City of Westminster Superannuation Fund

Investment Performance Report to 30 June 2014

Executive Summary

Deloitte Total Reward and Benefits Limited
August 2014

Contents

Appendices

1 Market Background

Three and twelve months to 30 June 2014

The second quarter of 2014 saw positive returns on UK equities, with the FTSE All Share Index returning 2.2%. Whilst the first two months of the quarter saw positive UK equity returns as a result of continuing positive economic data, the FTSE All Share Index delivered a negative return over the month of June. Equity markets were likely to have been affected by the Governor of the Bank of England's statement that UK interest rates may rise earlier than anticipated. Larger companies outperformed smaller companies considerably, with the FTSE 100 Index returning 3.2% and the FTSE Small Index returning 0.1% over the quarter.

There was a wide range of performance at the sector level, with Health Care delivering the highest return (9.8%) and Technology being the worst performing sector (-8.1%).

Over the 3 months to 30 June 2014, global equity markets outperformed the UK in both local and sterling terms, delivering returns of 4.6% and 2.7% respectively. Currency hedging was therefore beneficial to investors over the quarter. The Emerging Markets region was the strongest performing over the quarter, returning 5.0% in sterling terms and 7.1% in local currency terms. Europe (ex UK) was the lowest performing region over the period, returning 0.3% in sterling terms and 3.7% in local currency terms.

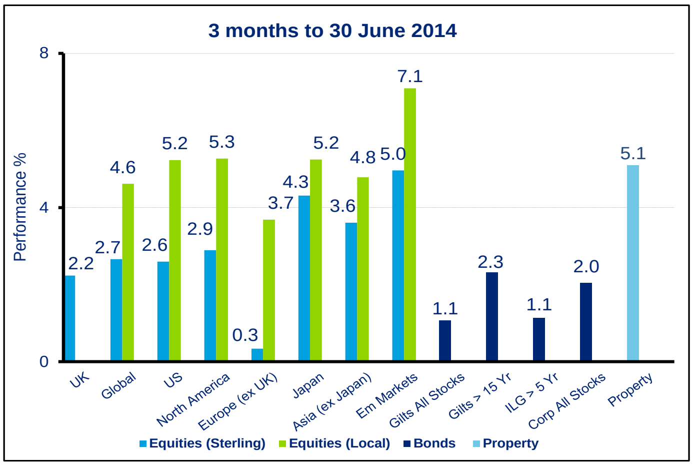
UK nominal gilts performed positively over the second quarter of 2014 as yields fell at longer maturities, with the All Stocks Gilt Index and Over 15 Year Gilt Index returning 1.1% and 2.3% respectively. Corporate bond performance was positive over the quarter as credit spreads narrowed. The iBoxx All Stocks Non Gilt Index returned 2.0% over the period.

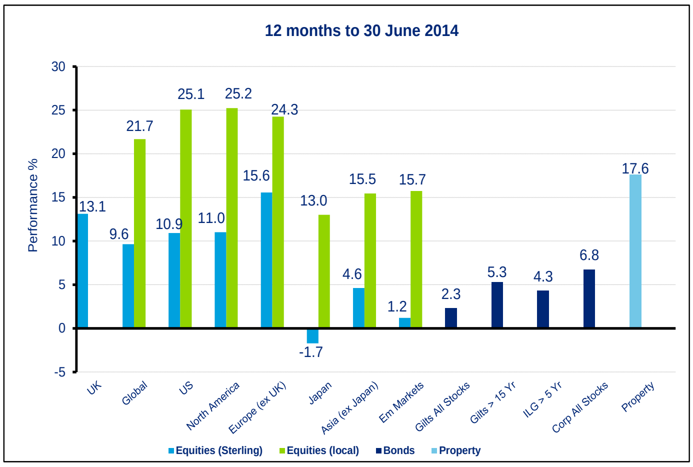
The FTSE All Share Index returned 13.1% over the year to 30 June 2014. Smaller companies played a key role in in this return, with the FTSE Small Cap Index returning 19.1%. Over the 12 months to 30 June 2014, the Health Care sector delivered the highest return of 21.3%. On the other hand, the Financial sector delivered the lowest return of 4.0%.

Global markets outperformed the UK significantly over the year to 30 June 2014 in local currency terms but underperformed the UK in sterling terms. The FTSE All World Index returned 21.7% in local currency terms, yet only 9.6% in sterling terms. Currency hedging was beneficial as sterling appreciated against all major currencies, most substantially against the Japanese yen.

Returns on nominal UK gilts were positive over the year to 30 June 2014, with yields increasing at shorter maturities and falling at the longer end of the curve. The All Stocks Gilt Index returned 2.3% whilst the Over 15 Year Gilt Index returned 5.3%. Real yields on UK index-linked gilts fell over the year, with the Over 5 Year Index-linked Gilts Index returning 4.3%. Corporate bond markets offered a positive return over the year, with the iBoxx All Stocks Non Gilt Index returning 6.8%, as credit spreads narrowed.

The UK property market continues to rise, returning 5.1% over the quarter and 17.6% over the year to 30 June 2014.





2 Total Fund

2.1 Investment Performance to 30 June 2014

The following table summaries 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]	
Baillie Gifford	Global Equity	0.4	0.3	2.6	n/a	n/a	n/a	n/a	n/a	n/a	0.8	0.8	3.1
Majedie	UK Equity	1.0	0.9	2.2	19.7	19.3	13.1	15.4	15.0	8.9	11.5	11.1	6.3
LGIM	Global Equity	4.5	4.5	4.5	20.7	20.6	20.6	n/a	n/a	n/a	20.6	20.4	20.6
Insight	Non Gilts	1.8	1.7	1.5	7.1	6.9	5.7	7.7	7.5	6.5	5.8	5.6	5.3
	Gilts	0.4	0.4	0.4	0.8	0.7	0.8	3.1	3.0	3.0	5.3	5.2	5.4
Hermes	Property	3.9	3.8	4.2	16.4	16.0	15.2	8.8	8.4	6.6	7.2	6.8	7.2
Standard Life	Property	2.6	2.5	1.6	12.8	12.3	4.4	n/a	n/a	n/a	n/a	n/a	n/a
Total		2.5	2.4	3.2	15.1	14.9	13.8	10.5	10.3	9.3	6.5	6.3	6.1

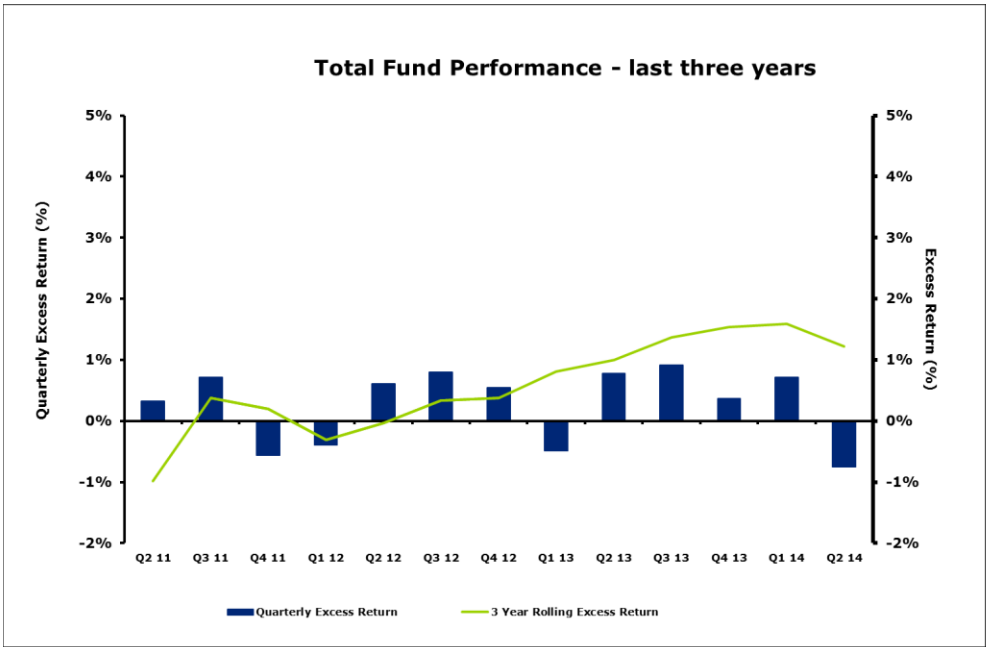
Source: Investment Managers

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

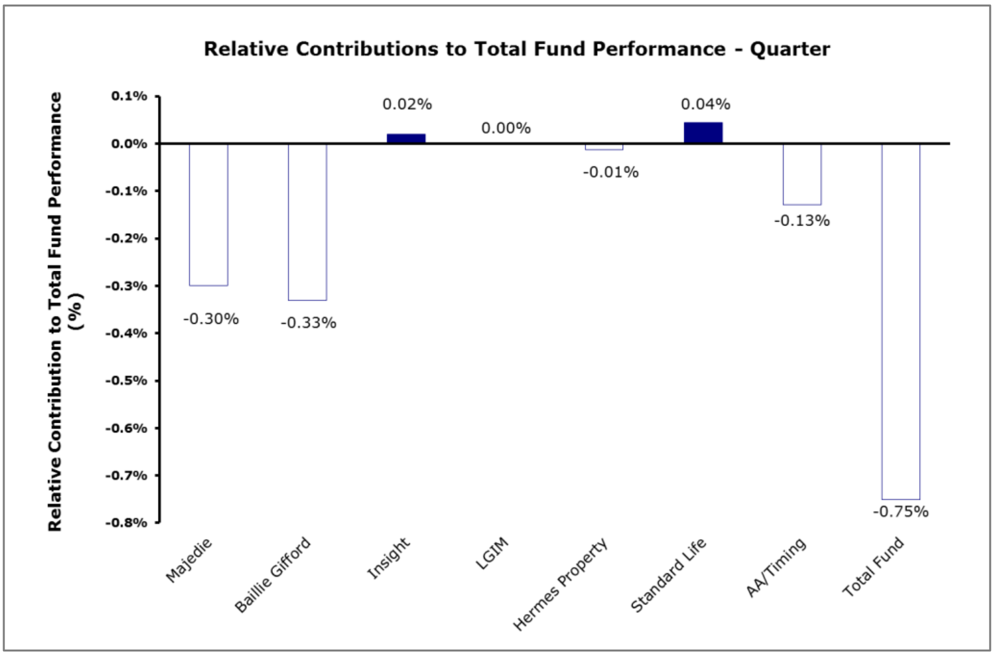
See appendix 1 for more detail on manager fees and since inception dates

Over the quarter the Fund underperformed, mostly due to the active equity managers, Baillie Gifford and Majedie.

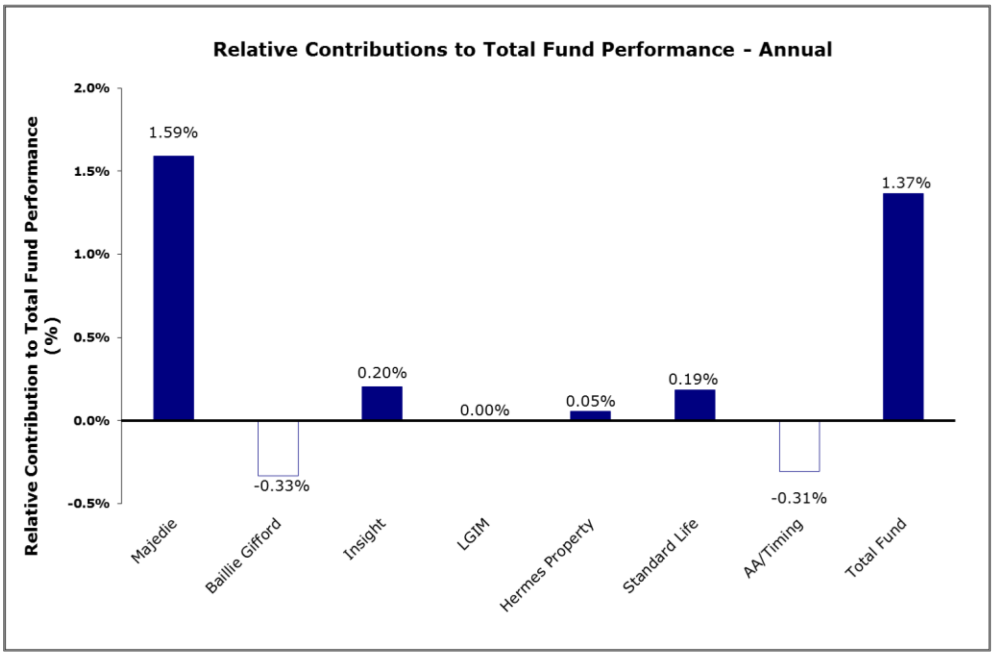
The chart below shows the performance of the Fund over the three year period, highlighting that the rolling three-year performance has been positive since mid-2012, with Majedie, Hermes and Insight contributing positively.



2.2 Attribution of Performance to 30 June 2014



The Fund underperformed its composite benchmark by 75bps over the second quarter of 2014, largely as a result of weak performance from the active equity managers, Majedie and Baillie Gifford.



The Fund outperformed over the year, largely due to strong performance from Majedie.

Asset Allocation as at 30 June 2014

Over the quarter, there were no further changes to manager allocations. As mentioned in last quarter's report, the Committee terminated 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. Around the end of March 2014 c.£296m was disinvested from SSgA, of which approximately £130m was transferred to Baillie Gifford on 18 March for investment in the Global Equity Alpha Fund and in April c. £160m was transferred to the passive global equity mandate managed by LGIM.

The table below shows the assets held by manager and asset class as at 30 June 2014.

		Actual Asset Allocation				
Manager	**Asset Class**	**31 Mar 2014 (£m)**	**30 Jun 2014 (£m)**	**31 Mar 2014 (%)**	**30 Jun 2014 (%)**	**Benchmark Allocation (%)**
Majedie	UK Equity	239.4	241.7	24.9	24.1	16.9
LGIM	Global Equity (Passive)	185.9	362.7	19.3	36.2	43.1
Baillie Gifford	Global Equity	130.2	150.7	13.6	15.0	15.0
	Total Equity	**718.8***	**755.1**	**74.8**	**75.4**	**75.0**
Insight	Fixed Interest Gilts (Passive)	16.8	16.8	1.7	1.7	0.0
Insight	Sterling Non-Gilts	142.3	144.8	14.8	14.5	15.0
	Total Bonds	**159.1**	**161.6**	**16.5**	**16.1**	**15.0**
Hermes	Property	39.1	40.2	4.1	4.0	5.0
Standard Life	Property	43.8	44.9	4.6	4.5	5.0
	Total Property	**82.9**	**85.1**	**8.7**	**8.5**	**10.0**
	Total	**960.7**	**1,001.8**	**100.0**	**100.0**	**100.0**
	Westminster In-House Account	0.2	0.2			-
	Total	**960.9**	**1,002.0**			**-**

Source: Investment Managers and Custodian (BNY Mellon)

Figures may not sum to total due to rounding

* Note there was still a portion of assets in transition from SSgA to LGIM at the start of the quarter

Over the quarter the market value of the assets rose by c. £41.1m, and increased past the £1 billion level.

Rebalancing Framework

As at 30 June 2014, the Fund remains overweight Majedie UK equities (+7.2%). However, at the total equity level the allocation is broadly in line as a result of the underweight allocation to the passive global equity mandate. The Total Bonds allocation is slightly overweight (+1.1%) at the expense of Total Property (-1.5%).

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 of asset growth	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

Majedie launched its new global and US equity funds at the end of June, seeding the funds with money from funds managed for Majedie Investments. While the global funds will be managed along similar lines to the current UK funds, adopting a multi manager approach, the US fund will be a single manager fund Adrian Brass.

Deloitte view – We continue to rate Majedie positively for their UK equity capabilities.

Baillie Gifford

Total assets under management increased over the quarter from £105bn at 31 March 2014 to £108.2bn as at 30 June 2014.

Client net flows were positive (c. £1.6bn) over the quarter, with inflows from both new and existing clients slightly offset by a very low level of client outflow.

There were no changes to the team or process applied in the management of the Global Alpha portfolio.

Deloitte view – We continue to rate Billie Gifford positively for their global equity capabilities.

LGIM

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

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

Insight

Insight continues to grow the assets under management for both the fixed interest and liability solutions parts of the business. To assist the growth, Insight has been adding resource to its US operation, extending the analyst coverage which has included the transfer of Alex Moss from the UK to the US. Further resource has also been added to the Financial Solutions Group, with the hiring of Jo Howley from Ignis.

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

The acquisition of Ignis Asset Management by Standard Life received regulatory approval during the second quarter of 2014 and work is now starting on the integration of the two businesses. SLI advises that the integration is being managed to minimise the potential distraction to investment personnel.

As part of the Ignis acquisition, the real estate team will increase in size, with additional team members and around £3.5bn of real estate assets. Most of the property assets under management are retail orientated however, with no long lease element.

As at 30 June 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 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 30 June 2014

	Last Quarter (%)	Since Inception (% p.a.)[1]
Baillie Gifford – Gross of fees	0.4	0.8
Net of fees[1]	0.3	0.7
MSCI AC World Index	2.6	3.1
Relative	-2.2	-2.3

Source: Baillie Gifford

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 18 March 2014

The Baillie Gifford Global Equity fund has underperformed its benchmark over the quarter.

Key drivers of underperformance over the quarter included holdings in Ryanair and Ebay, Td Ameritrade (an American online broker) and Xilinx (an American technology company). Not holding Apple also detracted from performance over the quarter.

Baidu (a Chinese web services company) and Eog Res (an American oil and gas company) were the top contributors to performance.

Next quarter, once Baillie Gifford has been in place for more than one quarter, we will include a chart of its quarterly relative performance, along with its cumulative performance.

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 30 June 2014

	Last Quarter (%)	Last Year (%)	Since inception (%)[1]
LGIM – Gross of fees	4.5	20.7	21.4
Net of fees[1]	4.5	20.6	21.2
FTSE World GBP Hedged	4.5	20.6	21.4
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 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.

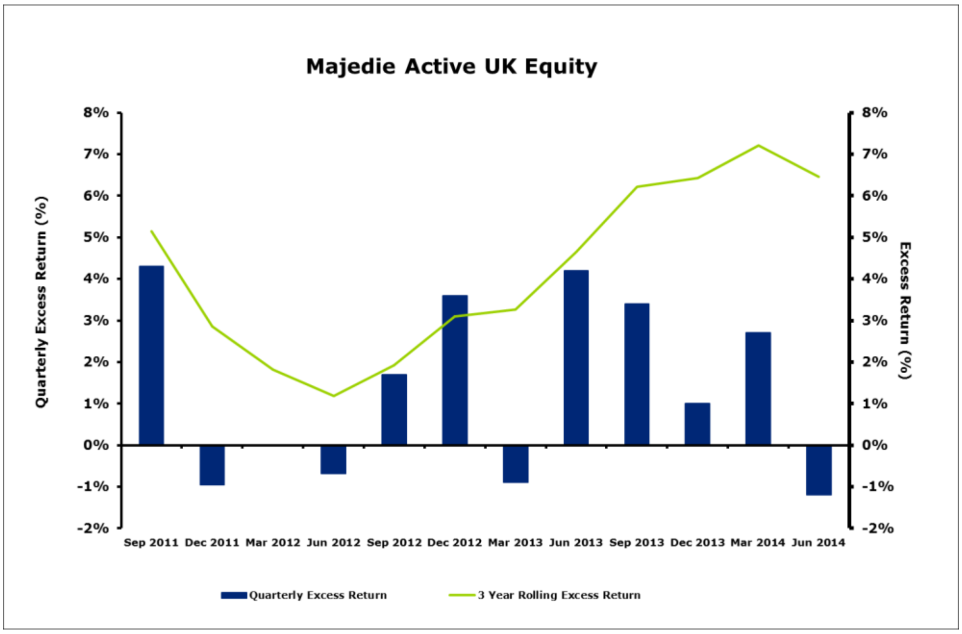
6.1 Investment Performance to 30 June 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie – Gross of base fees	1.0	19.7	15.4	11.5
Net of base fees[1]	0.9	19.3	15.0	*11.1*
FTSE All-Share Index	2.2	13.1	8.9	6.3
Relative	-1.2	6.6	6.5	5.2

Source: Majedie

See appendix 1 for more detail on manager fees

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



Majedie underperformed its benchmark over the quarter by 1.2%. However, over the longer timeframes of one year, three years and since inception the manager has outperformed its target by 6.6%, 6.5% p.a. and 5.2% p.a. respectively.

Over the quarter, positive performance was driven by AstraZeneca and Orange, however, holdings in Firstgroup and Marks & Spencer negated performance. In addition, not holding any positions in Shire and BG detracted from performance as both stocks jumped in price due to M&A activity and bid speculation.

Note that on 7 April the segregated portfolio was transferred to the pooled Majedie Institutional Trust.

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

7.1 Insight – Active Non Gilts

7.1.1 Investment Performance to 30 June 2014

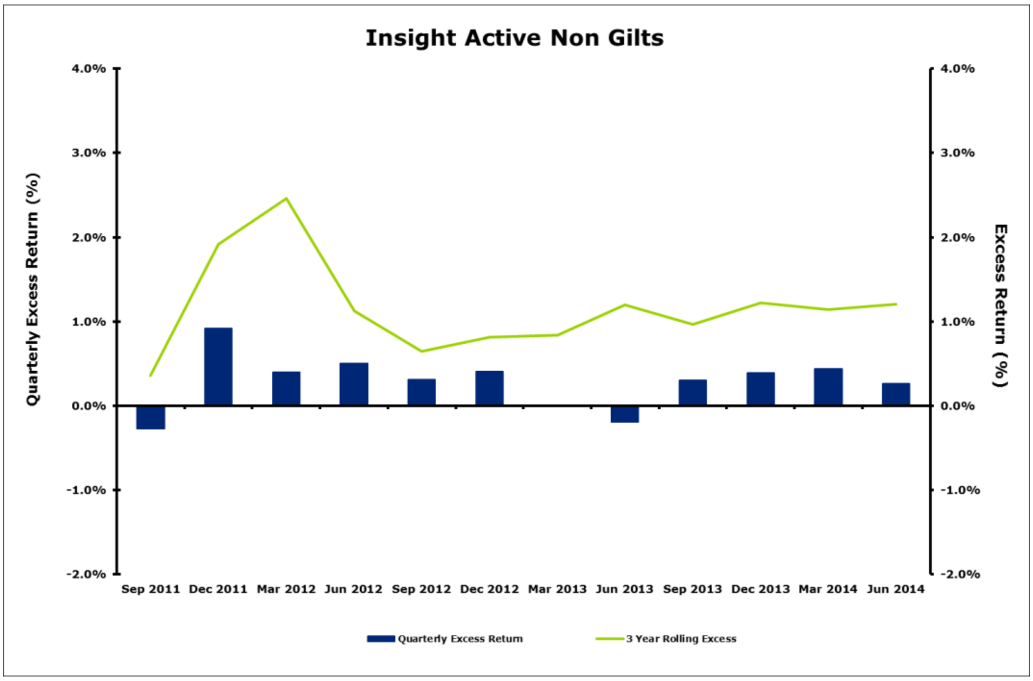
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)[1]
Insight (Non-Gilts) – Gross of fees	1.8	7.1	7.7	5.8
Net of fees[1]	1.7	6.9	7.4	5.6
iBoxx £ Non-Gilt 1-15 Yrs Index	1.5	5.7	6.5	5.3
Relative	0.3	1.4	1.2	0.5

Source: Insight

(1) Estimated by Deloitte

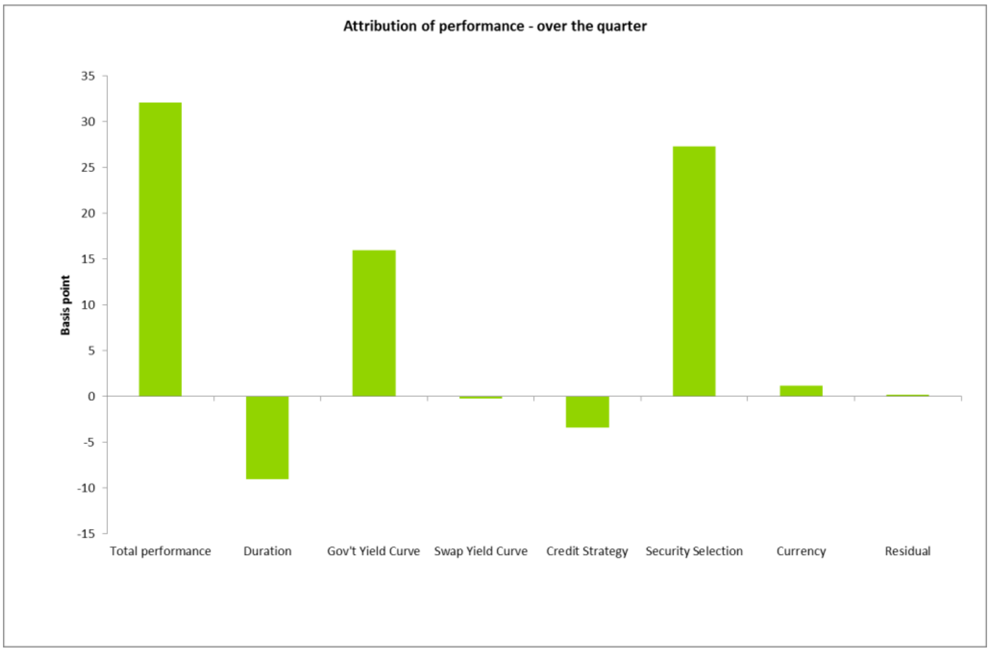
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the portfolio outperformed the benchmark by 0.3%. Over the one year and three years Insight has outperformed the benchmark by 1.4% and 1.2% p.a. respectively.

7.1.2 Attribution of Performance



Source: Insight

Security selection was the main driver of performance over the quarter, with most of the added value coming through the new issuance market. However, performance was offset by losses in their Duration and Currency strategy

7.2 Insight – Government Bonds

7.2.1 Investment Performance to 30 June 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Passive Bonds) – Gross	0.4	0.8	3.1	5.3
Net of fees[1]	0.4	0.7	3.0	5.2
FTSE A Gilts up to 15 Yrs Index	0.4	0.8	3.0	5.4
Relative	0.0	0.0	0.1	-0.1

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 performed broadly in line with its benchmark over the quarter, one and three year period to 30 June 2014.

7.3 Duration of portfolios

	31 March 2014		30 June 2014	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.7	5.6	5.2	5.5
Government Bonds (Passive)	4.5	4.8	4.6	4.6

Source: Insight

8 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.

8.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Last 3 Years (%)	Since Inception (% p.a.)[1]
Hermes – Gross of fees	3.9	16.4	8.8	7.2
Net of fees[1]	3.8	16.0	8.4	6.8
Benchmark	4.2	15.2	6.6	7.2
Relative	-0.3	1.2	2.2	0.0

Source: Hermes

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes marginally underperformed its benchmark by 0.3% over the quarter.

The underperformance is partly due to the relatively high level of transactions during Q2 where the Trust acquired three assets, totalling just over £36m. There continues to be strong investor interest in the Trust with a waiting list for new subscriptions in place.

Longer term the performance has been ahead of benchmark

8.2 Sales and Purchases

Purchases:

- Centrus Industrial Estate, Hertford – a freehold multi-let industrial estate acquired in May 2014 for £8.0 million reflecting an initial yield of 7.0%. This industrial estate includes a range of modern industrial units in Hertford’s well established central business location.

- Madelayne Court, Chelmsford – a freehold single-let purpose built care home acquired in May 2014 for £12.3 million reflecting an initial yield of 5.7%. The property benefits from good access to local amenities and planning consent for the construction of 223 dwellings to the rear of the property.

- LGC Complex, Fordham – a freehold industrial and office investment acquired in June 2014 for £15.9 million reflecting an initial yield of 7.5%. The Estate comprises 35 acres and is located to the south of Fordham in an area which has established itself as an industrial and distribution hub.

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 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 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)
Standard Life – Gross of fees	2.6	12.8
Net of fees[1]	*2.5*	*12.3*
Benchmark	1.6	4.4
Relative	1.0	8.4

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 2.6% over the second quarter, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2 by 1.0%.

9.2 Sales and Purchases

- Investment activity was somewhat muted over the quarter. The only transaction was the agreement to purchase 9 pub/restaurants let to Marstons plc, an existing tenant in the Fund. These properties are currently under development, and were purchased for £28m, equivalent to an initial yield of 4.2% p.a. Once completed, the buildings will be let to Marstons on 40 year leases, with annual RPI-linked uplifts subject to a cap of 4% and a floor of 1%. SLI expects that the Fund's exposure to Marstons plc will increase to around 5% of the Fund's rental income as a result of this purchase.

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 18 March 2014.

Manager	Asset Class	Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
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
Baillie Gifford	Global Equity	15.0	MSCI AC World Index	+2.0 p.a. (net of fess)	18/03/214	40bps base fee	
LGIM	Global Equity	43.1	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 - 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	
	Total	**100.0**					

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.

Deloitte Total Reward and Benefits Limited is authorised and regulated by the Financial Conduct Authority.