Independent Investment Adviser's report

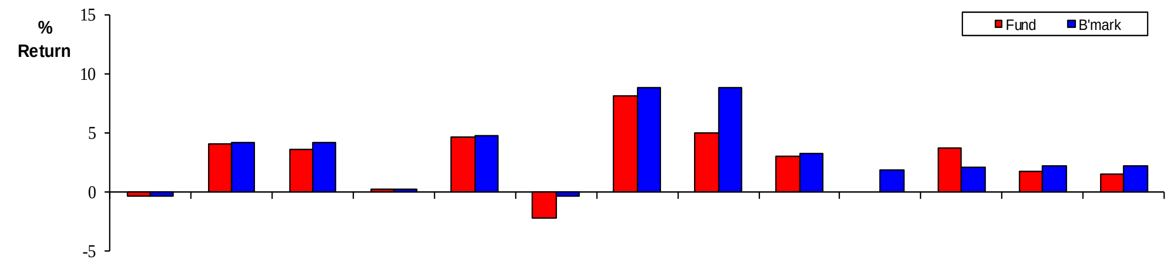
Fund Performance Summary and Market Background

The value of the Fund in the quarter rose to £1.914bn, an increase of £27m compared to the end December value of £1.887bn. The Fund produced a return of 1.5% over the quarter, which gave an underperformance against the benchmark of -0.8%. This was attributable to both asset allocation (-0.2%), and a negative return from stock selection (-0.6%). This negated the positive return of 0.8% seen in Q4 2015. Over a 12 month period the Fund recorded a neutral relative return against the benchmark (-2.0% v. -2.0%).

Regrettably we saw poor performance from all of the active elements of the Fund in Q1 2016. To some degree this was to be expected, as the gyrations in markets that we experienced during the quarter were unpredictable in their nature. Capital International (North America) had the "best", or least bad performance, behind their benchmark by -0.6%, followed by JP Morgan (Emerging Markets) underperforming by -0.7%. Nomura (Pacific) underperformed by -1.7% against their benchmark, with Schroders (Emerging Markets) taking the wooden spoon by being behind their benchmark by -3.5%. JP Morgan (Bonds) joined their equity neighbours, with an underperformance of -0.3% in Q1.
The alternative passive strategies managed by UBS have continued to produce a return ahead of their respective benchmarks since inception. This includes an encouraging Q4 2015, which saw the strategies being tested again by quite volatile markets. Hopefully we will see the strategy continue to work well under the new managers, Legal & General.

Although global markets as a whole saw an increase in value over the first quarter (2.35%), there were the usual winners and losers at country level. As is often the case the previous quarter's winners were this quarter's losers, or vice versa. Emerging Markets as a group rose 8.8%. Within that there were strong performances from most Latin American countries, and with the exception of China, in most Asian markets. In developed markets there was also a mixed bag. Asia ex Japan rose 5.5% (£ based), in the US the S&P was up 4%. In the UK the All Share index was slightly down (-0.4%), but the FTSE index was slightly up, helped by a heavy weighting to energy and mining stocks. Japan fell, -4.26%.

Bond markets in Q1 very much reflected investors risk appetites, playing safe as markets fell which benefitted government bonds, and then corporate bonds enjoyed the resurgence alongside equities after initially falling earlier in the quarter. With oil and commodity prices rising, index linked issues outperformed conventional gilts.



	L&G	L&G	Cap Int	L&G	L&G	Nomura	JPM	Schroder	JPMF	GIB	Hermes	Venn	Total
% Final Assets	UK Ind	NA Ind	Am Act	Eur Ind	Global	Asia	Emerging	Emerging	Bonds	Infrastr.	Infrastr.	Property	Assets
Actual	**28.6**	**1.8**	**9.3**	**6.2**	**12.5**	**15.1**	**5.8**	**6.3**	**6.8**	**1.3**	**2.0**	**1.4**	**100.0**
Benchmark	30.9	5.0	6.0	9.5	10.0	12.0	6.0	6.0	10.0	1.2	2.0	1.4	100.0
% Return													
Portfolio	**-0.4**	**4.1**	**3.6**	**0.2**	**4.7**	**-2.2**	**8.1**	**5.1**	**3.0**	**0.0**	**3.7**	**1.7**	**1.5**
Benchmark	-0.4	4.2	4.2	0.2	4.8	-0.4	8.8	8.8	3.3	1.8	2.0	2.2	2.3
Relative	**0.0**	**-0.1**	**-0.6**	**0.0**	**-0.1**	**-1.8**	**-0.7**	**-3.4**	**-0.3**	**-1.8**	**1.6**	**-0.5**	**-0.7**

Performance update for managers 'On Watch' January 2016 to March 2016

Nomura – Developed Far East

Nomura underperformed by -1.7% against their benchmark over the quarter (-2.1% v -0.4%). Their outperformance over 12 months is now at 1.0% (-3.1% v -4.1%).

Their three year performance against their performance target has deteriorated, at -0.9% annualised against benchmark, and is -1.8% over 10 years.

Both the Japanese and ex Japanese elements of the mandate underperformed their respective benchmarks over the quarter. The following commentary has been provided by Nomura.

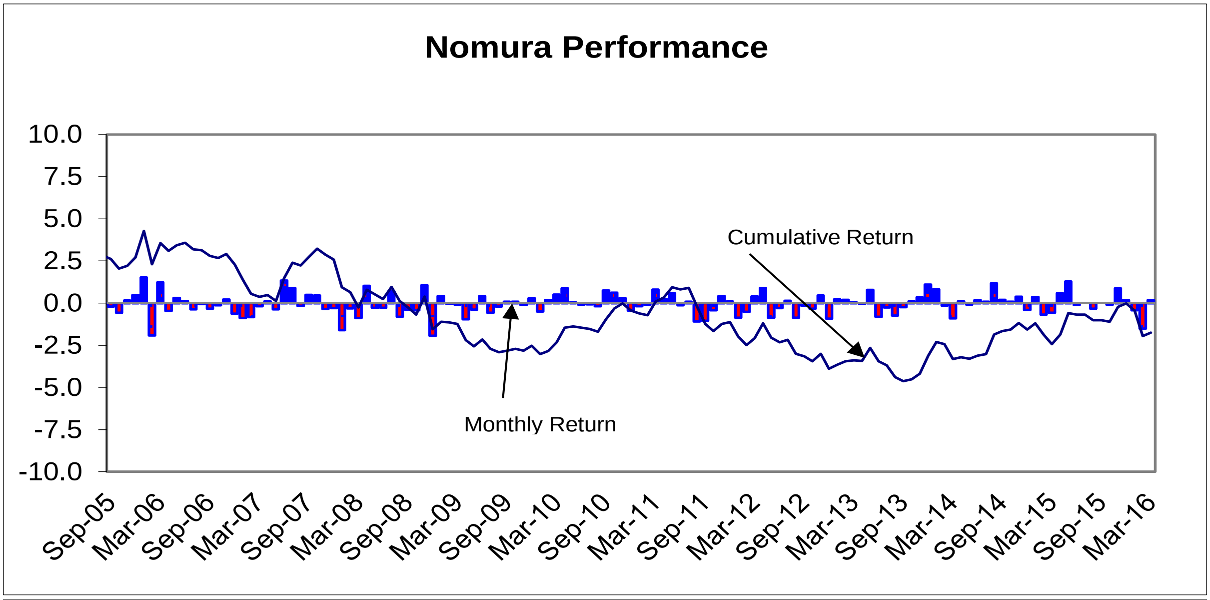
In summary, after some recent positive quarters, Jan-Mar was a more difficult period with underperformance of 1.7%. This takes the 1 year relative return to +1.1% and 3 years +0.6%. Both sides of the portfolio (Japan and ex Japan) lagged the benchmark through what proved to be a hugely volatile period dominated by big picture, macro-related concerns. With our more fundamentally oriented approach, this sentiment driven environment proved challenging.

Our broadly neutral positioning to Japan, which overall has worked well over recent quarters (since we eased the underweight), detracted, as Bank of Japan policy caused extreme volatility in both currency and equity markets. Our view is that once the dust settles, investors will remain attracted to the relatively high dividend stream available in the Japanese market. The valuation picture remains relatively stable as analysts have begun to factor in the impact of a stronger yen and short term risk for corporate earnings. Nearly all of the underperformance within the Japan portfolio was driven by stock selection, particularly within the more cyclically driven sectors such as commodities and autos. We have pulled back the portfolio's autos exposure as the strong yen could continue to be a drag, but have extended overweight exposure to commodities where we expect some upside from crude oil prices.

Being underweight Australia, Hong Kong and Korea and having non-benchmark positions to India and China detracted on the ex Japan side. In particular, stock selection in Hong Kong (overweight Hong Kong Exchanges and not owning the Macau gaming stocks) hurt, whilst being underweight Posco and Samsung in Korea also contributed negatively. We have raised our exposure to Korea and, although still underweight, the recent fall in the won versus JPY is beneficial for exporters. In India, we are maintaining our non-benchmark exposure and whilst the market has had a difficult period, we still believe there are excellent individual companies with advantageous industry structures and bottom-line focused management.

We are largely content with our country allocations. Short-term volatility will continue in an uncertain environment and therefore country views are better expressed through stock selection and sector allocation. In particular, our discussions have been revolving around whether we should increase the cyclicality of the portfolio or maintain the overweight exposure to quality stocks - even though they look expensive. Against the back-drop of a reasonable change in the economic environment, driven by a more dovish Federal Reserve and a weakening bias in the US dollar, the Asian markets could do well over the *medium term. Exposures to Australia and Hong Kong will remain underweight, whilst within the Chinese exposure, we will focus on new economy stocks listed in the US, and these additions will be at the expense of large, state owned enterprises and banking stocks.*

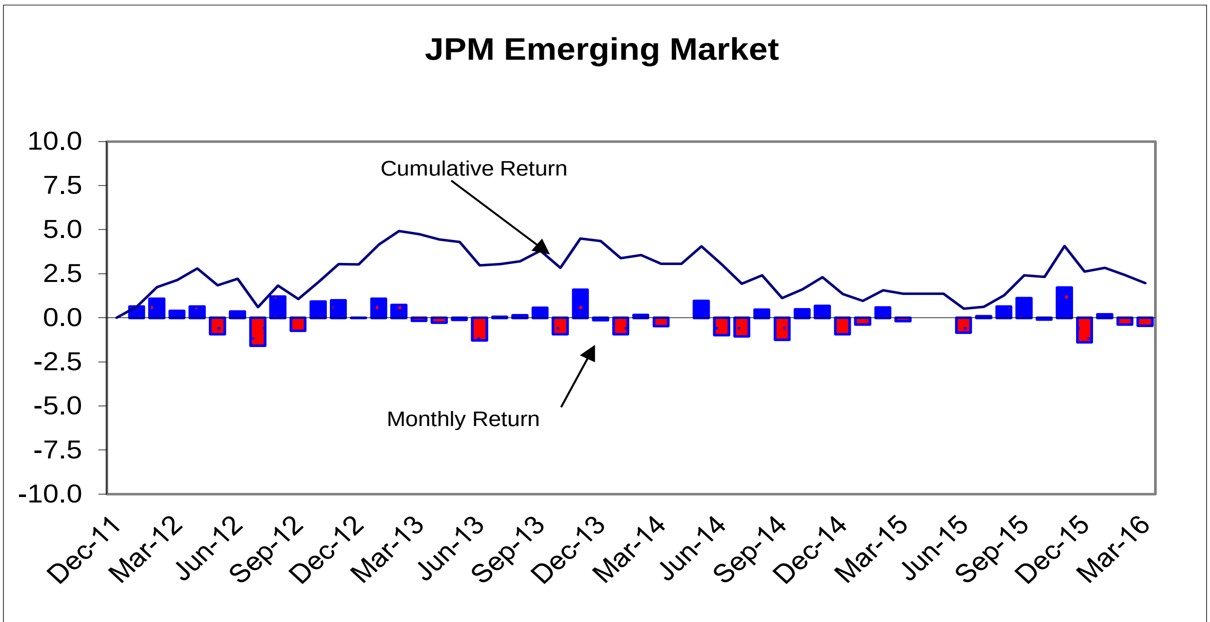
Whilst reluctant to become too fixated on shorter term performance, for the 2 weeks of April to-date (based on provisional/unaudited data) the portfolio is currently +4.3% versus +4.8% for the benchmark.



JP Morgan – Emerging Markets

While Emerging Markets had a good quarter in absolute terms, JP Morgan underperformed against their benchmark by -0.7% (8.1% v. 8.8%). Their one year performance against their benchmark is at 1.2% (-7.7% v. -8.9%), which including their performance target leaves them -0.8% behind the objective level.

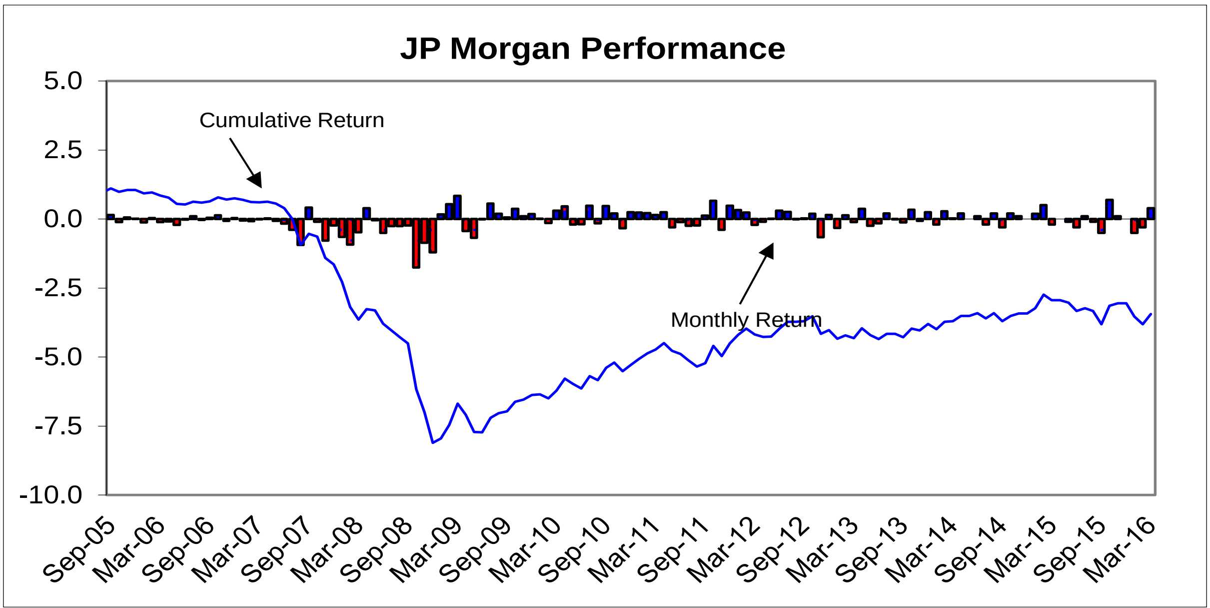
Over three years they remain behind their performance target, currently by -2.6% annualised, since inception the picture is slightly less bleak at -1.4% against performance target.



JP Morgan – Bonds

After some encouraging signs of improved performance recently, that came unstuck in the tumultuous markets seen in Q1 with an underperformance of -0.3% (3.0% v 3.3%). This has damaged their performance against benchmark over the last 12 months, now at -0.2% (1.0% v 1.22%), which is clearly behind their performance target.

Relative to their performance target, they are behind by -0.54% over three years, and -1.2% over ten years, which is an unchanged position from last quarter.



Property and Infrastructure Investment update

Although it is too early to be focusing on performance numbers with these long term investments at this stage, consideration has been given to possible methods of benchmarking beyond an absolute return basis. Conversations with the successor to WM and the asset managers concerned will aim to provide a means of measuring progress against an anticipated returns profile over the life of the investments.

Hermes
Commitment: £49m
Drawn: £42m
Distributed: £5.255m – of which £4.1m related to a recallable distribution from a transaction regarding British Ports
Income: £976,000
Period Closing Balance: £38m

Green Investment Bank (GIB)
Commitment: £40m
Drawn: £36.4m
Distributed: £2.6m
Income: £578,592
Period Closing Balance: £34.2m

Venn
Commitment: £27.5m
Drawn: £26.6m
Distributed: £4.4m
Income: £756,629
Period Closing Balance: £22.8m

Invesco
Commitment: £56m
Drawn: £59m
Distributed: £0m
Period Closing Balance: £61m

Walton Street
Commitment: £27.5m
Drawn: £4m
Distributed: £0m
Period Closing Balance: £4.4m