

Investment Report

**London Borough of Tower Hamlets Pension Fund
Investment Report for the
Quarter ended 2 January 2015**

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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 30 September 2014		Net Transactions	Value and Distribution at 31 December 2014		Benchmark Distribution
	GBP (Mid)	%		GBP (Mid)	%	
UK Equity Index	214,801,995	80.3	-	216,077,750	78.9	83.0
Over 5y Index-Linked Gilts	52,683,001	19.7	-	57,653,555	21.1	17.0
Total Assets	267,484,996	100.0	-	273,731,305	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 market index, composite index or comparator
- 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 DECEMBER 2014

Investment Sector Funds	Last Three Months			Last Twelve Months			Last Three Years			Since 31 Jul 2010		
	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	+0.6	+0.6	+0.0	+1.3	+1.2	+0.1	+11.3	+11.1	+0.2	+9.9	+9.8	+0.1
Over 5y Index-Linked Gilts	+9.4	+9.4	+0.0	+21.4	+21.4	+0.0	+7.1	+7.1	+0.0	+11.6	+11.5	+0.1
Total Assets	+2.3	n/a	n/a	+4.9	n/a	n/a	+10.3	n/a	n/a	+10.2	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

Policy and latest developments in 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 continue to minimise abstentions. We also vote in the major emerging markets and have started reporting on our activities in this region.

Latest News and Development

Press Coverage

During the year we have been in nearly every major national newspaper on various governance topics. This quarter, we continued to promote key issues such as cyber security, board diversity, board effectiveness reviews, auditor independence and were quoted on remuneration relating to BG Group which faced opposition from various stakeholders.

Diversity in FTSE 250

We met with several of the remaining FTSE250 companies with all male boards after writing to each of them to request meetings and discuss the issue of diversity. The companies we engaged with included Brit plc, Personal Assets Trust, Synthomer and Telecom Plus. All the companies recognised the challenge of increasing diversity and talent management in their organisations. We will continue to push for more progress in the area of diverse boards.

Institute of Chartered Secretaries Association (ICSA) and NAPF Stewardship Conference

Our Director was a panel member at the ICSA conference presenting to a large group of company secretaries discussing governance from an investor perspective. We highlighted the importance of the company secretarial role in maintaining good governance standards. A presentation by the LGIM CEO was also given to NAPF members on how index funds act as long term and active owners.

China and Hong Kong visit

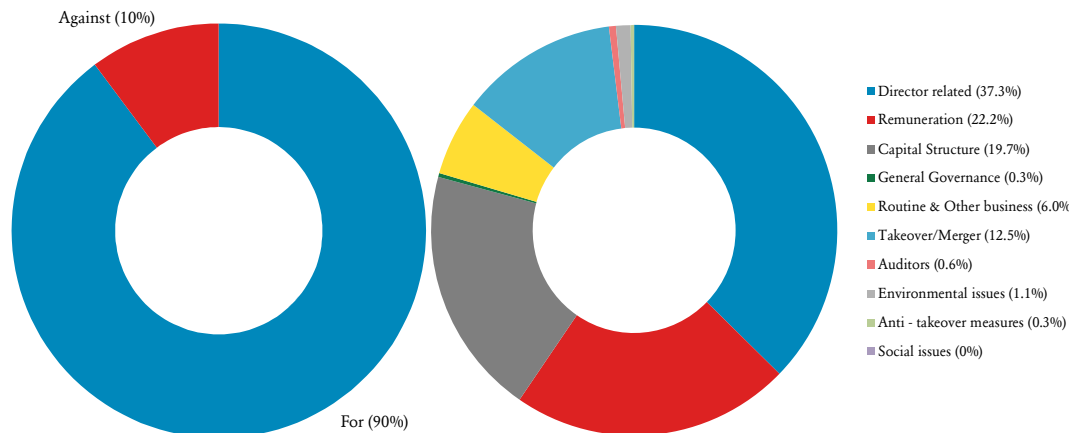
We visited China and Hong Kong to attend a corporate governance (CG) conference and meet several Chinese companies. Issues in China are dominated by large stakes held by the state and its influence on board composition and minority shareholder rights. CG requirements can vary between Hong Kong and the mainland, but with the new Shanghai-Hong Kong connect, there will be greater access to Chinese listed companies for global investors. This will increase the need to push for further governance awareness and disclosure in China. Additionally, we met with industry leaders in the energy and climate change space to understand the latest attitude to energy transition (from coal to gas to renewables) and the impacts of pollution on energy consumption.

FCA consultation on sponsor conflicts

LGIM continued to push for change in the regulatory space regarding the role of sponsors and investment banks in the listing process and the conflicts that may occur. Our views on better disclosure and conflict management were submitted to the FCA.

Voting Decisions

Against/Abstain Votes by Topic

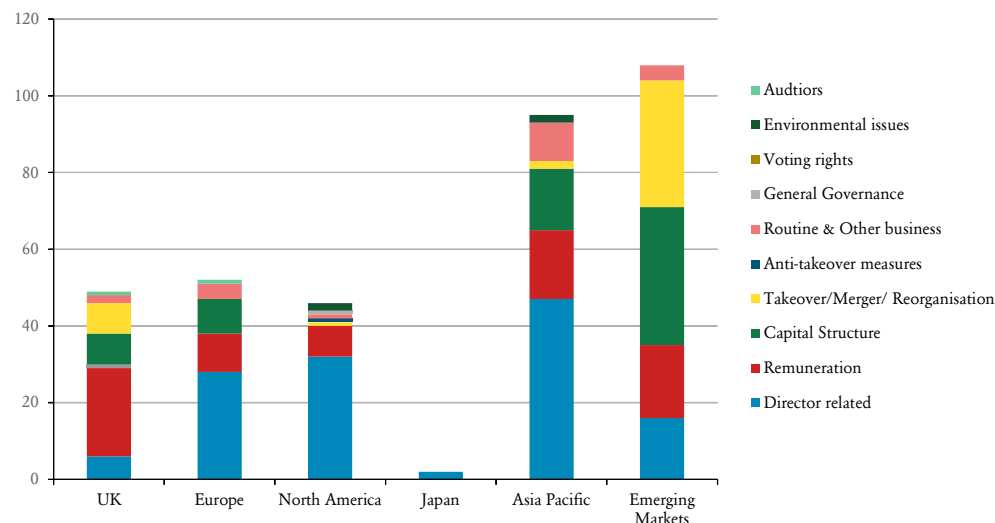


Regional Breakdown of AGAINST Votes by Topic

LONDON BOROUGH OF TOWER HAMLETS PENSION FUND

Legal & General Investment Management

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Key Voting Decisions

United Kingdom

Sky Plc M.Cap: £15bn **Media** **UK**
LGIM voted against the remuneration report due to the complexity of the LTIP, concerns with the performance measures and the lack of transparency surrounding discretion applied. 11.2% of investors voted against and 19% abstained.

Dairy Crest (EGM) M.Cap: £682.5m **Food Processing** **UK**
At the EGM in December to approve the disposal of the company's Dairies business and operations, we voted against the resolution to provide an additional one-off award to the CEO which is on top of an existing LTIP award and outside the scope of the Remuneration Policy. At the meeting, 35.7% of shareholders voted against.

Balfour Beatty (EGM) M.Cap: £1.46bn **Construction** **UK**
We voted against the sale of Parsons Brinkerhoff subsidiary. We felt the timing for the sale of this cash generative business was not in line with long term shareholders' interests. This is because of the arrival of a new CEO and departure of key directors leaving the company. Shares have underperformed the market significantly during 2014.

Europe

EDF M.Cap: €42.7bn **Utilities** **France**
LGIM voted against four resolutions related to the amendment of company bylaws. In particular, the company proposed to maintain in its bylaws mandatory combination of the duties of Chairman and CEO while the new French legislative framework provides for the possibility to separate the roles. We also voted against the election of all the nominated Directors because the proposed duration is in excess of recommended guidelines and there is a lack of independence at the board level (17%).

US

Microsoft M.Cap: \$382.88bn **Technology** **US**
We engaged with the Chairman ahead of the AGM to discuss the succession process of the new CEO and their new remuneration structure. We highlighted our concerns with the practice of making discretionary payments and the high quantum of award to the new CEO. Furthermore, we explained that remuneration should be examined more closely alongside succession going forward to ensure that large discretionary awards are not made. LGIM voted against the remuneration report as did 72% of shareholders. We will continue to engage with the company.

Oracle M.Cap: \$197.48bn **Technology** **US**
Our engagement with the company has been on-going and despite the reduction in equity awards for the CEO, the company suffered a third failed say on pay vote. We voted against the plan because we have continual concerns that pay is not sufficiently linked to the performance and the quantum is excessive. We also voted in favour of the proxy access proposal as we feel that the board composition remains an issue due to the CEO's historical role at the company, despite the recent changes of appointing a co-CEO and him stepping down to Executive Chairman. This proposal received 44.6% support from shareholders.

News Corporation M.Cap: \$8.98bn **Media** **US**
We continue to be concerned with the board structure at the company and the protection for minority shareholders as there is a dual class share structure. LGIM voted against all directors due to a poison pill being put in place without shareholder approval. Given the voting power is already concentrated with Rupert Murdoch and his family, this continues to block outsiders who wish to increase their voting rights and have a greater say in the company's governance structure. At the meeting, Directors received between 63% and 73% support from shareholders. We also voted in favour of the elimination of the company's dual class capital structure which received 47% support from shareholders.

Asia –Pacific

Hopewell Highway Infrastructure Ltd M.Cap: HKD11.96bn **Construction** **Hong Kong**
We opposed the election of two directors because we have concerns with the board composition and there is a conflict of interest. Moreover, board independence is below one-third and the company has failed to set up a nominations committee which is not in compliance with the Hong Kong Stock Exchange listing rules.

Ramsay Health Care Ltd M.Cap: AUD11.69bn **Healthcare Services** **Australia**
LGIM voted against the re-election of two independent directors, as both have been serving on the board of the company for 17 consecutive years and, hence, cannot be considered independent due to their length of tenure. In addition, the board is not comprised of a majority of independent directors. Although we appreciate that the company is actively looking to introduce an appropriate succession planning system, this has not materialised and significant time has passed.

LONDON BOROUGH OF TOWER HAMLETS PENSION FUND
LGIM Voting Summary by Topic and Region

Legal & General Investment Management

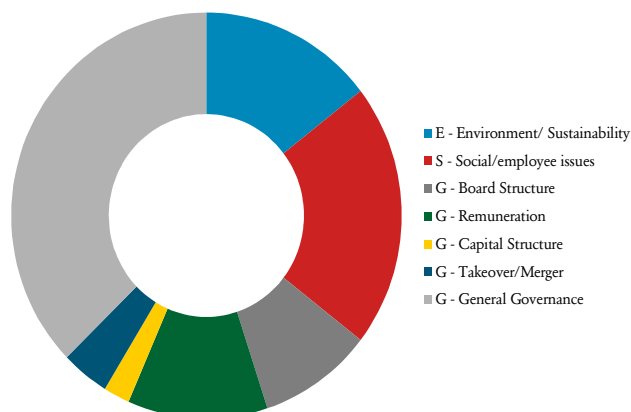
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Between 01/10/2014 and 31/12/2014		UK		Europe		North America		Japan		Asia Pacific		Emerging Markets		Total
		FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	
Management Proposals	Director related	439	2	83	27	307	29	20	2	281	41	94	15	1340
	Remuneration	160	23	11	9	52	8			149	18	36	19	485
	Capital structure	252	8	26	9	8				29	16	221	36	605
	Auditors	133	1	7	1	36				29		1		208
	Voting rights													
	General governance													
	Routine and company business	183	2	54	4	3	1	2		49	10	75	4	387
	Anti-takeover related	41				8	1			7				57
	Takeover/merger/reorganisation	26	8	16		10	1	2		24	2	146	33	268
	Social issues													
Shareholder Proposals	SP – Anti-takeover measures													
	SP – Director related		4	2	1	15	3				6	40	1	72
	SP - Remuneration				1	2								3
	SP - Capital structure													
	SP - Voting rights													
	SP – Corporate Governance					1	1					2		4
	SP - Routine and company business											17		17
	SP – Health/Environment						2				2			4
	SP - Social issues													
	SP - Other			1		3	3							7
Total Votes		1234	48	200	52	445	49	24	2	568	95	632	108	
Total number of resolutions		1282		252		494		26		663		740		3457
Annual General Meetings (AGM)		79		9		35		3		90		40		256
Extraordinary General Meetings (EGM)		48		19		14		1		23		137		242
Number of companies voted at		119		28		49		4		113		148		461

*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

**Please note that abstentions were included within the ‘Against’ categories in the table above. This was six in North America

Engagement Topics & Frequencies



Meetings covering one or more of ESG and F topics*				Number of meetings
E	S	G	F	
40	58	178	75	216
Environment/ Sustainability				40
Social/employee issues				58
Board Structure				26
Remuneration				32
Capital Structure				6
Takeover/Merger				11
General Governance**				103

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

**General Governance category covers topics including company performance and strategy, audit and risk, and voting rights

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

Tesco M.Cap: £15.3bn **Retail** **UK** **GF**

Subject: Financial performance, Audit and Risk Management

During the quarter, Tesco uncovered accounting irregularities that led to profits being overstated by over £260m. This was shortly followed by another profit warning. We met the SID to discuss the accounting issues and the dismissal of key employees. Furthermore, we met the new CEO to hear his strategy for turning around the business. Subsequently, the Chairman has offered to resign once a replacement has been found. LGIM has made its views known to the Board and will be consulted on the succession of the Chairman.

BG Group M.Cap: £29.5bn **Oil and Gas** **UK** **G**

Subject: Succession and Remuneration

Over the past few years, the Company has had numerous profit warning and management changes. This included the last CEO announcing in April that he was leaving after 16 months in the job. In May, we engaged with the company extensively on its new 2014 pay policy. However later in November, the company announced its intention to hold an EGM to approve a package outside its policy even though it was renewed six months ago. We spoke to the company extensively on pay and there was collaboration between investors. Subsequently the Company announced that it was withdrawing the EGM with the new CEO still joining on the same date and will ensure that the recruitment package is in line with their newly approved policy. We will continue to engage with the company on governance, succession and performance issues.

Apple M.Cap: \$647.4bn **Technology** **US** **ESG**

Subject: Sustainability and Remuneration

LGIM visited the company's offices in California to discuss various ESG issues. The company has worked hard around its sustainability framework, particularly in terms of management of its supply chain. In addition, the Company has made a transition towards a structure that is more socially responsible. LGIM will encourage the company to continue this improvement and to communicate this story more widely. We also had an open discussion on remuneration and will follow up with the company's Chair of the Compensation Committee to discuss these issues in more detail.

Cisco Systems M.Cap: \$142.3bn **Technology** **US** **G**

Subject: Board composition

We spoke to the company to discuss board structure, remuneration and governance issues. The company received a proxy access proposal at its AGM and we encouraged the company to think more about board turnover as there are several long-serving directors, including the Chairman & CEO. Although we feel the company should refresh its board, we did not support this proposal as it would have enabled shareholders to replace 40% of the board which we felt would be too disruptive to the business. The proposal gained 5% support from shareholders.

KAZ Minerals M.Cap: £1.1bn **Mining** **UK** **ES**

Subject: Sustainability

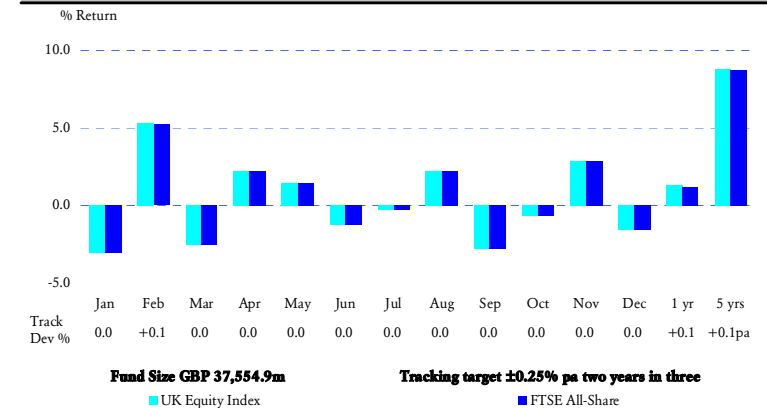
LGIM engaged with KAZ Minerals, focusing primarily on health and safety issues, considering the high rate of fatalities experienced by the company in the past. The company, as a result of its restructuring plan, is modernising its equipment, as well as providing extensive training to its employees and linking health and safety to management compensation. Despite considerable reductions in fatality rates – from 32 in 2010 to 14 in 2014 – the goal of zero fatalities remains far away and the company is still considered a laggard among its peers. Hence, we will continue to monitor their performance and intend to meet the Company in 2015 to assess its progress and discuss other important areas related to the sector, such as water management.

Fund Activity & Performance

UK Equity Index

- The Fund returned 0.6% matching the index return over the quarter
- At the quarterly index review there were two additions, NextEnergy Solar Fund and Jimmy Choo, and four deletions, BlueCrest Bluetrend (GBP), Petropavlovsk, JKC Oil & Gas and Asia Resource Minerals
- Other corporate activity included Reckitt Benckiser demerging its addiction unit Indivior; TUI Travel merging with German group TUI AG; and engineer Amec acquiring US group Foster Wheeler AG to become AMEC. Cash takeovers were completed for Hyder Consulting and Perform Group. UBM, Consort Medical, RPC and Connect Group all raised cash via rights issues to fund expansion. TSB Banking Group increased its free float to 50% following a secondary share placing by Lloyds Banking Group

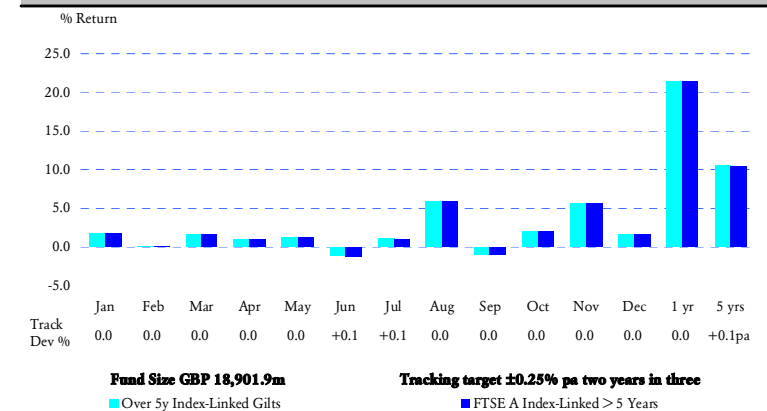
UK EQUITY INDEX - FUND AND INDEX MOVEMENTS - 2014



Over 5y Index-Linked Gilts

- The Fund returned 9.4% matching the index return over the quarter
- UK GDP registered 2.6% year-on-year growth in Q3 2014. The debate over the first base rate increase is becoming more balanced with the fall in the oil price bringing the RPI level of inflation down to 2.0% in November
- During the final quarter there were auctions of 2024, 2034, 2042 and 2050 being tapped. These raised approximately £5.7bn. The 2019 maturity bond fell out of the index as its remaining maturity fell below five years
- The Fund held all 21 stocks contained within the benchmark index. The Fund and index both had a modified duration of 22.51 years at the end of the quarter and the real yield was -0.74% (yield curve basis)

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



Market Background

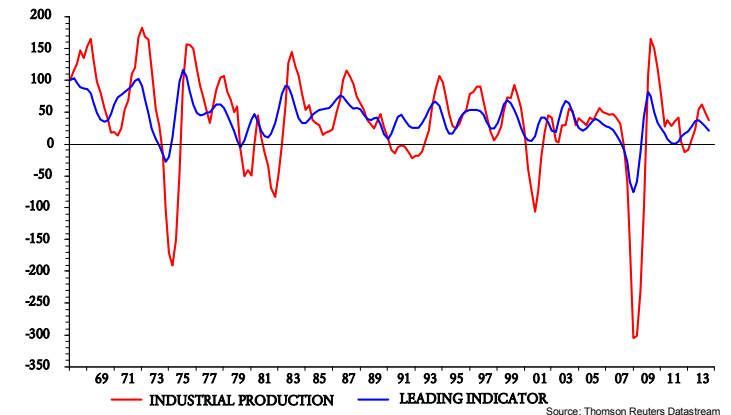
Economies

- The firm performance of the US and UK economies remained in stark contrast to that of their euro zone and Japanese peers. Although sliding oil prices increasingly impacted on the Russian economy as OPEC failed to implement production cuts, hopes grew that lower energy costs could act as a fillip to global growth
- The US economy grew by a stronger-than-expected 5.0% on an annualised basis in Q3, helped by firmer consumer spending. Against this backdrop, comments from Federal Reserve Chair Yellen raised expectations that interest rates could rise as soon as Q2 2015
- The UK economy grew by 0.7% in Q3. Amid sporadic signs that activity moderated slightly in Q4, headwinds from the euro zone and further weakness in inflation, investors pushed back forecasts for the first rise in Bank Rate to around the middle of 2015
- With economic activity continuing to disappoint across the euro zone and Greek political concern reappearing ahead of January elections that could see anti-euro politicians gain power, speculation grew that the European Central Bank could yet introduce quantitative easing

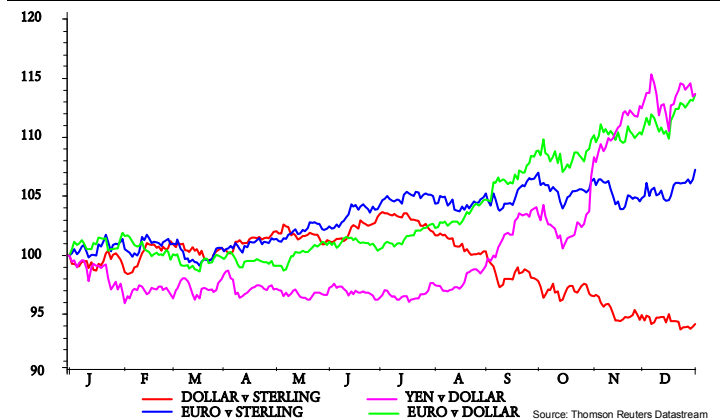
Currencies

- The US dollar made further gains during Q4, recording double-digit gains against the yen but also gaining against sterling and the euro over the second half of 2014. With the US recovery picking up pace during Q3, comments from the Fed's Janet Yellen raised the prospect that US interest rates could rise, boosted the dollar
- The dollar leapt against the yen over Q4 as the robust US economic backdrop contrasted with Japan's return to recession. Following the Japanese economy's surprise 0.5% Q3 shrinkage, speculation rose that the second leg of the sales tax increase could be delayed. Meanwhile, the BoJ announced a large expansion of its stimulus programme
- The euro weakened against the dollar in Q4. With falling oil prices set to put renewed downward pressure on already-weak euro zone inflation, sluggish economic growth and rising political risks in Greece raised speculation that quantitative easing could yet be introduced
- Sterling slipped against the dollar but rose versus the euro over Q4. Despite continued softness in UK inflation and sporadic signs that the pace of the recovery could cool further, speculation indicates that the Bank Rate could rise in mid-to-late 2015

OECD G7 LEADING INDICATOR & INDUSTRIAL PRODUCTION - Y-o-Y



EXCHANGE RATES



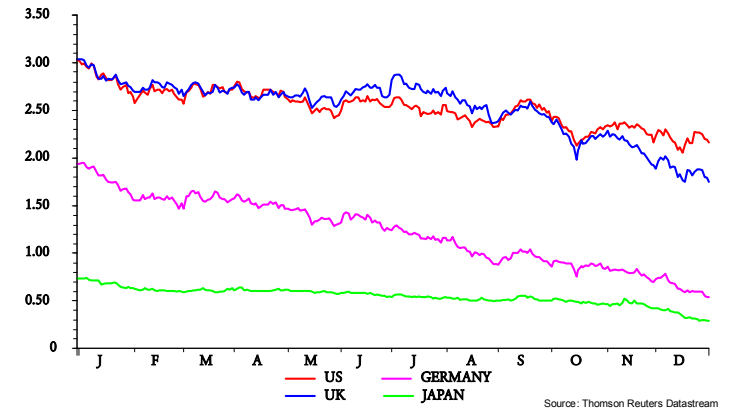
Bonds

- Government bond yields extended their year-long downtrend in Q4. With global inflation still subdued, the near-halving of oil prices since July added to government debt's appeal
- Ten-year gilt yields tumbled from 2.5% to 1.8% over Q4. UK GDP grew by 0.7% in Q3, compared to a downwardly-revised 0.8% in Q2. With the housing market cooling slightly and the sluggish euro zone acting as a headwind to growth, a fall in inflation to just 1.0% saw investors push back their timescale for higher interest rates to the second half of 2015
- US ten-year bond yields fell from 2.5% to 2.2%. Despite quantitative easing (QE) ending in October, the US economic recovery remained robust, as annualised growth picked up to 5.0% in Q3. With Fed chair Yellen downplaying the significance of Russia-related turmoil on the US economy, speculation rose that interest rates could rise as soon as Q2 2015
- Given the anaemic euro zone economic backdrop and rising Greek political risk, speculation rose that the ECB's planned bond repurchase plan could yet morph into QE. German ten-year yields fell from 1.0% to 0.6% and Italian yields fell from 2.4% to 1.9%
- Japanese yields fell from 0.5% to 0.3%. With the economy's 0.5% Q3 contraction pushing the country back into recession, the Bank of Japan extended its stimulus package

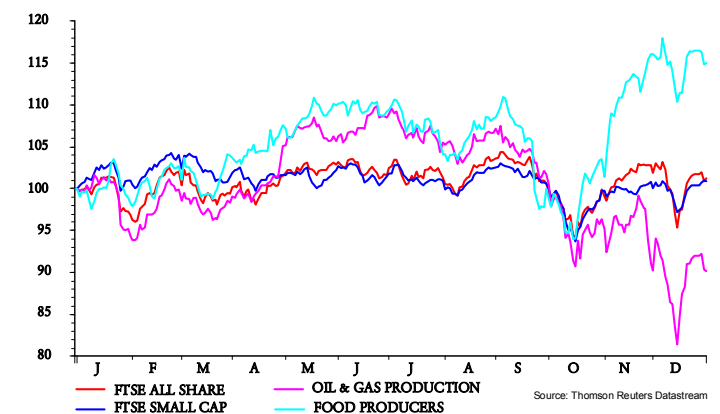
UK Equities

- The FTSE All-Share index rose by 0.6% in sterling total return terms over Q4, underperforming its global counterparts and significantly underperforming its US peers. On a total return basis, the FTSE 100 index fell by 0.2%, partly reflecting the underperformance of leading oil stocks. However, the FTSE 250 climbed by 5.2% as mid caps returned to favour whereas the FTSE Small Cap (ex investment trusts) index only rose 0.3%
- Although the UK economy continued to outpace its struggling euro zone peers, UK growth eased from 0.8% in Q2 to 0.7% in Q3. Private consumption and government spending remained strong but business investment and exports shrank amid concerns over the demand outlook from the Euro zone. Although inflation fell to 12-year low of 1.0%, far below the official 2.0% target, a minority of Bank of England's Monetary Policy Committee continued to vote for higher interest rates as wages finally outpaced inflation. According to consensus forecasts, Bank Rate is set to rise around mid-2015
- In sector terms, energy suffered steep falls, reflecting the slide in oil prices, while mining stocks also underperformed amid falls in commodity prices. Food & beverages producers

10 YEAR GOVERNMENT BOND REDEMPTION YIELD



UK EQUITY PRICE INDICES



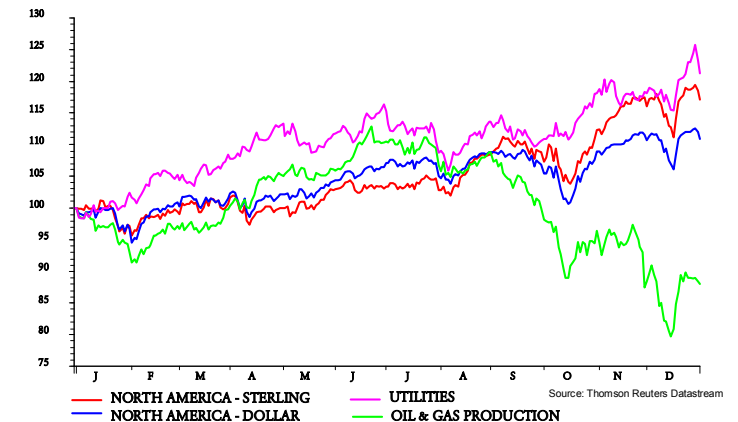
North American Equities

- US equities rose by 4.1% and 8.3% in local and sterling terms during the quarter, outperforming their Japanese, UK, Europe ex UK counterparts. Having risen for eight consecutive quarters, the S&P 500 index set a new all-time high in December
- Despite the ending of quantitative easing, the US economic recovery gained further momentum, with growth rising from 4.6% in Q2 on an annualised basis to 5.0% in Q3, the highest pace since the third quarter of 2003, helped by rising consumer spending and investment
- With Fed Chair Janet Yellen downplaying the effect of Russia-related turmoil on the US economy, speculation grew that US interest rates could rise as soon as the second quarter of 2015
- In sector terms, the near-halving of crude oil prices since July as OPEC declined to cut production despite rising US shale supplies - weighed heavily on the energy sector during Q4. The materials sector also underperformed against the backdrop of weak global commodity prices. However, the utilities and consumer discretionary sectors produced strong returns during Q4

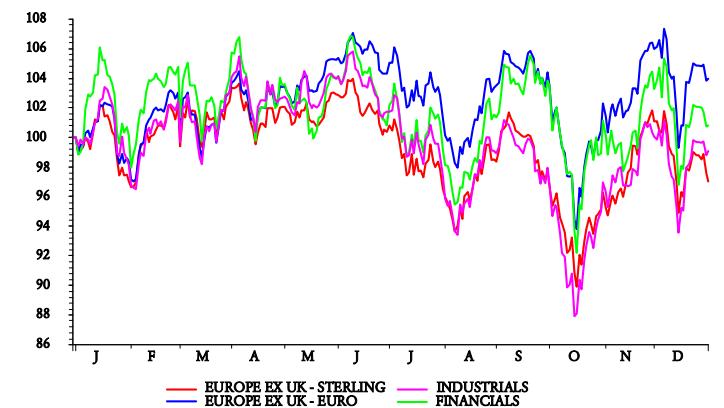
Continental European Equities

- Continental European stocks posted falls in euro terms in Q4, underperforming their global peers amid concerns over the region's disappointing economic environment. The FTSE World Europe (ex UK) total return index shed 0.1% in euro terms and 0.5% in sterling terms
- Although Germany avoided a return to recession with Q3 growth of 0.3%, concerns over the export outlook to crisis-hit Russia deepened as oil prices and the rouble slumped. Euro zone inflation fell to just 0.3% while the near 50% slide in oil prices during the second half of the year raised further concerns over the deflationary risks facing the region
- Euro zone economic data continued to disappoint – despite record-low interest rates – and speculation grew that the European Central Bank's planned private asset repurchase programme could yet morph into full quantitative easing should political resistance from Germany be overcome
- Germany, Ireland and the Netherlands performed relatively well but Norway fell sharply, reflecting its high energy exposure. Greek equities also underperformed amid political risks ahead of the January elections

FTSE NORTH AMERICA PRICE INDICES



FTSE EUROPE (EX UK) PRICE INDICES



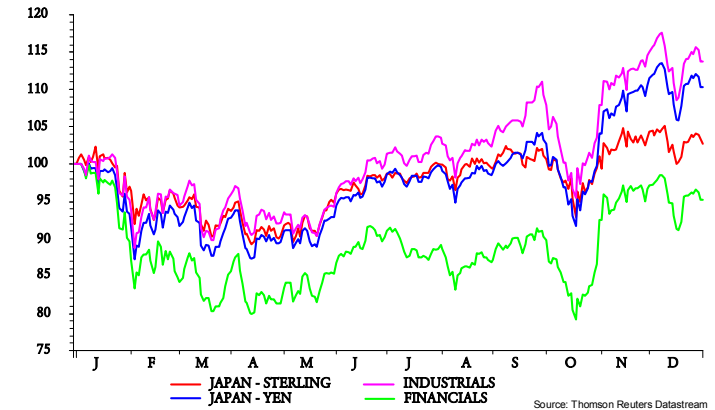
Japanese Equities

- Following an initial setback on global economic growth concerns, Japanese equities subsequently rallied on news that the Bank of Japan was expanding its massive economic stimulus package
- Despite the Japanese market's modest gains in local terms, further yen weakness equated to negative returns for US dollar, sterling and euro based investors
- Japan slipped back into recession as the economy contracted by 0.5% during the third quarter, weighed by a fall in business spending
- With surveys suggesting that confidence among manufacturers weakened in late Q4, despite the weak yen, optimism remained that the Bank of Japan's expansion of its monetary stimulus package, from ¥60-70 trillion to ¥80 trillion per year, would underpin economic activity
- Although Prime Minister Abe won a new term at December's snap elections, some analysts suggested that the surprise weakness in the Japanese economy is partly due to April's sales tax increase, raising doubts over the further sales tax rise planned for 2015

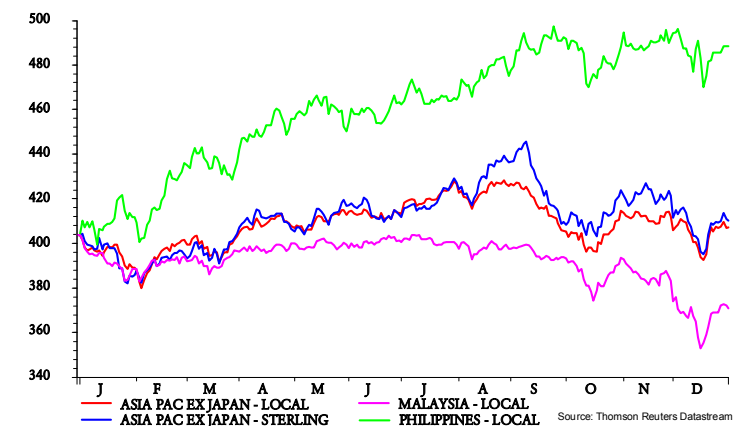
Asia Pacific (ex Japan) Equities

- The region's markets produced positive returns in local terms during Q4, underperforming US equities but outperforming European markets. The FTSE World Asia-Pacific (ex Japan) total return index ended the quarter 1.0% higher in local terms and 0.7% ahead in sterling terms as the UK currency made gains relative to its Asian peers
- Disappointing economic data from the Asia Pacific region's major economies and investors' subdued appetite for risk weighed on sentiment to some extent during Q4
- Having grown by 7.5% on an annualised basis in Q2, Chinese economic growth dipped to 7.3% in Q3, the slowest growth in 5 years. Disappointing levels of industrial production, slowing property investment and softer growth in credit weighed on economic activity
- For sterling-based investors, China, Philippines and Indonesia were among the better-performing markets
- Malaysia was among the main underperformers, hit by weak palm oil prices against the backdrop of falling global commodities prices. Thailand and Korea also underperformed

FTSE JAPAN PRICE INDICES



FTSE ASIA-PACIFIC PRICE INDICES (LOCAL RETURNS)



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

Fund Name Change

With effect from 2 January 2015 the following funds will be renamed:

PF Section YAAG; "Euro Liquidity (2012) Fund" will be renamed the "Sterling Liquidity (Euro Hedged) Fund", PF Section YAAC; "Euro Liquidity (2012) Fund (charges included)" will be renamed the "Sterling Liquidity (Euro Hedged) Fund (charges included)", PF Section YAAH; "Euro Liquidity (2012) Fund (scheme & investment charges included)" will be renamed the "Sterling Liquidity (Euro Hedged) Fund (scheme & investment charges included)". These name changes are being implemented to more accurately reflect the PF Section's underlying investment fund which is the LGIM Sterling Liquidity Fund. For further information please refer to the Description of Funds.

PF Section HS; "Middle East/Africa Equity Index Fund" will be renamed the "Middle East/Africa Developed Equity Index Fund", PF Section TR; "Middle East/Africa Equity Index Fund – GBP currency hedged" will be renamed the "Middle East/Africa Developed Equity Index Fund – GBP currency hedged". These name changes are being implemented to better reflect the investment objective of the fund and the criteria for inclusion in the index.

PF Section AABC; "Property Unit Trust (PMC)" will be renamed the "UK Property Fund (PAIF)". The name change is being implemented following the recent conversion of the vehicle within which the PF Section's underlying investment is held from a property authorised Unit Trust into a Property Authorised Investment Fund (PAIF).

PF Section CSAE; "Active Corporate Bond – Over 10 Year – Fund (charges included 2011)" will be renamed "Active Corporate Bond – Over 10 Year – Fund (charges included)", PF Section CSAD; "Active Corporate Bond – All Stocks – Fund (charges included 2011)" will be renamed "Active Corporate Bond – All Stocks – Fund (charges included)".

These changes do not impact the objectives of the above mentioned PF Sections

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