%);
- Barclays Bank announced a £5bn rights issue (and a £2bn bond issue) to meet new capital requirements;
- Vodafone sold its 45% stake in Verizon for \$130m (one of the largest deals in corporate history).

Bonds and Currencies

- UK government bonds (All Stocks) returned +0.5%;
- Corporate issues outperformed government counterparts by a comfortable margin;
- Sterling strengthened against all major currencies.

[1] Overseas equity returns shown in Sterling

Portfolio Summary

Valuation Summary [1]

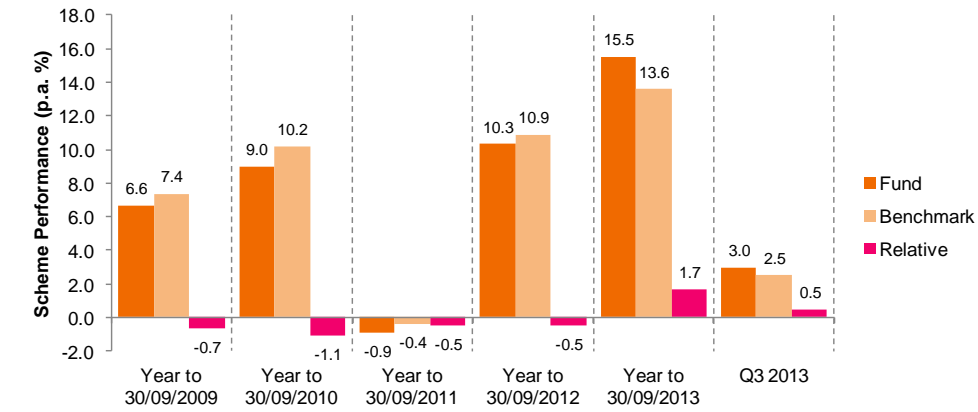
Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2013	Q3 2013			
Global Equity	583.9	609.3	63.7	61.0	2.7
Bonds	144.8	144.8	15.1	17.0	-1.9
Property	94.3	97.7	10.2	12.0	-1.8
Alternatives	90.0	90.4	9.4	10.0	-0.6
Cash	8.7	6.5	0.7	0.0	0.7
Trustee Bank Account	9.4	8.2	0.9	0.0	0.9
Total inc. Trustee Bank Account	931.0	957.0	100.0	100.0	

Comments

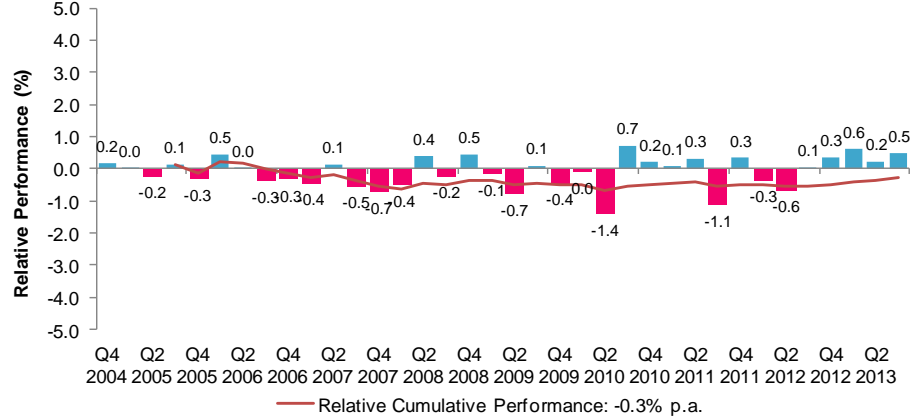
Performance was ahead of the benchmark over the quarter with the strongest relative returns from the Fund's active equity managers (Baillie Gifford and GMO). The equity managers also produced the strongest absolute returns with the Total Fund returning 3%. We have restated the Absolute Return Managers' benchmarks to include their performance target. This also feeds into the Total Fund benchmark. For Baillie Gifford DGF and Ruffer, we have shown the same benchmarks (Baillie Gifford's to aid comparison of these two managers (UK Base Rate +3.5%). Investec (absolute return bonds) benchmark is Cash +2%p.a.

The managers' allocations remain broadly similar to last quarter and the Fund remains close to its strategic asset allocation (within the +/-5% tolerance ranges around the 83% "growth and equity like", 17% Bonds target). There were no manager or benchmark changes over the quarter or since the addition of the absolute return managers in quarter 1 of 2011.

Performance Summary [2] [i]



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



[1] Cash is that cash 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)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2013	Q3 2013			
Baillie Gifford Global Equity	165.9	170.6	17.8	16.0	1.8
GMO Global Equity	232.6	242.0	25.3	25.0	0.3
Legal & General UK Equity	191.5	202.3	21.1	20.0	1.1
Baillie Gifford Diversified Growth Fund	45.0	45.5	4.7	5.0	-0.3
Ruffer Total Return Fund	45.0	44.9	4.7	5.0	-0.3
Investec Bonds	97.2	96.9	10.1	14.0	-3.9
Legal & General Index-Linked Gilts	47.6	47.9	5.0	3.0	2.0
Schroder Property	96.8	98.7	10.3	12.0	-1.7
Trustee Bank Account	9.4	8.2	0.9	0.0	0.9
Total	931.0	957.0	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.




Performance Summary Net of fees

Performance Summary ^[1]

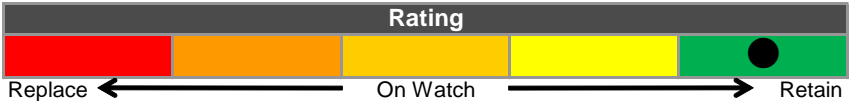
		Baillie Gifford Global Equity	GMO Global Equity	Legal & General UK Equity	Baillie Gifford Diversified Growth Fund	Ruffer Total Return Fund	Investec Bonds	Legal & General Index-Linked Gilts	Schroder Property	Total Fund
3 Months (%)	Absolute	2.8	4.0	5.6	1.0	-0.1	-0.4	0.6	2.0	2.9
	Benchmark	1.2	2.8	5.6	1.0	1.0	0.6	0.5	2.4	2.5
	Relative	1.6	1.2	0.0	0.0	-1.1	-1.0	0.1	-0.4	0.4
12 Months (%)	Absolute	24.6	22.2	19.0	6.0	11.7	0.6	6.7	4.4	15.2
	Benchmark	18.0	22.1	18.9	4.0	4.0	2.5	6.6	4.2	13.6
	Relative	5.6	0.1	0.1	1.9	7.4	-1.9	0.1	0.1	1.4
2 Years (% p.a.)	Absolute	21.5	16.2	18.2	7.3	7.0	1.7	5.8	2.2	12.5
	Benchmark	17.7	18.0	18.1	4.0	4.0	2.8	5.8	3.1	12.2
	Relative	3.2	-1.5	0.1	3.1	2.9	-1.1	0.0	-0.8	0.3
3 Years (% p.a.)	Absolute	12.2	8.9	10.1	5.0	4.6	-0.1	8.4	3.7	7.8
	Benchmark	9.8	9.7	10.1	4.0	4.0	2.8	8.3	4.5	7.9
	Relative	2.2	-0.8	0.1	0.9	0.6	-2.8	0.0	-0.8	-0.1

[1] 3 Year performance figure is since inception for Baillie Gifford DGF (22/2/11) and Ruffer (28/2/11). Performance, for periods up to 5 years (gross of fees) is shown in the appendix.

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

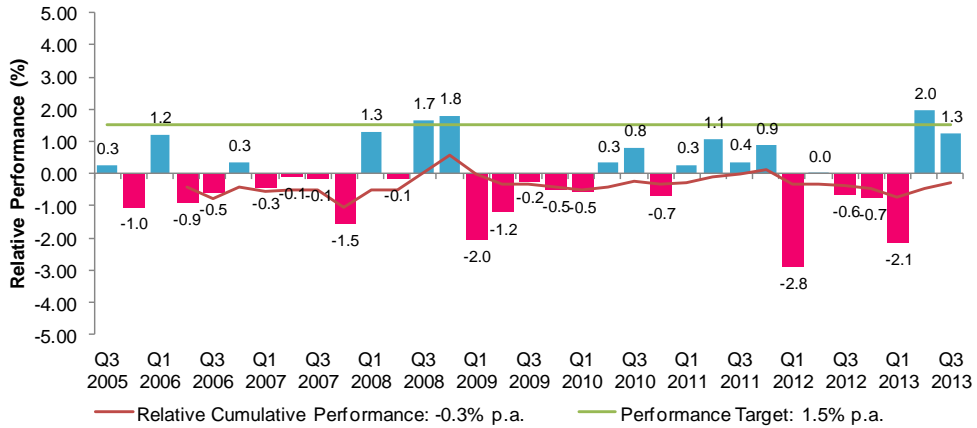
GMO Global Equity

HR View Comment & Rating



No significant news to report.

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



Comments

GMO posted an absolute return of 4.1% (4.0% net) and outperformed their benchmark over the quarter by 1.3% (1.2% net). Strong absolute and relative performance helped alleviate some of the recent underperformance (12 month relative performance is now positive) although longer term performance does still remain below benchmark. Outperformance by peripheral Eurozone markets helped the strategy's returns from regional allocation and also stock selection in that area. Less positively, their bias to US high quality stocks did continue to detract from performance.

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.1	22.6	9.3	9.1
Benchmark	2.8	22.1	9.7	9.3
Relative	1.3	0.4	-0.4	-0.2

* Inception date 29 Apr 2005.

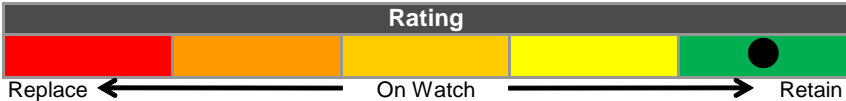
3 Year Relative Return

Actual % p.a.	Target % p.a.
-0.4	1.5

[1] Gross of fees, [2] Since inception performance differs from cumulative performance in chart as cumulation period in chart is 5 years. Gross of fees

Baillie Gifford Global Equity

HR View Comment & Rating



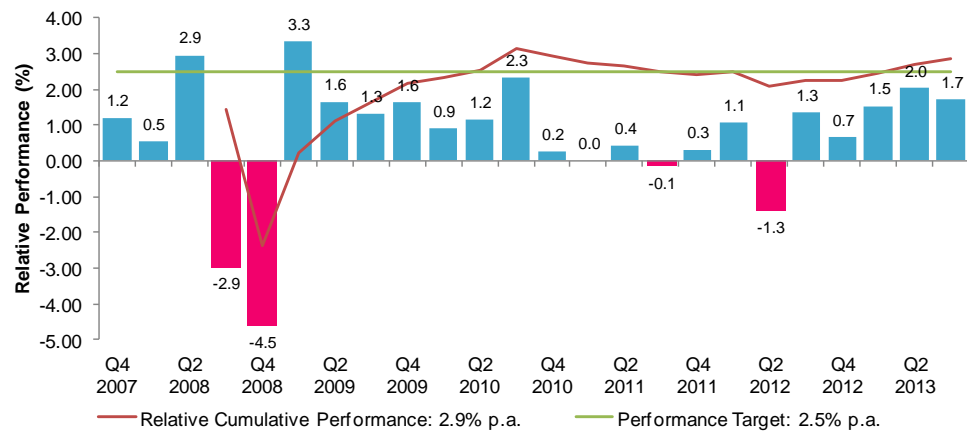
No significant news impacting the Global Alpha team or process. Baillie Gifford (“BG”) closed their Diversified Growth Fund (“DGF”) to new clients from 28 February 2013 at £2.8bn. At that time the fund was to remain open to new money from existing clients. However since the close, the Fund continued to grow and BG took the decision to close to existing BG clients who were not already invested in the strategy. After 28th June 2013 the fund remained open only to future cash flows from existing Diversified Growth Fund investors. The reason for the close of this fund concerns the strategy’s capacity. The fund allocates to insurance linked securities (essentially catastrophe bonds); this is a small market at present and to maintain its allocation of around 9% the firm believes that it has to cap the fund at £6 billion. The fund AuM currently stands at £5bn. As a result Baillie Gifford are taking the prudent decision of further closing the Fund to existing clients as at 28 November 2013, with the exception of those monies that represent routine contributions from existing clients. Additional contributions from portfolio rebalancing will be accepted (BG have not stated a limit to the amount except to say no large contributions!).

Comments

The Fund returned 2.9% (2.8% net) in the third quarter. This return exceeded that of the MSCI All Country World Index, which returned 1.2%. Longer-term performance is also strongly ahead of benchmark over the one, three and five year periods.

The holding of electric car company Tesla has continued to boost returns as have a strong rebound in a number of Baillie Gifford’s technology holdings such as Facebook, Trip Advisor and Naspers. Turnover in the portfolio is low (15% over 12 months) reflecting Baillie Gifford’s confidence in the shape of the portfolio. They are focussing on the theme of “normalisation”, an environment where companies operate in an environment where interest rates are not distorted by central bank policy, margins revert to historic norms and capital investment returns to more typical levels. One example of this work is the recent purchase of M&T Bank, a traditional lending bank in the US which would benefit from an interest rate rise. They also look to pick attractive stocks benefitting from innovation and have added Myriad Genetics (medical tests) and Qualcomm (wireless and semiconductor products).

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



	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.9	25.2	12.7	8.0
Benchmark	1.2	18.0	9.8	5.2
Relative	1.7	6.0	2.6	2.7

* Inception date 05 Jul 2007.

3 Year Relative Return

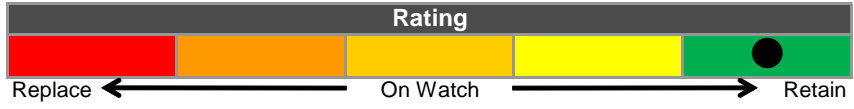
Actual % p.a.	Target % p.a.
2.6	2.5

[1] Gross of fees, [2] Since inception performance in table differs from chart above as chart excludes initial part quarter. Gross of fees

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

Legal & General UK Equity

HR View Comment & Rating



Legal and General are one of the largest managers of index-tracking funds. UK equity and Index-linked assets were invested on 2 August 2010. The UK equity portfolio has a target weight of 22.5% of Scheme assets and the index-linked portfolio has a target of 7%.

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.6	19.1	10.2	11.8
Benchmark	5.6	18.9	10.1	11.6
Relative	0.0	0.1	0.1	0.2

* Inception date 02 Aug 2010.

Comments

Performance has been in line with the index benchmark (FTSE-All Share) over the quarter and since inception. Index changes, corporate actions, sampling and stocklending had little impact on returns over the period.

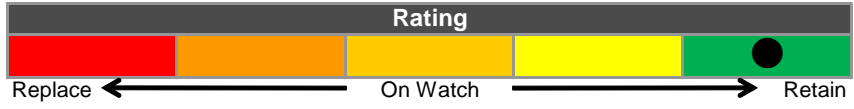
[1] Gross of fees

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



Legal & General Index-Linked Gilts

HR View Comment & Rating



Legal and General are one of the largest managers of index-tracking funds. UK equity and Index-linked assets were invested on 2 August 2010. The UK equity portfolio has a target weight of 22.5% of Scheme assets and the index-linked portfolio has a target of 7%.

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.6	6.7	8.4	9.9
Benchmark	0.5	6.6	8.3	9.9
Relative	0.1	0.1	0.1	0.0

* Inception date 02 Aug 2010.

Comments

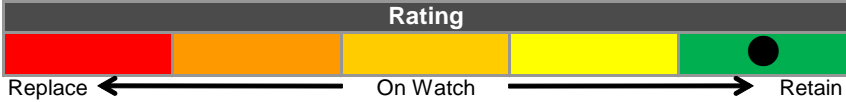
Performance has been in line with the index benchmark (FTSE-A Index-Linked Over 15 Years) over the quarter and since inception.

[1] Gross of fees

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

Investec Bonds

HR View Comment & Rating



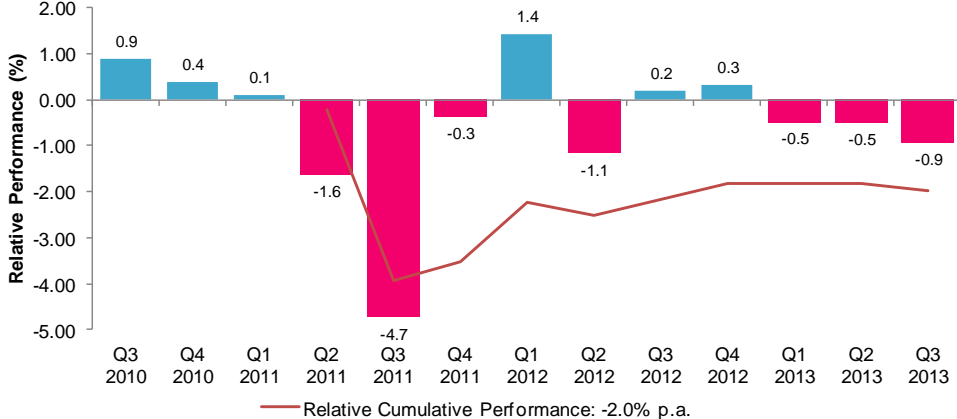
No significant news to report.

Comments

We have re-stated the benchmark to show the cash index plus target. The performance of the Fund is behind that of the re-stated benchmark over all periods shown since inception. The poor quarters in 2011 (Q2 and, in particular, Q3) continue to be a significant drag but the Fund returns have also failed to keep up with the cash index plus target over the last 12 months (a return of 1% versus benchmark 2.5%).

The Fund's currency exposure detracted from overall performance and was the largest source of relative underperformance over the quarter. About a third of this underperformance came from the Fund's emerging market currency exposure. US dollar exposure also detracted. On the positive side, the Fund's corporate bond holdings performed well. The Fund retained a cautious stance towards corporate debt exposure, but did take advantage market weakness to add some credit risk (taking advantage of more attractive valuations at the end of quarter two).

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



	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.3	1.0	0.3	-0.6
Benchmark	0.6	2.5	2.8	2.8
Relative	-0.9	-1.5	-2.4	-3.3

* Inception date 26 Apr 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-2.4	2.0

3 Year Tracking Error

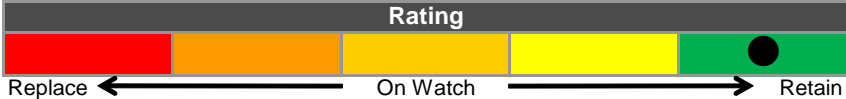
Actual % p.a.	Target % p.a.
N/A	0.0 - 0.0

[1] Gross of fees, [2] Since inception performance in table differs from chart above as chart excludes initial part quarter. Gross of fees

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

Schroder Property

HR View Comment & Rating

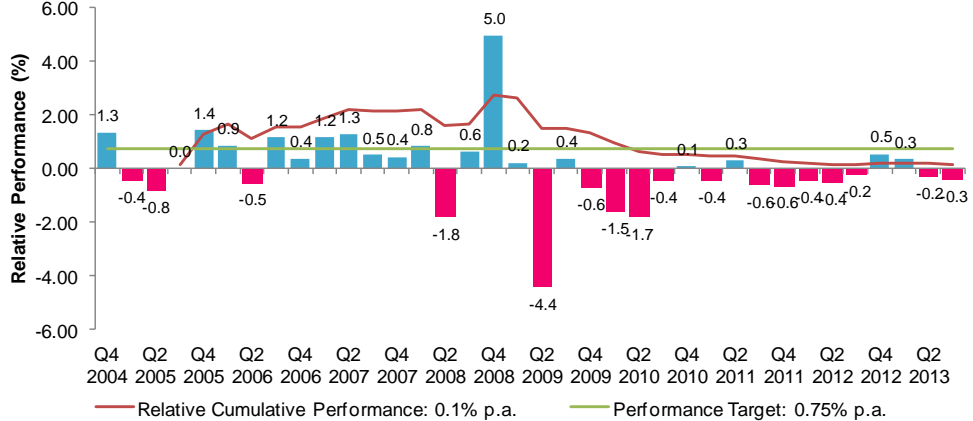


Schroders announced that Keeran Kang has been promoted to the role of Fund Manager within the Property Multi-Manager team. Keeran will continue to be based in the UK, but over the coming months she will be working with Rob Bingen in Amsterdam to familiarise herself with their international platform of investments before taking over as Fund Manager on their two European fund of fund vehicles; Schroder Real Estate Fund of Funds Continental European Fund I (which Tower Hamlets invests in) and Fund II. Centralising the management of the Property Multi-Manager business in London has been an objective for some time. It should be more efficient to run Property Multi-Manager from one location and Schroder expect to benefit from the experience of a growing direct investment team based in the UK with a pan-European focus. Keeran will also continue to work on individual UK segregated accounts. Rob Bingen will work with Keeran during the transition period, but will then be freed up to focus on expanding their property securities business as Head of Property Securities and Global Solutions.

Comments

We do not have confirmed performance data from Schroder at this time. We have estimated performance over the quarter based on change in value of the portfolio.

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



	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.1	4.6	3.9	0.3
Benchmark	2.4	4.2	4.5	1.4
Relative	-0.3	0.3	-0.6	-1.0

3 Year Relative Return

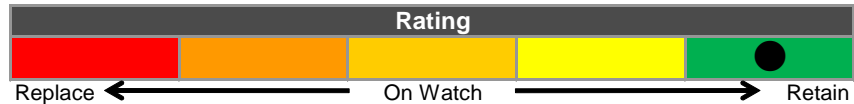
Actual % p.a.	Target % p.a.
-0.6	0.8

[1] Gross of fees, [2] Since inception performance differs from cumulative performance in chart as cumulation period in chart is 5 years. 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

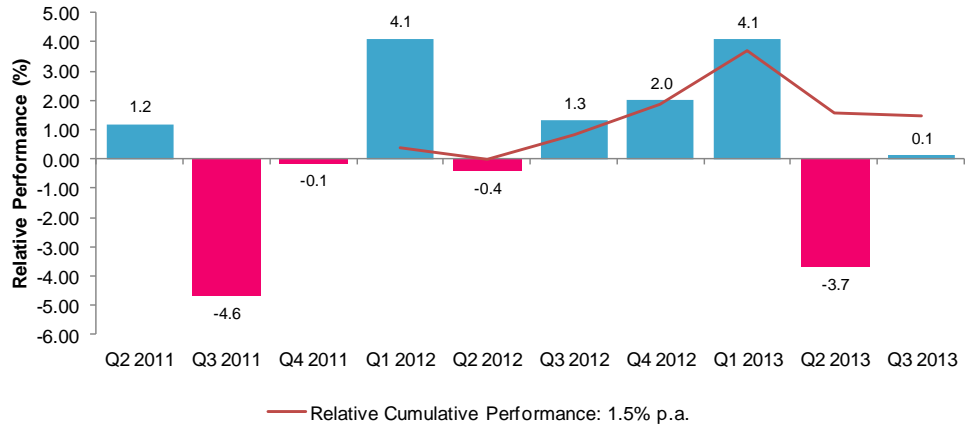
HR View Comment & Rating



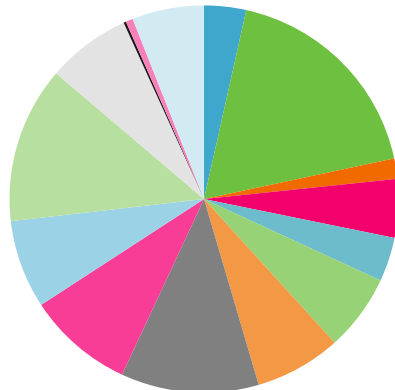
The Fund had a positive return over the quarter driven by strong equity and credit markets although exposure to emerging market bonds held back returns. Baillie Gifford have reduced the cash position in the Fund from 13% to 6% and invested across government, investment grade and high yield bonds and also in listed equities. Baillie Gifford think improving growth prospects and monetary policy provide a good environment for equities. Baillie Gifford believe government bond yields to be at attractive levels and that the asset class can benefit from any flight to safety if equities fall. They also see corporate bond yields as attractive. Baillie Gifford believe that emerging market bonds have been unfairly "sold off" represent an attractive risk return trade off – they will selectively increase exposure.

Performance of the Fund remains above its benchmark target over the short and longer term (and we have now started showing the benchmark comparison to include the 3.5% outperformance target above base rate). Volatility also remains below the Funds 10% target.

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



Asset Allocation at Quarter End



- Private Equity - 3.5%
- Listed Equities - 18.2%
- Property - 1.7%
- Forestry - 0.0%
- Commodities - 4.9%
- Infrastructure - 3.7%
- Government Bonds - 6.4%
- Investment Grade Bonds - 7.2%
- High Yield Bonds - 11.5%
- Structured Finance - 8.9%
- Insurance Linked - 7.4%
- Emerging Markets Bonds - 13.1%
- Infrastructure Bonds - 0.0%
- Absolute Return - 7.0%
- Active Currency - -0.2%
- Special Opportunities - 0.6%
- Cash - 6.0%

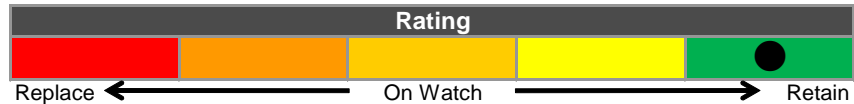
Volatility

Annual Volatility	
Actual	7.10%
Maximum	10.00%

[1] Excludes initial part quarter (22/2/11 to 31/3/11, relative performance +0.3%). Gross of fees

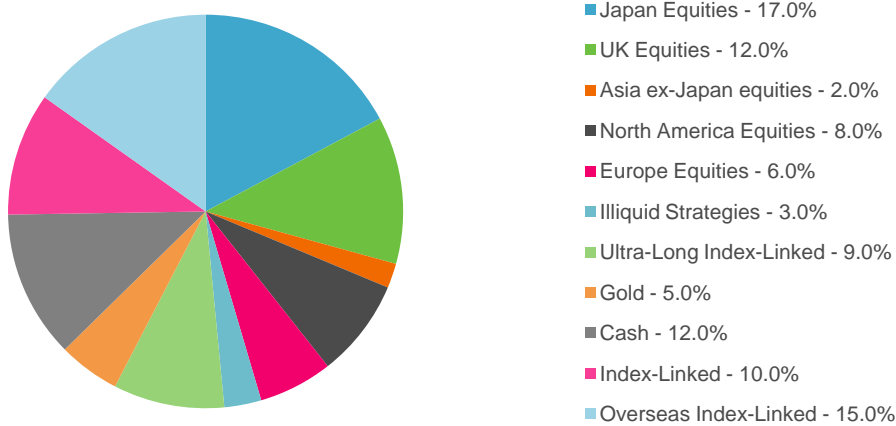
Ruffer Total Return Fund

HR View Comment & Rating

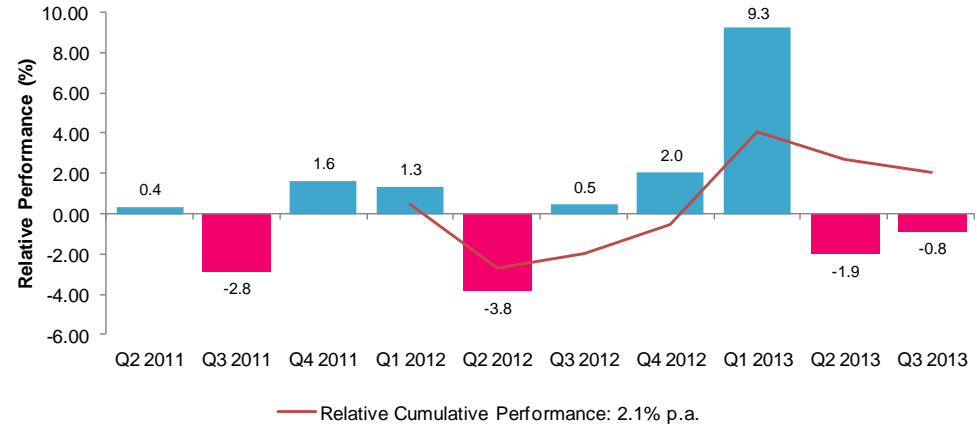


The Ruffer Absolute Return Fund returned -0.1% for the quarter (net of fees), and has returned 11.7% over the year to 30 September 2013. We have shown a benchmark for the fund as UK base Rate +3.5% p.a. (consistent with Baillie Gifford's DGF benchmark) to assist comparison of the two funds. Equity stock selection was the major contributor to performance, investing in high yielding but out of favour US defence stocks such as Lockheed Martin and General Dynamic was beneficial (Ruffer had sold most of their "global mega stocks" in the first half of the year believing their share prices were too high. They also introduced more cyclical holdings and small company exposure also helped performance. Sterling strength and dollar weakness hurt performance over the quarter, as did option protection on equities (as equities rose). They continue to position the portfolio cautiously (cut back equity and raised cash to 12%) despite low interest rates and improvement in developed equities. They remain conscious of the spectre of the US debt burden and the propensity for stock markets to fall should anything go wrong in the resolution of this issue. 45% of the portfolio remains in equity however, with a third in Japan where Ruffer remain positive.

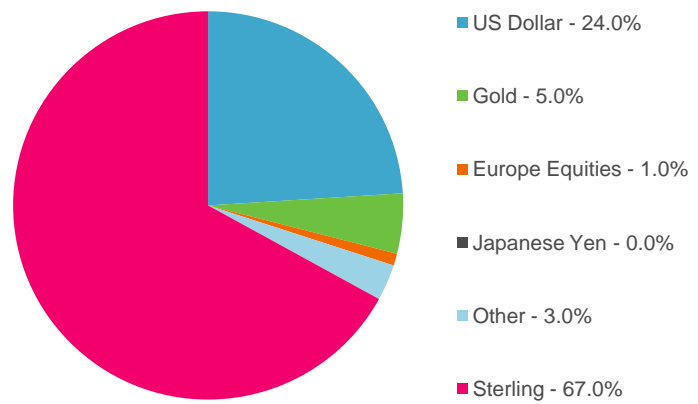
Asset Allocation at Quarter End



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



Currency Allocation at Quarter End



[1] Excludes initial part quarter (28/2/11 to 31/3/11, relative performance -1.0%). Gross of fees

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

Performance Summary (Gross of Fees)

Performance ^[1]

		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	2.9	4.1	5.6	1.1	0.2	-0.3	0.6	2.1	3.0
	Benchmark	1.2	2.8	5.6	1.0	1.0	0.6	0.5	2.4	2.5
	Relative	1.7	1.3	0.0	0.1	-0.8	-0.9	0.1	-0.3	0.5
12 Months (%)	Absolute	25.2	22.6	19.1	6.5	12.8	1.0	6.7	4.6	15.5
	Benchmark	18.0	22.1	18.9	4.0	4.0	2.5	6.6	4.2	13.6
	Relative	6.0	0.4	0.1	2.4	8.4	-1.5	0.1	0.3	1.7
3 Years (% p.a.)	Absolute	12.7	9.3	10.2	5.5	5.6	0.3	8.4	3.9	8.1
	Benchmark	9.8	9.7	10.1	4.0	4.0	2.8	8.3	4.5	7.9
	Relative	2.6	-0.4	0.1	1.4	1.6	-2.4	0.1	-0.6	0.2
5 Years (% p.a.)	Absolute	13.8	9.8	11.8	N/A	N/A	-0.6	9.9	0.3	8.1
	Benchmark	10.4	10.3	11.6	N/A	N/A	2.8	9.9	1.4	8.2
	Relative	3.1	-0.5	0.2	N/A	N/A	-3.3	0.0	-1.0	-0.1

[1] 5 Year performance figure is since inception for Investec Bond mandate (26/04/10) and for L&G UK Equity and Index-Linked Gilts mandates (02/08/10). 3 Year performance figure is since inception for Baillie Gifford DGF (22/2/11) and Ruffer (28/2/11).

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	1.0	-	-	8.2	1.3	10.0	-1.3	-	-
North American Equity	15.0	0.7	-	-	51.3	-4.5	30.0	-0.8	-	-
European Equity	10.0	2.3	-	-	16.4	3.9	30.0	4.4	-	-
Pacific Basin Equity	9.0	-2.5	-	-	12.9	-4.8	25.5	-5.4	-	-
Emerging Market Equity	3.0	1.1	-	-	11.3	2.8	4.5	1.7	-	-
Bonds	14.0	-3.9	-	-	-	-	-	-	100.0	0.0
UK Index-Linked Gilts	3.0	2.0	-	-	-	-	-	-	-	-
Property	12.0	-1.8	-	-	-	-	-	-	-	-
Alternatives	10.0	-0.6	100.0	0.0	-	-	-	-	-	-
Cash	0.0	0.7	-	-	0.0	1.2	0.0	1.5	-	-
Trustee Bank Account	0.0	0.9	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	5.0	-0.3	16.0	1.8	25.0	0.3	14.0	-3.9



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	-1.0	-	-
Alternatives	-	-	-	-	100.0	0.0	-	-	-	-
Cash	-	-	-	-	-	-	0.0	1.0	-	-
Trustee Bank Account	-	-	-	-	-	-	-	-	100.0	0.0
Proportion of Total Assets	3.0	2.0	20.0	1.1	5.0	-0.3	12.0	-1.7	0.0	0.9



Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left(\left(1 + \text{Fund Performance} \right) / \left(1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	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.