

GMO

London Borough of Tower Hamlets
Quarter Ending 31 March 2015

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Investment
Management Review

London Borough of Tower Hamlets

Table of Contents

Quarter Ending 31 March 2015

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 March 2015

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)	1.51 %	8.99 %	8.99 %	13.82 %	14.12 %	9.45 %	9.90 %	274,364
<i>London Borough of TH Custom Benchmark ¹</i>	2.49	7.46	7.46	14.97	13.55	9.02	9.81	
Value Added	-0.98	1.53	1.53	-1.15	0.57	0.43	0.09	

* Periods of less than a year are not annualised

¹ The London Borough Custom Benchmark was comprised of 30% FTSE World North America, 30% FTSE Developed Europe ex-UK Index, 17% FTSE Japan Index, 10% FTSE All-Share, 8.5% FTSE Developed Asia Pacific ex-Japan Index (ex Korea effective 21sep09), 4.5% MSCI Emerging Markets Index through 17/11/2014 and MSCI ACWI thereafter.

London Borough of Tower Hamlets

Performance Net of Fees and Expenses in GBP

Periods Ending 31 March 2015

Investment	Month	Quarter	YTD	Annualised			Since Inception *	Market Value (000)
				1 Year	3 Year	5 Year		
Global Developed Equity Allocation Separately Managed (GBP) (29/04/2005)	1.49 %	8.93 %	8.93 %	13.57 %	13.80 %	9.06 %	9.44 %	274,364
<i>London Borough of TH Custom Benchmark ¹</i>	2.49	7.46	7.46	14.97	13.55	9.02	9.81	
Value Added	-0.99	1.47	1.47	-1.40	0.25	0.04	-0.37	

* Periods of less than a year are not annualised

¹ The London Borough Custom Benchmark was comprised of 30% FTSE World North America, 30% FTSE Developed Europe ex-UK Index, 17% FTSE Japan Index, 10% FTSE All-Share, 8.5% FTSE Developed Asia Pacific ex-Japan Index (ex Korea effective 21sep09), 4.5% MSCI Emerging Markets Index through 17/11/2014 and MSCI ACWI thereafter.

London Borough of Tower Hamlets

Change in Market Value, Account Detail in GBP

QTD Ending 31 March 2015

Fund	Market Value 31/12/2014	Cash Flows	Gains/ Losses	Market Value 31/03/2015
London Borough of Tower Hamlets Pension Fund	251,751,242	-19,384	22,632,078	274,363,935
Total	251,751,242	-19,384	22,632,078	274,363,935

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

Transaction Details

Date	Transaction	Gross Amount
London Borough of Tower Hamlets Pension Fund in GBP		
05/01/2015	Redemption	-8,137.63
30/01/2015	Redemption	-11,246.80

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Investment Review

Quarter Ending 31 March 2015

Global Developed Equity Allocation Strategy

Overview:

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

In dollar terms, global equities generally posted modest gains during the first quarter as central bankers took center stage and commodity prices continued to deflate. As international markets rose, the dollar strengthened considerably against most currencies with the exception of the yen. International developed markets produced strong returns in local terms, bolstered by the onset of quantitative easing in the eurozone and by the continuation of Abenomics in Japan. The U.S. market delivered barely positive returns as Fed watchers focused on if and when the rate tightening cycle might begin, and the economy under-delivered on optimistic growth expectations. At quarter end, the MSCI All Country World index registered a gain of 2.3%. MSCI EAFE was up 4.9%. The strongest performing major developed market was Japan, with MSCI Japan up 10.2%. Among the major markets, the U.K. had the weakest dollar returns with MSCI U.K. down 1.0%. The S&P 500 returned +1.0% for the quarter, and MSCI Europe was up 3.5% in dollar terms. Emerging markets trailed developed international markets; MSCI Emerging returned +2.2% for the quarter.

Modest gains for most equity markets around the world during the first quarter generally resulted in small adjustments to GMO's assessment of equity market opportunities. In the U.S., we continue to favor high quality stocks, which modestly underperformed the U.S. broad market in the first quarter. Our 7-year real return forecast for U.S. high quality stocks at the end of February was -0.1%. Among international developed equities, we continue to favor European value stocks. Our forecast for European value stocks (excluding financials) was +1.8%. We also continue to favor value stocks within emerging markets. Our forecast for value within emerging markets was +7.0%.

Over the quarter, we made incremental changes to the portfolio's allocations primarily oriented toward rebalancing because the relative opportunities remained little changed.

U.S. high quality, European value stocks, emerging markets, and Japan were the major positions driving returns relative to the MSCI ACWI index during the quarter.

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

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Profile Summary

As of 31 March 2015

Top Ten Holdings ³		Risk Profile Since 29/04/2005 ⁴			Group Exposures ⁵	
			Portfolio	Benchmark ²		
Amazon.com Inc.	5.1%	Alpha	-0.27	0.00	US Quality	24.2%
Alibaba Group Holding Ltd. Sponsored ADR	5.1%	Beta	0.99	1.00	US Opportunistic Value	6.2%
Lukoil OAO	4.1%	R-Squared	0.98	1.00	Europe Value	30.6%
Samsung Electronics Co. Ltd.	4.1%	Sharpe Ratio	0.56	0.58	Japan	8.4%
Philip Morris International Inc.	3.0%				Other Int'l Opportunistic Value	2.3%
Express Scripts Holding Co	3.0%				Emerging Markets	27.1%
Royal Dutch Shell PLC	2.3%				Cash & Cash Equiv.	1.2%
Total S.A.	1.6%					
Oracle Corp.	1.6%					
Nissan Motor Co. Ltd.	1.5%					
Total	31.4%					

Characteristics

	Portfolio	Benchmark ¹
Price/Earnings - Hist 1 Yr Wtd Median	16.6x	19.7x
Price/Cash Flow - Hist 1 Yr Wtd Median	9.4x	13.9x
Price/Book - Hist 1 Yr Wtd Avg	1.6x	2.2x
Return on Equity - Hist 1 Yr Med	12.8%	14.9%
Market Cap - Weighted Median -Bil	35.2 GBP	26.7 GBP
Number of Equity Holdings	716	2469
Dividend Yield - Hist 1 Yr Wtd Avg	2.9%	2.4%

¹ MSCI ACWI

² London Borough of TH Custom Benchmark

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

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

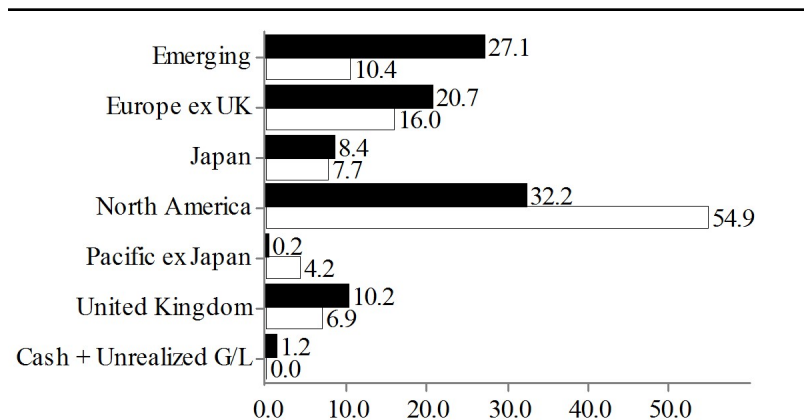
⁵ The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time.

London Borough of Tower Hamlets

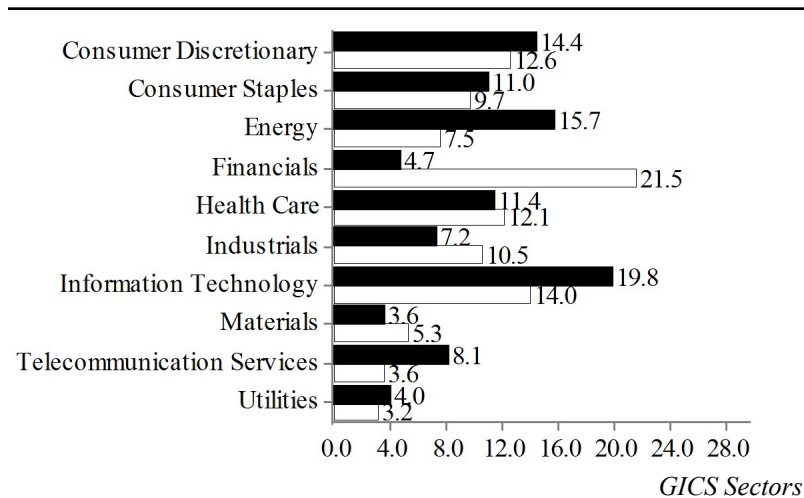
Global Developed Equity Allocation Strategy - Profile Summary

As of 31 March 2015

Regional Weights

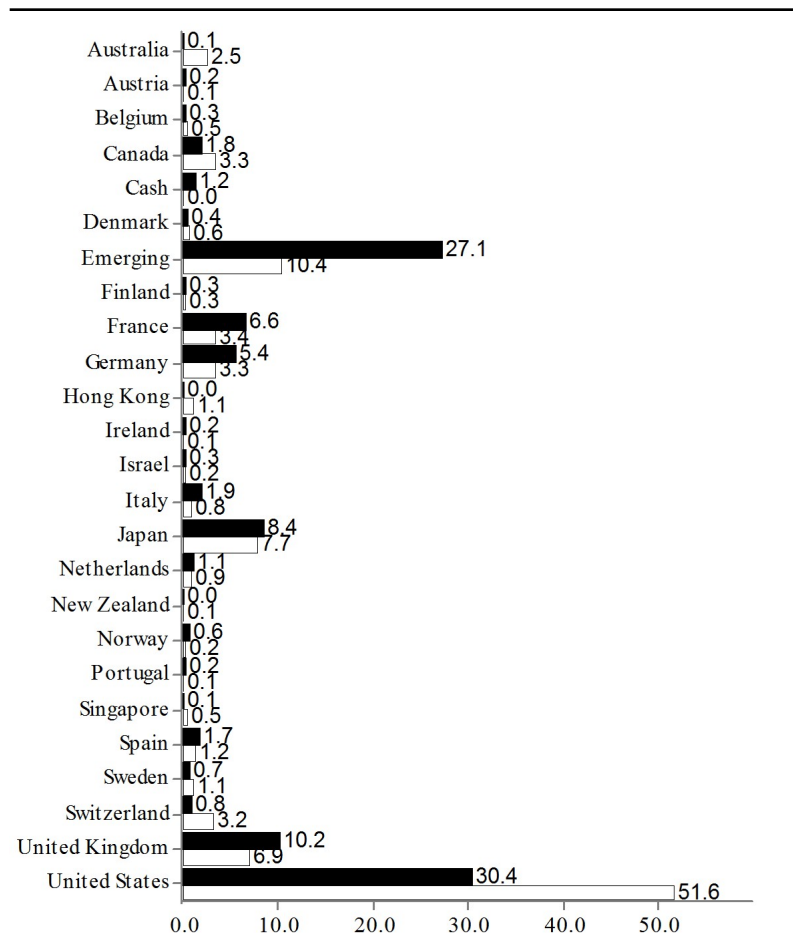


Sector Weights



GICS Sectors

Country Allocation



MSCI ACWI
Portfolio

London Borough of Tower Hamlets

Global Developed Equity Allocation Strategy - Attribution Overview

Quarter Ending 31 March 2015

Performance (%)

Net of Fees, USD (Rep Account)	+2.77
Gross of Fees, USD (Rep Account)	+2.62
MSCI World	+2.31
Value Added	+0.31

GROUP ALLOCATION: 0.2%



SECURITY SELECTION: 0.2%



Major Performance Drivers

U.S. High Quality

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

Positioning: U.S. high quality accounted for approximately 32% of our total portfolio weight during the quarter.

Results: Our position in U.S. high quality produced negative allocation and selection impacts during the quarter. High quality stocks underperformed the U.S. market during the period as Consumer Discretionary stocks delivered strong results and Consumer Staples lagged.

Emerging Markets

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

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

Results: Our emerging markets position resulted in a negative selection impact during the quarter. Continued concern about political and economic conditions in Brazil drove down prices in our Brazil Materials and Brazil Utilities positions. Positive country-sector contributors to returns included Russia Energy and Turkey Materials.

The above information is 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 March 2015

Major Performance Drivers (continued)

Japan

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

Positioning: Japan accounted for approximately 11% of our total portfolio weight during the quarter.

Results: Our Japan position produced positive allocation and selection impacts during the quarter. The largest contributor was our overweight in Japan Autos, especially Nissan, which outperformed during the quarter.

European Value

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

Positioning: European value accounted for approximately 37% of our total portfolio weight during the quarter.

Results: Our position in European value produced a negative allocation and a positive selection impact during the quarter. European value stocks trailed the broader European market during the quarter. Positive stock selection from our valuation-based process more than offset the allocation impact.

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).

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