

London Borough of Tower Hamlets Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2014

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For and on behalf of Hymans Robertson LLP
August 2014

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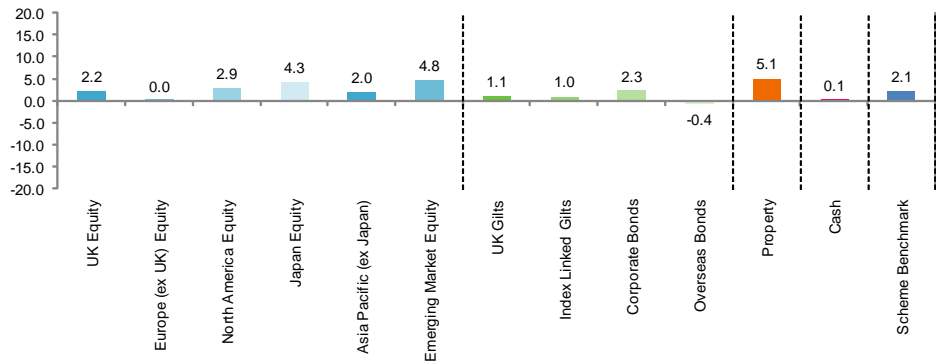
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

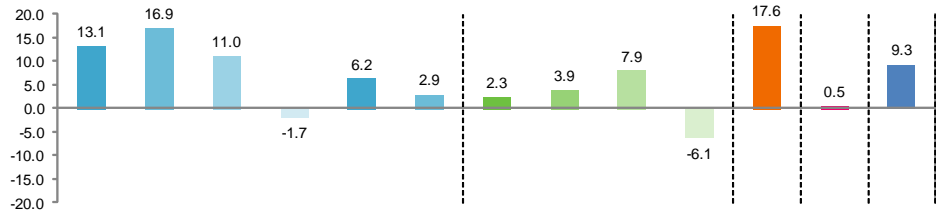
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Historic Returns for World Markets to 30/06/2014

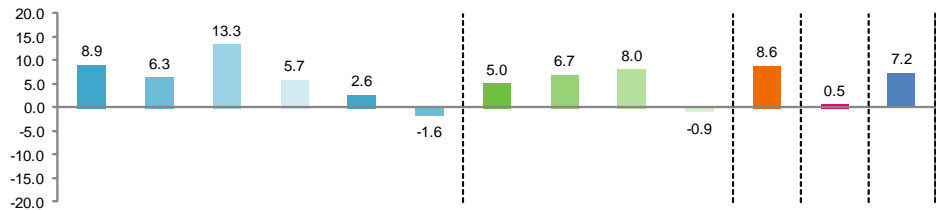
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

In general, equity markets were buoyant over the quarter. Economic signals were mixed and included the publication of disappointing economic growth figures for the US and Eurozone during the three months to end March. The OECD, IMF and World Bank cut their forecasts for global economic growth in 2014, but still expect a higher level of activity compared with last year. In contrast, there were examples of positive news, with signs of modest economic growth in some Eurozone countries and strong manufacturing and jobs data from the US.

Short-term interest rates in the UK and US were unchanged during the quarter. In June, the European Central Bank (ECB) reduced interest rates, from 0.25% to 0.15%, against a background of low economic growth and concerns over a deflationary spiral. This is in contrast to central bank policy in other major economies. There was speculation that the Bank of England may soon raise short-term rates on the basis of low unemployment, reasonable growth and encouraging forward-looking manufacturing data. The US central bank, the Federal Reserve, continues to taper its QE programme (expected to finish in October), although it did dismiss the possibility of using a rate rise to curb the recent growth in asset values.

Conflicts and political tensions caused volatility in energy markets. Oil prices hit a nine month high, reflecting concerns that global supply might be affected by the re-intensification of conflict in Iraq.

Key events during the quarter were:

Global Economy

- The OECD, IMF and World Bank reduced their forecasts for global economic growth for 2014;
- Growth forecasts for the 28 nation European Union were revised modestly upwards by the European Commission, from 1.5% to 1.6%;
- The ECB was the first major central bank to introduce a negative deposit rate (the rate which commercial banks receive on their deposits at the Bank), cutting the rate from 0% to -0.1%;
- UK unemployment rate fell to a 5 year low.

Equities

- The best performing sectors relative to the FTSE All World Index were Oil & Gas (+6.4%) and Utilities (+2.4%); the worst were Consumer Services (-1.8%) and Financials (-1.7%);
- Merger and acquisition activity dominated headlines. Sizeable international deals were attempted, but not always concluded – most notably the unsuccessful hostile takeover bid for AstraZeneca from pharmaceutical giant Pfizer.

Bonds and Currencies

- Gilt yields fell marginally (prices rose) at medium & long maturities, but rose at the 'short end';
- Sterling hit a six year high against the dollar, reflecting speculation that the Bank of England will raise interest rates ahead of other central banks.

[1] Overseas equity returns shown in Sterling

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

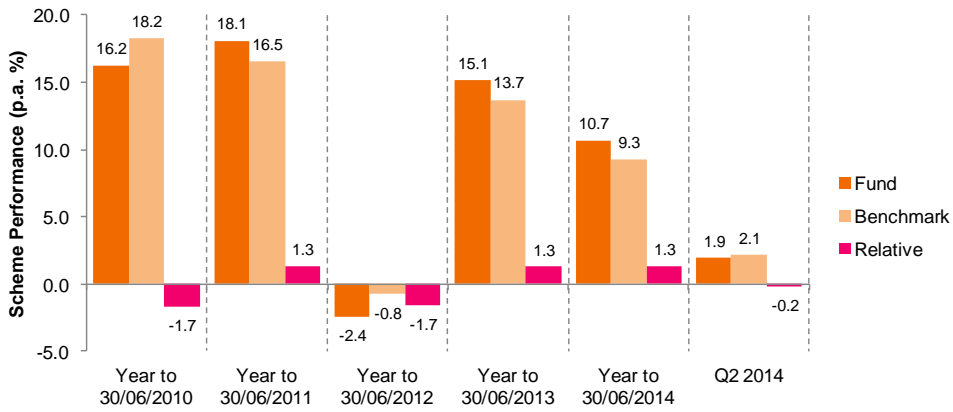


Portfolio Summary

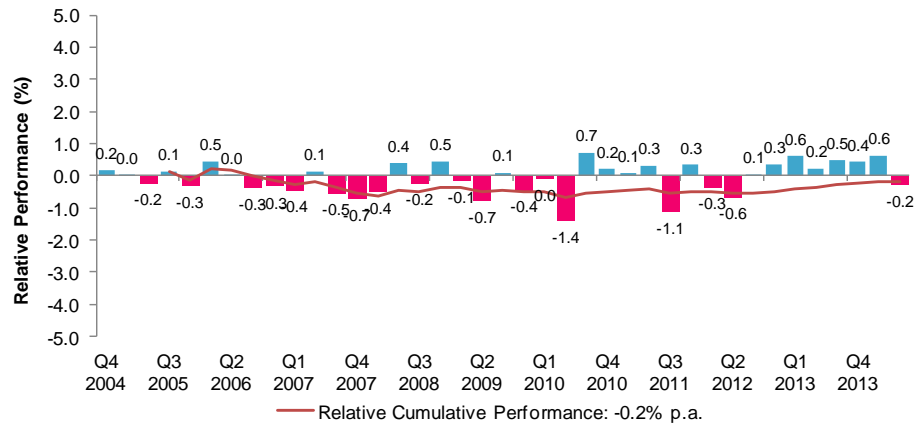
Valuation Summary ^[1]

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2014	Q2 2014			
Global Equity	649.3	663.5	64.1	61.0	3.1
Bonds	146.7	147.3	14.2	17.0	-2.8
Property	103.7	109.8	10.6	12.0	-1.4
Alternatives	91.9	93.2	9.0	10.0	-1.0
Cash	8.6	5.0	0.5	0.0	0.5
Trustee Bank Account	16.8	17.0	1.6	0.0	1.6
Total inc. Trustee Bank Account	1017.0	1035.8	100.0	100.0	

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 %
	Q1 2014	Q2 2014			
Baillie Gifford Global Equity	183.1	183.6	17.7	16.0	1.7
GMO Global Equity	261.3	267.8	25.9	25.0	0.9
Legal & General UK Equity	212.1	216.9	20.9	20.0	0.9
Baillie Gifford Diversified Growth Fund	46.9	47.9	4.6	5.0	-0.4
Ruffer Total Return Fund	45.0	45.3	4.4	5.0	-0.6
Investec Bonds	97.5	97.5	9.4	14.0	-4.6
Legal & General Index-Linked Gilts	49.2	49.7	4.8	3.0	1.8
Schroder Property	105.2	110.1	10.6	12.0	-1.4
Trustee Bank Account	16.8	17.0	1.6	0.0	1.6
Total	1017.0	1035.8	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] ^[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	0.3	2.4	2.3	2.3	0.5	-0.1	1.1	4.6	1.8
	Benchmark	2.6	2.2	2.2	1.0	1.0	0.6	1.1	4.3	2.1
Relative			0.3	0.1	1.3				0.3	
		-2.3				-0.5	-0.7	0.0		-0.3
12 Months (%)	Absolute	10.8	14.9	13.2	6.6	0.6	-0.0	4.4	13.4	10.4
	Benchmark	9.6	9.9	13.1	4.0	4.0	2.5	4.3	15.1	9.3
Relative		1.0	4.6	0.1	2.5			0.1		1.0
						-3.3	-2.5		-1.4	
2 Years (% p.a.)	Absolute	18.8	17.9	15.6	6.9	6.7	0.9	3.5	7.6	12.6
	Benchmark	15.3	16.3	15.5	4.0	4.0	2.6	3.5	8.2	11.5
Relative		3.0	1.4	0.1	2.7	2.6		0.0		1.0
							-1.6		-0.6	
3 Years (% p.a.)	Absolute	10.5	8.4	9.0	5.3	4.1	-0.2	7.8	5.5	7.2
	Benchmark	8.5	8.2	8.9	4.0	4.0	2.7	7.8	6.7	7.2
Relative		1.8	0.2	0.1	1.2	0.1		0.0		
							-2.8		-1.1	0.0

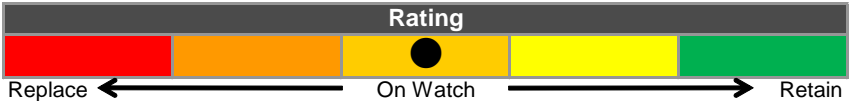
[1] Performance, for periods up to 5 years (gross of fees) is shown in the appendix. Baillie Gifford DGF, Ruffer and Investec benchmarks include outperformance target.

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



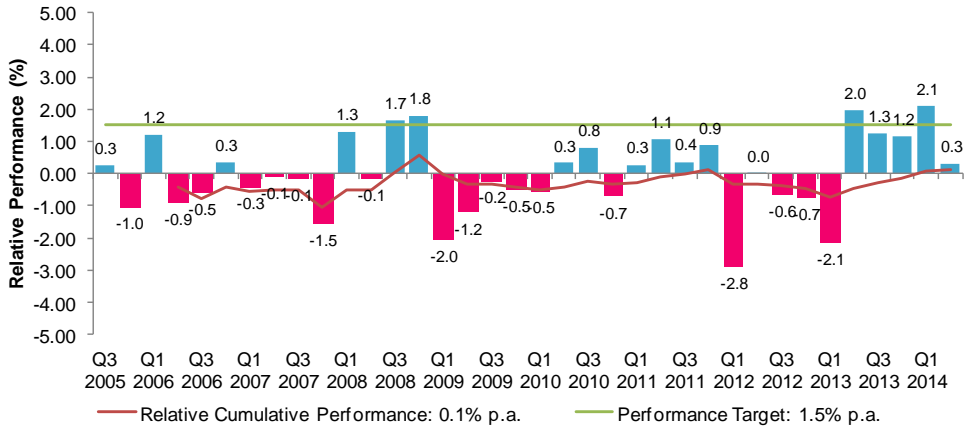
GMO Global Equity

HR View Comment & Rating



Uncertainties remain around the recent changes to the GMO portfolio construction methodology. Although performance has seen a welcome improvement, we remain on a watching brief whilst the situation unfolds.

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



Comments

The global equity mandate outperformed the benchmark over the quarter, delivering an absolute return of 2.5%. GMO has outperformed significantly over 12 months (+4.8%), and are also ahead over 3 years and since inception of the mandate.

The portfolio's position in high quality US stocks had a negative impact on performance over the quarter as high quality stocks underperformed the US market. The European value position (c.40% of total portfolio weight) also detracted, as European stocks lagged the broader market. Positive contribution to performance came from the newly established Emerging Market and Japanese positions, with security selection a key driver.

Performance Summary [iii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.5	15.1	8.6	9.5
Benchmark	2.2	9.9	8.2	9.3
Relative	0.3	4.8	0.4	0.2

* Inception date 29 Apr 2005.

3 Year Relative Return

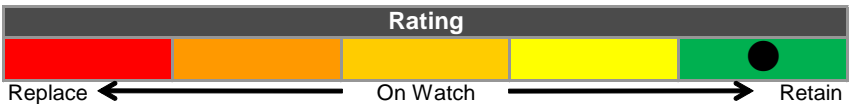
Actual % p.a.	Target % p.a.
0.4	1.5

[1] Gross of fees

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

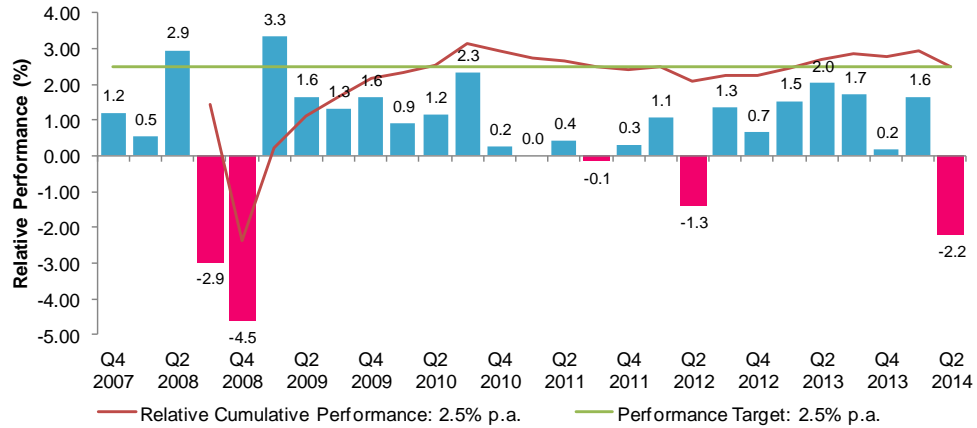
Baillie Gifford Global Equity

HR View Comment & Rating



No significant news to report over the quarter.

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



Comments

The Fund underperformed the benchmark by 2.2% over the quarter, delivering a positive absolute return of 0.4%. The fund is relatively concentrated and seeks to generate strong absolute returns over the long-term through the use of an unconstrained bottom-up approach. The fund has delivered on this over the longer term, as performance remains ahead of the benchmark over 12 months, 3 years and since inception of the mandate.

Baidu, the Chinese search engine, made the most significant contribution to returns over the quarter as its net income increased by 24% due to mobile revenue growth. This represented a reversal as the stock had been the main detractor from performance over the previous quarter. Illumina also enhanced returns following increased demand for genetic sequencing technology within the wider healthcare sector.

The fund's holdings in Whole Foods detracted from performance over the quarter, as the share price fell due to reduced earnings expectations as competition in the industry has intensified. The manager has retained the position, however is now monitoring the competitive environment more diligently. During the period, the fund purchased a holding in Workday, a cloud based enterprise software provider, as Baillie Gifford see significant growth potential for the company. The manager also took advantage of temporary share price weakness to add to holdings in Amazon, LinkedIn, and Tesla Motors.

Performance Summary [2] [iii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.4	11.2	11.0	8.3
Benchmark	2.6	9.6	8.5	5.8
Relative	-2.2	1.4	2.3	2.3

* Inception date 05 Jul 2007.

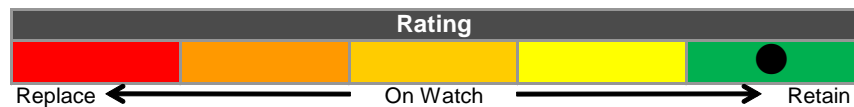
3 Year Relative Return

Actual % p.a.	Target % p.a.
2.3	2.5

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

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%.

Performance Summary ^[1] ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.3	13.3	9.1	11.4
Benchmark	2.2	13.1	8.9	11.2
Relative	0.1	0.2	0.1	0.2

* Inception date 02 Aug 2010.

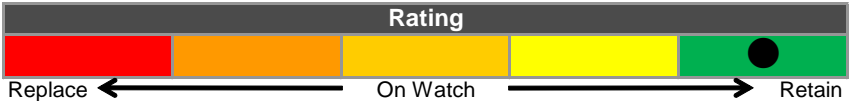
Comments

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

[1] Gross of fees

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%.

Performance Summary [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.1	4.4	7.8	9.0
Benchmark	1.1	4.3	7.8	8.9
Relative	0.0	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 5 Years) over the quarter and since inception.

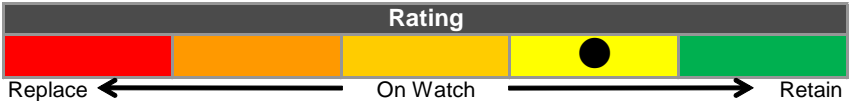
[1] Gross of fees

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



Investec Bonds

HR View Comment & Rating



Given the relative performance of Investec since inception, the Officers and Advisers have been closely monitoring the position and assessing possible triggers for a review of the appointment.

As much of Investec's relative performance has reflected a defensive positioning as markets have continued to rally, the Officers and Advisers have agreed two triggers for review:

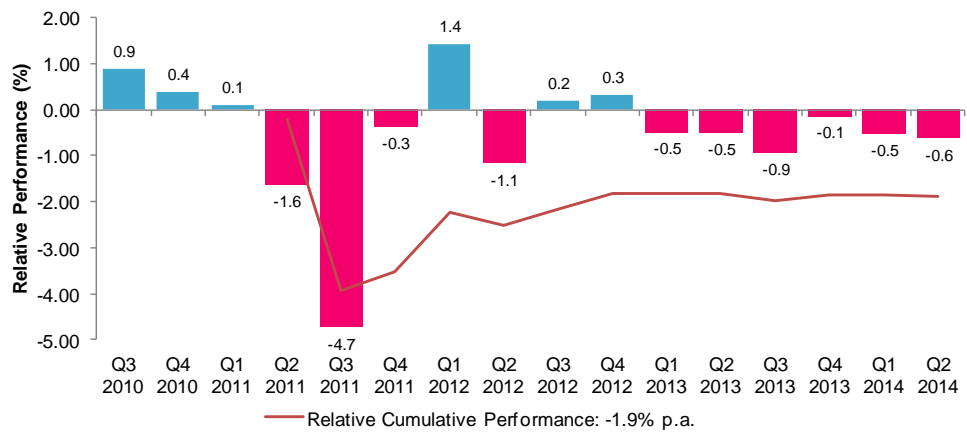
1. Sustained underperformance in a market correction.
2. John Stopford, the key portfolio manager, leaving Investec.

Comments

The portfolio delivered a flat return over the quarter, lagging its cash+2% p.a. target. The most significant contribution to negative relative performance was the Fund's credit and interest rate exposure, to which the portfolio is positioned defensively. The manager believes that they will be able to benefit from a return to normalisation in core government yields, although this failed to materialise over the quarter.

This negative relative performance was somewhat offset by strong performance of the fund's emerging market debt exposure, in particular its hard currency debt. Currency also made a modest positive contribution despite the sterling strengthening over the period.

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



Performance Summary [2] [iii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.0	0.4	0.2	-0.3
Benchmark	0.6	2.5	2.7	2.7
Relative	-0.6	-2.1	-2.4	-3.0

* Inception date 26 Apr 2010.

3 Year Relative Return

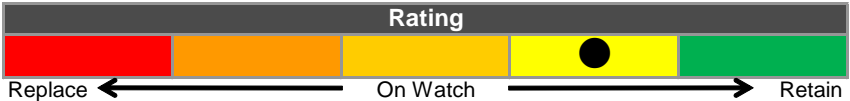
Actual % p.a.	Target % p.a.
-2.4	2.0

[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

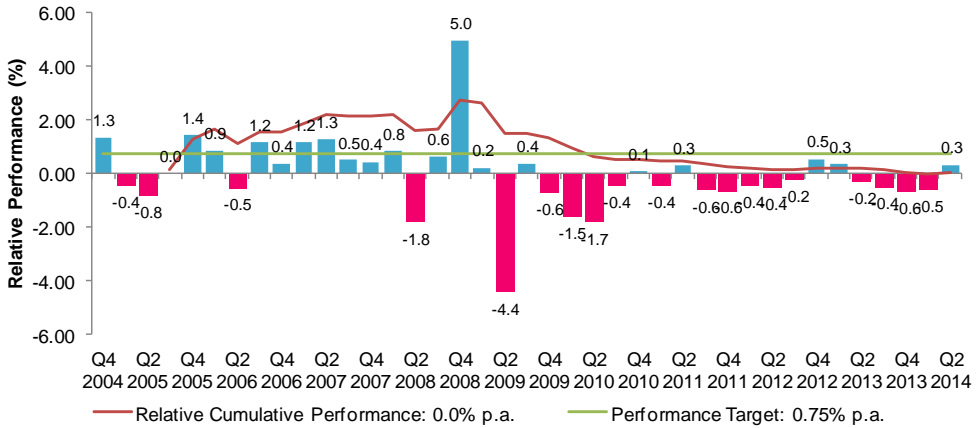
Schroder Property

HR View Comment & Rating



There were no significant changes to report during the quarter. Our central rating for the Schroders Property Fund remains a 4 ("Retain").

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



Comments

The segregated property portfolio managed by Schroders outperformed its benchmark by 0.3% net of fees over the quarter. Longer term performance has lagged the benchmark however; with an underperformance of 1.1% p.a. over the 3 years to 30 June 2014.

The biggest contribution to absolute returns continues to come from the Fund's UK holdings. Over the 12 months to 30 June 2014 UK value add funds made a positive contribution to relative returns, with the UK portfolio now showing an outperformance over its benchmark over all periods. The Fund's European holdings continue to act as a drag on returns, despite this amounting to just 5% of the portfolio by value.

Over the quarter £5 million was invested into Metro Property Unit Trust, funded by a partial sale of Standard Life UK Shopping Centre PUT (£1.76m) and capital distributions from two specialist funds.

Performance Summary [2] [iii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	4.7	13.6	5.7	7.8
Benchmark	4.3	15.1	6.7	9.3
Relative	0.3	-1.3	-0.9	-1.3

3 Year Relative Return

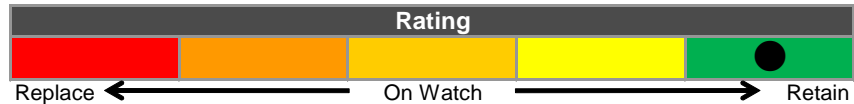
Actual % p.a.	Target % p.a.
-0.9	0.8

[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

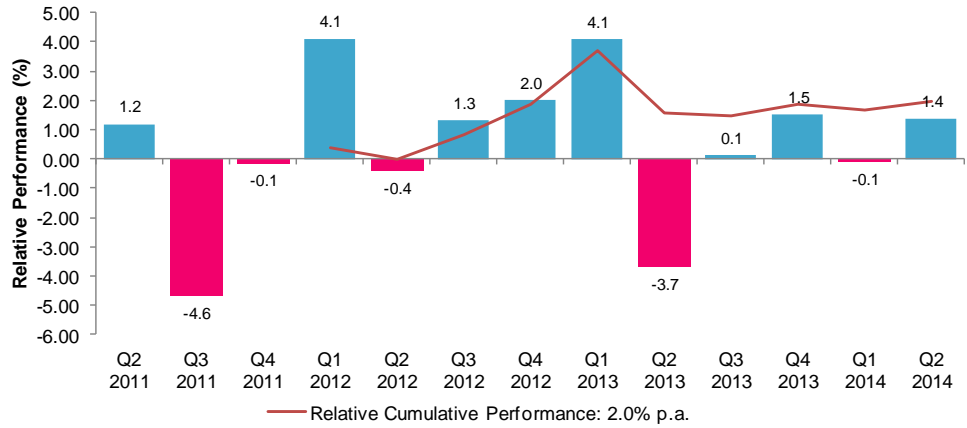
HR View Comment & Rating



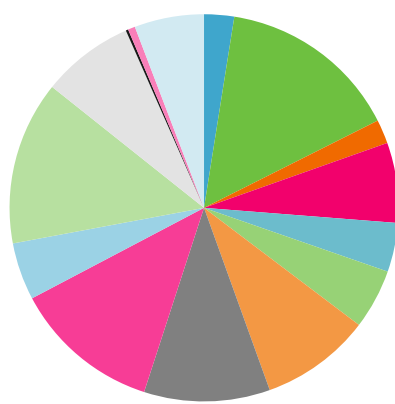
No significant news to report over the quarter.

Emerging market bonds had the most significant positive contribution to returns over the quarter, representing a reversal in investor sentiment toward the asset class. Holdings in listed equities, investment grade bonds and infrastructure also enhanced quarterly returns. Only absolute return strategies detracted from performance, mainly due to the fund's short position in the Australian dollar vs the US dollar. This position has been retained as a play on slower Chinese growth which the manager anticipates. The manager has a cautious outlook on the markets and in accordance with this view has increased exposure to defensive assets, such as government bonds, investment grade bonds and structured finance. The allocation to cash was cut to 7% due to the higher yield offered by liquid structured finance products. Despite strong performance from high yield bonds over the past year, the manager continued to reduce exposure to the asset class as spreads have contracted to their tightest levels since the beginning of the financial crisis. The manager opened a new position in Allianz's merger arbitrage fund to profit from increased M&A activity.

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



Asset Allocation at Quarter End



- Private Equity - 2.5%
- Listed Equities - 15.1%
- Property - 2.0%
- Forestry - 0.0%
- Commodities - 6.7%
- Infrastructure - 4.1%
- Government Bonds - 5.0%
- Investment Grade Bonds - 9.2%
- High Yield Bonds - 10.5%
- Structured Finance - 12.3%
- Insurance Linked - 4.8%
- Emerging Markets Bonds - 13.7%
- Infrastructure Bonds - 0.0%
- Absolute Return - 7.7%
- Active Currency - -0.2%
- Special Opportunities - 0.6%
- Cash - 5.8%

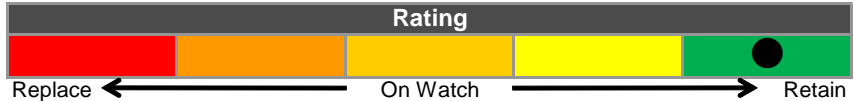
Volatility

Annual Volatility	
Actual	6.50%
Maximum	10.00%

[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.

Ruffer Total Return Fund

HR View Comment & Rating

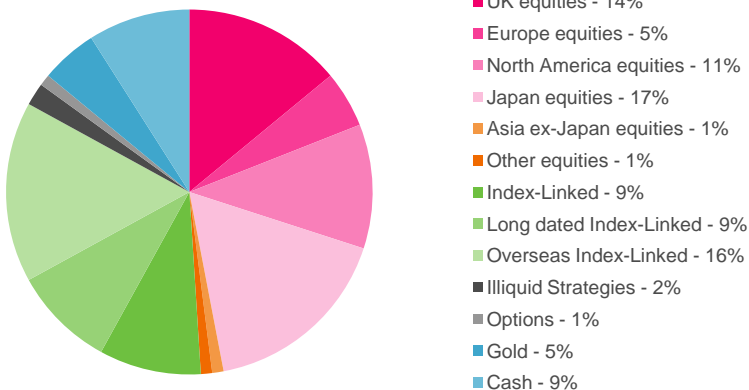


No significant developments to report during the quarter.

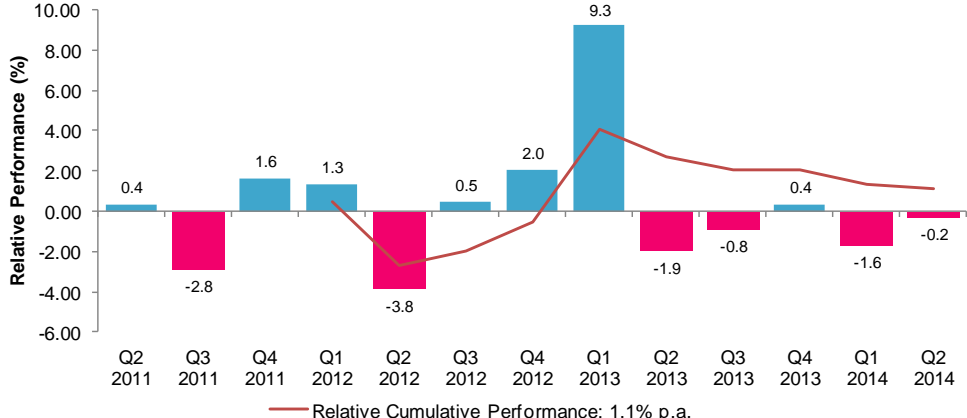
Ruffer's Absolute Return Fund delivered an absolute performance of 0.5% over the quarter, underperforming its cash+2% target. The fund is also behind target over 12 months, but ahead of target over 3 years and since the mandate's inception. The main driver for positive performance was the fund's allocation to US Treasury Inflation Protected Securities (TIPS), as valuations rose due to falling long term interest expectations in the US, despite expectations for short term inflation increasing. The fund's allocation to oil stocks also added value, benefitting as the price of crude oil increased over the quarter due to ongoing political tensions in the Middle East.

The fund's relative performance suffered over the quarter as a whole, as the fund's allocation to 'non-equity' assets has meant that it has not benefitted fully from the recent equity market growth. US Dollar exposure also detracted as, despite the Fed's tapering of quantitative easing and increasing expectations of interest rate hikes, the currency remained relatively weak.

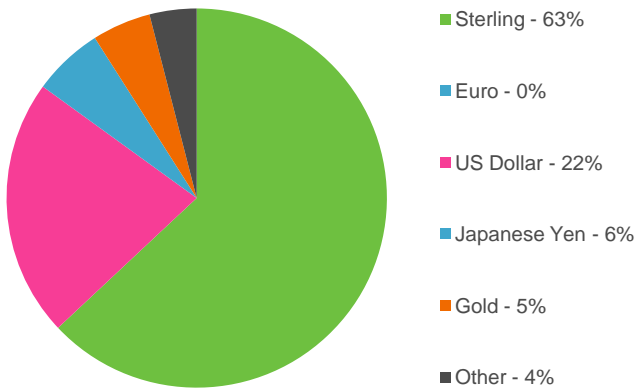
Asset Allocation at Quarter End



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)

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 Benchmark	0.4 2.6	2.5 2.2	2.3 2.2	2.4 1.0	0.8 1.0	0.0 0.6	1.1 1.1	4.7 4.3	1.9 2.1
	Relative		0.3	0.1	1.4	-0.2	-0.6	0.0	0.3	-0.2
12 Months (%)	Absolute Benchmark	11.2 9.6	15.1 9.9	13.3 13.1	7.1 4.0	1.6 4.0	0.4 2.5	4.4 4.3	13.6 15.1	10.7 9.3
	Relative	1.4	4.8	0.2	3.0	-2.3	-2.1	0.1	-1.3	1.3
3 Years (% p.a.)	Absolute Benchmark	11.0 8.5	8.6 8.2	9.1 8.9	5.8 4.0	5.2 4.0	0.2 2.7	7.8 7.8	5.7 6.7	7.5 7.2
	Relative	2.3	0.4	0.1	1.7	1.1	-2.4	0.1	-0.9	0.3
5 Years (% p.a.)	Absolute Benchmark	17.4 14.0	13.8 13.2	11.4 11.2	6.0 4.0	4.8 4.0	-0.3 2.7	9.0 8.9	7.8 9.3	11.3 11.2
	Relative	3.0	0.5	0.2	1.9	0.7	-3.0	0.0	-1.3	0.1

[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).

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	0.7	-	-	7.8	1.4	10.0	-1.7	-	-
North American Equity	15.0	3.0	-	-	52.8	-6.6	30.0	7.9	-	-
European Equity	10.0	1.9	-	-	16.7	3.4	30.0	2.2	-	-
Pacific Basin Equity	9.0	-4.7	-	-	11.8	-2.9	25.5	-14.9	-	-
Emerging Market Equity	3.0	2.2	-	-	10.9	3.9	4.5	5.4	-	-
Bonds	14.0	-4.6	-	-	-	-	-	-	100.0	0.0
UK Index-Linked Gilts	3.0	1.8	-	-	-	-	-	-	-	-
Property	12.0	-1.4	-	-	-	-	-	-	-	-
Alternatives	10.0	-1.0	100.0	0.0	-	-	-	-	-	-
Cash	0.0	0.5	-	-	0.0	0.8	0.0	1.2	-	-
Trustee Bank Account	0.0	1.6	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	5.0	-0.4	16.0	1.7	25.0	0.9	14.0	-4.6



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	-0.2	-	-
Alternatives	-	-	-	-	100.0	0.0	-	-	-	-
Cash	-	-	-	-	-	-	0.0	0.2	-	-
Trustee Bank Account	-	-	-	-	-	-	-	-	100.0	0.0
Proportion of Total Assets	3.0	1.8	20.0	0.9	5.0	-0.6	12.0	-1.4	0.0	1.6



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.