

Appendix A: Market Background and Outlook

Market background for the quarter

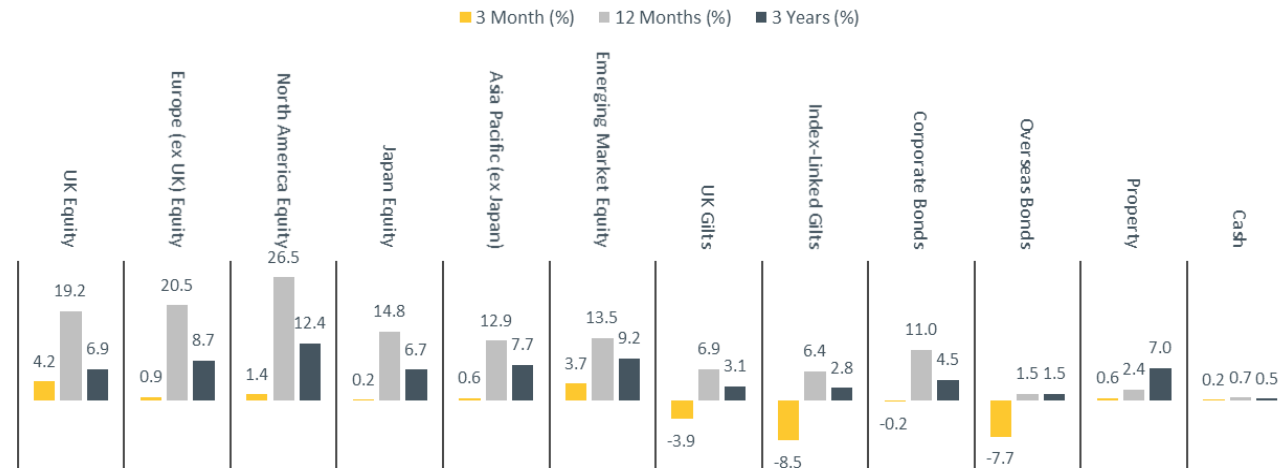
A “phase 1” trade deal, signed on January 15th, between the US and China, prevented a further increase in tariffs in December and reduced the level of some existing tariffs. US GDP growth continued to outperform developed market peers and Q3 expectations but has slowed on last year’s robust pace. Eurozone growth also beat Q3 expectations as Germany narrowly avoided recession.

UK GDP growth achieved a modest recovery in Q3, following a contraction in Q2, however growth forecasts have slumped as slower global growth and Brexit uncertainty has weighed heavily on business investment. December’s manufacturing Purchasing Managers Indices in the US, Eurozone, Japan and UK remained at a level consistent with a contraction in the manufacturing sector. However, service sector surveys in the US and Europe improved in the fourth quarter, and US jobs gains remained resilient.

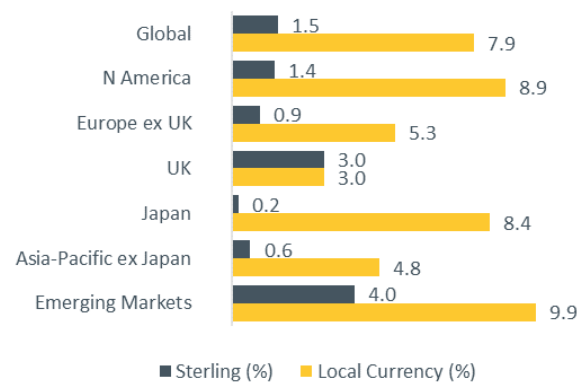
The Federal Reserve cut rates for the third time in three months in October, due to slowing global growth and weak inflation. The ECB cut rates to -0.5% and announced the restart of QE in November.

Sovereign bond yields rose across developed economies on trade progress and some improvements in economic data across various regions. In-line with Sterling strength, near-term UK implied inflation has fallen – UK 10-year spot gilt-implied inflation has fallen 0.21% p.a., as real yields rose more than nominal counterparts.

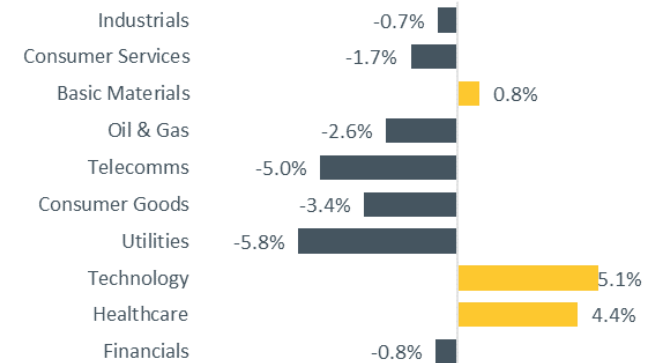
Historic returns for world markets



Regional equity returns ^[2]



Global equity sector returns (%) ^[3]



^[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. ^[2] FTSE All World Indices ^[3] Relative to FTSE All World Indices.

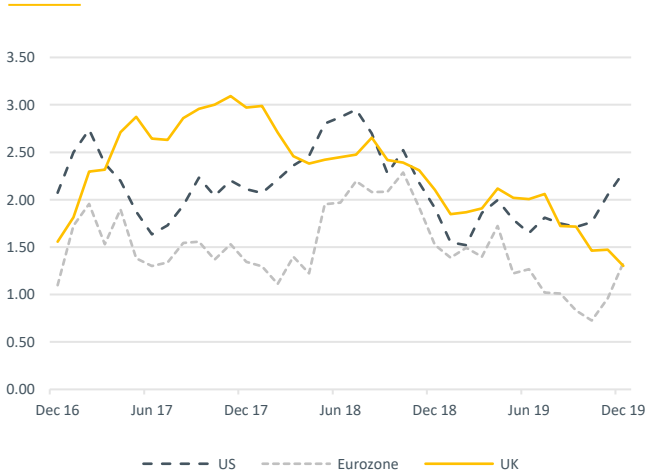
Investment-grade credit spreads tightened while rising underlying government bond yields weighed on returns in fixed rate markets. Speculative-grade markets outperformed investment-grade counterparts and high yield bonds outperformed leveraged loans, though loan spreads retraced some 2019's widening.

Global equity markets rose on the improved outlook and corporate earnings reports, which came in ahead of (albeit downgraded) consensus forecasts. A strong Q4 saw global equities deliver returns of 27% for 2019 in local currency term. Sterling strengthened against major currencies as a lower perceived chance of a no-deal Brexit and the Conservative election victory removed some Brexit uncertainty. The rebound in sterling negatively impacted unhedged overseas equity returns for sterling-based investors.

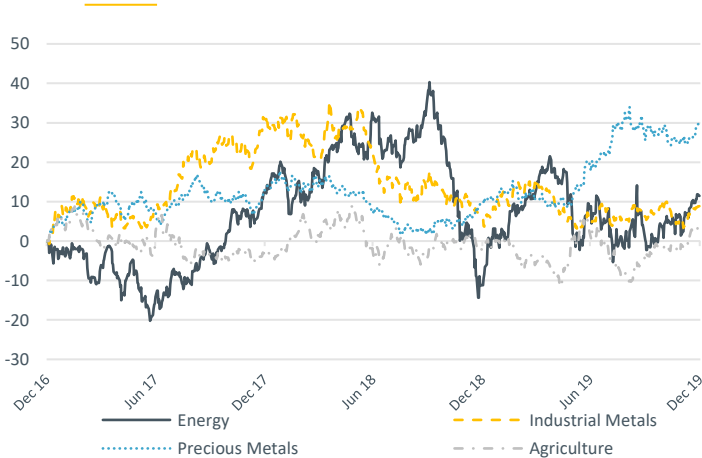
Emerging markets was the best performing region in Q4, given their greater sensitivity to the global trade environment. The UK was the laggard in local currency terms as the sharp rebound in Sterling weighed on the market's larger cap globally-exposed companies.

UK commercial property market returns continued to slow on a rolling annual basis, returning 2.1% in the 12 months to 31 December 2019, reflecting a sharp drop in comparison to recent years.

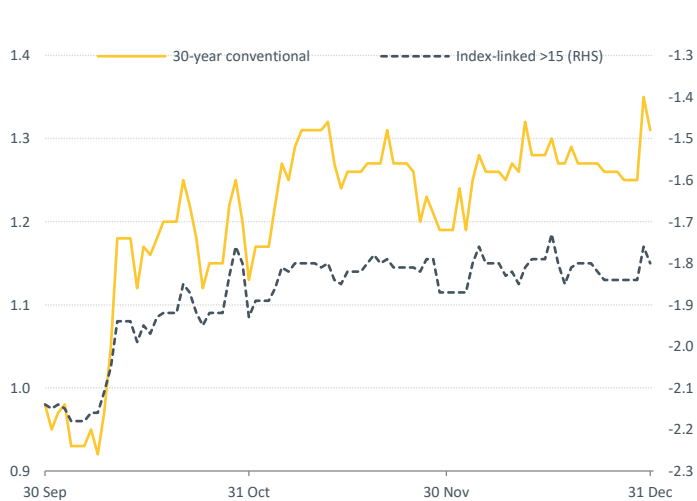
Annual CPI Inflation (% p.a.)



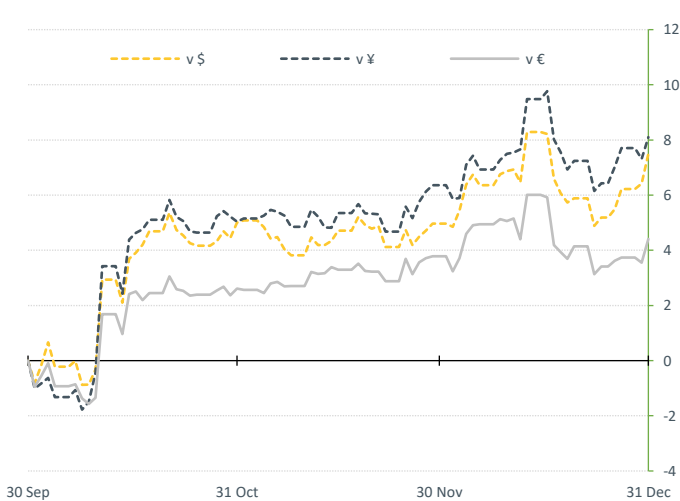
Commodity Prices



Gilt yields chart



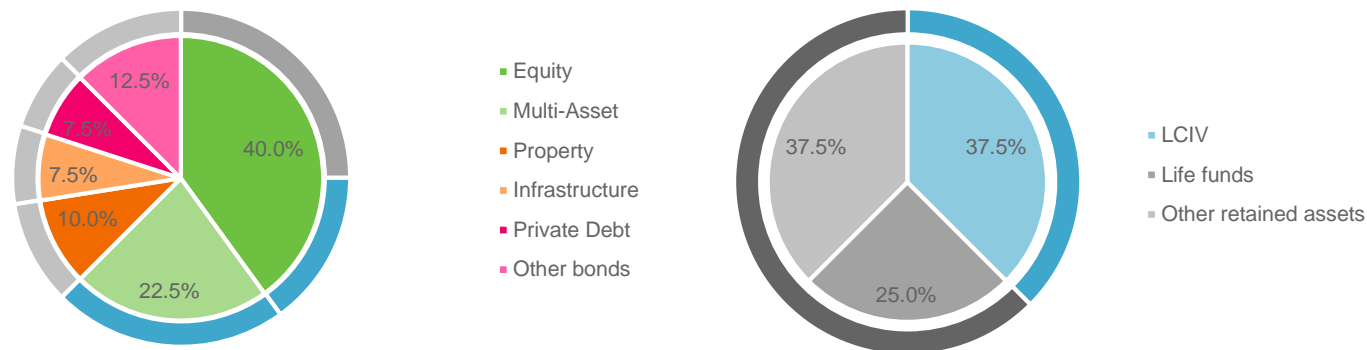
Sterling trend chart (% change)



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 being finalised

The implementation of the Fund's longer term strategy progressed significantly during 2019, with the drawdown into the private debt and Stafford mandates expected to 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	Current Quarter	Actual %	Target %	Difference
Equity		298.9	310.3	38.8%	35.0%	3.8%
LGIM Global Equity	LCIV aligned	60.1	61.0	7.6%	7.5%	0.1%
LGIM Fundamental Equity	LCIV aligned	57.2	57.8	7.2%	7.5%	-0.3%
LGIM Emerging Markets	LCIV aligned	31.9	34.5	4.3%	5.0%	-0.7%
Baillie Gifford Global Equity	LCIV	149.7	157.0	19.6%	15.0%	4.6%
Multi-Asset		202.5	201.5	25.2%	27.5%	-2.3%
Ruffer Absolute Return	LCIV	99.0	100.0	12.5%	15.0%	-2.5%
Baillie Gifford DGF	LCIV	90.6	93.1	11.6%	12.5%	-0.9%
GMO Global Real Return	Retained	12.9	8.4	1.1%	0.0%	1.1%
Real-Assets		108.2	105.4	14.7%	17.5%	-2.8%
UBS Property	Retained	42.1	41.8	5.2%	6.0%	-0.8%
JP Morgan Infrastructure	Retained	26.6	26.0	4.2%	4.0%	0.2%
CBRE Global Property	Retained	28.2	26.1	3.3%	4.0%	-0.7%
Stafford Global Infrastructure	Retained	11.3	11.5	2.0%	3.5%	-1.5%
Bonds and Cash		167.2	167.1	21.2%	20.0%	1.2%
RLAM Bonds	Retained	145.9	133.3	16.7%	12.5%	4.2%
Churchill Private Debt	Retained	3.1	7.4	1.1%	3.0%	-1.9%
Permira Private Debt	Retained	0.3	4.3	0.7%	4.5%	-3.8%
Cash	Retained	17.8	22.1	2.8%	0.0%	2.8%
Total		776.8	784.3	100.0%	100%	-

Source: Investment Managers; LGIM Global Equity and Fundamental Equity mandates were managed by SSGA prior to November 2017. Figures may not tally due to rounding. The total asset value includes the effect of the currency hedging mandate which was implemented by Russell over the quarter.

The total value of the Fund's assets increased by c. £7.5m over the quarter to c. £784m as at 31 December 2019 as global equities and other major asset classes all delivered positive returns. 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 to be funded from existing cash balances, from Multi-Asset funds (Real Assets) and the Royal London bond mandate (Private Debt). The Committee has agreed to implement an allocation to multi-asset credit, which has been implemented by Royal London in January 2020 through a restructure of the existing bond mandate.

Over the quarter the Fund paid capital calls Permira (£1.4m) and Churchill (£1.4m) and Stafford (£0.5m). Post quarter end, a further capital call was paid to Churchill (£2.2m). These were all funded from existing cash and redemptions of the GMO mandate.

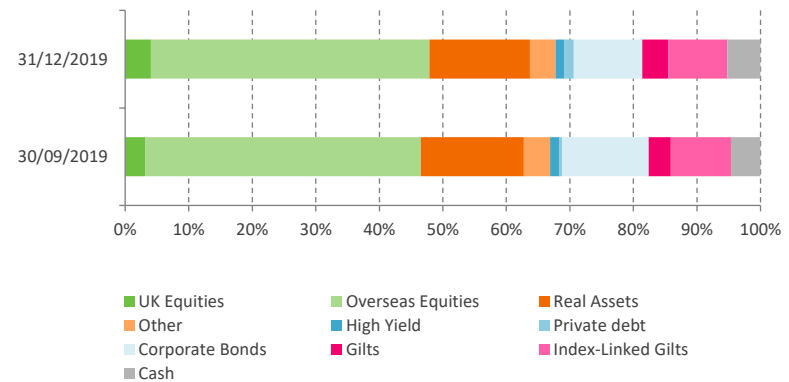
Asset Allocation

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.

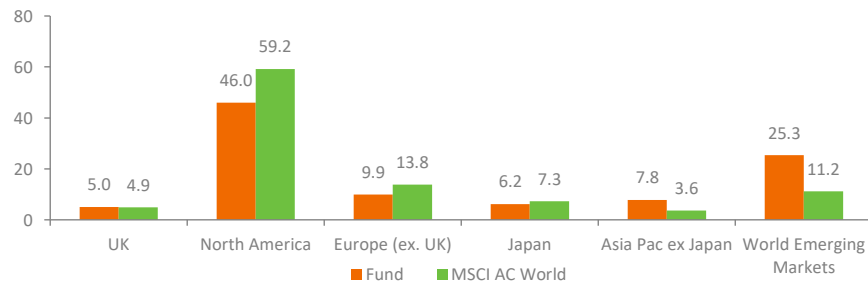
The Fund's allocation to equities increased marginally over the quarter, increasing to c.48% at 31 December 2019 (c. 44% at 30 September 2019). The allocation to real assets remained at c. 16% of Fund assets.

The Fund's strategic asset allocation is due to be reviewed in early 2020, reflecting the results of the 2019 actuarial valuation.

Look through asset allocation as at 31 December 2019

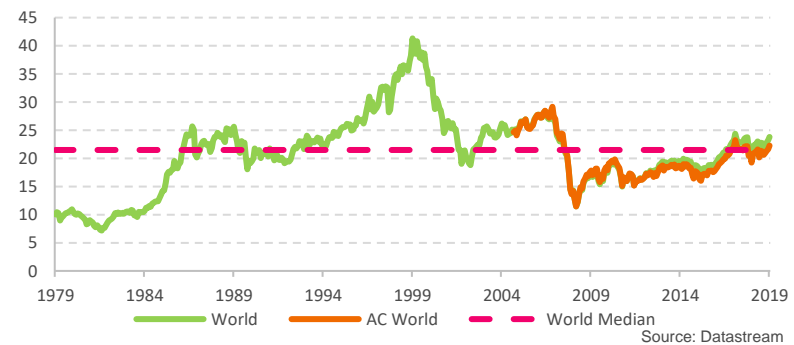


Regional Equity Allocation



The Committee is due to review the Fund's equity structure in early 2020.

Long term Shiller PE at 31 December 2019



Despite deteriorating industrial data over the course of 2019, the FTSE All World Index returned 22% in sterling terms. The strong fourth quarter performance was driven by perceived progress in global trade disputes, a third quarter earnings season that was generally better than feared and at least some improvements in macroeconomic data.

At the same time, earnings growth in 2019 was minimal, pushing global equity valuations slightly above longer-term average levels and we have moved our valuation assessment down to 'neutral to unattractive' as a result. We would be sceptical that this price growth can be sustained without a substantial acceleration in earnings growth. Consensus earnings growth expectations for 2020 currently point to a sharp rebound of around +9% for global equities. In our opinion, these forecasts look optimistic unless economic data pick up and the global trade negotiations result in a further easing of trade tensions.

Appendix C: Manager Performance

Manager Performance Summary

The table below sets out the performance of each mandate against their respective benchmarks. The LGIM mandates tracked their respective benchmarks over the quarter, whilst the majority of the Fund's other mandates contributed positively to relative returns.

	Quarter			1 Year			3 Years			5 Years		
	Fund	B'Mark	Relative	Fund	B'Mark	Relative	Fund	B'Mark	Relative	Fund	B'Mark	Relative
EQUITY												
LGIM Global Equity	1.5	1.5	0.0	22.3	22.2	0.0	10.3	10.3	0.0	12.6	12.6	0.0
LGIM Fundamental Equity	1.2	1.2	0.0	18.2	18.3	-0.1	7.2	7.3	-0.1	-	-	-
LGIM Emerging Markets	4.0	4.0	0.0	12.0	12.0	0.0	n/a	n/a		n/a/	n/a/	
Baillie Gifford Global Equity (CIV)	4.9	1.1	3.8	27.8	22.0	4.8	14.6	10.2	4.0	15.4	12.4	2.7
MULTI-ASSET												
Ruffer Absolute Return (CIV)	1.0	0.2	0.8	8.9	0.8	8.0	1.3	0.8	0.4	3.4	0.8	2.6
Baillie Gifford DGF (CIV)	2.8	1.0	1.8	12.6	4.2	8.1	4.6	4.1	0.5	4.7	4.1	0.6
GMO Global Real Return	5.1	1.3	3.7	9.4	6.4	2.8	3.8	6.1	-2.2	1.8	6.0	-3.9
REAL-ASSETS												
UBS Property	0.0	0.3	-0.3	2.2	1.8	0.4	6.8	6.1	0.6	7.4	6.7	0.6
JP Morgan Global Infrastructure	1.5	1.3	0.2	-	-	-	-	-	-	-	-	-
CBRE Global Property	0.8	1.2	-0.4	-	-	-	-	-	-	-	-	-
Stafford Capital Global Infrastructure	3.9	1.3	2.5	-	-	-	-	-	-	-	-	-
BONDS AND CASH												
RLAM Bonds	-4.2	-5.1	0.9	12.5	11.8	0.6	5.5	4.7	0.7	7.1	6.5	0.5
Permira	1.2	1.2	0.0	-	-	-	-	-	-	-	-	-
Churchill Private Debt	2.4	1.2	1.2	-	-	-	-	-	-	-	-	-
Total	1.2	0.3	0.9	14.6	10.4	3.8	6.7	5.9	0.8	7.4	6.7	0.6

Source: Investment Managers. Please note that benchmark performance for Baillie Gifford DGF, Ruffer Absolute Return and GMO Real Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer in to the London CIV. LGIM Global and Fundamental Equity mandates were managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. Performance figures for the private market investments was not available at the time of preparation. The Fund performance figure includes the effect of the currency hedging mandate which was implemented by Russell over the quarter.

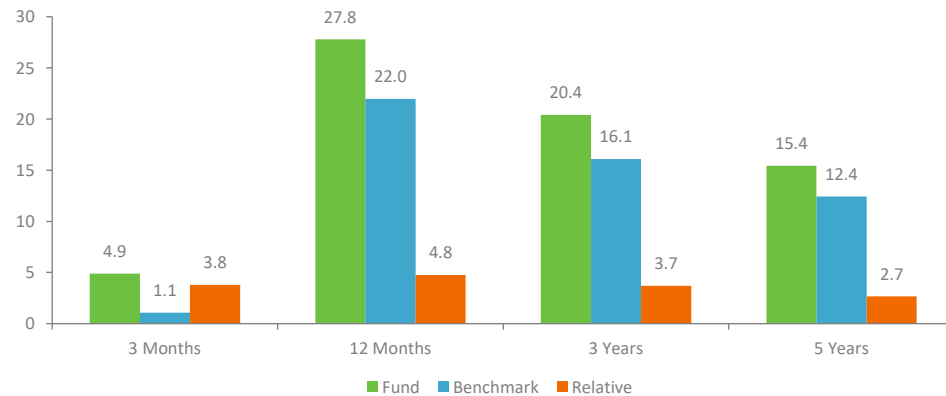
LCIV funds

The Fund accesses global equity and multi-asset sub-funds through LCIV. In this section we provide an overview of performance and positioning of the sub-funds in which the Fund invests. LCIV are responsible for the ongoing monitoring and governance of the underlying investment managers. For more information, please refer to ongoing reporting from LCIV.

LCIV Global Alpha Growth Fund

The sub-fund is managed by Baillie Gifford. The objective of the sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross of fees basis over rolling five year periods.

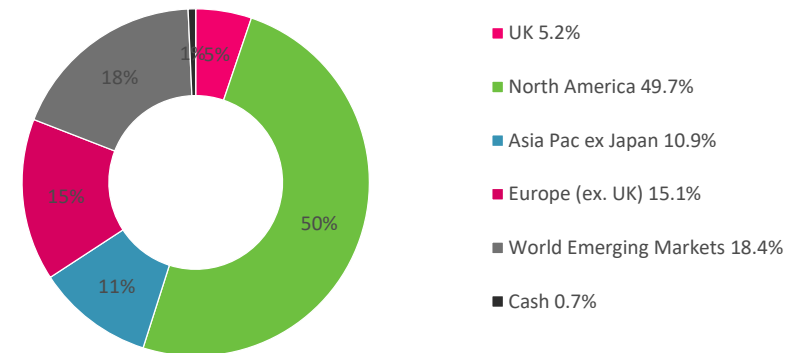
Performance to 31 December 2019



*Date of inception 25 April 2012

Source: LCIV

Regional allocation as 31 December 2019



Source: Baillie Gifford

LCIV Diversified Growth Fund

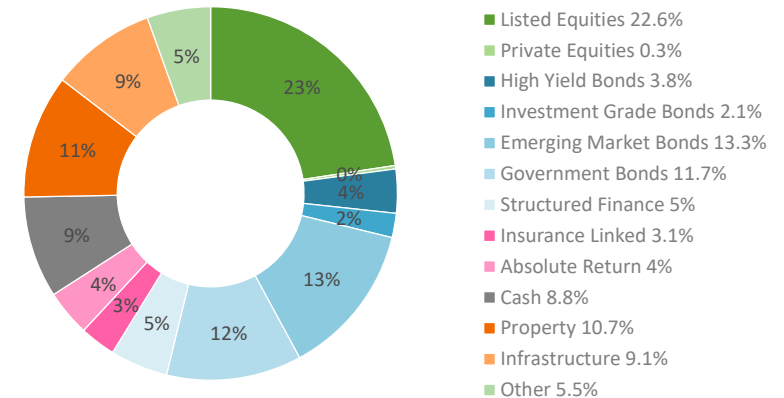
The sub-fund is managed by Baillie Gifford through their Diversified Growth strategy. The sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.

Performance to 31 December 2019

	3 Months (%)	12 Months (%)	3 Years (p.a.) (%)
Fund	2.8	12.6	4.6
Base Rate + 3.5% (net)	1.0	4.2	4.0
Relative (to Target)	1.8	8.1	0.6
<i>Multi Asset Composite</i>	0.4	11.2	5.8
<i>Relative (to composite)</i>	2.4	1.3	-1.1

Source: Baillie Gifford. Inception date: 26/11/2013.

Asset Allocation as at 31 December 2019



LCIV Absolute Return Fund

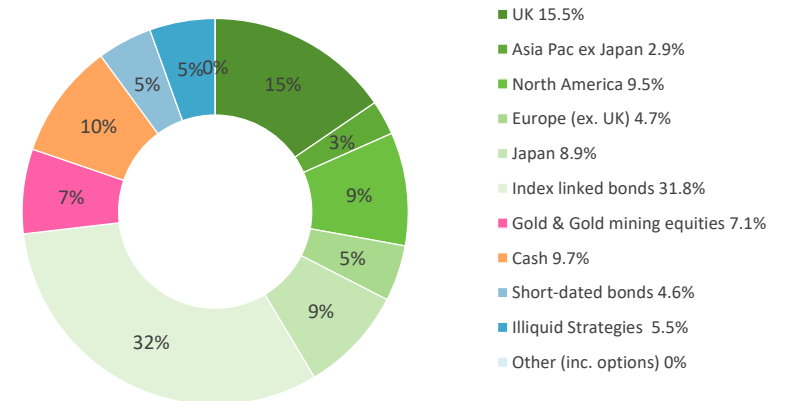
The sub-fund is managed by Ruffer. The sub-fund's objective is to achieve low volatility and positive returns in all market conditions.

Performance to 31 December 2019

	3 Months (%)	12 Months (%)	3 Years (p.a.) (%)
Fund	1.0	8.9	1.3
GBP 3 Month LIBOR	0.2	0.8	0.8
Relative (to LIBOR)	0.8	8.0	0.4
<i>Multi Asset Composite</i>	0.4	11.2	5.8
<i>Relative (to composite)</i>	0.6	-2.1	-4.3

Source: Ruffer. Inception date: 13/09/2010

Asset Allocation as at 31 December 2019



LGIM Global Equity

LGIM were appointed from November 2017 to manage the Fund's index tracking global equity portfolio, with the mandate being split equally between investment in a fund tracking a market cap weighted index and a fund tracking a fundamentally weighted index. The mandate was previously managed by SSGA. The objective of this mandate is to match the performance of the respective benchmark indices. As shown below, performance from the mandate has been broadly in line with underlying benchmarks over all periods considered.

All World Equity Index Fund: Performance to 31 December 2019

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception (% p.a.)
Fund	1.5	22.3	10.3	12.5
Benchmark	1.5	22.2	10.3	12.5
Relative	0.0	0.0	0.0	0.0

Source: LGIM. Inception date: 23/02/2011.

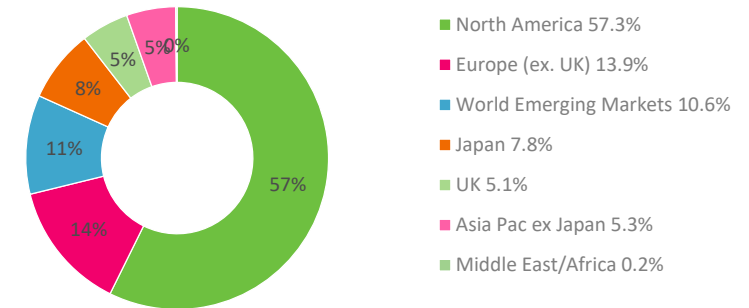
FTSE RAFI All World 3000 Equity Index Fund: Performance to 31 December 2019

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception (% p.a.)
Fund	1.2	18.2	7.2	12.2
Benchmark	1.2	18.3	7.3	12.3
Relative	0.0	-0.1	-0.1	-0.1

Source: LGIM. Inception date: 19/08/2015.

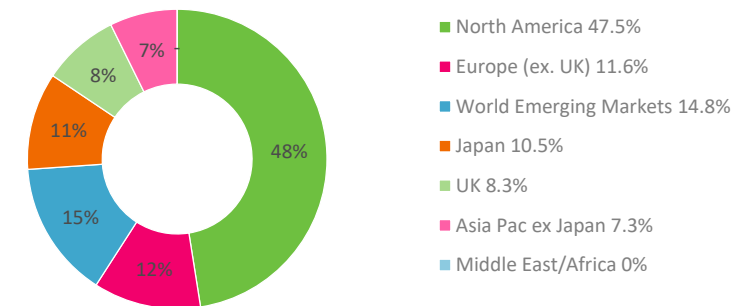
Performance information reflects performance from LGIM from November 2017, and SSGA prior to this date.

Regional Allocation as at 31 December 2019



Source: LGIM

Regional Allocation as at 31 December 2019



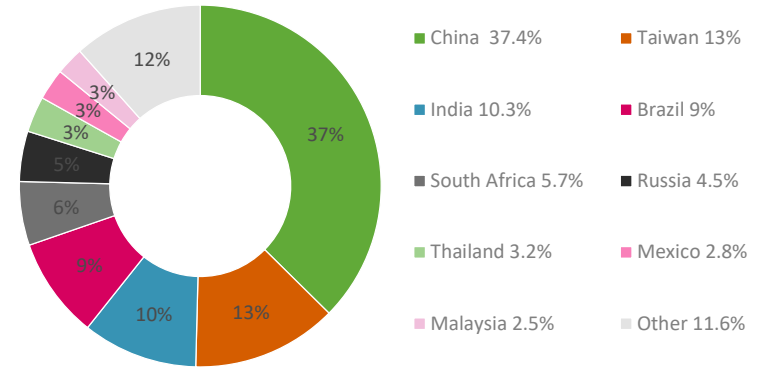
Source: LGIM

**World Emerging Markets Equity Index Fund:
Performance to 31 December 2019**

	3 Months (%)	12 Months (%)	Since Inception (%)
Fund	4.0	12.0	7.1
Benchmark	4.0	12.0	7.2
Relative	0.0	0.0	0.0

Source: LGIM. Inception date: 01/01/2019.

Regional Allocation as at 31 December 2019

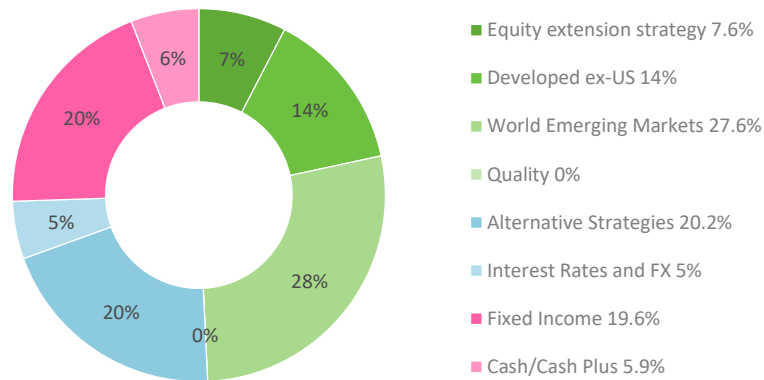


Source: LGIM

GMO Real Return Fund

GMO was appointed in January 2015 to manage a multi-asset mandate within their Real Return Fund. The Fund targets returns over the long-term of 5% p.a. in excess of CPI, after fees. GMO believe that by the application of their process, they will achieve this target whilst realising volatility in the range 5-10%. The fund seeks to achieve this through a value-based approach to investing across a range of asset classes. This mandate is in the process of being terminated, with redemptions funding capital calls to the Fund's real assets mandates.

Portfolio positioning at 31 December 2019

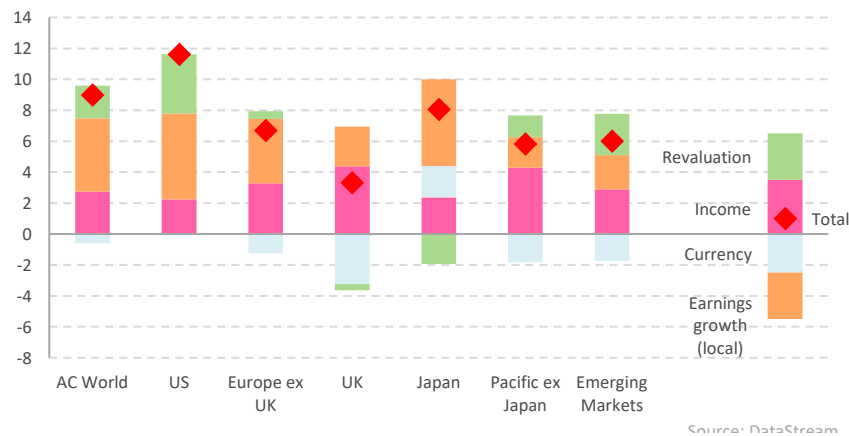


Performance to 31 December 2019

	3 Months (%)	12 Months (%)	Since inception
Fund	5.1	9.4	1.9
OECDG7 CPI	1.3	6.4	6.0
Relative (to benchmark)	3.7	2.8	-3.9
Multi Asset Composite	0.4	11.2	7.9
Relative (to composite)	4.7	-1.6	-5.6

Source: GMO.

MSCI Index performance (\$ total return 31.12.14 – 31.12.19, % p.a.)



Overall, global equity valuations conceal a wide regional disparity with US equity valuations expensive by historical comparison whilst UK and emerging market equity valuations look more compelling. That said, if the global outlook continues to deteriorate, we expect the more cyclical economies (e.g. Europe ex UK, Japan and EM) to be impacted more than those markets with a more defensive earnings profile, such as the US and UK.

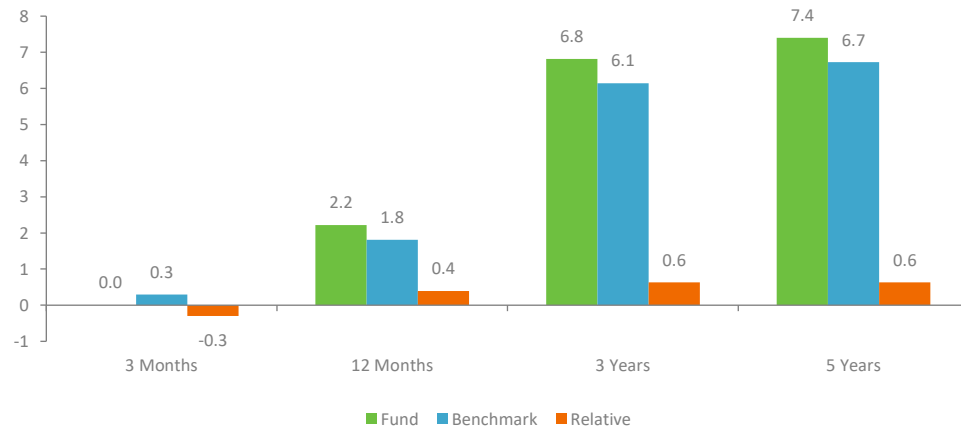
Consensus earnings growth forecasts for 2020 are signalling a strong rebound across all regions, however, the UK is still expected to lag other developed markets.

Amid slowing growth, weak inflation and continued trade concerns, the shift to more accommodative monetary policy is well established. The Fed cut rates for the third time in three months at its October meeting, but noted the “mid-cycle policy adjustment” was likely complete. The ECB cut rates to -0.5% and announced the restart of QE in November.

UBS Triton Property Fund

UBS were appointed in February 2005 to manage a UK property mandate within the Triton Property Fund. The objective of the fund is to deliver returns broadly in line with a peer group of other UK property funds. The fund invests directly in UK properties with returns generated through the collection of rental income and growth in both rental levels and capital values.

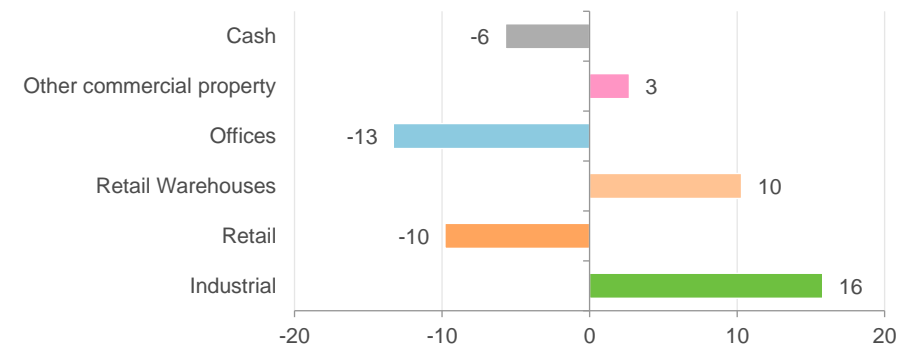
Performance to 31 December 2019



Source: UBS

The UBS property mandate has successfully outperformed the broader peer group of UK property funds over all longer periods considered but lagged over 3 months. This was due to the portfolio's overweight allocation to the retail sector versus the benchmark and the continued consumer trend towards online retail.

Relative sector allocation as at 31 December 2019



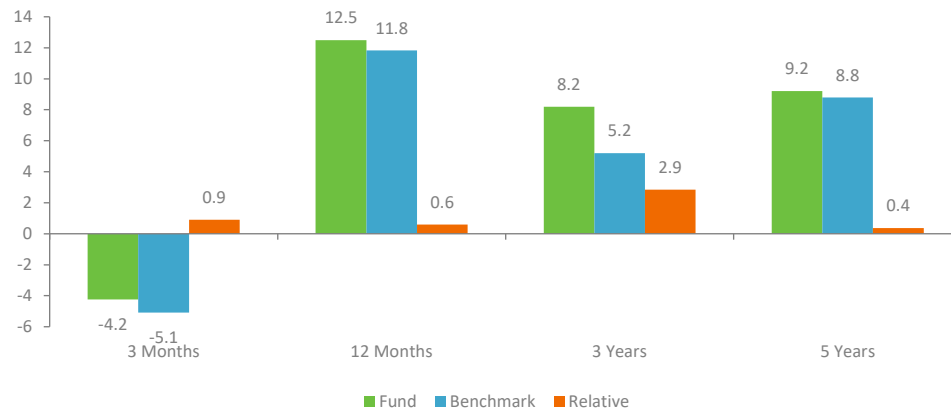
Source: UBS

Royal London Asset Management – Bonds

Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate. RLAM manage the portfolio against a composite benchmark consisting of investment grade corporate bonds, fixed interest and index linked gilts. With effect from 1 November 2015, the return objective was increased to 1.25% p.a. (previously 0.75% p.a.), and the investment universe broadened to allow exposure to high yield bonds.

During January 2020, Royal London have implemented changes to the mandate structure including the introduction of multi-asset credit. This reflects the direction of travel towards the Fund's longer-term strategic asset allocation. We will report on the new structure from our Q1 2020 reporting.

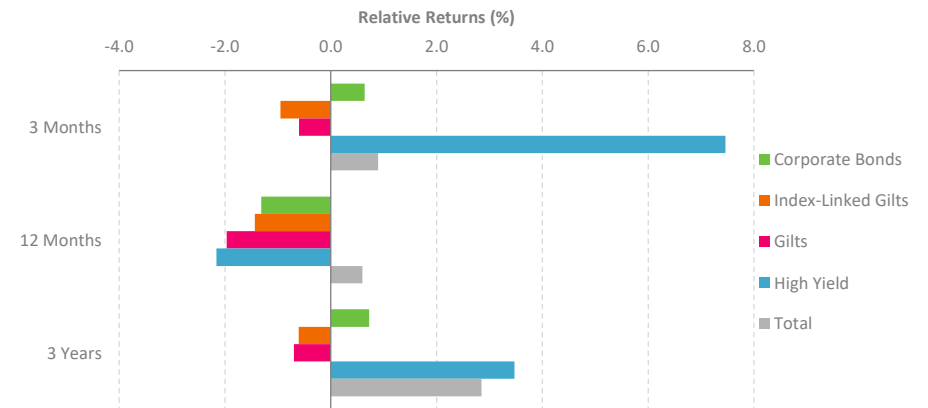
Performance to 31 December 2019



Source: RLAM

The RLAM bond mandate has added value relative to the composite bond benchmark all time periods considered, outperforming the performance objective over 3 years.

Relative performance by sector as at 31 December 2019



Source: RLAM

Note:

Relative performance for the portfolio's allocation to High Yield assets has been determined by comparing performance from the Extra Yield fund against the composite benchmark for the overall portfolio.

Private Markets investments

Since March 2018, the Fund has made commitments to five private markets funds as outlined below.. The table below provides a summary of the commitments and drawdowns to 31 December 2019.

Mandate Vehicle	Infrastructure		Global Property	Private Debt	
	Stafford Infrastructure Secondaries Fund II	JP Morgan Infrastructure Investments Fund	CBRE Global Investment Partners Global Alpha Fund	Churchill Middle Market Senior Loan Fund II	Permira Credit Solutions IV Senior Fund
Commitment Date	25 April 2018	31 July 2018	30 September 2018	December 2018	December 2018
Fund currency	EUR	USD	USD	USD	EUR
Gross commitment	c. £26m (EUR 28.5m)	c. £26.1m (USD 34.0m)	c. £26.1 m (USD 34m)	c. £23.8 m (USD 31m)	c. £35 m
Net capital called during quarter (Payments less returned capital)	c. \$0.8m (EUR 1.2m)	-	-	c. £1.4m (USD 1.8m)	c. £1.4m (EUR 2.2m)
Net capital drawn to date (Payments less returned capital)	EUR 11.8m (c. £12.3m)	c. £26.1m (USD 34.0m)	c. £26.1m (USD 34.0m)	c. £6.7m (USD 8.7m)	c. £1.4m (EUR 2.2m)
Other distributions to date (Includes income and other gains)	EUR 0.9m** (c. £0.8m)	-	-	-	N/A
NAV at quarter end	EUR 13.5m (c. £11.5m)**	USD 33.4m (c. £26.0m)**	USD 34.3m (c. £26.2m)**	USD 9.8m (c. £7.5m)**	£1.7m**
Net IRR since inception (in fund currency)	7.3% p.a.* (vs. 8-9% target)	3.6%	4.0%**	N/A	N/A
Net yield since inception (in fund currency)	4.8% p.a.* (vs. 5% target)	6.1%	10.6%**	N/A	N/A
Number of holdings	6 funds, 128 underlying assets*	19 companies, 464 assets*	52 investments, 2,369 properties	N/A	N/A

Source: Investment managers. *Based on information available as at the end of the previous quarter end. **Figures are as at 30 September 2019.

arising from its use.