



London Borough of Tower Hamlets
Quarter Ending 31 December 2014

Client Relationship Manager

Alex Bark
+44 (0)20 7814 7617
Alex.Bark@gmo.com

Investment
Management Review

London Borough of Tower Hamlets

Table of Contents

Quarter Ending 31 December 2014

Performance	3
Change in Market Value	5
Investment Review	6
Profile Summary	7
Attribution	9
Process Review	11

London Borough of Tower Hamlets

Performance Gross of Management, Operating, Incentive Fees in GBP

Periods Ending 31 December 2014

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

* Periods of less than a year are not annualised

Note:

The London Borough Custom Benchmark was comprised of 30% FTSE World North America, 30% FTSE Developed Europe ex-UK Index, 17% FTSE Japan Index, 10% FTSE All-Share, 8.5% FTSE Developed Asia Pacific ex-Japan Index (ex Korea effective 21sep09), 4.5% MSCI Emerging Markets Index through 17/11/2014 and MSCI ACWI thereafter.

London Borough of Tower Hamlets

Performance Net of Fees and Expenses in GBP

Periods Ending 31 December 2014

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

* Periods of less than a year are not annualised

Note:

The London Borough Custom Benchmark was comprised of 30% FTSE World North America, 30% FTSE Developed Europe ex-UK Index, 17% FTSE Japan Index, 10% FTSE All-Share, 8.5% FTSE Developed Asia Pacific ex-Japan Index (ex Korea effective 21sep09), 4.5% MSCI Emerging Markets Index through 17/11/2014 and MSCI ACWI thereafter.

London Borough of Tower Hamlets

Change in Market Value, Account Detail in GBP

QTD Ending 31 December 2014

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

If you are an investor in a GMO fund who receives statements directly from the relevant Fund's transfer agent or administrator, we urge you to compare those statements with your GMO statements.

Transaction Details

Date	Transaction	Gross Amount
London Borough of Tower Hamlets Pension Fund in GBP		
19/11/2014	Redemption	-5,374,168.88
02/12/2014	Redemption	-4,077.36
02/12/2014	Redemption	-600.00
12/12/2014	Redemption	-15,424,831.12
16/12/2014	Redemption	-111.72

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Investment Review

Quarter Ending 31 December 2014

Global Developed Equity Allocation Strategy

Overview:

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

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

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

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

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

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Profile Summary

As of 31 December 2014

Top Ten Holdings ³		Risk Profile Since 30/04/2005 ⁴			Group Exposures ⁵	
			Portfolio	Benchmark ²		
Amazon.com Inc.	5.0%		Alpha	-.43	US Quality	34.2%
Philip Morris International Inc.	4.1%		Beta	.99	US Opportunistic Value	5.7%
Express Scripts Holding Co	3.9%		R-Squared	.98	Europe Value	31.0%
LukOil OAO	3.4%		Sharpe Ratio	.50	Japan	8.2%
Oracle Corp.	2.2%				Other Int'l Opportunistic Value	1.6%
Apple Inc.	1.7%				Emerging Markets	16.1%
Microsoft Corp.	1.6%				Cash & Cash Equiv.	3.3%
Total S.A.	1.5%					
AstraZeneca PLC	1.4%					
Nissan Motor Co. Ltd.	1.4%					
Total	26.2%					

Characteristics

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

¹ MSCI ACWI

² London Borough of TH Custom Benchmark

³ Portfolio holdings are a percent of equity. They are subject to change and should not be considered a recommendation to buy individual securities.

⁴ Alpha is a measure of risk-adjusted return; Beta is a measure of a portfolio's sensitivity to the market; R-Squared is a measure of how well a portfolio tracks the market; Sharpe ratio is the return over the risk free rate per unit of risk. Risk profile data is net.

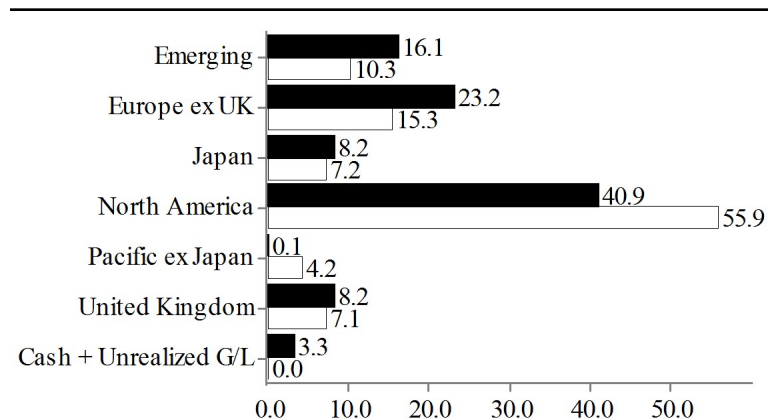
⁵ The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time.

London Borough of Tower Hamlets

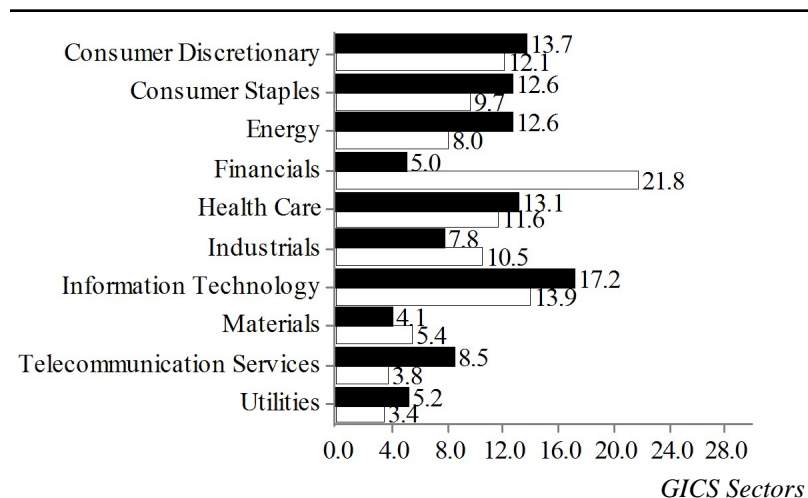
Global Developed Equity Allocation Strategy - Profile Summary

As of 31 December 2014

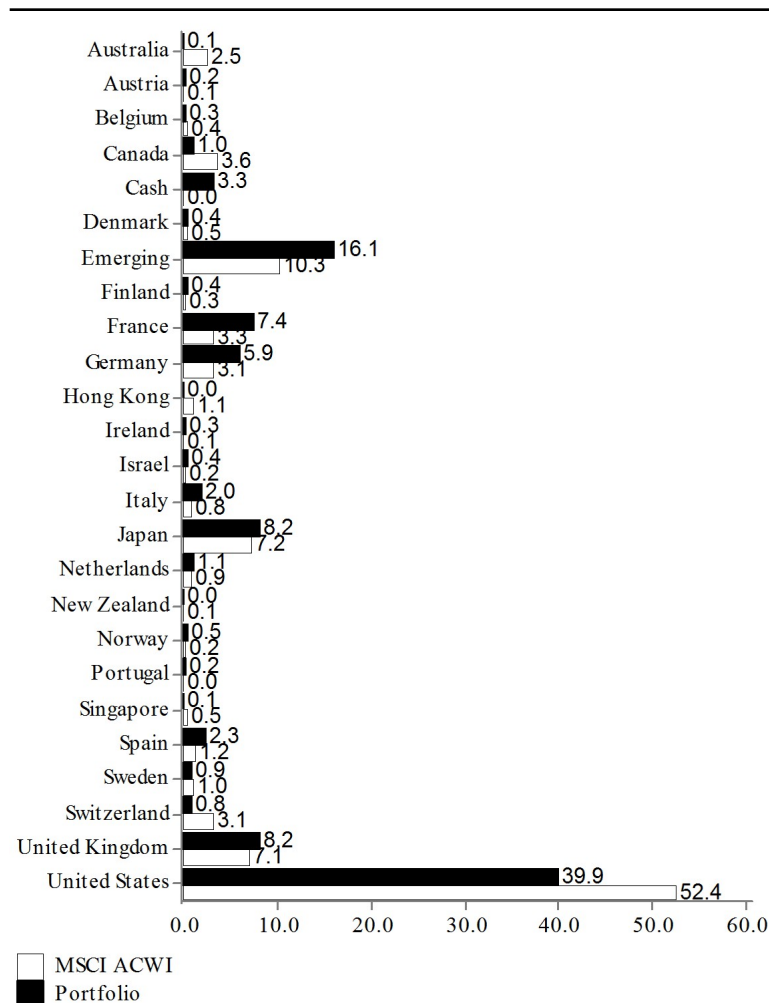
Regional Weights



Sector Weights



Country Allocation



London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Attribution Overview

Quarter Ending 31 December 2014

Performance (%)

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

GROUP ALLOCATION: -2.3%



SECURITY SELECTION: -0.6%



Major Performance Drivers

U.S. High Quality

Characteristics: Our position in U.S. high quality is comparatively multinational and carries less cyclical economic exposure compared to the U.S. market.

Positioning: U.S. high quality accounted for approximately 29% of our total portfolio weight during the quarter.

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

Emerging Markets

Characteristics: Our position in emerging markets is focused on undervalued segments within the market that have recently fallen out of favor with investors, highlighted by a position in Russia Energy and Brazil Materials.

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

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

The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy.

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Attribution Overview

Quarter Ending 31 December 2014

Major Performance Drivers (continued)

Japan

Characteristics: Our position in Japan is focused primarily on value stocks within the region, selected by both quantitative and fundamental valuation approaches.

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

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

European Value

Characteristics: Our position in European value carries a fair amount of exposure to some of the more cyclically-exposed segments of the market and is currently the largest group-level allocation in the strategy.

Positioning: European value accounted for approximately 38% of our total portfolio weight during the quarter.

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

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Process Review

Overview

The GMO Global Equity Strategy seeks to deliver high total return by investing in equities or groups of equities that the GMO Global Equity team believes will provide higher returns than the benchmark.

The Strategy uses multi-year forecasts of returns among asset classes to build a portfolio that typically provides exposure to global equity markets.

Methodology

GMO's Global Equity team uses active investment management methods, which means that equities are bought and sold according to the team's evaluation of companies' published financial information and corporate behavior, securities' prices, equity and bond markets, and the overall economy.

In selecting equities for the Strategy, the team uses a combination of investment methods to identify equities that the team believes present attractive return potential. Some of these methods evaluate individual equities or a group of equities based on the ratio of their price relative to historical financial information and forecasted financial information, such as book value, cash flow, and earnings, and a comparison of these ratios to industry or market averages or to their own history. Other methods focus on patterns of information, such as price movement or volatility of a security or group of securities relative to the Strategy's investment universe or corporate behavior of an issuer. The team also may adjust the Strategy's portfolio for factors such as position size, market capitalization, and exposure to groups such as industry, sector, country, and currency.

The resulting portfolio reflects the team's assessment of the best investment opportunities within the Strategy's investment universe and takes into consideration factors such as liquidity, transaction costs, and client mandate requirements.

Portfolio Construction

GMO believes the best form of portfolio management is an understanding and frequent examination of the underlying models and inputs used to generate portfolios.

Security weights are primarily a by-product of our security selection process. Position sizes and group exposures, both absolute and relative to the broad market, are monitored and reviewed by the portfolio management team.

The Strategy typically invests directly and indirectly (e.g., through underlying funds or derivatives) in equities of companies based around the world. Derivatives used may include futures, options, forward currency contracts, and swap contracts.

The Strategy is managed to remain fully invested (typically less than 10% allocations to cash).

Last Updated: September 30, 2013

GMO

GMO UK Limited

No. 1 London Bridge London SE1 7BG

Tel: +44 20 7814 7600 **Fax:** +44 20 7814 7605/6

Issued by GMO UK Limited Regulated by the Financial Conduct Authority