

Appendix A: Market Background and Outlook

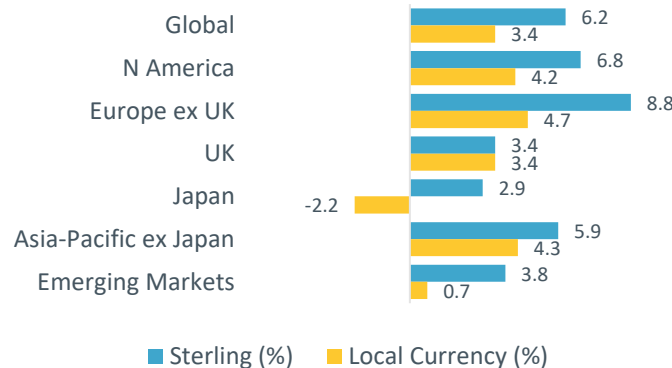
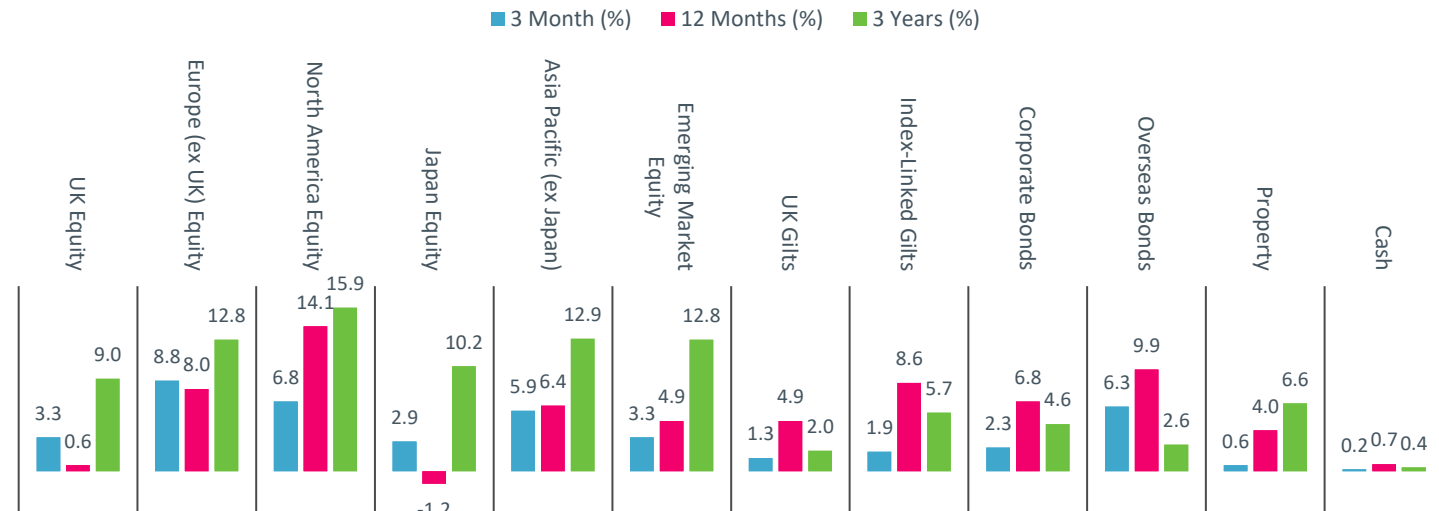
Market background for the quarter

While US GDP growth remained resilient in Q1, Q2 data suggests a large share of this growth was spurred by inventory building amid trade uncertainty. Indications in the UK also suggest that the economy might stagnate or even contract in the second quarter as stockpiling provided a temporary boost to Q1 figures. Weaker external demand has impacted the large export and manufacturing oriented portions of the Eurozone and Japanese economies. Amidst the heightened UK political uncertainty, Sterling has depreciated against the major developed currencies over the quarter, weakening by around 3.5% in trade weighted terms.

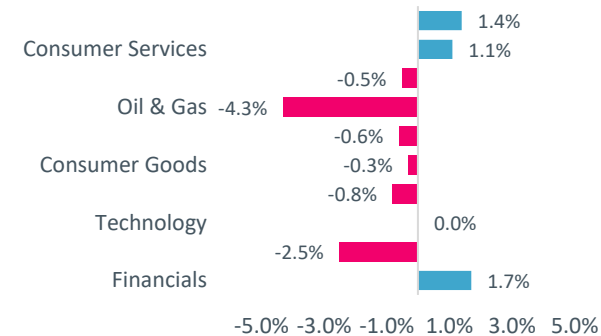
A shift in the messaging from global central banks towards looser monetary policy to support their economies, if required, has been well established. The Bank of England has been more equivocal, reluctant to commit to tightening or easing amidst the Brexit uncertainty. In the US, markets continue to price in a greater extent of interest rate cuts than the most recent Fed rate-setter's voting intentions suggest.

It was a positive quarter for financial markets with both risk seeking assets and government bonds delivering a positive return to investors. Yields on UK conventional gilts and index-linked gilts continued to fall over the quarter with the later touching new record lows in early June.

Historic returns for world markets



Global sector performance

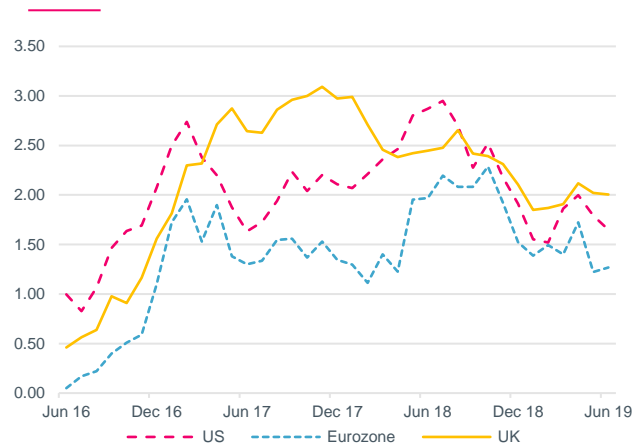


Global credit markets largely ignored the escalation in US-China trade tensions and the potential negative implications for growth as spreads continued to narrow over the quarter. The picture was more mixed across sub investment grade credit markets with European high yield experiencing the greatest tightening in spreads across corporate credit markets.

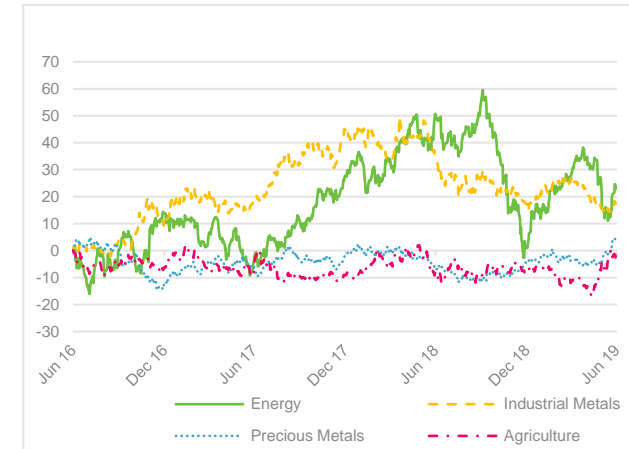
The equity market momentum of the first quarter of 2019 continued in Q2. After a brief pull-back in May, equity markets recovered in June and the US market reached another all-time high. The equity rally was broad-based, with most major equity regions producing strong returns. European (ex UK) equities were the best performing region in local currency terms as financials posted strong returns, while Japanese and Emerging Market equities lagged global indices. Japanese equities have been hindered by the strength of the yen, while Emerging Market equities suffered from their exposure to global trade.

In the two months to the end of May, UK property produced total returns of 0.5%, with the return from income more than offsetting a fall of 0.4% in the capital growth index. Rental growth has been flat over the period.

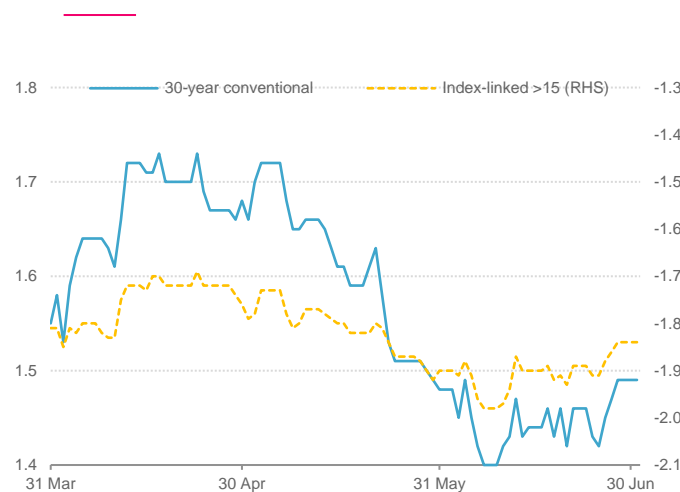
Annual CPI Inflation (% p.a.)



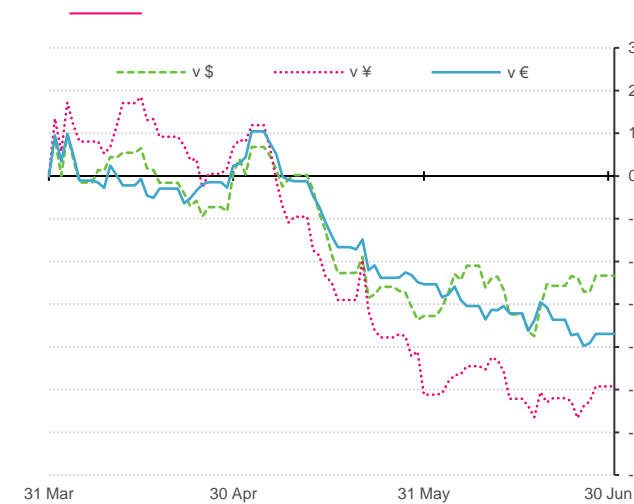
Commodity Prices



Gilt yields chart



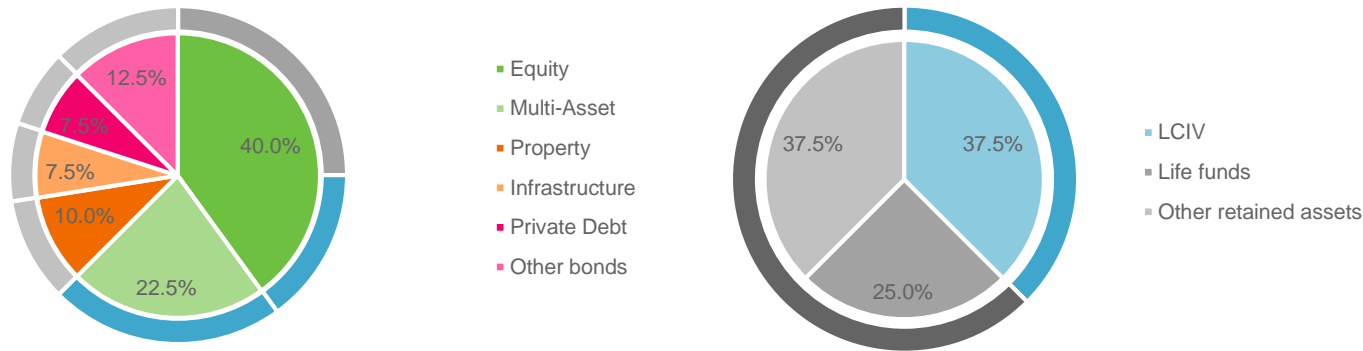
Sterling trend chart (% change)



Appendix B: Strategic Overview

Strategic overview

The Fund's investment approach is implemented through the London Common Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV). The following charts summarise the approach agreed for the implementation of the Fund's longer term strategy. We have indicated ongoing governance responsibilities in blue for LCIV and grey for the Committee:



The following table summarises the Fund's longer term strategic target and expected implementation approach:

Asset class	Long term target	LCIV		Life funds		Other retained assets	
		Manager(s)	%	Manager(s)	%	Manager(s)	%
Equity	40.0	Baillie Gifford	15.0	LGIM	25.0		
Multi-Asset	22.5	Baillie Gifford, Ruffer	22.5				
Property	10.0					UBS, CBRE	10.0
Infrastructure	7.5					JP Morgan, Stafford	7.5
Private Debt	7.5					Permira, Churchill	7.5
Other bonds*	12.5					RLAM	12.5
Total	100.0	-	37.5	-	25.0	-	37.5

*The structure of the other bonds allocation is still to be finalised

The longer term strategy is in the process of being implemented. It is envisaged that the long term strategy will be largely implemented during 2019 although drawdown into the private debt and Stafford mandates may extend into 2020/21. The target allocation to LCIV and life funds totals 75% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically

Current investment implementation

Manager	Implementation	Previous Quarter	Cashflows	Current Quarter	Actual Proportion	Target Proportion	Difference
Equity		270.3	6.5	294.5	38.7%	35.0%	3.7%
LGIM Global Equity	LCIV aligned	54.7	0.0	55.6	7.3%	7.5%	-0.2%
LGIM Fundamental Equity	LCIV aligned	52.7	0.0	58.1	7.6%	7.5%	0.1%
LGIM Emerging Markets	LCIV aligned	24.8	6.5	32.2	4.2%	5.0%	-0.8%
Baillie Gifford Global Equity	LCIV	138.1	0.0	148.7	19.5%	15.0%	4.5%
Multi-Asset		216.9	-21.2	198.5	26.1%	27.5%	-1.4%
Ruffer Absolute Return	LCIV	94.7	0.0	96.2	12.6%	15.0%	-2.4%
Baillie Gifford DGF	LCIV	87.7	0.0	88.7	11.6%	12.5%	-0.9%
GMO Global Real Return	Retained	34.5	-21.2	13.7	1.8%	0.0%	1.8%
Real-Assets		94.0	14.8	111.1	14.6%	17.5%	-2.9%
UBS Property	Retained	43.5	0.0	43.9	5.8%	6.0%	-0.2%
JP Morgan Infrastructure	Retained	29.2	-1.5	28.2	3.7%	4.0%	-0.3%
CBRE Global Property	Retained	13.4	13.5	27.8	3.6%	4.0%	-0.4%
Stafford Global Infrastructure	Retained	7.8	2.8	11.3	1.5%	3.5%	-2.0%
Bonds and Cash		152.5	1.6	157.8	20.7%	20.0%	0.7%
RLAM Bonds	Retained	135.1	0.0	138.7	18.2%	12.5%	5.7%
Churchill Private Debt	Retained	3.1	0.0	3.1	0.4%	3.0%	-2.6%
Permira Private Debt	Retained	0.0	0.0	0.0	0.0%	4.5%	-4.5%
Cash	Retained	14.3	1.6	15.9	2.1%	0.0%	2.1%
Total		733.6	1.6	762.0	100.0%	100%	-

Source: StateStreet (WM); LGIM Global Equity and Fundamental Equity mandates were managed by SSGA prior to November 2017. Figures may not tally due to rounding.

The total value of the Fund's assets increased by c. £28m over the quarter to c. £762m as at 30 June 2019 as global equities continued their strong start to 2019.

The target proportions listed represent the current implementation of the Fund's longer term strategic allocation, following the addition of Real Assets and Private Debt. Allocations to these new asset classes are due to be funded from existing cash balances, and from Multi-Asset funds (Real Assets) and the Royal London bond mandate (Private Debt).

Over the quarter the Fund paid capital calls to Stafford, CBRE and Churchill. These were funded from redemptions of c. £21m from the GMO mandate.

Underlying Asset Allocation

The chart illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the three multi-asset funds on a 'look through' basis.

The Fund's allocation to equities did not change materially over the quarter, and remained at c. 45% at 30 June 2019. The allocation to real assets increased over the quarter from c.15% to c.18% as the implementation of the Fund's longer term strategy progressed during the quarter.

Consideration is being given to further implementation of the longer-term strategy, with debt mandates under review.

Look through asset allocation as at 30 June 2019

