City of Westminster Superannuation Fund

Investment Performance Report to 31 March 2014

Executive Summary

Deloitte Total Reward and Benefits Limited

May 2014

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1 Market Background

Three and twelve months to 31 March 2014

The first quarter of 2014 saw negative returns on UK equities, with the FTSE All Share Index returning -0.6%. Smaller companies outperformed larger companies, with the FTSE 100 Index returning -1.3% and the FTSE Small Cap Index returning 1.4% over the quarter. Despite continued improvements in the UK's economic outlook, it was a volatile quarter for UK equities which were influenced by signs of a slowdown in China and the crisis in the Ukraine.

There was a wide range of performance at the sector level, with Utilities offering the highest return (3.4%) and Telecommunications, the worst performing sector (-7.6%).

Over the three months to 31 March 2014, global equity markets outperformed the UK in both local and sterling terms, achieving marginally positive returns of 1.1% and 0.5% respectively. Currency hedging was therefore beneficial to investors over the quarter. Europe (ex UK) was the strongest performing region over the quarter, returning 2.9% in local currency terms and 2.4% in sterling terms. Japan was the lowest performer over the quarter, returning -6.4% in local currency terms and -6.0% in sterling terms.

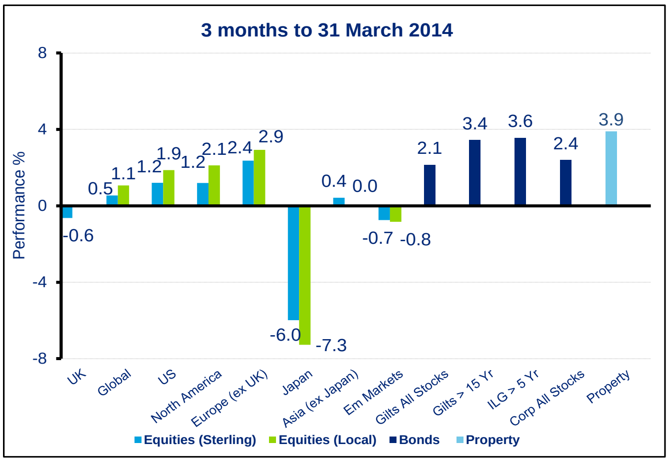
UK nominal gilts performed positively over the 3 months to 31 March 2014 as yields fell, with the All Stocks Gilt Index and Over 15 Year Gilt Index returning 2.1% and 3.4% respectively. Real yields on UK index linked gilts also fell, with the Over 5 Year Index-linked Gilts Index returning 3.6%. Corporate bond returns were positive over the 3 months to 31 March 2014, although with credit spreads broadly unchanged. The iBoxx All Stocks Non Gilt Index returned 2.4% over the period.

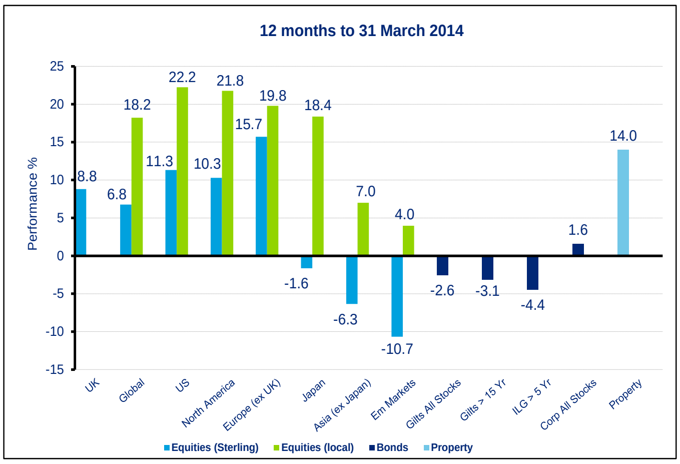
Improvements in the UK's economic outlook meant that equities delivered positive returns over the year to 31 March 2014, with the FTSE All Share Index returning 8.8%. Smaller companies were instrumental to UK equity returns over the year, as illustrated by the FTSE Small Cap Index which returned 20.4%. Over the 12 months to 31 March 2014, the Telecommunications sector was the highest performing sector, returning 18.5%. In contrast, the lowest performing sector was Basic Materials, which returned -4.0%.

Global equity markets outperformed the UK considerably over the year to 31 March 2014 in local currency terms, but underperformed the UK in sterling terms. The FTSE All World Index returned 18.2% in local currency terms, yet only 6.8% for unhedged sterling investors. Currency hedging was beneficial as sterling appreciated against all major currencies, most substantially against the Japanese yen.

Returns on nominal UK gilts were negative over the year to 31 March 2014, as yields increased across all maturities. The rise in yields was most significant at shorter maturities where yields increased by c. 1%. The All Stocks Gilt Index and Over 15 Year Gilt Index returned -2.6% and -3.1% respectively. Real yields on UK index-linked gilts also increased over the period, with the Over 5 Year Index-linked Gilts Index returning -4.4%. Corporate bond markets offered a positive return over the year, with the iBoxx All Stocks Non Gilt Index returning 1.6% after credit spreads narrowed.

The UK property market continues to rise, returning 3.9% over the quarter and 14.0% over the year to 31 March 2014.





2 Total Fund

2.1 Investment Performance to 31 March 2014

Over the quarter, the Fund's passive mandates with LGIM (equities), and SSgA (equities) performed broadly in line with their respective benchmarks whilst Insight (gilts) outperformed by 0.4%. Of the active managers, Majedie (equities) and Insight (Non Gilts) outperformed their respective benchmarks, with both property mandates also delivering returns slightly ahead of their benchmarks.

Over the one year and three years to 31 March 2014 Majedie, Insight and Hermes have outperformed, helping performance at the Total Fund level. Over the three years period to 31 March 2014 the Fund has outperformed its benchmark.

The table below summarises the investment performance to 31 March 2014 by manager.

Manager	Asset Class	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]	
SSgA	UK Equity*	-1.9	-1.9	-1.9	7.5	7.4	7.4	8.5	8.4	8.4	6.2	6.1	6.0
	Overseas Equity	1.1	1.1	1.0	12.6	12.5	13.1	9.3	9.2	9.5	9.4	9.3	9.6
Majedie	UK Equity	2.1	2.0	-0.6	21.6	21.2	8.8	16.0	15.6	8.8	11.7	11.3	6.2
LGIM	Global Equity	1.0	1.0	1.0	16.9	16.8	16.9	n/a	n/a	n/a	0.9	0.8	0.9
Insight	Non Gilts	2.7	2.7	2.3	2.7	2.5	1.8	7.8	7.6	6.7	5.8	5.6	5.3
	Gilts	1.5	1.5	1.5	-2.0	-2.1	-2.2	3.8	3.7	3.8	5.4	5.3	5.5
Hermes	Property	3.6	3.5	3.4	13.9	13.5	12.2	8.4	8.0	5.8	6.6	6.2	6.2
Standard Life	Property	2.8	2.6	2.7	n/a	n/a	n/a	n/a	n/a	n/a	9.8	9.4	2.8
Total		1.4	0.6	0.6	12.7	12.5	9.7	10.1	9.9	8.5	5.7	5.4	5.2

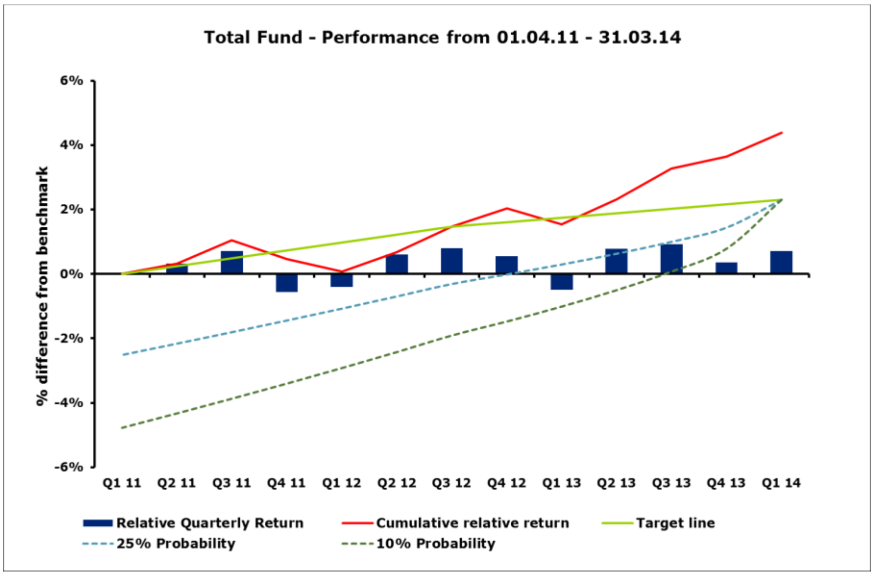
Source: Investment Managers

(1) Estimated by Deloitte when manager data is not available.

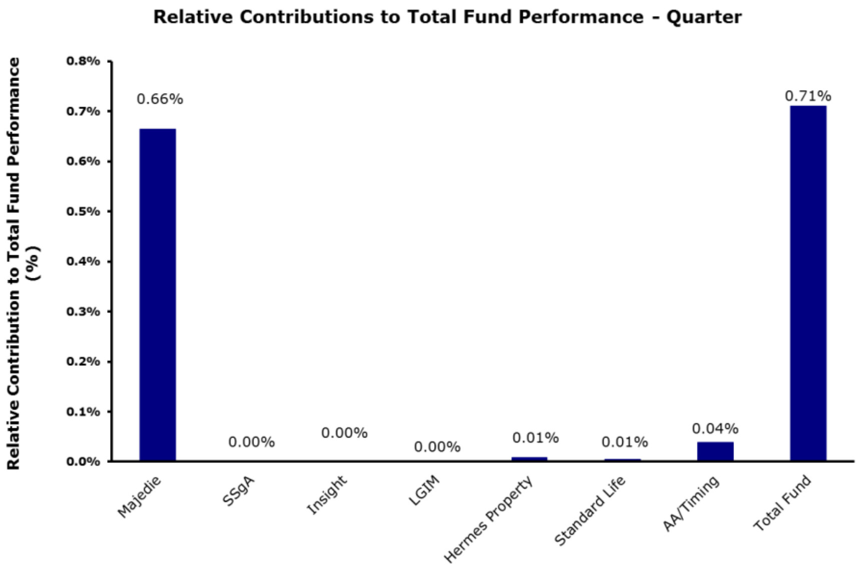
(*) Performance is to 24 March 2014 when assets were disinvested

See appendix 1 for more detail on manager fees and since inception dates

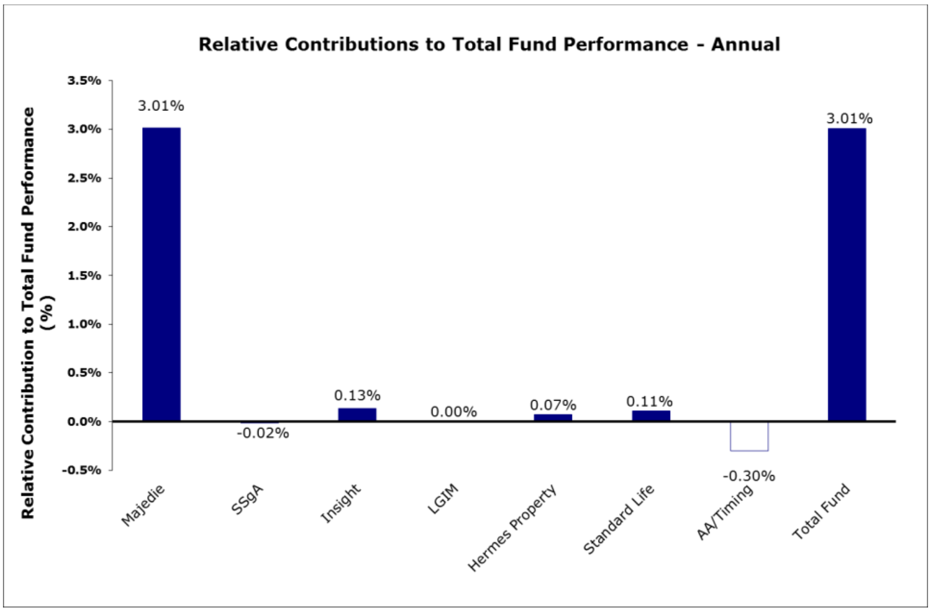
The chart below compares the performance of the Fund relative to the expected variation around the target outperformance over the three years highlighting that over the period the cumulative performance has been positive.



2.2 Attribution of Performance to 31 March 2014



The Fund outperformed its composite benchmark by 0.71% over the first quarter of 2014 largely as a result of strong performance from Majedie.



Over the past 12 months the Fund has outperformed its composite benchmark by 3.01%, with all managers except SSgA and LGIM contributing to the outperformance. The breakdown clearly illustrates that Majedie was the primary driver contributor to the positive performance over the 12 month period.

2.3 Asset Allocation as at 31 March 2014

During June 2013, the decision was taken by the Committee to invest in the Standard Life Long Lease Property Fund, funding the holding in the first instance from any remaining conventional gilt holdings. As a result c.£30.2m was disinvested from Insight Fixed Interest Gilt Fund and the funds were invested with Standard Life on 14 June 2013. During the quarter the decision was made to terminate the Fund's passive Overseas equity mandate with State Street Global Advisors (SSgA), with a view to rationalising the passive exposure with LGIM. In addition, the decision was taken to appoint Baillie Gifford to manage a global equity mandate. As at 31 March 2014 c.£296m was disinvested from SSgA, of which approximately £130m was transferred to Baillie Gifford for investing in the Global Equity Alpha Fund and c. £164m was transferred to LGIM (passive) global equity.

The table below shows the assets held by manager and asset class as at 31 March 2014.

		Actual Asset Allocation					
Manager	**Asset Class**	**31 Dec 2013 (£m)**	**31 Mar 2014 (£m)**	**31 Dec 2013 (%)**	**31 Mar 2014 (%)**	**Benchmark Allocation (%)**	**Control Range (%)**
Majedie	UK Equity	234.5	239.4	24.6	24.9	16.9	+/-2
SSgA	UK Equity (Passive)	122.2	117.8*	12.8	12.3	16.9	+/-2
	Total UK Equity	**356.7**	**357.2**	**37.4**	**37.2**	**33.8**	
LGIM	Global Equity (Passive)	184.0	185.9	19.3	19.3	20.6	+/-2
SSgA	Overseas Equity (Passive)	176.5	175.7	18.5	18.3	20.6	+/-2
	Total Global Equity	**360.5**	**361.6**	**37.8**	**37.6**	**41.2**	
Insight	Fixed Interest Gilts (Passive)	16.5	16.8	1.7	1.7	0.0	
Insight	Sterling Non-Gilts	138.5	142.3	14.5	14.8	15.0	
	Total Bonds	**155.0**	**159.1**	**16.2**	**16.5**	**20.0**	**+/-4**
Hermes	Property	38.3	39.1	4.0	4.1	5.0	
Standard Life	Property	42.7	43.8	4.5	4.6	5.0	
	Total Property	**81.0**	**82.9**	**8.5**	**8.7**	**10.0**	
	Total	**953.2**	**960.7**	**100.0**	**100.0**	**100.0**	
	Westminster In-House Account	4.4	0.2			-	-
	Total	**957.6**	**960.9**			**-**	**-**

Source: Investment Managers and Custodian (BNY Mellon)

Figures may not sum to total due to rounding

*Asset value as at 24 March 2014 when disinvested

Over the quarter the market value of the assets rose by c. £7.5m.

Rebalancing Framework

As at 31 March 2014, the Fund was overweight UK equities (3.4%) and underweight global equities (-3.6%), bonds (-3.5%) and property (-1.3%) relative to the stated benchmark allocations.

The Fund remains above the control range for the allocation to Majedie.

3 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
LGIM	Global Equity (passive)	Major deviation from benchmark returns Significant loss of assets under management	1
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
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	2
Standard Life	Property	Growth in the value of the Long Lease Property Fund above £1.5bn Departure of the fund manager	1

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

Majedie UK Equity

As previously mentioned, in January Majedie took on £130m of assets from Majedie Investment PLC which was invested across of range of strategies. At the same time, Majedie increased the level of ownership by the employees, reducing the shareholding of the parent company (Majedie Investment PLC).

Tom Record joined the team from Baillie Gifford and Majedie announced the appointment of Adrian Brass from Fidelity – together these individuals will form the "core" of the new global equity team, supported by two analysts already with Majedie. The aim is to launch two global equity funds – the Global Equity Fund and the Global Focus Fund, which will be managed by the team of four along similar lines to the approach used for the UK equity products. Brass will also lead manage a US equity fund.

Deloitte view – We continue to rate Majedie positively for their UK equity capabilities and will continue to monitor closely the global equity developments.

LGIM

There were no changes to the passive team over the quarter.

Deloitte view – We continue to rate Legal & General's passive capabilities positively.

Insight

Insight continues to gow the assets under management for both the fixed interest and liability solutions parts of the business. Reflecting this growth, Insight is in the process of adding additional resource to the team.

Insight has completed the systems integration with Pareto (which it acquired in 2013) and is now in the process of looking to build on Pareto's US presence, operating for the time being under the brand Insight Pareto. As part of the expansion into the US, Insight will be adding additional credit analyst resource which will feed into the UK team.

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

Hermes

There have been no changes to the team managing HPUT or the processes applied.

Deloitte view – We continue to rate the team managing HPUT.

Standard Life

As at 31 March 2014, the Long Lease Property Fund's assets under management amounted to c. £1.3bn with a further c. £60m of commitments awaiting drawdown.

There have been no changes to the team which is responsible for the Long Lease Property Fund.

Deloitte view – At the time of their appointment, the Committee asked about the capacity for the strategy and SLI commented that they believed it would be around £1.5bn of assets. With a number of recent appointments, the fund is approaching this level, albeit SLI believes that there is still scope for further growth, particularly given the recent change to the permitted level of pre-funded projects that the fund could hold.

We continue to monitor closely SLI's willingness to take further cash flows into the Long Lease Property Fund and and their deployment of the new monies, recognising that the increasing demand for long lease properties in desirable locations could cause SLI to invest in lower quality assets.

4 SSgA – Global Equity (Passive)

The Committee decided to terminate the Fund's mandates with SSgA. Monies were disinvested from the UK equity mandate on 24 March 2014 and from the Overseas equity mandate on 31 March 2014. SSgA had 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.

4.1 Passive UK equity – Investment Performance to 31 March 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (%)	Since Inception (% p.a.)[1]
SSgA – Gross of fees	-1.9	7.5	8.5	6.2
Net of fees[1]	*-1.9*	*7.4*	*8.4*	*6.1*
FTSE All-Share Index	-1.9	7.4	8.4	6.0
Relative	0.0	0.1	0.1	0.1

Source: SSgA

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2008 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark within tracking error tolerance range of +/-0.25% p.a. over two years out of three.

The SSgA UK equity fund has performed broadly in line with its benchmark over the various time periods

4.2 Passive Overseas equity – Investment Performance to 31 March 2014

	Last Quarter[1](%)	Last Year (%)	Since Inception (% p.a.)
SSgA – Gross of fees	1.1	12.6	9.4
Net of fees[1]	*1.1*	*12.5*	*9.3*
FTSE World ex UK	1.0	13.1	9.6
Relative	0.1	-0.5	-0.2

Source: SSgA

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 10 March 2011; Portfolio and benchmark are 50% currency hedged from 9 March 2011. Tracking error tolerance range of +/-0.5%p.a.

The SSgA International equity fund underperformed its benchmark by 0.5% over the last year. This report will not include SSgA next quarter.

5 LGIM – Global Equity (Passive)

LGIM was appointed to manage a passively managed global equity portfolio from the 31 October 2012, 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.

5.1 Passive Global Equity – Investment Performance to 31 March 2014

	Last Quarter (%)	Last Year (%)	Since inception (%)[1]
LGIM – Gross of fees	1.0	16.9	0.9
Net of fees[1]	1.0	*16.8*	*0.8*
FTSE World GBP Hedged	1.0	16.9	0.9
Relative	0.0	0.0	0.0

Source: LGIM

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 1 November 2012 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark .

The investment objective of the fund is to track the performance of the FTSE AW-World Index (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets) to within +/-0.5% p.a. for two years out of three.

The LGIM fund has performed in line with the benchmark over the quarter, one year and since the inception of the mandate.

6 Majedie – UK Equity

Majedie was 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 0.35% p.a., 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% p.a.

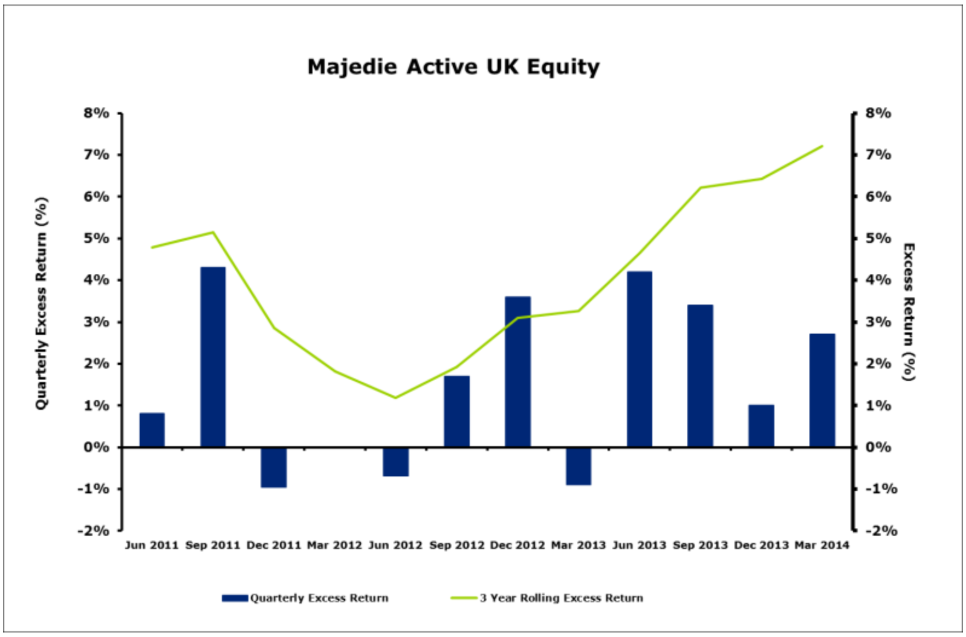
6.1 Investment Performance to 31 March 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie – Gross of base fees	2.1	21.6	16.0	11.7
Net of base fees[1]	*2.0*	*21.2*	*15.6*	*11.3*
FTSE All-Share Index	-0.6	8.8	8.8	6.2
Target	0.0	11.2	11.2	8.6

Source: Majedie

See appendix 1 for more detail on manager fees

Target estimated by Deloitte. Inception date taken as 31 May 2006.



Majedie outperformed its benchmark over the quarter by 2.7%. Over the longer timeframes of one year, three years and since inception the manager has outperformed its target by 10.4%, 4.8% and 3.1% p.a. respectively.

The overweight position in Orange, Telecom Italia, Intesa Sanpaolo and First Group contributed to performance over the quarter along with the portfolio's exposure to the banking sector. Conversely the overweight holding in WM Morrison and VodaFone detracted from performance.

7 Insight – Bonds

Insight was appointed to manage two bond portfolios – an actively managed corporate bond (non –Gilt) 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.

7.1 Insight – Active Non Gilts

7.1.1 Investment Performance to 31 March 2014

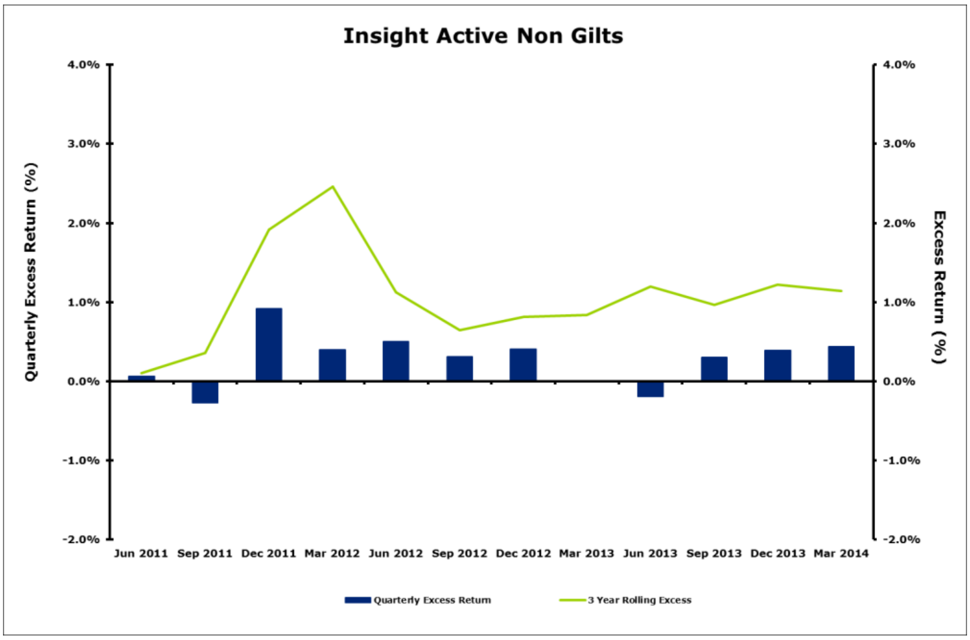
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)[1]
Insight (Non-Gilts) – Gross of fees	2.7	2.7	7.8	5.8
Net of fees[1]	*2.7*	*2.5*	*7.6*	*5.6*
iBoxx £ Non-Gilt 1-15 Yrs Index	2.3	1.8	6.7	5.3
Target[1]	2.5	2.7	7.6	6.2

Source: Insight

(1) Estimated by Deloitte

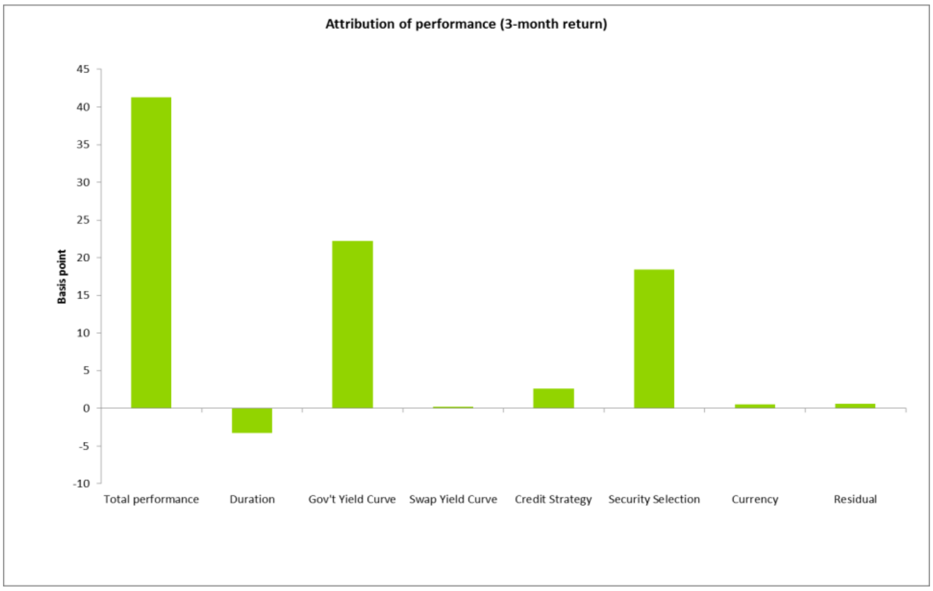
See appendix 1 for more detail on manager fees

Inception date taken as 1 September 2006.



Over the quarter the portfolio outperformed the benchmark by 0.4%. Over the one year and three years Insight has outperformed the benchmark by 0.9% and 1.1% p.a. respectively.

7.1.2 Attribution of Performance



Source: Insight

Security selection, government yield curve and credit strategy positioning continue to remain the main positive contributors to performance over the quarter, with a large portion of the security selection added value coming through Insight taking advantage of the new issuance market.

7.2 Insight – Government Bonds

7.2.1 Investment Performance to 31 March 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Passive Bonds) – Gross	1.5	-2.0	3.8	5.4
Net of fees[1]	*1.5*	*-2.1*	*3.7*	*5.3*
FTSE A Gilts up to 15 Yrs Index	1.5	-2.2	3.8	5.5
Relative	0.0	0.2	0.0	-0.1

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2008.

The gilt portfolio has performed in line with its benchmark over the quarter and outperformed its benchmark by 0.2% over the one year. The three year periods to 31 March 2014 performed in line with the benchmark.

7.3 Duration of portfolios

	31 Dcember 2013		31 March 2014	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.5	5.2	5.7	5.6
Government Bonds (Passive)	4.4	4.7	4.5	4.8

Source: Insight

8 Hermes – Property

Hermes was appointed to manage a core UK property portfolio, where the fees are based on the value of assets invested in the fund, equivalent to 0.4% of the portfolio.

8.1 Portfolio Monitoring Summary

	Last Quarter (%)	**Last Year (%)**	**Since Inception (% p.a.)[1]**
Hermes – Gross of fees	3.6	13.9	6.6
Net of fees[1]	3.5	13.5	6.2
Benchmark	3.4	12.2	6.2
Target	3.6	13.1	8.9

Source: Hermes

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Hermes outperformed its benchmark by 0.2% over the quarter.

The main contributors to the outperformance over the quarter were holdings in West London offices and UK offices.

At the quarter end the market value of the holdings increased to £902.6m from £881.6m, with a distribution yield of 4.8%.

8.2 Sales and Purchases

There were no sales over the quarter.

In February the fund acquired the freehold interest in Boundary House for £11.25 million, reflecting a capital value of £350 per sq.ft. As background, the fund acquired the short leasehold interest in October 2010 and in February 2014 the unexpired term had reduced to approximately 15 years. The purchase of the freehold gives the fund full control over the asset, enabling capital investment to maximise income and capital returns. The office building is situated on the northern side of Smithfield Market in what is viewed to be a core location near Farringdon where office rents are rising as a result of strong demand from tenants.

9 Standard Life – Long Lease Property

Standard Life Investments ("SLI") was appointed to manage a UK property portfolio investing in core assets where the focus is on properties with long leases let to high quality tenants. The fees are based on the value of assets invested in the fund, equivalent to 0.5% of the portfolio.

9.1 Portfolio Monitoring Summary

	Last Quarter (%)	Since Inception (%)[1]
Standard Life – Gross of fees	2.8	9.8
Net of fees[1]	*2.6*	*9.4*
Benchmark	2.7	2.8
Target	2.9	3.8

Source: Standard Life

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 2.8% over the first quarter, narrowly outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 0.1%.

9.2 Portfolio activity

- Following the quarter end, SLI completed the purchase of an office building in Newcastle for £10.3m, equivalent to a net initial yield of 6.7%. The property is being let to North Tyneside Council for 18.5 years with annual fixed increases of 2.6% p.a. Despite the slightly shorter lease length than normal, SLI was attracted by the property's government backed income and believes there may be potential to extend the lease in the future. SLI funded the purchase from the sale proceeds of the office building in Glasgow reported last quarter.
- During the quarter, the student accommodation development in Edinburgh was completed and was successfully let to Napier University. The lease is for 22 years with annual RPI-linked rent reviews subject to a floor of 1.5% and a cap of 3.5% p.a.
- As reported last quarter, SLI has completed the leases on the former TJ Hughes store in Sheffield to Poundland, Sports Direct and British Heart Foundation. The upper floors of the property currently remain vacant which means the Fund has a void rate of 0.5%. SLI is aiming to sell the asset during the second half of 2014. SLI has confirmed that the only other vacant asset in the portfolio, located in Bury, is currently under offer to a gym operator.

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.

Manager	Asset Class	Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
SSgA	UK Equity	16.9%	FTSE All-Share Index	Passive	31/05/08	5 bps base fees	+/- 0.25%
	Overseas Equity	20.6%	FTSE World GBP hedged)	Passive	10/03/11	10 bps base fee	+/- 0.25%
Majedie	UK Equity	16.9%	FTSE All-Share Index	+2.0% p.a. (net of fess)	31/05/06	c.35bps base fees +20% performance fee on 1% outperformance over 3 year rolling	2.0%-6.0%
LGIM	Global Equity	20.6%	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees	+/- 0.5%
Insight	Fixed Interest Gilts	-	FTSE GILTS up to 15 Yrs Index	Passive	31/05/06	10bps base fees	
	Non-Gilts	15.0%	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90% p.a. (gross fees)	31/05/06	c.24bps base fee	0.0 – 3.0%
Hermes	Property	5.0%	IPD UK PPFI Balanced PUT Index	+0.5% p.a. (net of fess)	26/10/10	40bps base fee	-
Standard Life	Property	5.0%	FTSE Gilts All Stocks Index +2%	+0.5% p.a. (net of fess)	14/06/13	50bps base fee	
	Total	**100.0%**					

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.

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.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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