City of Westminster Superannuation Fund

Investment Performance Report to 30 September 2012

Executive Summary

Deloitte Total Reward and Benefits Limited
November 2012

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1 Market Background

Three and twelve months to 30 September 2012

UK equity markets posted positive returns over the third quarter of 2012 as investor risk appetite returned, buoyed by intervention from the US Federal Reserve and ECB. The FTSE All Share returned 4.7% over the 3 month period; small cap stocks fared better, with the FTSE Small Cap Index offering investors a total return of 8.6%.

At the sector level, all of the major sectors delivered positive returns. Technology, Financials and Consumer Services were the top performing sectors over the quarter, returning 11.0%, 7.3% and 6.8% respectively while defensive sectors, such as Utilities and Consumer Goods delivered lesser returns of 1.2% and 1.9% respectively. The Oil and Gas sector was the most disappointing, returning 0.1% over the quarter, coinciding with a reduction in global demand forecasts by the International Energy Agency.

Global equities outperformed the UK market over the quarter, returning 4.0% for unhedged investors. Investors implementing currency hedging achieved a greater return of 5.9% as sterling appreciated against the basket of global currencies over the period. Positive returns were delivered across all major global geographical indices with the exception of Japan, as export demand within the country remained subdued.

Yields on nominal UK Gilts fell slightly over the quarter as uncertainty within Europe, amongst other factors, continued to support demand for UK Gilts. However, real yields on index-linked Gilts increased slightly over the period. The All Stocks Index Linked Gilt Index offered investors a negative return of -2.6%, with the Over 15 Year Index Linked Gilt Index returning -4.7%.

Corporate bonds fared better as credit spreads narrowed over the quarter in the “risk on” environment. The iBoxx Non-Gilt All Stocks Index returned 5.7% and the iBoxx Over 10 Year Non-Gilt Index returned 6.8%. Within the corporate bond market, lower rated bonds fared better than the higher quality issues.

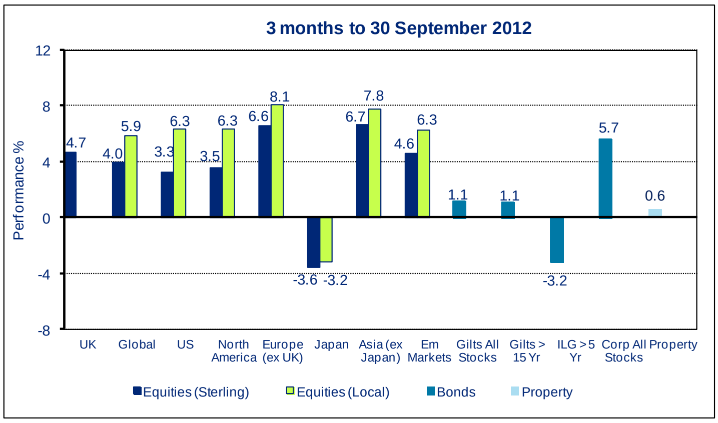
Over the 12 months to 30 September 2012, the FTSE All Share Index returned 17.2%. At the sector level, Industrials was the top performing sector, returning 26.6%, whilst Basic Materials was the worst performer, returning 2.1%.

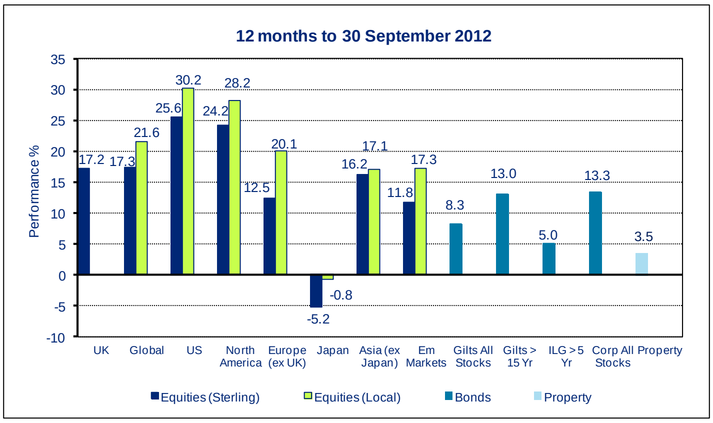
Global equity markets offered a similar return to UK markets over the 12 month period of 17.3% for unhedged investors. Sterling’s appreciation against the basket of global currencies rewarded investors implementing currency hedging, with a fully hedged benchmark achieving returns of 21.6% over the same period. At the regional level, the USA was the top performing region, returning 25.6% as positive economic data and actions by the US Federal Reserve offered some assurance to US investors. Japan was the only major region to post negative returns over the year, returning -5.2%, albeit much of this was due to currency depreciation.

Gilt markets performed positively over the 12 months as gilt yields fell to record lows, with the Over 15 Year Gilt Index returning 13.0%. Indexed linked securities performed less well with the Over 15 Year Indexed Linked Gilt Index returning 4.6%.

Narrowing of credit spreads over the 12 months resulted in the corporate debt market offering greater returns than government bonds; the iBoxx Over 15 Year Corporate Index returned 16.4% over the 12 months to 30 September 2012.

The UK property market returned 0.6% over the third quarter and 3.5% over the 12 months to 30 September 2012. The Office sector was the top performing sector over both the 3 and 12 month periods, returning 1.0% and 4.9% respectively.





2 Total Fund

2.1 Investment Performance to 30 September 2012

Over the quarter, all of the Fund's active managers delivered positive performance while the passive mandates managed by SSgA (equities) and Insight (gilts) performed in line with the respective benchmarks. Over the one year and three years to September 2012 both Newton and Insight Active Non gilts outperformed their benchmarks whilst the remaining equity and bond managers have performed broadly in line with their respective benchmarks. Both property mandates have outperformed over the year.

Overall, over the last three years to 30 September 2012 the Fund has slightly outperformed its benchmark by 0.2%. This has been driven primarily by good performance from Newton and Majedie. Insight's Non Gilt fund also contributed positively to total performance over the period. The table below summarises the investment performance to 30 September 2012 by manager.

	Last Quarter (%)			Last Year (%)			Last 3 Years (% p.a.)[1]			Since inception (% p.a.)[1]		
	Fund		B'mark	Fund		B'mark	Fund		B'mark	Fund		B'mark
	Gross	Net[1]		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]	
Majedie[3]	6.4	6.3	4.7	17.3	16.9	17.3	9.9	9.5	8.0	8.4	8.0	4.1
SSgA UK	4.7	4.7	4.7	17.4	17.3	17.3	8.2	8.1	8.0	3.3	3.2	3.1
SSgA International	4.8	4.8	4.9	19.3	19.3	19.4	n/a	n/a	n/a	1.0	0.9	1.2
Newton	5.6	5.5	3.8	18.8	18.2	16.7	6.3	5.8	5.1	3.2	2.7	2.5
Insight – Non Gilt	5.7	5.6	5.4	14.8	14.5	12.4	8.8	8.5	8.1	6.0	5.7	5.6
Insight - Passive	1.2	1.2	1.2	5.6	5.5	5.6	6.2	6.1	6.2	7.8	7.7	8.0
Former Schroders[2]	3.7	3.6	0.5	7.8	7.6	3.3	n/a	n/a	n/a	9.2	9.0	5.8
Hermes[2]	0.7	0.6	0.6	4.5	4.1	3.1	n/a	n/a	n/a	3.8	3.4	5.6
Total Fund	**5.1**	**5.0**	**4.3**	**16.1**	**15.9**	**15.6**	**7.6**	**7.4**	**7.4**	**4.2**	**3.9**	**4.2**

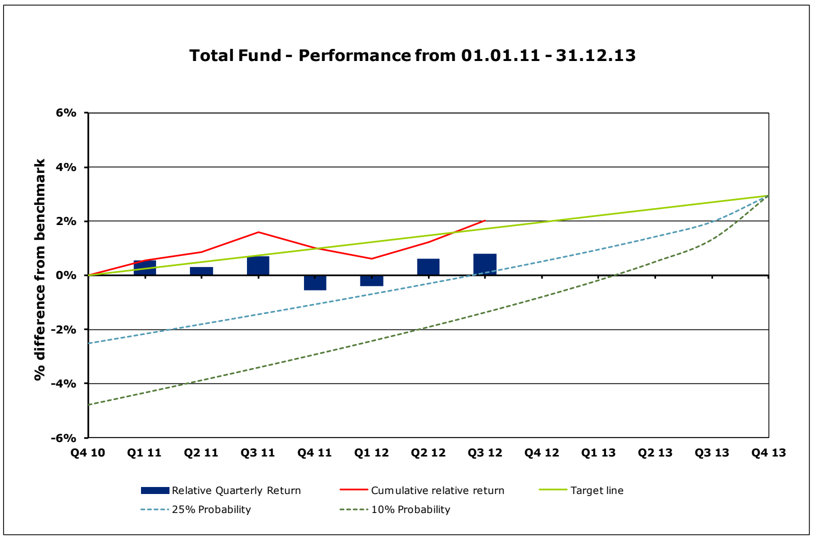
Figures are quoted net and gross of fees. Source: Majedie, SSgA, Newton, Insight, Alliance Bernstein, Schroders, Hermes and BNY Mellon.

(1) Estimated by Deloitte.

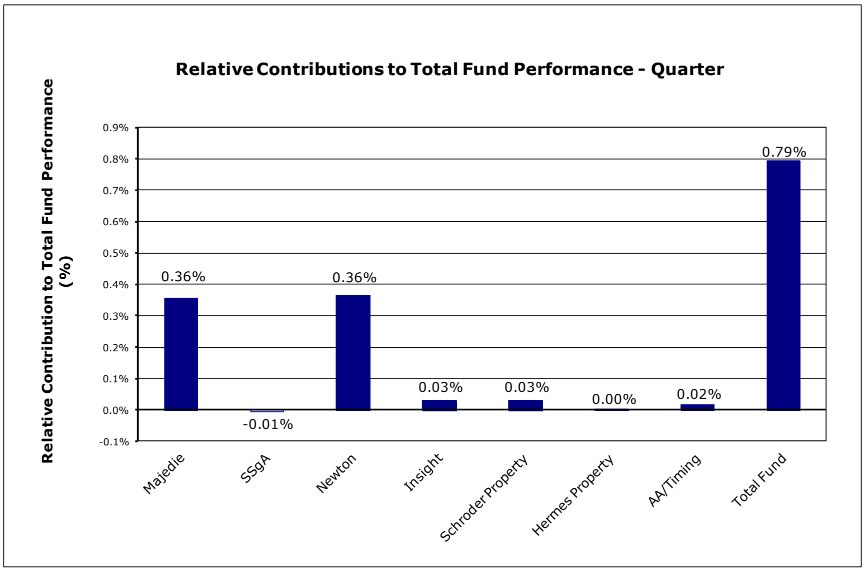
(2) Since inception performance of Schroders and Hermes property funds is measured from the inception dates of 8 October 2010 and 26 October 2010 respectively. Benchmark since inception performance is measured from 31 December 2010.

(3) In addition to a flat fee, Majedie's fee includes a performance fee of 20% where the excess return is above 1% pa.

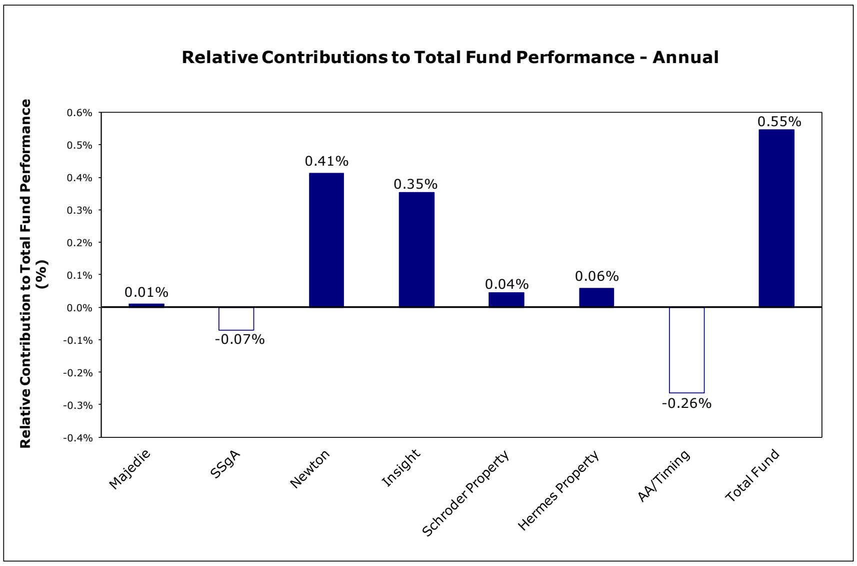
The chart below compares the performance of the Fund relative to the expected variation around the target outperformance over the three years to the end of 2013. This highlights that over the past 7 quarters the cumulative performance has been positive and has recently risen above the target line.



2.2 Attribution of Performance to 30 September 2012



The Fund outperformed its composite benchmark by 0.8% over the third quarter, with all managers except SSgA contributing. The main positive contributors were Majedie and Newton over the quarter with the balance coming from a combination of Insight's security selection in the Active Non Gilts portfolio and good performance from the property mandates.



Over the past 12 months all managers except SSgA have contributed to the Fund's outperformance. The 0.26% negative contribution to performance in the AA/Timing bar is a balancing item and reflects the impact of holding cash and asset allocation positions (e.g. UK vs global equities). The breakdown clearly illustrates that the primary drivers contributing to the positive performance over the 12 month period were Newton and Insight.

2.3 Asset Allocation as at 30 September 2012

The table below shows the assets held by manager and asset class as at 30 September 2012.

Manager	Asset Class	Actual Asset Allocation 30 Jun 2012 (£m)	30 Sep 2012 (£m)	31 Jun 2012 (%)	30 Sep 2012 (%)	Benchmark Allocation (%)	Control Range (%)
Majedie	UK Equity (Active)	157.5	167.2	21.0	21.4	16.9	+/-2
SSgA	UK Equity (Passive)	106.1	106.1	14.1	13.5	16.9	+/-2
	Total UK Equity	**263.6**	**273.7**	**35.1**	**35.0**	**33.8**	
Newton	Global Equity (Active)	146.0	154.0	19.5	19.7	20.6	+/-2
SSgA	Global Equity (Passive)	135.0	141.6	18.0	18.1	20.6	+/-2
	Total Global Equity	**281.1**	**295.6**	**37.5**	**37.8**	**41.2**	
Insight	Fixed Interest Gilts	46.9	47.4	6.2	6.1	5.0	
Insight	Sterling Non-Gilts	125.1	132.2	16.7	16.9	15.0	
	Total Bonds	**172.0**	**179.6**	**22.9**	**22.9**	**20.0**	**+/-4**
Former Schroders	Property	7.1	7.3	0.9	0.9	2.5	
Hermes	Property	26.7	26.6	3.6	3.4	2.5	
	Total Property	**33.8**	**33.9**	**4.5**	**4.3**	**5.0**	
	Total	**750.5**	**782.8**	**100.0**	**100.0**	**100.0**	
	Westminster In-House Account	6.2	3.5	-	-	-	
	Total	**756.7**	**786.3**	**-**	**-**	**-**	

Source: Majedie, SSgA, Newton, Insight, Schroders, Hermes and BNY Mellon

Figures may not sum to total due to rounding

Over the quarter the market value of the assets increased by c. £29.6m due to positive asset performance

2.4 Rebalancing Framework

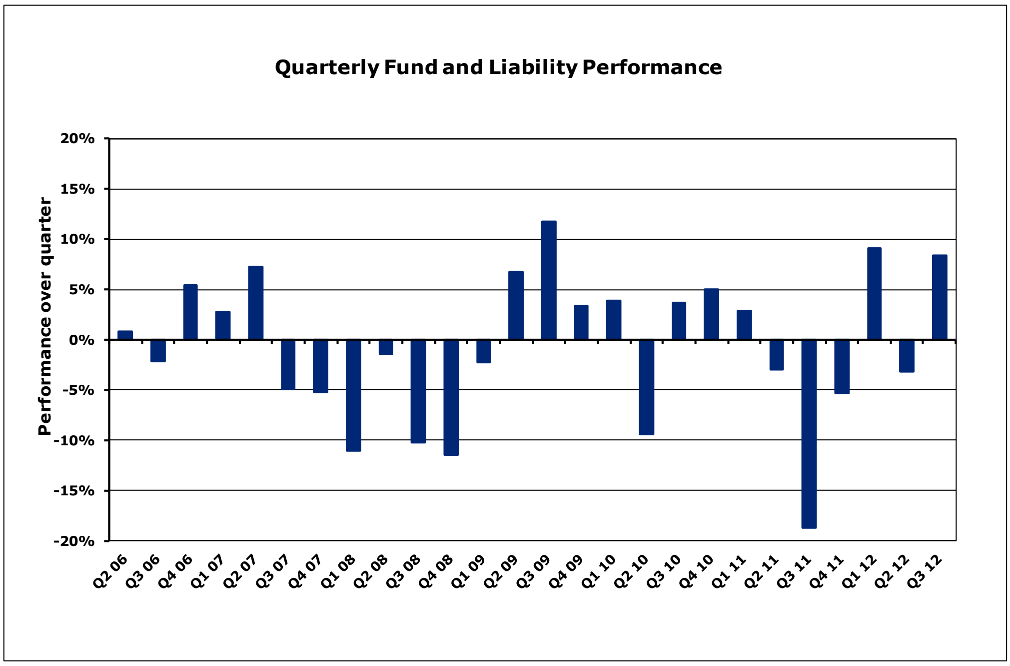
As at 30 September 2012 the Fund was underweight equities (-2.2%), overweight bonds (+2.9%) and underweight property (-0.7%) relative to the stated benchmark.

The Fund was above the control range for the allocation to Majedie, and below the control range for the allocation to both SSgA passive mandates.

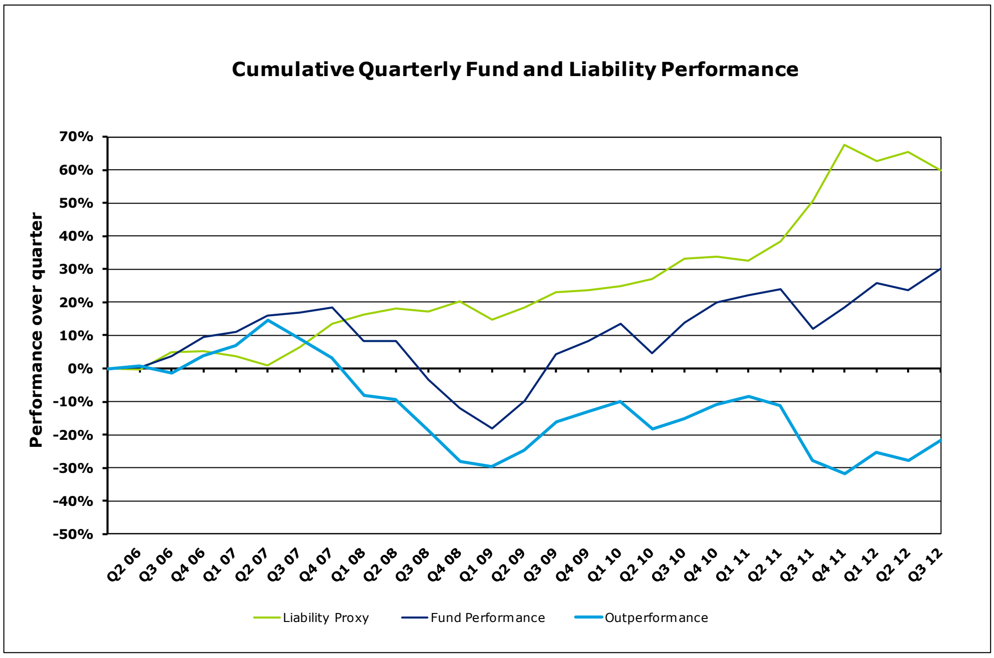
2.5 Funding Monitoring

The chart below compares the performance of the Fund against a liability proxy of 50% > 15 Year ILG, 35% >5 Year ILG and 15% > 15 Year Gilts. Based on discussions with the Scheme Actuary, we believe this proxy provides a useful starting point in developing the strategy monitoring analysis.

Over the period since 31 May 2006 (the earliest point for which we have data), the annualised volatility of the Fund's performance, relative to the liability proxy, was c.14.9% p.a. Accepting that past performance cannot be relied on as a guide to the future, it nevertheless gives a sense of the investment risks being taken. Statistically, a volatility number of c.14.9% p.a. implies there is a 68% probability that the actual return on the Fund's assets will fall within +/- 14.9% of the return on the liability matching portfolio over a 12 month period - applying a 95% confidence, the returns of the Fund would fall within +/- 29.9%.



The chart below compares the cumulative performance of the Fund and the liability proxy since 31 May 2006 and shows that the Fund has underperformed the proxy liability by c.21.8% since that date. Whilst equities have delivered a positive return over this period (+4.1%p.a.), most of the underperformance can be attributed to the decline in bond yields.



2.6 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on	1
SSgA	UK and International Equity (passive)	Major deviation from benchmark returns Significant loss of assets under management	n/a
Newton	Global Equity	Any further significant departures from the investment management team Indications that greater emphasis is being placed on shorter term market anomalies than the longer term themes	2
Insight	Sterling Non-Gilts	Departure of any of the senior members of the investment team Steps to broaden their product offering beyond the current UK and European focus without first bringing in the additional expertise	1
Insight	Fixed Interest Gilts (Passive)		n/a

* The Provisional rating is applied where we have concerns over changes to an investment manager

Majedie UK Equity

Simon Todd and Michael Nixon of the Global Equity fund (the "Fund") resigned in early September to join Marathon and, as a consequence, the Fund is being wound down. Assets have been redeemed at mid price with charges being reimbursed by Majedie. Majedie has also waived all the management charges for affected clients. For clients that transferred out of the UK Equity Fund and are willing to transfer back in, Majedie will also be meeting the costs. In total this is expected to cost Majedie c. £0.5m.

The expectation is that Majedie will come back to the market at some point over the next 12 – 18 months with a "home grown" global equity product, based around existing analysts.

7 Clients in the UK Equity and Focus portfolios have declined the proposal to introduce overseas shares in the UK portfolios. For those who have agreed (the majority) Majedie bought 0.55% in Texas Instruments and 0.9% in HP in September and is looking to purchase Microsoft at some point in the near future.

Deloitte view – Majedie has taken some big steps to retain integrity with their clients over the departure of the Global Equity team. While we do not see the loss of Global Equity business as a negative for Majedie's UK product, it has proved to be an expensive lesson for them. Our view remains unchanged and we continue to expect the UK equity products to outperform over the medium to longer term.

SSgA Passive UK and International Equity

There have been two new wins of local authority clients. The Merseyside Pension Fund has appointed SSgA to passively manage £1.4bn of its pension fund assets, replacing Legal & General and UBS, bringing SSgA's AUM for the local authority sector to over £7bn. The other appointment has been to provide a tactical portfolio overlay.

There have been two changes to the UK client relationship team – Mark McNulty has been promoted to managing director and head of UK institutional clients from his former role as head of institutional and intermediary clients in Ireland. Mark moved to the UK to replace Scott MacMillan who left a few months ago. Catherine McLaughlin has been appointed senior relationship manager on the UK LDI team. She joined from AonHewitt.

There have been a few senior departures in SSgA in the last 18 months, especially after the collapse of SSgA's talks around a merger with UBS' asset management division in the summer. SSgA confirmed that the departures were due to a redundancy exercise and normal turnover.

Deloitte view - SSgA is unable to provide any insight into the merger talk with UBS. While we continue to rate SSgA for their passive UK and international equity capabilities, there are other providers in the market that we rate more highly. We will monitor closely any further team movements.

Newton Global Equity

While the business continues to attract new assets into the absolute return and Asia Pacific mandates, Newton has experienced some client losses from the global equity team, with further departures expected.

Following on from the changes announced during the previous 2 quarters, there have been two key changes impacting the governance structure of the investment business:

- The wider investment team is now split into 6 smaller teams: Fixed Income, Multi-Asset, Real Return, Global Equity, Asian Equity and UK Equity, and
- A new Investment Strategy Group (ISG) has been set up to replace the Macro Strategy Group, Equity Strategy Group and Global Investment Group meetings. This was to simplify the governance of the thematic investment approach. The ISG is being chaired by Simon Pryke and has 9 standing members who were chosen by Simon to represent a good mix of disciplines across the team.

The ISG, which meets weekly, provides a challenge forum, comprising a selection of investors representing different areas of specialisation. It has responsibility for evaluating the investment environment and analysing the broad valuations of major asset classes. The ISG is also responsible for the global thematic framework – monitoring and reviewing the themes on a monthly basis. Key inputs to the ISG meeting include changes to models and the research recommended list. The results of ISG meetings are published and shared with leaders of each team who then share with the members.

Current themes have been formally divided into four thematic focus groups: 1) Debt, crisis and policy, 2) Technology, 3) Energy, environment and infrastructure, and 4) Economics, geographies and demographics. The constituents could change, reflecting changes in markets and economies. Each thematic focus group achieves perspective by drawing upon specialist areas across the house. The output is being overseen by the ISG.

The Research teams have been grouped into three sub groups to create an organisational structure for analysts comprising: 1) Financials and Consumer, 2) Cyclical sectors, and 3) Technology & telecoms and Healthcare.

Deloitte View: While Newton is playing down the significance of the changes that have been introduced, taken with the changes announced earlier this year, we believe that they are reasonably significant. From outset, Munroe made it clear that he wanted to make the process more focused and that portfolios had to show more conviction. As a result of the latest organisational changes, Munroe is now responsible for global, European and emerging market equities and while Newton believes this extension of his role is logical, we will want to monitor the impact this has on his work load.

Portfolios are now more concentrated than at the start of the year with greater focus on stock selection, where possible looking to identify stocks that are expected to be less sensitive to broader macro economic trends. Performance over the last 6 – 9 months has been positive but it is not clear to what extent this is as a consequence of the changes that have been introduced since Munroe took control of the global team, in particular the greater focus on quality consumer brands.

We will continue to monitor developments closely, but starting from a clean sheet of paper, given the uncertainty, Newton would not be on our list of preferred candidates for a global equity mandate.

Insight

There has been 5 new hires including Paul Lambert as Head of Currency management, Cathy Braganza as senior credit analyst and Terry Henrickson as senior quantitative analyst with the Financial Solution Group. There have been no leavers during the third quarter.

Insight continued to grow their business, adding around c.£20bn of assets since the start of the year through a mixture of existing clients extending liability hedging programs and new business.

In September Insight announced it would be acquiring Pareto Investment Management, another independent investment management group within the BNYM group. Pareto's business is primarily currency overlay although the business has been struggling in recent years and senior members of the organisation have been looking for a means of exiting the business. Insight state that the attraction of the business is that it gives them access into markets where they do not currently have exposure and gives them SEC registration.

There were no changes to the process during the quarter.

Deloitte view – We continue to rate Insight positively for their bond and LDI capabilities.

While Insight does not expect the acquisition of Pareto to be a distraction to the investment team, once the deal has received regulatory approval, we will need to ensure we have an understanding of how Insight proposes to integrate the business and its growth strategy going forward.

3 SSgA

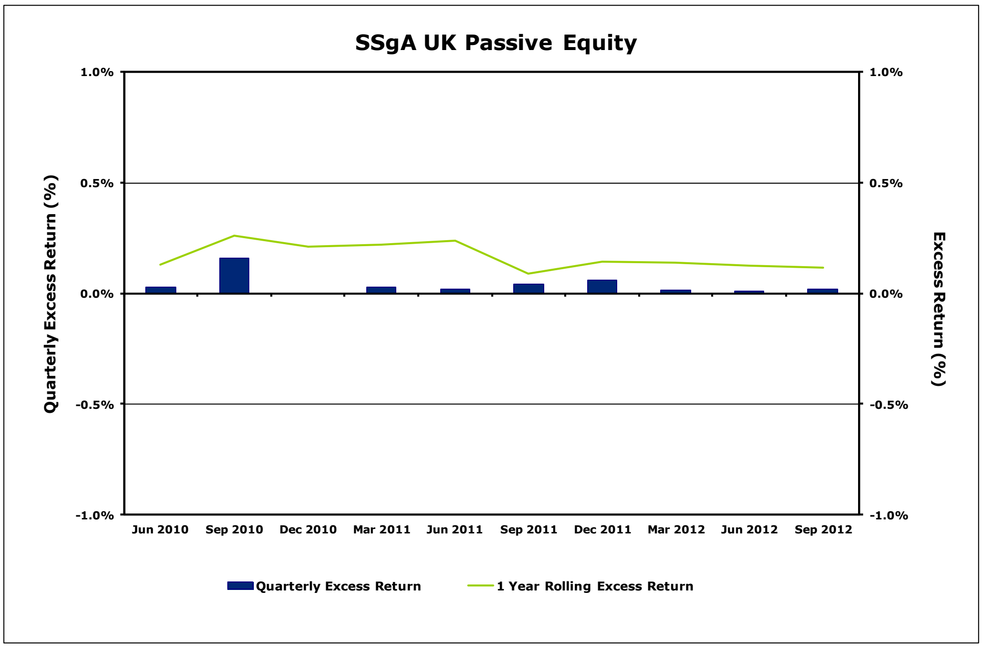
SSgA has been appointed to manage two passive equity portfolios, with the objective of delivering performance in line with the stated benchmarks. The manager is remunerated on a fixed fee based on the value of assets.

3.1 Passive UK equity – Investment Performance to 30 September 2012

	Last Quarter (%)	Last Year (%)	Last 3 Years (%)	Since Inception (% p.a.)	Tracking Error Tolerance
SSgA – Gross of fees	4.7	17.4	8.2	3.3	-
Net of fees	*4.7*	*17.3*	*8.1*	*3.2*	-
FTSE All-Share Index	4.7	17.3	8.0	3.1	-
Relative	0.0	0.1	0.2	0.2	+/- 0.25% p.a.

Source: SSgA.

Inception date taken as 30 May 2008 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark within tracking error tolerance range two years out of three.



3.2 Passive International equity – Investment Performance to 30 September 2012

	Last Quarter[1] (%)	Last Year (%)	Since Inception (% p.a.)	Tracking Error Tolerance
SSgA – Gross of fees	4.8	19.3	1.0	-
Net of fees	*4.8*	*19.3*	*0.9*	-
FTSE World ex UK[1]	4.9	19.4	1.2	-
Relative	-0.1	-0.1	-0.2	+/- 0.50% p.a.

Source: SSgA. Since inception estimated by Deloitte

Inception date taken as 10 March 2011

1) Portfolio and benchmark are 50% currency hedged from 9 March 2011.

Both mandates have performed broadly in line with their benchmarks over various time periods.

4 Majedie – Active UK Equity

Majedie has been appointed to manage an actively managed segregated UK equity portfolio. The manager's remuneration is a combination of a fixed fee based on the value of assets of approximately 0.37% pa and a performance related fee of 20% of the outperformance which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% pa.

4.1 Portfolio Monitoring Summary

Item Monitored	Monitoring	Outcome
Portfolio Guidelines	Tracking error range: 2% - 6% p.a.	3 year predicted tracking error of 3.6% p.a. [1]
Performance Objective	Aims to outperform the FTSE All-Share Index by 2% p.a. over rolling 3 year periods (net of fees).	No. Outperformed the benchmark but not the target over the 3 year period (net of fees)

(1) Provided by manager.

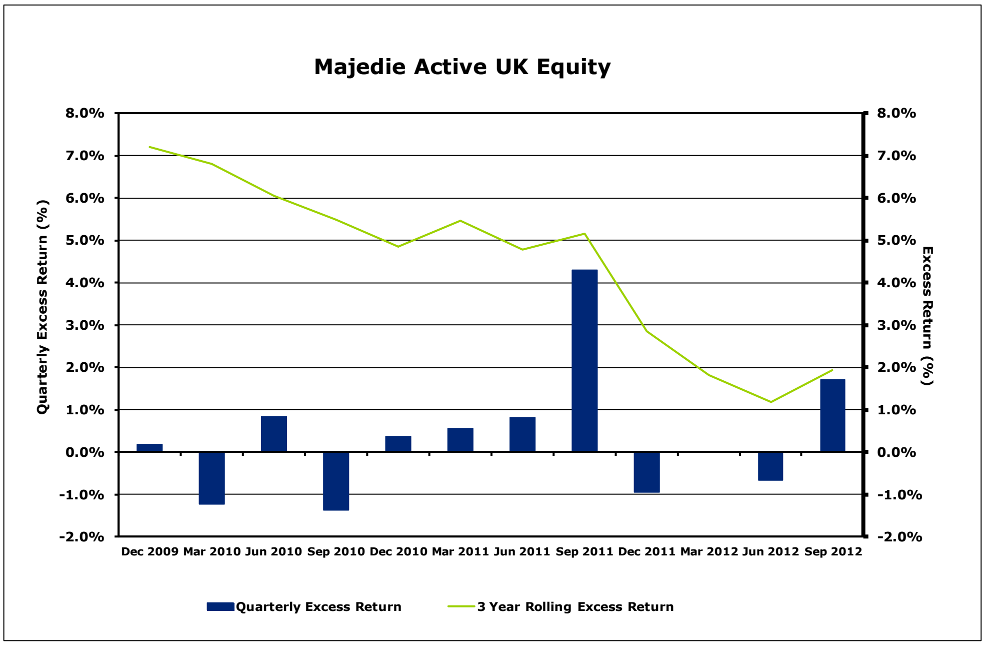
4.2 Investment Performance to 30 September 2012

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie – Gross of base fees	6.4	17.3	9.9	8.4
Net of base fees	*6.3*	*16.9*	*9.5*	*8.0*
FTSE All-Share Index	4.7	17.3	8.0	4.1
Target	5.3	19.7	10.4	6.5

Source: Majedie. Target estimated by Deloitte

Inception date taken as 31 May 2006.

Outperformance is assessed net of fees but portfolio and target return above shown gross i.e. before deduction of fees



Majedie outperformed its benchmark this quarter, returning 6.4% against a benchmark of 4.7%. Over the year to 30 September 2012, Majedie underperformed the target, but delivered a return in-line with the benchmark, achieving 17.3%. Over the three years to 30 September 2012, Majedie has outperformed the benchmark by 1.9% p.a. but fallen short of the target.

The portfolio currently has a cyclical tilt. Majedie has increased its exposure to early cyclical stocks that are lowly valued and expects to outperform as economic lead indicators improve.

Banking stocks (RBS, Barclays and Lloyds) and other financials such as Aviva performed well over the quarter, given their previous depressed valuations. Key drivers include the ECB’s July promise to “do whatever it takes” to preserve the Euro which became the catalyst for sustained performance from early cyclical sectors, and the launch of Outright Monetary Transactions in September which was subsequently complemented by announcements of QE extensions in both the US and Japan.

The underweight position in Xstrata was a drag to performance during the third quarter as shares rallied from oversold levels as its planned merger with Glencore moved towards the desired conclusion. International Consolidated Airlines shares slipped during the quarter due to the 15% rise in Brent crude oil prices.

5 Newton – Global Equity

Newton was appointed to manage an actively managed global equity portfolio. The manager's remuneration is a fixed fee equivalent to 0.47% pa based on the value of assets.

5.1 Portfolio Monitoring Summary

Item Monitored	Monitoring	Outcome
Portfolio Guidelines	Tracking error in range 3.5% - 6.0% p.a. (ex-ante)	3 year predicted tracking error of 3.8% p.a. [1]
Performance Objective	Aims to outperform the benchmark by 2.0% p.a. over rolling 3 year periods (gross of fees)	No, outperformed the benchmark by 1.2% gross of fees.

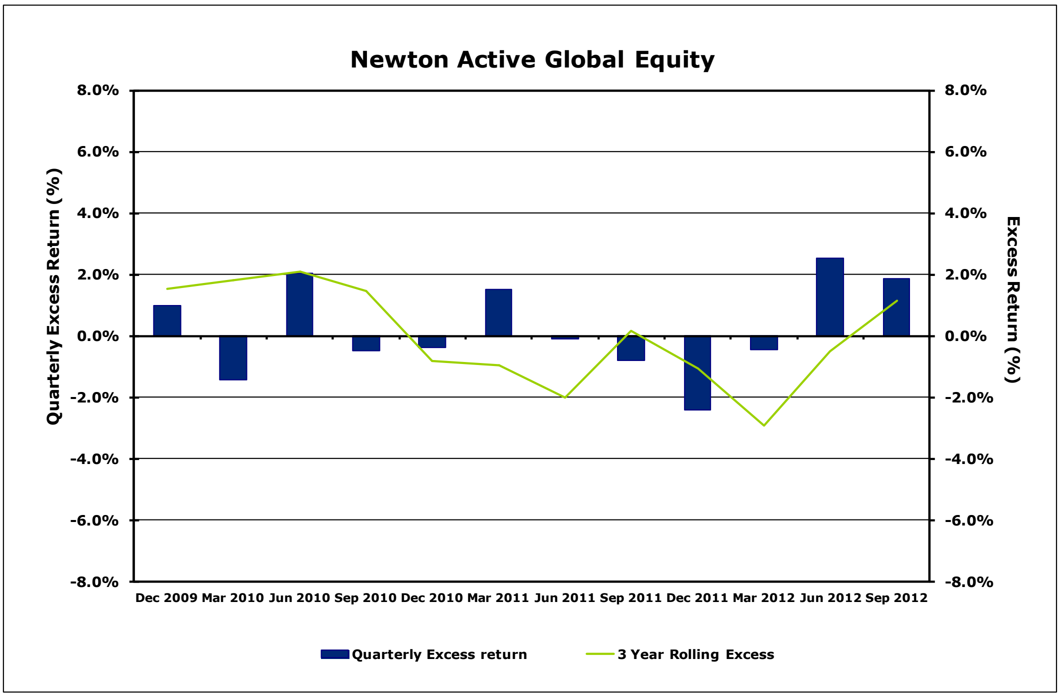
(1) Provided by manager

5.2 Investment Performance to 30 September 2012

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Newton – Gross of fees	5.6	18.8	6.3	3.2
Net of fees	*5.5*	*18.2*	*5.8*	*2.7*
Benchmark	3.8	16.7	5.1	2.5
Target	4.3	18.7	7.1	4.5

Source: Newton. Target estimated by Deloitte

Inception date taken as 31 May 2006. Benchmark changed to MSCI All Countries 75% hedge from 7/6/11. For indices and split see Appendix A.



Newton outperformed its benchmark this quarter, delivering 5.6% against the benchmark return of 3.8%. The portfolio has also outperformed the benchmark over the year and three years to 30 September 2012.

The outperformance mainly came from stock selection. Main contributors include Sprint Nextel whose recent restructuring programme went well which was well received by the market. Shaw Group was another strong performer as a result of the takeover bid from CB&I.

The Energy sector, albeit being the main drag to performance last quarter, was a highlight in the third quarter, with the portfolio benefitting from M&A activities. Holdings in Materials performed strongly too due to exposure to the "fire risk" theme against a backdrop of inflationary actions by central banks.

The main drag to performance over the quarter was the limited exposure to financials whose shares rose resulting from central bank policy actions. Newton remains cautious towards this sector due to the trends encompassed within the "deleverage" theme.

There have been a few transactions in the fund over the quarter. Purchases included Google, Keycorp and Brenntag and sales included Shaw Group, ICAP and Ariba.

Since the quarter end, the assets with Newton have been transferred to a passive global equity fund managed by Legal & General.

6 Insight - Bonds

Insight has been appointed to manage two bond portfolios – an actively managed corporate bond portfolio and a passively managed gilt portfolio. The manager's fee is based on the value of assets, with the fees for the actively managed portfolio equivalent to 0.24% pa and 0.1% pa for the passive portfolio.

6.1 Insight – Active Non Gilts

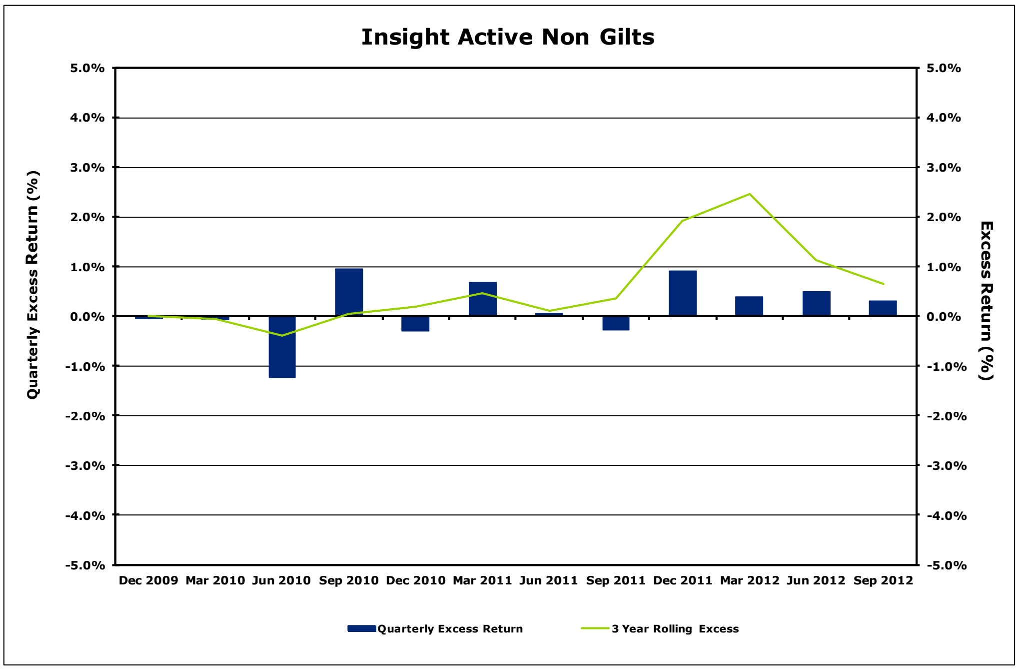
6.1.1 Portfolio Monitoring Summary

Item Monitored	Monitoring	Outcome
Performance Objective	Aims to outperform the iBoxx Sterling Non-Gilt 1-15 Years Index by 0.9% p.a. over rolling 3 year periods (gross of fees)	No, outperformed the benchmark by 0.7% over the 3 year period to 30 September 2012 (gross of fees).

6.1.2 Investment Performance to 30 September 2012

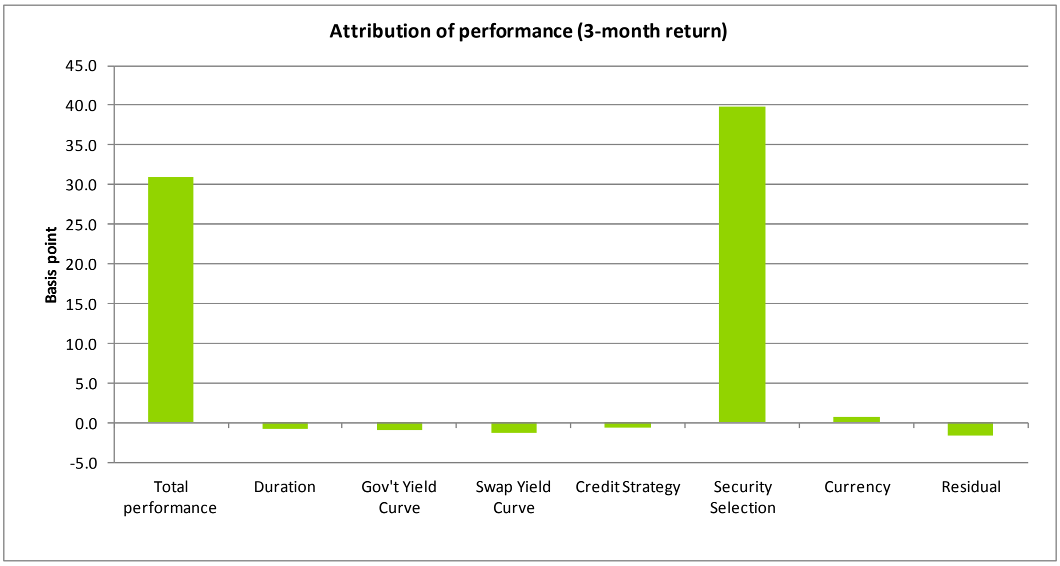
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Non-Gilts) – Gross of fees	5.7	14.8	8.8	6.0
Net of fees	*5.6*	*14.5*	*8.5*	*5.7*
iBoxx £ Non-Gilt 1-15 Yrs Index	5.4	12.4	8.1	5.6
Target	5.6	13.3	9.0	6.5

Source: Insight. Target estimated by Deloitte
Inception date taken as 1 June 2006.



Over the quarter Insight outperformed its benchmark by 0.3% and its target by 0.1%. Insight has also outperformed the benchmark over the year and the last three years to 30 September 2012 by 2.4% and 0.7% p.a. respectively.

6.1.3 Attribution of Performance



Source: Insight

Insight's outperformance over the quarter continued to be driven by security selection and was widely spread across sectors, e.g. Barclays and Telefonica. Impact of duration and yield curve positions were marginally negative as long dated yields rose and the UK curve continued to steepen. Currency positioning was a small positive to performance as the Euro appreciated in August and September.

6.2 Insight – Passive Bonds

6.2.1 Investment Performance to 30 September 2012

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Passive Bonds) – Gross	1.2	5.6	6.2	7.8
Net of fees	*1.2*	*5.5*	*6.1*	*7.7*
FTSE A Gilts up to 15 Yrs Index	1.2	5.6	6.2	8.0
Relative	0.0	0.0	0.0	-0.2

Source: Insight

Inception date taken as 31 December 2008.

6.3 Duration of portfolios

	30 June 2012		30 September 2012	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.3	5.3	5.3	5.3
Government Bonds (Passive)	4.9	4.9	4.7	4.9

Source: Insight and Northern Trust

The duration of the bond portfolio is short relative to that of the Fund's liabilities and as such the bond portfolio is only providing limited protection against interest rate risk.

7 Property

The Fund invests in three property pooled funds, where the fees payable to the respective investment managers is based on the value of assets invested in the particular fund.

7.1 Former Schroders' Mandate

7.1.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Since Inception (% p.a.)
Combined Property Portfolio – Gross	3.7	7.8	9.2
Net of fees	*3.6*	*7.5*	*9.1*
Benchmark	0.5	3.3	5.8
Target	0.7	4.1	6.6

Previously Schroders acted as a property fund of funds manager and invested in the L&G Managed Funds Property Unit Trust and West End of London Property Unit Trust on behalf of the Fund. On 8 June 2011, the Fund removed Schroders but retained the holdings in the underlying investments.

7.1.2 L&G Managed Funds Property Unit Trust

The fund outperformed its benchmark return of 0.1%, returning 0.9% over the quarter.

Net cash inflows over the quarter continued to be positive with the assets under management at quarter end growing to £1,418m. During the quarter, the fund completed the sale of Skandia House, Southampton at a price of £26.6m.

7.1.3 West End of London Property Unit Trust

The Trust returned 4.3% over the quarter. This was due to a mixture of income return and an increase in capital values, with the West End of London office sector continuing to defy the wider malaise in the UK property market.

The refurbishment and part development of 5/7 Vere Street and the refurbishment of four floors at The Point were completed and the space launched to the letting market. Work has started on the refurbishment of 17 Connaught Place with completion scheduled for the first quarter of 2013. Following the quarter end, £48.8m of debt was repaid, bringing down the level of debt to £221.2 million reflecting 26.0% of the aggregate trust value.

7.2 Hermes Property Unit Trust

7.2.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Since Inception (% p.a.)
Hermes – Gross of fees	0.7	4.5	3.8
Net of fees	*0.6*	*4.4*	*3.4*
Benchmark	0.6	3.1	5.6
Target	0.7	3.6	6.1

Source: Hermes. Since inception figures are estimated by Deloitte.

The Trust outperformed its benchmark by 0.1%. This continued to be driven by the Trust's income distribution which offset the modest fall in the unit price during the quarter. The Trust's unit price fell by 0.5% on a net asset value basis during Q3, matching the decline during Q2, reflecting the challenging conditions in the UK real estate market. Investors and occupiers continue to be cautious about the economic outlook and Hermes expects this general view to prevail in 2013.

7.2.2 Sales and Purchases

Over the quarter the Trust sold its final indirect holding, although the primary focus has been on investment. The sale of the Trust's holding in Hermes Factory Outlets released £19.4 million. The Trust contracted to acquire two investments over the quarter, including:

- 1 Brunel Way, Slough – Freehold office building of 63,000 sq.ft for £8.6 million, reflecting an initial yield of 17.6%.

- Regency House, London W1 – Freehold office building which the Trust acquired for £16 million – the transaction was expected to complete in early October.

Appendix 1: Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 7 June 2011.

Asset Class	Allocation	Benchmark
UK Equity	35.9%	FTSE All-Share Index
Overseas Equity	20.6%	FTSE World ex-UK (50% currency hedged)
Global Equity	20.6%	MSCI All Countries NDR Index (1)
Fixed Interest Gilts	5.0%	FTSE A Gilts up to 15 Years Index
Sterling Non- Gilts	15.0%	iBoxx Sterling Non-Gilt 1-15 Years Index
Formerly Schoders Property	2.5%	IPD All Balanced Index
Hermes Property	2.5%	IPD UK PPFI Balanced PUT Index
Total	**100.0%**	

(1) 75% currency exposure hedged back to sterling

Rebalancing Policy

Using the SIC’s quarterly meeting schedule to review any rebalancing activity:

If the cash outflows are to be funded:

- Cash outflow requirements are met by disinvesting from the asset class most overweight relative to its Central Benchmark Allocation (“CBA”) position.

- Once the asset class overweight has been eliminated, assets would be disinvested proportionately from the asset classes according to the CBA.

If cash inflows are to be invested:

- Cash inflows are invested in the asset class most underweight relative to its CBA position.

- Once the asset class underweight has been eliminated, assets would be disinvested proportionately from the asset classes according to the CBA.

If the allocations exceed the upper (or lower) tolerance limit this triggers a rebalancing review with a view to:

- Rebalance exposure back to the mid-point of the CBA and upper (or lower) tolerance limit.

- Use the proceeds to rebalance the corresponding underweight asset class/investment manager.

SSgA: 16.9% of the Total Fund Assets (Inception: 31 May 2006. Current strategy inception: 30 May 2008)

Asset Class	Benchmark	Outperformance Target	Tracking Error (1)
UK Equity	FTSE All-Share Index	To match the benchmark	Up to +/- 0.25% p.a.

(1) Aim to track benchmark to within tracking error tolerance range two years out of three.

SSgA: 20.6% of the Total Fund Assets (Inception: 11 March 2010)

Asset Class	Benchmark	Outperformance Target	Tracking Error (1)
Overseas Equity	FTSE World ex-UK (50% currency hedged)[2]	To match the benchmark	Up to +/- 0.25% p.a.

Aim to track benchmark to within tracking error tolerance range two years out of three.
Currency hedge applied from 9 March 2011.

Majedie: 16.9% of the Total Fund Assets (Inception: 31 May 2006)

Asset Class	Benchmark	Outperformance Target (1)	Tracking Error (1)
UK Equity	FTSE All-Share Index	+2.0% p.a. (net of fess)	2.0% - 6.0% p.a.

(1) Over rolling 3 year period

Newton: 20.6% of the Total Fund Assets (Inception: 31 May 2006)

Asset Class	Allocation	Benchmark	Outperformance Target (1)	Tracking Error (1)
Global Equity	10%	MSCI All Countries NDR Index(2)(3)	+2.0% p.a. (gross of fess)	3.5% - 6.0% p.a.
Total	100%			

(1) Over rolling 3 year period
(2) 75% hedged back to sterling
(2) Changed from composite benchmark as at 7 June 2011

Insight: 20% of the Total Fund Assets (Inception: 31 May 2006)

Asset Class	Allocation	Benchmark	Outperformance Target (1)	Tracking Error
Fixed Interest Gilts	25%	FTSE A GILTS up to 15 Yrs Index	To match benchmark	-
Non-Gilts	75%	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90% p.a. (gross of fees)	0.0 – 3.0% p.a. (1)
Total	100%		+0.54% p.a. (gross of fees)	-

Over rolling 3 year period

Formerly Schroders: 2.5% of the Total Fund Assets (Inception: 8 October 2010)

Asset Class	Benchmark	Outperformance Target (1)	Tracking Error
Property	IPD All Balanced Index	+0.75% p.a. (net of fess)	-.

Over rolling 3 year period

Hermes: 2.5% of the Total Fund Assets (Inception: 26 October 2010)

Asset Class	Benchmark	Outperformance Target (1)	Tracking Error
Property	IPD UK PPFI Balanced PUT Index	+0.5% p.a. (net of fess)	-

Over rolling 3 year period

Appendix 2: Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3: Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

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