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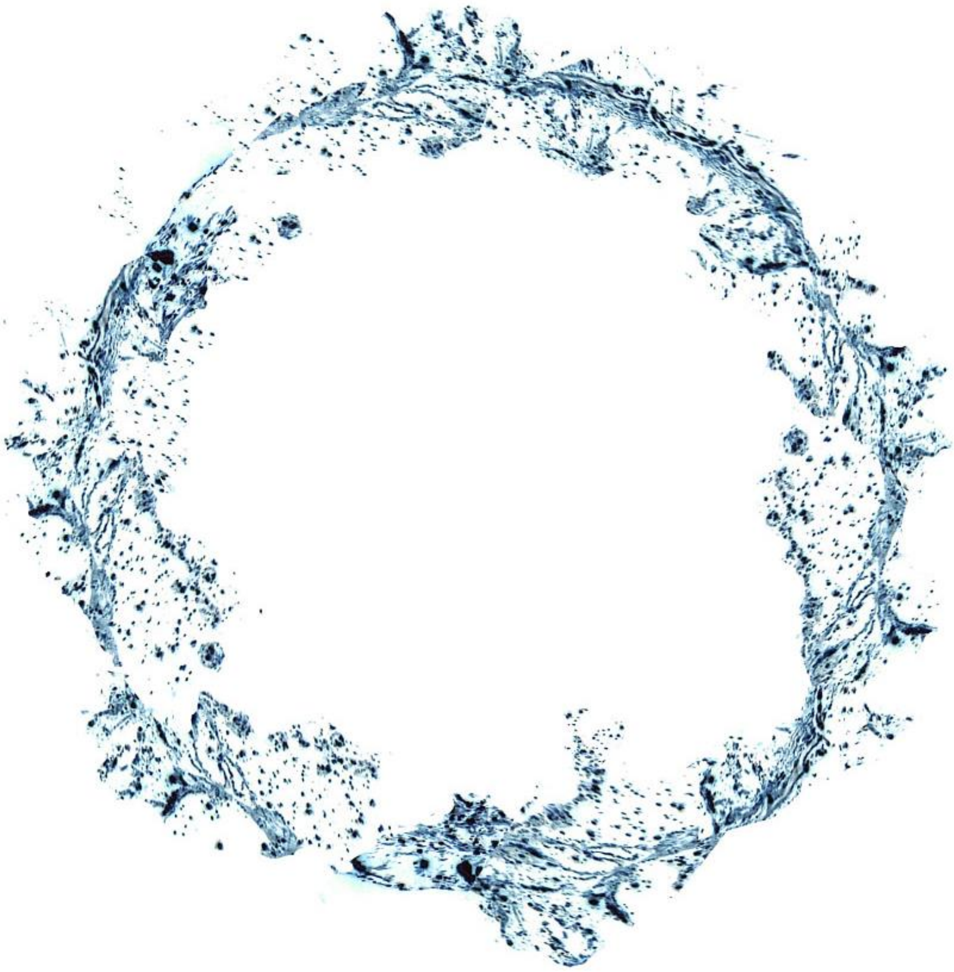

City of Westminster Pension Fund

Investment Performance Report to 31 December 2016

Deloitte Total Reward and Benefits Limited
February 2017

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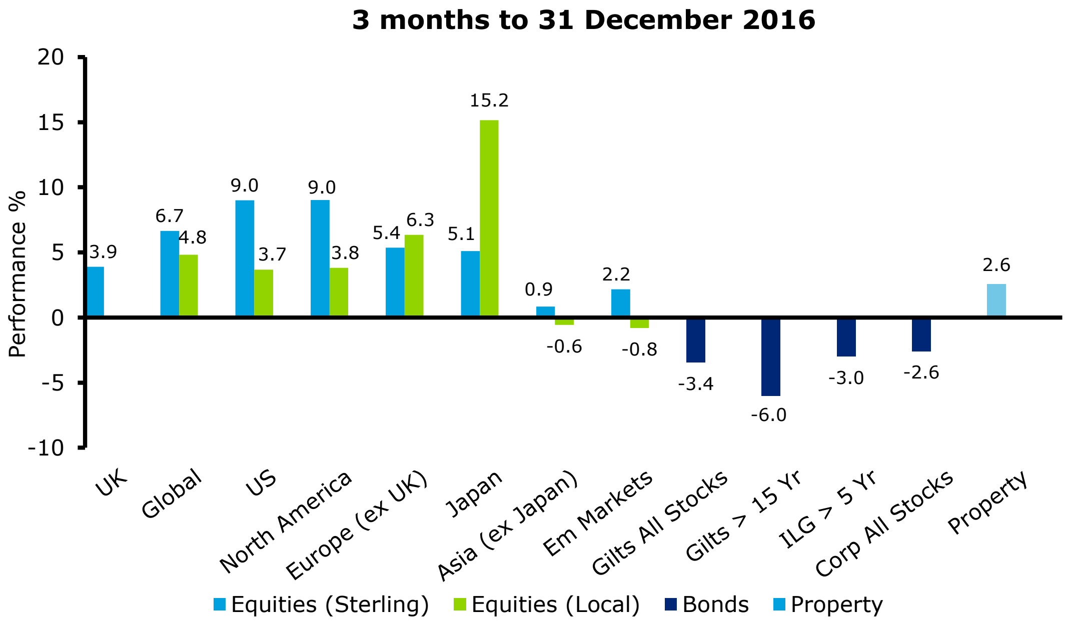
1 Market Background

Three months to 31 December 2016



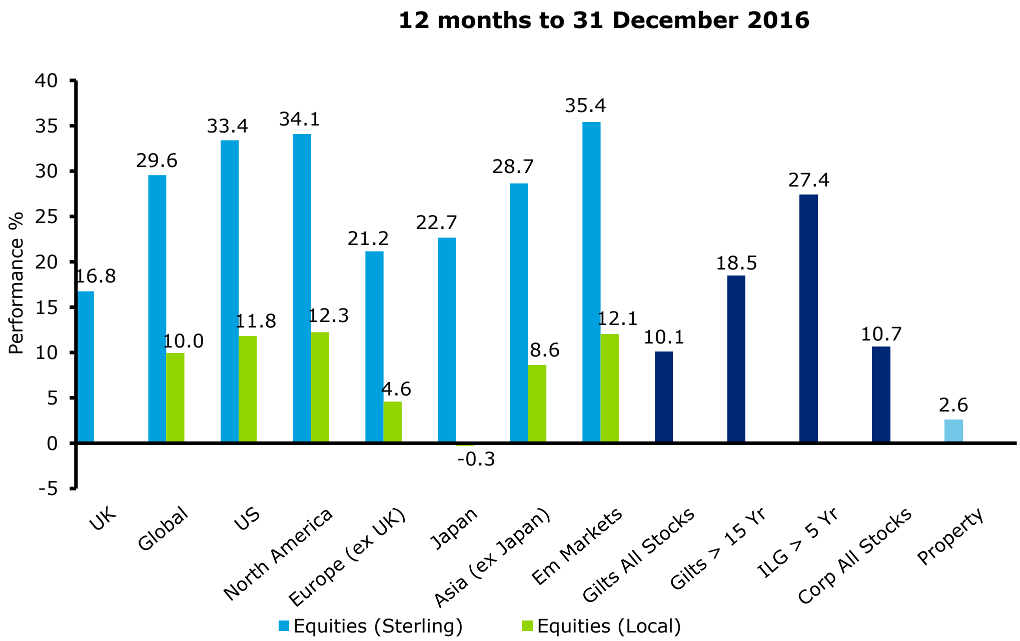
The UK equity market rose over the fourth quarter of 2016, with the FTSE All Share Index delivering a return of 3.9%. The continued depreciation of sterling and surprisingly robust economic data contributed to another quarter of strong performance for the UK equity market, mirroring the wider growth in global equity markets following President Trump's unexpected victory in the US election.

Large UK companies marginally outperformed smaller companies over the final quarter of 2016, with both delivering strong returns. The FTSE 100 Index returned 4.3%, while the FTSE Small Cap Index delivered a return of 4.0%, with both indices ending the final quarter of 2016 close to record highs. There was a wide spread of returns at the sector level. The top performing sector was Oil & Gas (16.2%), buoyed by the increase in oil price following OPEC's announcement that it would cut production in 2017, while the cyclical Basic Materials sector had a second consecutive strong quarter (14.0%). The poorest performing sector was Technology (-9.0%) while Telecommunications and Utilities (-7.9% and -7.4% respectively) also struggled.

Global equity markets outperformed the UK in both sterling (6.7%) and local currency terms (4.8%) over the fourth quarter. Returns across the different regions were mixed. In local currency terms, Japan led the way with a return of 15.2% over the period. However Emerging Markets and Asia Pacific (excluding Japan) were the poorest performing regions returning -0.8% and -0.6% respectively in local currency terms, potentially as a result of President Trump's protectionist rhetoric and promise to walk away from the TPP trade agreement.

Following the significant fall in nominal gilt yields after the EU referendum, yields rebounded during the fourth quarter, ending the period around 40 to 50 basis points higher, due to a combination of rising inflation expectations and the sharp rise in US Treasury yields towards the end of the year, as the Fed raised interest rates. Real yields increased over the fourth quarter, albeit not to the same extent as nominal yields, therefore resulting in a further rise in inflation expectations. UK nominal gilts delivered negative returns over the final quarter of 2016, with the All Stocks Gilts Index returning -3.4%. The All Stocks Index-linked Gilts returned -2.7% over the same period. Credit spreads increased slightly over the fourth quarter, but remain below historic average levels. The iBoxx All Stocks Non Gilt Index returned -2.6% for the final quarter of 2016.

Twelve months to 31 December 2016



Over the 12 months to 31 December 2016, the FTSE All Share Index delivered a positive return of 16.8%. Whilst returns have been very strong, buoyed by sterling depreciation, performance was also volatile, in part due to the political uncertainty created by the UK's EU referendum and the US Presidential Election and performance varied significantly across sectors. The cyclical Basic Materials sector was the highest performing sector (84.2%), while Oil & Gas stocks returned 50.1% on the back of the oil price rebounding in 2016. In contrast, Telecommunications was the poorest performing sector over 2016 (-15.5%). Global equity markets underperformed the UK in local currency terms (10.0%) but outperformed the UK in sterling terms (29.6%) due to the depreciation of sterling in 2016, with currency hedging therefore detracting from performance.

UK nominal gilts delivered strong returns in 2016, with the All Stocks Gilts Index returning 10.1% and the Over 15 Year Gilts Index returning 18.5% as gilt yields fell significantly across all maturities. Real yields also fell significantly over the year, with the Over 5 Year Index Linked Gilts Index returning 27.4%. The narrowing of credit spreads over the year, coupled with the fall in gilt yields, resulted in strong corporate bond returns, with the iBoxx All Stocks Non Gilt Index returning 10.7%.

The IPD UK Monthly Property Index returned 2.6% for both the 3 months and the year to 31 December 2016, as the UK property market bounced back from the negative performance since the EU referendum with investors attracted to the yield premium available versus low yielding gilts.

2 Total Fund

2.1 Investment Performance to 31 December 2016

The following table summarises the performance of the Fund's managers.

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]	
Majedie	UK Equity	8.6	8.6	3.9	23.4	23.1	16.8	8.4	8.0	6.1	10.8	10.5	6.4
LGIM	Global Equity	4.7	4.7	4.7	10.2	10.0	10.2	7.0	6.9	7.0	11.6	11.5	11.6
Baillie Gifford	Global Equity	4.0	3.9	6.4	25.2	24.8	28.5	n/a	n/a	n/a	14.7	14.3	15.2
Longview	Global Equity	6.4	6.2	7.1	29.7	29.1	28.2	n/a	n/a	n/a	18.6	18.0	16.3
Insight Gilts	Gilts	-1.4	-1.4	-1.4	4.8	4.7	5.0	4.3	4.2	4.4	5.0	4.9	5.1
Insight Non Gilts	Non Gilts	-1.3	-1.4	-1.4	8.3	8.0	7.8	6.5	6.3	6.1	5.9	5.7	5.4
Hermes	Property	3.1	3.0	2.2	6.8	6.4	3.7	13.8	13.4	11.2	9.6	9.2	8.4
Standard Life	Property	2.3	2.2	-3.0	6.1	5.6	12.3	8.2	7.7	10.2	9.1	8.6	8.7
Total		**4.5**	**4.4**	**3.3**	**17.0**	**16.7**	**15.4**	**9.5**	**9.1**	**8.8**	**7.2**	**6.9**	**6.8**

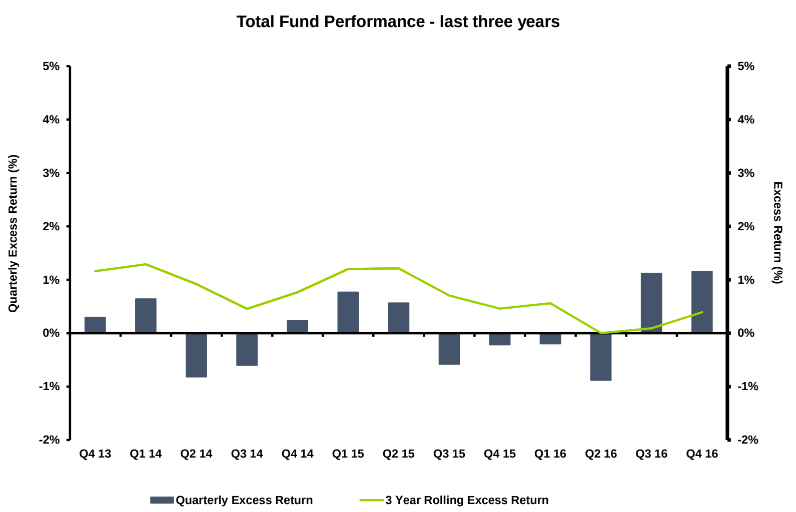
Source: Investment Managers

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

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

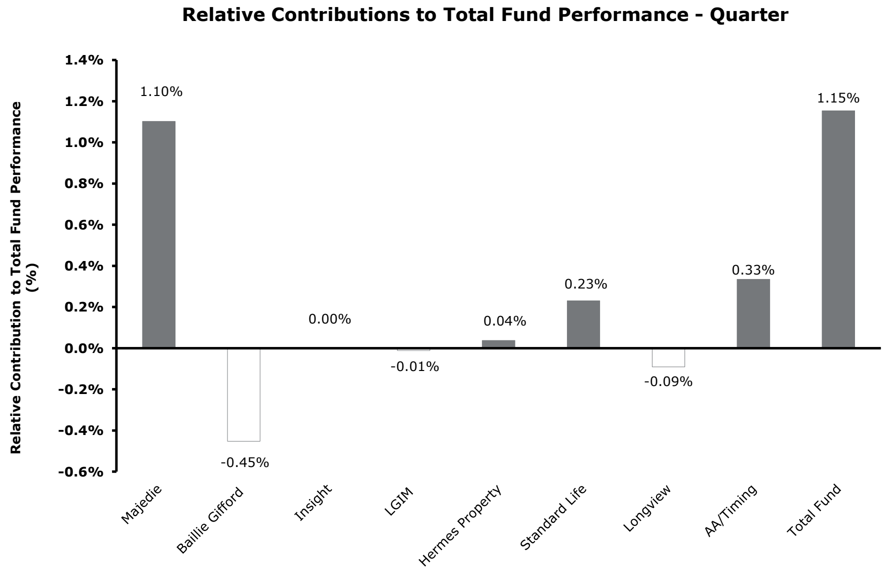
Over the quarter the Fund outperformed its benchmark by 1.1% net of fees, mostly due to the outperformance of Majedie and Standard Life.

The chart below shows the relative performance of the Fund over the quarter and last three years, highlighting that the rolling three-year performance is ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.



The Fund outperformed its composite benchmark by 1.15% on a net of fees basis over the fourth quarter of 2016, led by strong outperformance from Majedie and Standard Life.

2.2 Attribution of Performance to 31 December 2016



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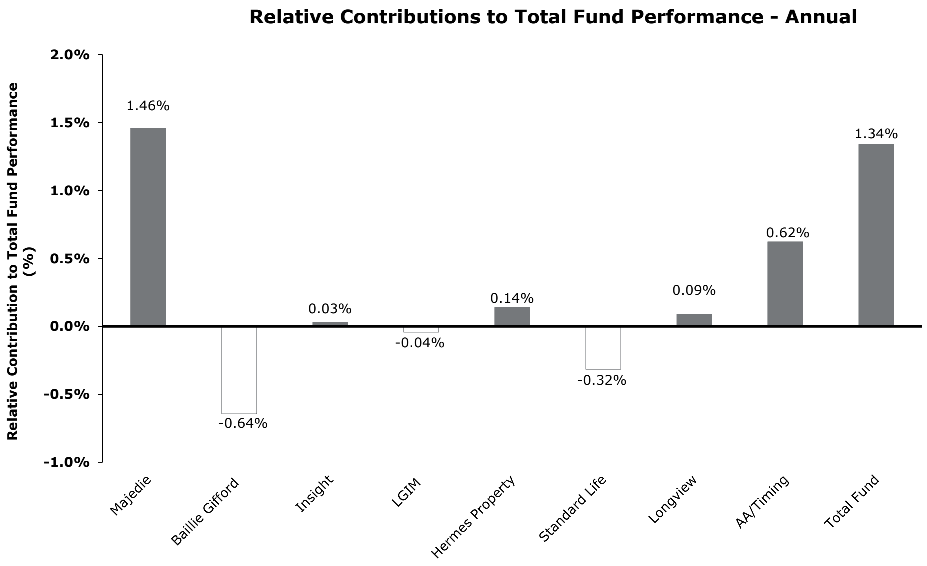
Outperformance by Majedie and Standard Life, with a further boost from being overweight equities helped to counteract the impact of the underperformance from Baillie Gifford and Longview.

Majedie's longer term performance also contributed to the Fund's outperformance over the year along with positive contributions from Hermes and Longview, offsetting the underperformance from Baillie Gifford.



2.3 Asset Allocation as at 31 December 2016

The table below shows the assets held by manager and asset class as at 31 December 2016.

Manager	Asset Class	End Sep 2016 (£m)	End Dec 2016 (£m)	End Sep 2016 (%)	End Dec 2016 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	274.6	298.4	23.7	24.6	22.5
LGIM	Global Equity (Passive)	255.8	267.7	22.0	22.1	22.5
Baillie Gifford	Global Equity	209.2	217.0	18.0	17.9	25.0
Longview	Global Equity	125.5	133.3	10.8	11.0	
	Total Equity	**865.1**	**916.4**	**74.5**	**75.6**	**70.0**
Insight	Fixed Interest Gilts (Passive)	19.0	18.7	1.6	1.5	20.0
Insight	Sterling Non-Gilts	169.7	167.5	14.6	13.8	
	Total Bonds	**188.7**	**186.2**	**16.3**	**15.4**	**20.0**
Hermes	Property	55.0	56.2	4.7	4.6	5.0
Standard Life	Property	52.2	53.3	4.5	4.4	5.0
To be determined	Property / Infrastructure	0.0	0.0	0.0	0.0	
	Total Property	**107.2**	**109.5**	**9.2**	**9.0**	**10.0**
	Total	**1,161.0**	**1,212.1**	**100**	**100**	**100**

Source: Investment Managers Figures may not sum due to rounding

* The benchmark allocation has been set to 70% equity, 20% bonds and 10% property to better align the benchmark performance calculation with the allocation and performance of the Fund. The Fund's long term strategic benchmark allocation includes a 5% allocation to Property / Infrastructure, which will be funded from the equity portfolio.

Over the quarter the market value of the assets increased by c. £51.1m, with positive absolute returns from the Fund's managers excluding the Insight mandates.

As at 31 December 2016, the Fund was overweight equities by c. 5.6% when compared with the amended benchmark allocation and underweight bonds and property by c. 4.6% and c. 1.0% respectively.

2.4 Yield analysis as at 31 December 2016

The table below shows the yield as reported by the managers on each of the Fund's investments.

Manager	Asset Class	Yield as at 31 December 2016
Majedie	UK Equity	2.82%
Baillie Gifford	Global Equity	1.28%
Insight Fixed Interest Gilts	Fixed Interest Gilts (Passive)	2.80%
Insight Sterling Non-Gilts	Sterling Non-Gilts	2.25%
LGIM	Global Equity (Passive)	0.22%*
Hermes Property	Property	3.81%
Standard Life Long Lease	Property	4.40%
Longview	Global Equity	2.19%
	Total	**1.94%**

*Benchmark yield 2.48%

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
Baillie Gifford	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Longview	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
LGIM	Global Equity (Passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Insight	Sterling Non-Gilts Fixed Interest Gilts (Passive)	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
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	1
Standard Life	Property	Richard Marshall leaving the business or ceasing to be actively involved in the Fund without having gone through an appropriate hand-over A build up within the Fund of holdings with remaining lease lengths around 10 years	1

3.1 Majedie UK Equity

Business

Majedie continues to recycle capacity as many of its existing clients continue to de-risk out of equities. Over the quarter, Majedie won a new £125m mandate for the UK Focus Fund. This was a UK corporate DB Pension Scheme and a new client to Majedie. This client also invested £125m in Majedie's Global Focus Fund. In addition, a charity endowment has decided to invest an initial £24m, also across both of these funds.

Total AUM for Majedie as at 31 December 2016 was £13.6bn, an increase of £0.3bn from last quarter.

Personnel

James Mowat joined Majedie as Client Director in December 2016 as Simon Hazlitt's replacement. James joined having spent 14 years at Baillie Gifford where he was a member of the Global Alpha client service team since its inception in 2005.

Deloitte view – We continue to rate Majedie positively for its UK Equity capabilities.

3.2 Baillie Gifford

Business

Total assets under management as at 31 December 2016 was c. £145bn, down from c. £148bn as at 30 September 2016. Baillie Gifford has suffered net capital outflows in 2016 for the second consecutive year due to the shift from active to passive management and the de-risking of pension schemes reducing their equity exposure.

Personnel
There were no significant changes to the portfolio management staff over the quarter. Three new partners will be appointed in May 2017, whilst one will retire in the same month thereby increasing the total number of partners at the firm to 43:

- Incoming: Eleanor McKee – clients department director, for MAG and DG clients, joined in 1998;
- Incoming: Donald Farquharson – investment manager in Japanese equity team, 28 years' experience;
- Incoming: John Carnegie – director in clients department as a global alpha specialist, joined in 2006;
- Retiring: Elaine Morrison - retiring after 28 years from the clients' department Asian business sector.

Deloitte view – We continue to rate Baillie Gifford positively for its global equity capabilities.

3.3 LGIM

Business
As at 30 June 2016, Legal & General Investment Management ("Legal & General") had total assets under management of c. £842bn, of which, £342bn was in passive solutions.

Personnel
Over the quarter, there were a number of senior personnel moves. These all represent internal hires who maintain the same LGIM philosophies.

- Aaron Meder will become CEO of LGIM America, leaving his current role as LGIM Head of Investment in London in early 2017;
- Anton Eser, currently Co-Head of LGIM's Global Fixed Income, will replace Aaron as LGIM Head of Investment in London;

Colin Reedie, currently Head of Euro Credit, will in-turn replace Anton as Co-Head of Global Fixed Income.
Deloitte View – We do not see these team structural changes having a negative impact on the business or funds, given the portfolio management teams for index equity and index fixed income remain intact, however we will continue to closely monitor any further developments. We continue to rate Legal & General positively for its passive capabilities.

3.4 Longview

Business
Assets under management at the end of December 2016 were c. £17.0bn.

Longview have now agreed a fee rate with the London CIV.

Personnel
As discussed last quarter, Nigel Masding officially left Longview in December 2016.

Kate Campbell joined during the quarter as Financial Director based in Guernsey. Prior to joining Longview, Kate spent 6 years working for the Government of Ras Al Khaimah (United Arab Emirates). She is a Chartered Certified Accountant and has recently completed an MBA at Cass Business School.

Deloitte view – We continue to rate Longview for its global equity capabilities.

3.5 Insight

Business
Insight continued to see an inflow of assets over the quarter, with assets under management growing beyond £520bn. Insight have won 17 new clients with assets totalling £2.0bn over the six months to 31 December 2016, and lost none. 21 existing clients have extended their LDI mandates over the same period, resulting in an extra £8.4bn of assets under management.

Of the total 257 LDI clients Insight have, 24 invest in bespoke QIAFs, 91 have segregated accounts and 142 invest in multi-client pooled funds, with the Enhanced Selection funds experiencing the most significant growth
Deloitte view – We continue to rate Insight positively for its Fixed Income capabilities.

3.6 Hermes

Business

Total assets under management increased by £2.6bn over the quarter, to £28.6bn for the business as a whole as at 31 December 2016, due to a combination of new client wins and performance. Over the quarter, assets under management within the HPUT remained relatively stable, ending the period at c. £1.4bn. The interest from prospective unit holders continues to be strong and the Trust Managers continue to hold subscriptions for new investment.

Personnel

There were no changes to the team over the quarter.

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

3.7 Standard Life

Business

The Fund's assets under management increased slightly due to positive performance however remains at c. £1.7bn. There were no significant inflows or outflows over the quarter.

Personnel

There were no personnel changes over the fourth quarter of 2016.

Deloitte View – We remain positive on long lease property given the long-term, inflation-linked nature of the contractual cashflows which arise from this type of investment.

4 Baillie Gifford – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014. The manager is remunerated on an asset based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark of 2% p.a.

4.1 Global equity – Investment performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	4.0	25.2		14.7
Net of fees	3.9	24.8		14.3
MSCI AC World Index	6.4	28.5		15.2
Relative (net of fees)	-2.5	-3.7		-0.9

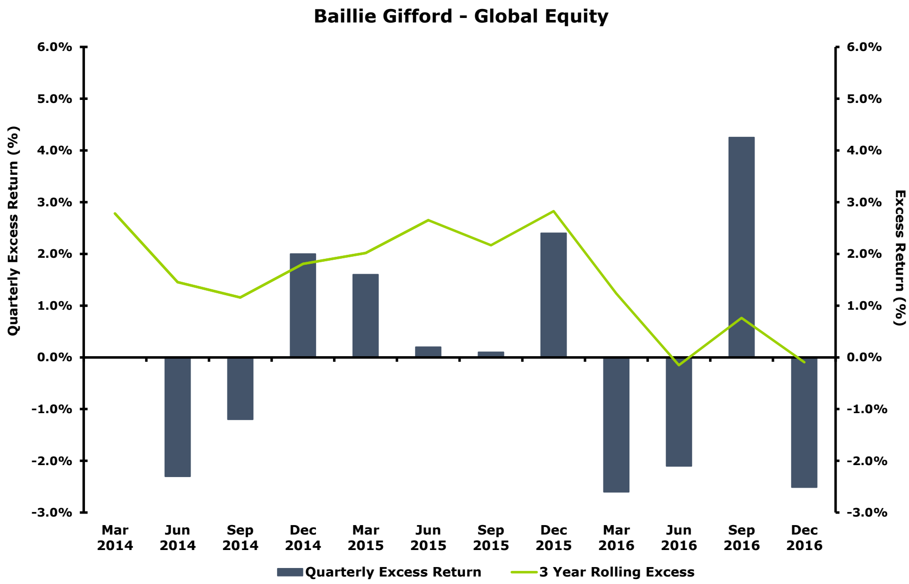
Source: Baillie Gifford, via London CIV and estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 18 March 2014

The Baillie Gifford Global Equity Alpha Fund has underperformed its benchmark by 2.5% net of fees over the quarter and by 3.7% over the year to 31 December 2016. Since inception, it is 0.9% net of fees behind the benchmark.

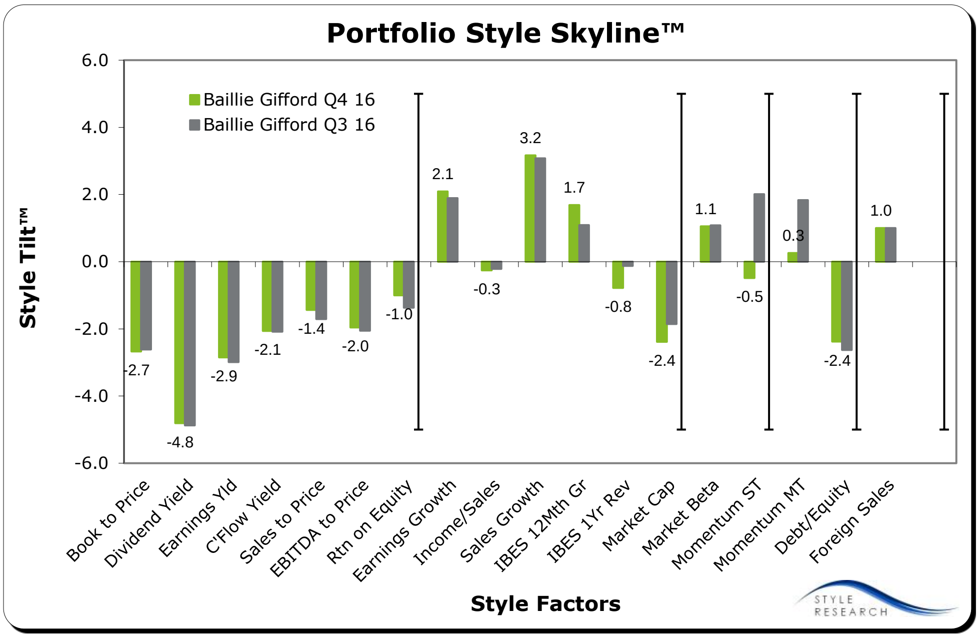
The graph below shows the net quarterly returns and the rolling three year excess returns relative to the benchmark. Note that Westminster only invested in this strategy from 18th March 2014 and previous periods are shown for information only. The Fund's current three year excess return is behind the target (+2% p.a.) having underperformed the benchmark by 0.1% p.a.



The portfolio's underweight positions in energy and consumer staples detracted from performance as both sectors performed well over the fourth quarter. Oil and Gas stocks in particular were buoyed by the increase in oil price following OPEC's announcement that it would cut production in 2017. The portfolio's overweight position in financials was a contributor to performance

4.2 Style Analysis

We have analysed the Style of Baillie Gifford's Global Alpha portfolio as at 31 December 2016, the results of which can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



As can be seen, the portfolio continues to show a marked negative bias to value related factors and a positive bias to growth factors which is consistent with the manager's stated investment approach. This is a similar position to last quarter.

The top 10 holdings in the portfolio account for c. 28.7% of the Fund and are detailed below.

Top 10 holdings as at 31 December 2016	Proportion of Baillie Gifford Fund
Amazon	4.2%
Prudential	3.6%
Royal Caribbean Cruises	3.2%
Naspers	2.9%
Taiwan Semiconductor Manufacturing	2.8%
SAP	2.6%
First Republic Bank	2.5%
Alphabet	2.4%
CRH plc	2.3%
TD Ameritrade	2.2%
Total	**28.7%**

Note: The numbers in this table may not sum due to rounding

Baillie Gifford	30 September 2016	31 December 2016
Total Number of holdings	98	97
Active risk	4.1%	4.0%
Coverage	7.0%	6.7%

As at 31 December 2016, the number of holdings within the portfolio decreased by 1. The overlap with the FTSE All World index decreased slightly and the active risk figure dropped slightly also.

5 LGIM – Global Equity (Passive)

LGIM was appointed to manage a passive global equity mandate from the 31 October 2012. The manager is remunerated on a fixed fee based on the value of assets. The target is to deliver performance in line with the stated benchmarks.

5.1 Passive Global Equity – Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	4.7	10.2	7.0	11.6
Net of fees[1]	4.7	10.0	6.9	11.5
FTSE World (GBP Hedged) Index	4.7	10.2	7.0	11.6
Relative (net of fees)	0.0	-0.2	-0.1	-0.1

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, and slightly underperformed the benchmark over the longer time periods and since the inception of the mandate. The fund is however meeting its performance target.

6 Majedie – UK Equity

Majedie was appointed to manage an active UK equity mandate. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% p.a. The target is to outperform the benchmark by 2% p.a.

6.1 Active UK Equity – Investment Performance to 31 December 2016

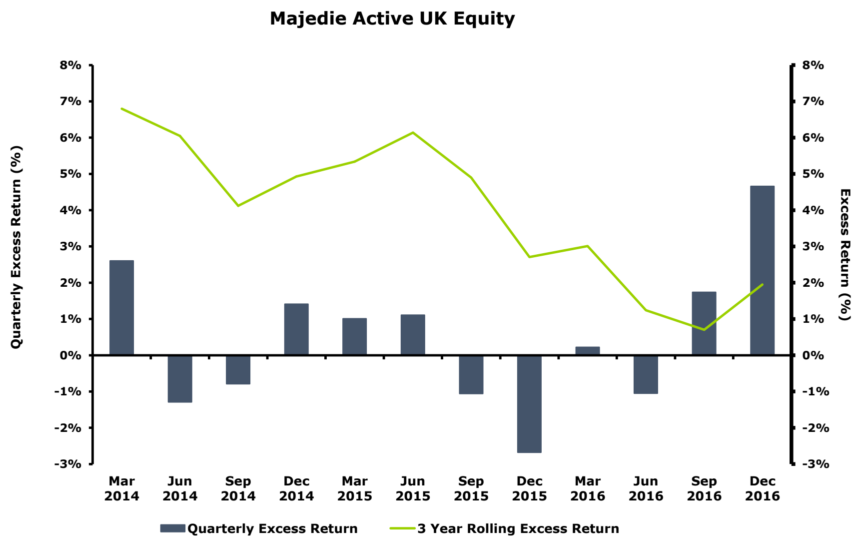
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	8.6	23.4	8.4	10.8
Net of fees[1]	8.6	23.1	8.0	10.5
MSCI AC World Index	3.9	16.8	6.1	6.4
Relative (on a net basis)	4.7	6.3	1.9	4.1

Source: Majedie

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006



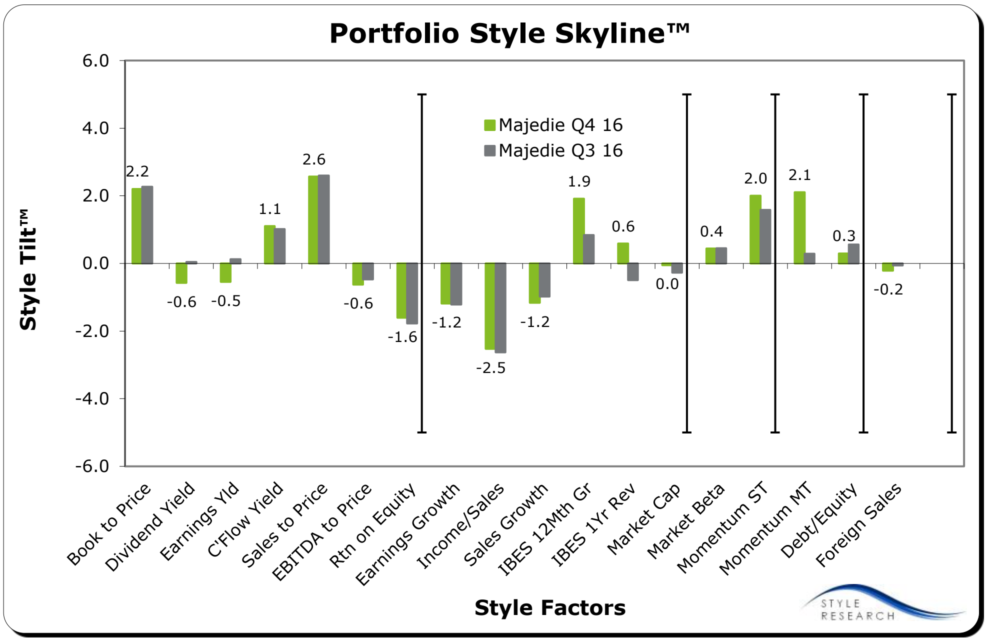
Majedie outperformed its benchmark over the quarter and year by 4.7% and 6.3% respectively on a net of fees basis. Over the longer timeframes of three years and since inception, the manager has outperformed its benchmark on a net basis by 1.9% p.a. and 4.1% p.a. respectively.

Over the quarter, banks were the biggest positive contributor to performance while Majedie's holdings in mining sectored also contributed. A stronger China, which consumes half of the world's commodities, and better capital discipline have led to companies like Anglo American performing well. The portfolio is also overweight in the oil sector, which has seen massive restructuring to reduce costs. Companies such as Royal Dutch Shell and BP are now much more streamlined and focussed on returns.

The greatest underperformance in the fund came from Glencore and Prudential.

6.2 Style analysis

We have analysed the Style of Majedie as at 31 December 2016. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



The portfolio continues to show a modest positive bias to value factors and a modest negative bias to growth factors. Given the approach where the portfolio is managed by 4 different individuals, we would not be surprised to see this change over time with the style skyline depending on where Majedie finds appropriate opportunities.

The top 10 holdings in the Majedie fund account for c. 46.1% of the fund and are detailed below.

Top 10 holdings as at 31 December 2016	Proportion of Majedie Fund
Royal Dutch Shell	8.4%
BP	7.6%
HSBC	7.0%
Barclays	4.0%
Tesco	3.9%
Anglo American	3.5%
BT Group	3.1%
Vodafone	3.1%
BHP Billiton	2.9%
WM Morrison	2.6%
Total	**46.1%**

Majedie	30 September 2016	31 December 2016
Total Number of holdings	154	151
Active risk	3.6%	3.8%
Coverage	37.4%	36.8%

As at 31 December 2016, Majedie held 151 stocks in total, with an overlap with the FTSE All Share index of 36.8%. This coverage is significantly higher than both Baillie Gifford and Longview, reflecting to an extent the multi manager approach. Majedie's active risk, as at 31 December 2016, increased slightly to 3.8%.

7 Longview – Global Equity

Longview was appointed on 15 January 2015 to manage an active global equity mandate. The manager's remuneration is based on the value of assets invested across the Tri-borough. The expectation is that the fund will outperform the benchmark by 3% p.a.

7.1 Active Global Equity – Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	6.4	29.7	n/a	18.6
Net of fees[1]	6.2	29.1	n/a	18.0
MSCI World Index	7.1	28.2	n/a	16.3
Relative (on a net basis)	-0.9	0.9	n/a	1.7

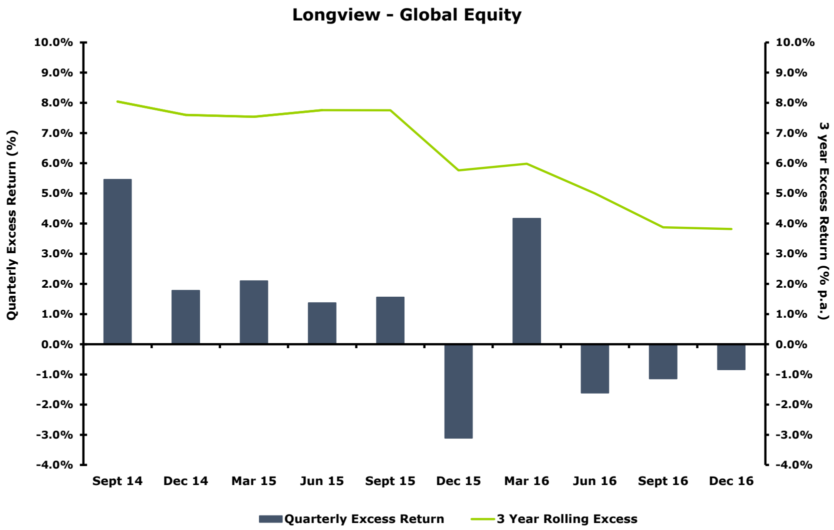
Source: Longview

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date 15 January 2015

Longview underperformed the benchmark by 0.9% on a net of fees basis over the fourth quarter of 2016. Over the year and since inception, the fund is ahead of the benchmark net of fees by 0.9% and 1.7% p.a. This is behind the target outperformance of 3% p.a.



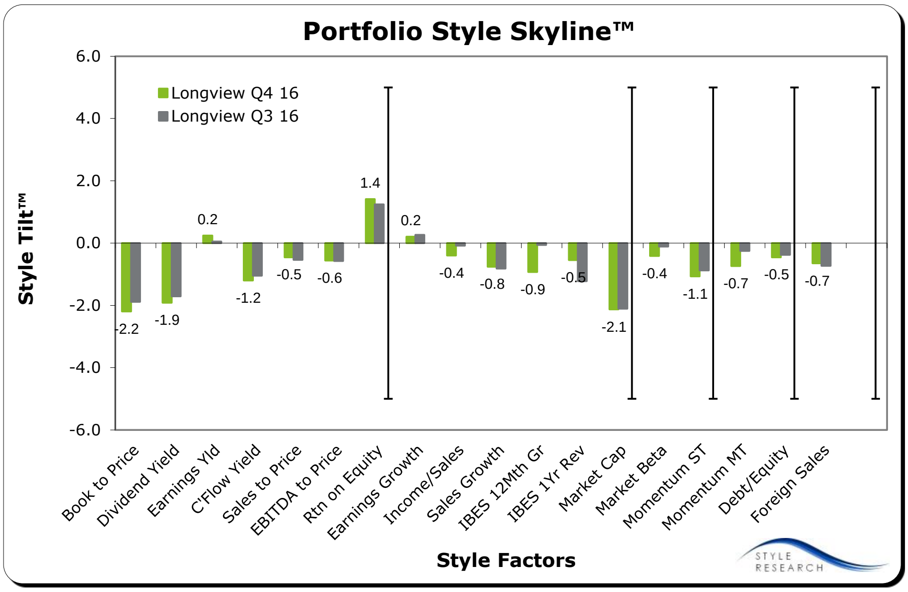
Time Warner was the top contributor over the fourth quarter as the market reacted positively to the telecommunications giant AT&T bidding to buy company. Time Warner has subsequently been sold as Longview don't currently have an official view on AT&T.

Wells Fargo, Bank of New York Mellon, BB&T and Lloyds all delivered strong returns as the banking sector performed strongly over the quarter, credited to Trump's victory in the election.

A detractor to performance was Zimmer Biomet Holdings. The merger between Zimmer and Biomet was believed to create synergies but its revenue in Q3 was below expectation following the sales team mistakenly selling the wrong product with no back-up inventory. The share price fell drastically but has started to recover in Q4.

7.2 Style analysis

The Style "skyline" for Longview's global equity portfolio as at 31 December 2016 is shown below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



The portfolio shows a modest negative bias to value factors and growth factors.

The top 10 holdings in the Longview fund account for c. 35.3% of the fund and are detailed below.

Top 10 holdings as at 31 December 2016	Proportion of Longview Fund
AON	4.5%
Bank of Ney York Mellon	3.8%
Fidelity National Info Services	3.5%
UnitedHealth	3.5%
Parker Hannifin	3.5%
SAP	3.4%
Emerson Electric	3.4%
Progressive	3.3%
WW Grainger	3.2%
Oracle	3.2%
Total	**35.3%**

Longview	30 September 2016	31 December 2016
Total Number of holdings	35	37
Active risk	4.6%	4.8%
Coverage	4.3%	4.4%

As at 31 December 2016, Longview held 37 stocks in total, with an overlap with the FTSE All World index of only 4.4%. This coverage is low due to the high conviction investing that Longview undertakes, which also leads to an active risk of 4.8% as at 31 December 2016.

8 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. The target of the Non-Gilt portfolio is to outperform the benchmark by 0.9% p.a.

8.1 Insight – Active Non Gilts

8.1.1 Investment Performance to 31 December 2016

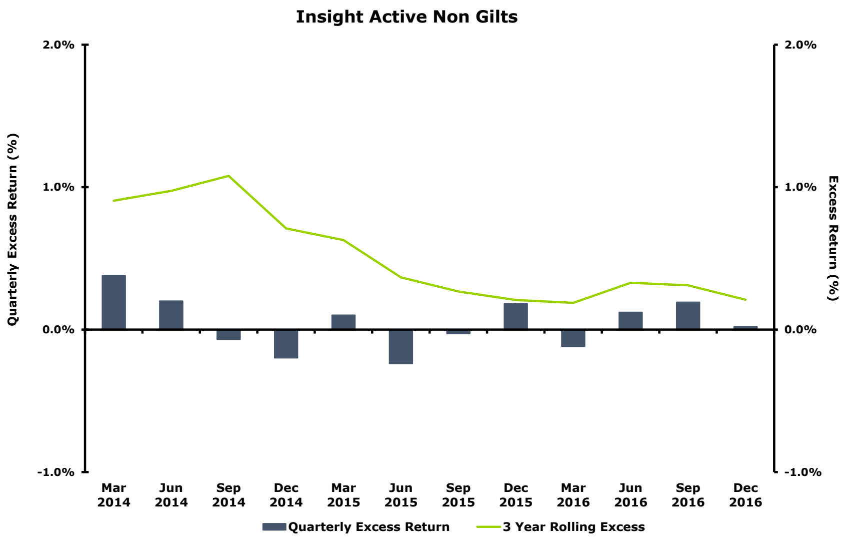
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	-1.3	8.3	6.5	5.9
Net of fees[1]	-1.4	8.0	6.3	5.7
iBoxx £ Non-Gilt 1-15 Yrs Index	-1.4	7.8	6.1	5.4
Relative (on a net basis)	0.0	0.2	0.2	0.3

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the portfolio performed in line with the benchmark. Over the year to 31 December 2016, the Fund has outperformed the benchmark by 0.2%. The Fund has outperformed the benchmark by 0.2% p.a. over the 3 years to 31 December 2016 and by 0.3% p.a. since inception. Performance therefore remains below the target of 0.9% p.a. outperformance.

8.1.2 Attribution of Performance

This information was not available at the time of drafting this report.

8.2 Insight – Government Bonds

8.2.1 Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Gilts - Gross of fees	-1.4	4.8	4.3	5.0
Net of fees[1]	-1.4	4.7	4.2	4.9
FTSE A Gilts up to 15 Yrs Index	-1.4	5.0	4.4	5.1
Relative (on a net basis)	0.0	-0.3	-0.2	-0.2

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 30 June 2008.

The gilt portfolio has matched its benchmark over the quarter and underperformed by -0.3% on a net basis over the year to 31 December 2016. Over both three years and since inception, the fund has underperformed the benchmark by 0.2% p.a.

8.3 Duration of portfolios

	30 September 2016		31 December 2016	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.8	5.5	5.7	5.4
Government Bonds (Passive)	4.7	5.0	4.7*	5.0*

Source: Insight

*Data as at 30 September 2016: Insight could not provide data as at 31 December 2016 at time of writing this report.

9 Hermes – Property

Hermes was appointed to manage a core UK property portfolio. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

9.1 Property – Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	3.1	6.8	13.8	9.6
Net of fees[1]	3.0	6.4	13.4	9.2
Benchmark	2.2	3.7	11.2	8.4
Relative (on a net basis)	0.8	2.7	2.2	0.8

Source: Hermes

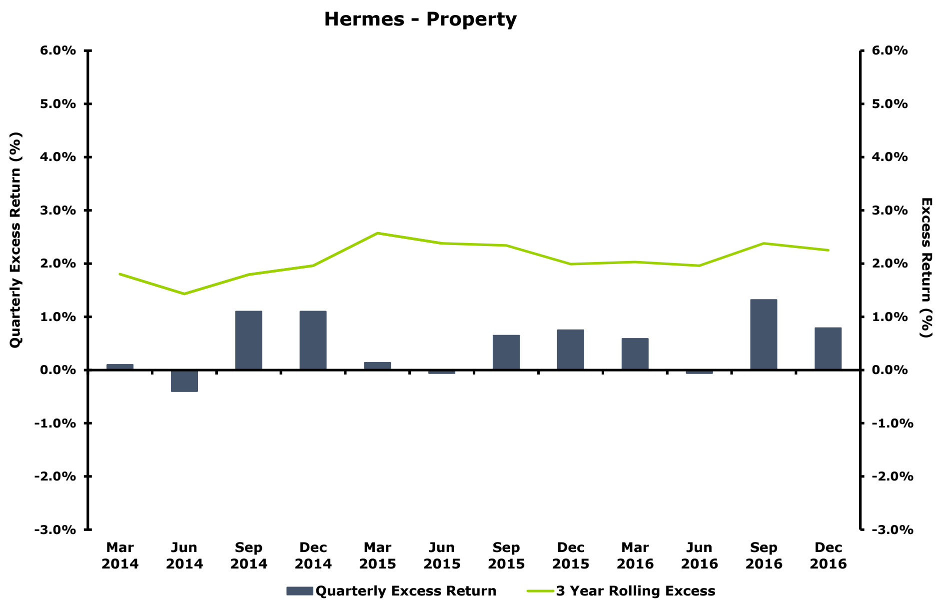
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes outperformed its benchmark by 0.8% over the quarter and 2.7% over the year to 31 December 2016. Over the longer term, the fund has outperformed the benchmark by 2.2% p.a. over three years and by 0.8% p.a. since the inception of the mandate, remaining ahead of the target outperformance of 0.5% p.a.

Key contributors to performance over the quarter were West End Offices and "Other" (comprising of pubs, hotels etc.). The West End Offices performed well following favourable rent reviews on the Great George Street property. The main detractors of performance over the quarter were the Trust's holdings in Retail Warehouses and City Offices, both sectors having a fairly muted quarter.



9.2 Sales and Purchases

The team completed two sales over the quarter:

- Eastgate House in London was sold for c. £21m, representing a premium of c. 10% to the valuation at the end of November. The disposal reduced the portfolio's exposure to Central London, as well as to assets on short unexpired leases. Eastgate had been purchased in 2011 for just over £10m, and has performed well for HPUT over the holding period.
- A selection of pubs in Esher, Beaconsfield, Winchester and Lymington were sold for a total price of c. £9.7m, representing a premium of c. 20% above the end of September valuation. These holdings were part of the Enterprise Inn Portfolios purchased in 2011.

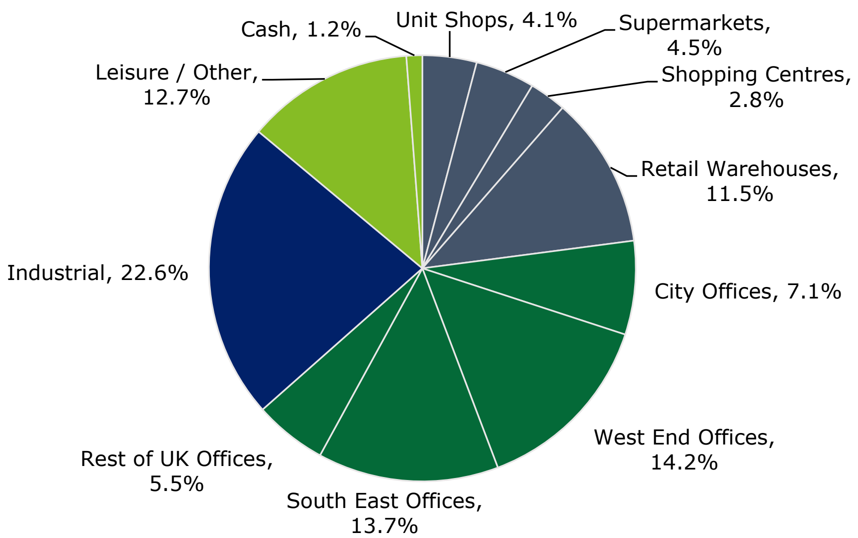
There were no acquisitions completed over the quarter.

Asset management is ongoing at the following properties:

- Great George Street in Bristol benefitted from four floors being leased to Bristol University on a 15 year lease. Bristol University join JLL and JM Finn as occupiers in the newly developed building.
- Great George Street in London saw favourable rent reviews this quarter, with an additional c. £0.3m p.a. due in rent from this property.

9.3 Portfolio Summary as at 31 December 2016

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 31 December 2016 shown below.



The table below shows the top 10 directly held assets in the Fund as at 31 December 2016, representing c.35.5% of the Fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	110.0
8/10 Great George Street, London SW1	Offices	62.0
27 Soho Square, London W1	Offices	43.8
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	41.2
Polar Park, Bath Road, Heathrow	Industrial	39.9
Hythe House, Hammersmith	Offices	38.5
2 Cavendish Square, London W1	Offices	38.3
Christopher Place, St Albans	Shopping Centre	37.4
Camden Works, Oval Road, London NW1	Offices	37.1
Boundary House, 91/93 Charterhouse St, London EC1	Offices	34.5
Total		**482.7**

10 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 manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the FT British Government All Stocks Index benchmark +2.0% p.a. by 0.5% p.a.

10.1 Long Lease Property – Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Standard Life - Gross of fees	2.3	6.1	8.2	9.1
Net of fees[1]	2.2	5.6	7.7	8.6
Benchmark	-3.0	12.3	10.2	8.7
Relative (on a net basis)	5.2	-6.7	-2.5	-0.1

Source: Standard Life

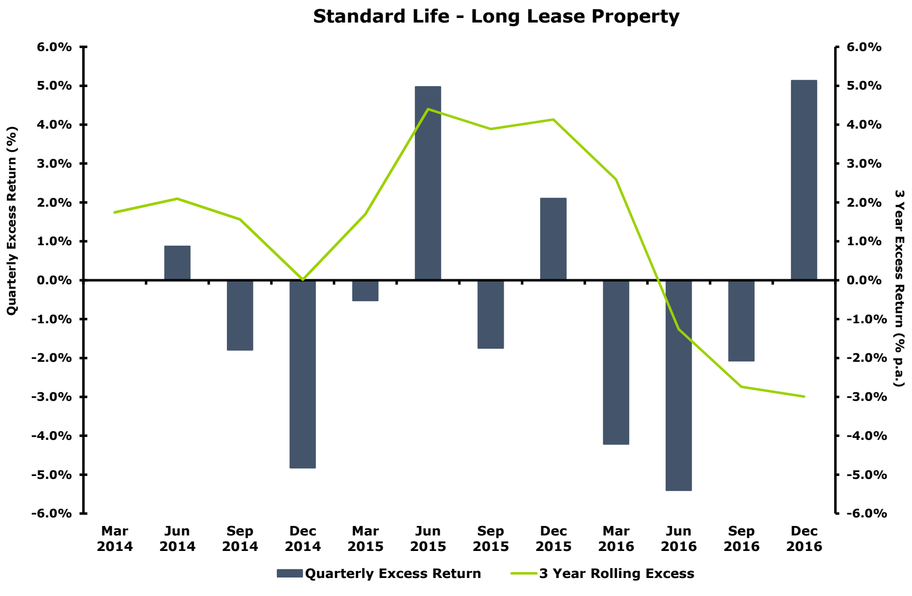
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

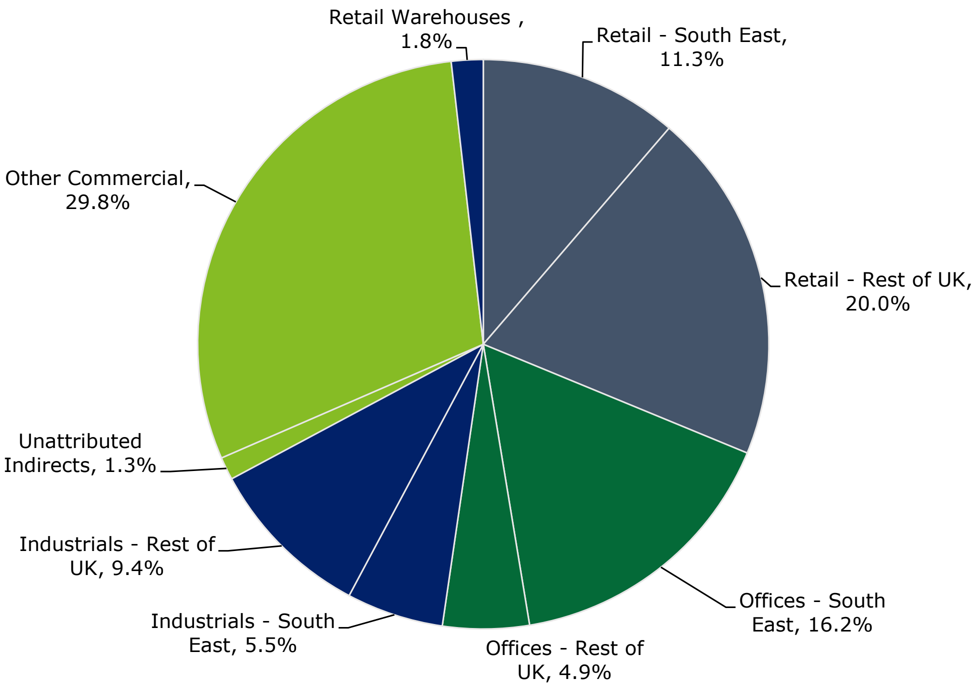
Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 2.2% net of fees over the fourth quarter of 2016, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 5.2% net of fees. Over the year the fund remains behind the benchmark by 6.7% on a net basis. The relative performance is more down to the volatility of the gilt market rather than representing anything particularly notable about the Long Lease Property Fund. In absolute terms the fund is performing in line with expectations, returning 7.7% p.a. and 8.6% p.a. over the three years and since inception, to 31 December 2016.

Net performance of the Long Lease Fund is shown below.



The sector allocation in the Long Lease Property Fund as at 31 December 2016 is shown in the graph below.



The Fund remains underweight the office sector (21.1% compared to 31.1%) and remains underweight in the industrial sector (14.9% compared to 21.7%) at the end of the fourth quarter of 2016. The Fund is also overweight the retail sector (33.1% compared to 26.9%).

The Fund continues to be significantly overweight the "Other" sector (29.8% compared to 9.0%) as a result of its holdings in a range of car parks, student accommodation, hotels, medical centres and law courts, as well as its indirect holding in the Standard Life Investments Commercial Ground Rent Fund.

The table below shows details of the top ten tenants in the Fund measured by percentage of net rental income:

Tenant	Total Rent £m p.a.	% Net Income
Tesco	7.89	10.4
Whitbread	5.06	6.7
Sainsbury's	4.91	6.5
Marston's	4.56	6.0
Asda	4.42	5.8
Salford University	3.69	4.9
Save The Children	3.65	4.8
Poundland	3.60	4.7
Glasgow City Council	3.10	4.1
Travis Perkins Group	2.99	3.9
Total	**43.87**	**57.7***

*Total may not equal sum of values due to rounding

The top 10 tenants contribute 57.7% of the total net income into the Fund. Supermarkets continue to dominate with Tesco, Sainsbury's and Asda contributing 22.7% to the Fund's total net rental income as at 31 December 2016.

The Fund's average unexpired lease term increased slightly over the quarter from 25.6 years to 25.7 years.

10.2 Sales and Purchases

During the quarter the Fund made three sales to align with their strategy of disposing of shorter lease assets which are expected to underperform.

- A student accommodation asset let to Solent University in Southampton was sold for £11.9m reflecting a yield of 5.6%.

- A Mercedes Benz dealership in Birmingham was sold for £12.85m reflecting a yield of 5.1%. This asset was sold to the existing tenant at a sale price 22% above the most recent valuation.

- The Fund also sold a Volkswagen showroom in Exeter for £3m due to a concern about future performance with the shortening of the lease term and the prospect of the tenant relocating to a new facility.

The proceeds from these sales were used to purchase a portfolio of five Marston's pubs and two budget hotels for £22m, reflecting a yield of 4.2%. The 40 year lease has annual RPI-linked rent reviews with a cap and collar of 4% and 1% respectively.

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 25 March 2015.

Manager	Asset Class	Long Term Strategic Benchmark Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
Majedie	UK Equity	20.0	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	20.0	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees	+/- 0.5
Baillie Gifford	Global Equity	25.0	MSCI AC World Index	+2.0 p.a. (net of fess)	18/03/14	36bps base fee	
Longview	Global Equity		MSCI World (GBP) Index	To outperform the benchmark over a market cycle	15/01/15	75bps base fees minus a rebate dependent on fund size	
Insight	Fixed Interest Gilts	-	FTSE GILTS up to 15 Yrs Index	Passive	31/05/06	10bps base fees	
	Non-Gilts	20.0	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90 p.a. (gross fees)	31/05/06	c.24bps base fee	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% p.a.	+0.5 p.a. (net of fess)	14/06/13	50bps base fee	
To be determined	Property / Infrastructure	5.0					
	Total	100.0					

For the purposes of our performance calculations we have assumed the 5% awaiting allocation to property / infrastructure is split evenly between Majedie and LGIM.

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 – Style analysis

The Style Skylines are designed to answer the question "How significantly different is the portfolio from the benchmark?" in respect of Style factors which are important and relevant in equity markets.

In each Style Skyline, the first six bars from the left are Value factors (shown as blue bars in the output). The next six bars are the Growth factors (green bars) and include four current/historic measures as well as two forward-looking Growth factors (incorporating IBES consensus earnings estimates and earnings revisions). The remaining bars on the right cover Size, Beta, Momentum, Gearing/Leverage and Foreign Sales.

As a general rule of thumb, for any individual Style tilt (Standard or Adjusted):

- Style tilts less than -0.5 or more than +0.5 indicate a tilt is observable.
- Style tilts less than -1 or more than +1 are statistically significant.
- Style tilts less than -2 or more than +2 are statistically very significant.

There is a further interpretation when we compare across similar factors such as the Value factors (blue bars in the Style Skyline) or the Growth factors (green bars). If most of the Value factors are positive and, say, between 0.4 to 0.6 this suggests that there is a significant Value tilt even though no individual tilt is very significant i.e. multiple tilts in a similar direction within Value or within Growth can reinforce our interpretation of a Style orientation.

It is possible that more extreme tilts can be produced when portfolios and benchmarks are themselves narrowly defined against the market e.g. it is not unusual for Small Cap portfolios to show tilts of 3, 4 or even much larger in magnitude against a Small Cap benchmark. In these cases the significance of the tilts should not be overemphasized.

There is little purity of definition, but in general the various Value and Growth tilt possibilities can be initially interpreted as follows:

Value Factors	Growth Factors	Interpretation
Positive	Negative	Traditional Value
Positive	Positive	Growth at the Right Price
Negative	Positive	Traditional Growth
Negative	Negative	Popular Recovery Situations

Appendix 4 – Risk warnings & Disclosures

- 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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