Appendix 5

Q1 2018 Review

Quarterly Report

Q1 2018

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Performance Summary

The first quarter of 2018 started much as 2017 finished, with equity markets globally racing to new highs. They were undermined in mid-February by weakness in the bond markets as strong economic growth and rising inflation, particularly in the US, brought forward the expectation of interest rate rises. In the following two weeks the US equity market fell 10% from peak to trough. For the quarter as a whole all major equity and bond markets were down.

The London Borough of Bromley Pension Fund (the Fund) fell by -2.39% during the quarter to a value of £971m. However, this was by less than the Fund benchmark leading to an outperformance of 0.23% for the period. Over the medium and longer term, performance of the Fund has been very strong returning 11.53% per annum over 5 years and outperforming the Fund benchmark over 1, 3 and 5 year periods significantly.

The Fund continued to move towards the updated Strategic Asset Allocation with new investments into the Fidelity Multi Asset Income Fund (£80m) and an initial investment into the Fidelity UK Property Fund (£15.8m) made during the quarter, these were financed by divestments from the two Diversified Growth Funds managed by Baillie Gifford and Aberdeen Standard Life and from the Blackrock Global Equity Fund. These new allocations will help to generate the income required to cover the predicted cash outflows from the Fund over the next few years.

The benchmark for the Fund was updated on 1st March 2018 to reflect the new Strategic Asset Allocation. The last major step towards the new benchmark, the investment into the Schroders Multi Asset Income Fund (£120m), should be completed during this month with further allocations to the Fidelity UK Property Fund as the new money is called down by the Fund Manager. These will both be financed by the sale of the Blackrock Global Equity Fund.

The table below shows the old and new Strategic Benchmark for the Fund as well as the current and targeted position. The actual weightings will change as markets move.

Asset Class	Old Strategic Benchmark	New Strategic Benchmark	Current position (31/3/18)	Post planned new investments
Global Equities	70%	60%	76.5%	60.7%
Multi Asset Income		20%	8.1%	20.4%
Fixed Interest	20%	15%	13.8%	13.8%
UK Property		5%	1.6%	5.1%
Diversified Growth Fund	10%			

As previously discussed, the move to the new Strategic Benchmark has been driven by the cash flow requirements of the Fund (pension payments exceeding employee and employer contributions) and the strong funding level of the Fund (approaching 100% funded on an ongoing basis).

Executive Summary

- The global economy entered 2018 on a positive note, with strong economic fundamentals supporting earnings growth and hence equity market valuations. However, this picture began to shift during the first quarter, with the return of significant volatility to the markets.
  - Volatility, which has been abnormally low for two years, spiked in February. This was marked by an 81% increase in the VIX[1] index, the biggest move since the third quarter of 2011.
  - The return of volatility is not necessarily a cause for concern, indeed it may indicate that markets are returning to normality, following years of central bank interventions depressing volatility and risk premia. This would ultimately be beneficial for a number of investment strategies and could be particularly welcome for active stock pickers. It will be more stressful, however!
- Markets were unsettled by fears of the US economy overheating with the Trump tax cuts leading to a faster rise in interest rates by the US Federal Reserve than expected. The Fed did increase rates by 25 basis points, to a range of 1.5%-1.75%, in March as expected; expectations are now for 2 or 3 further rises this year.
- This was coupled with the continuing unpredictability of Trump on the international stage, this time with trade disputes and raising tariffs on some Chinese exports. Towards the end of the quarter a number of political disputes with Russia also came to a head.
- Due to the above, global equity markets had a volatile quarter. Many equity markets returned a negative quarter for the first time in two years.
- Corporate earnings remained robust, with US earnings growing at the fastest rate since 2011, in part due to Trump's tax reform. It has yet to be seen whether these will result in greater corporate investment.
- In the UK, Brexit continued to act as a drag, although there was some progress on a transition deal. At the same time, inflation started to decline as the effect of the currency weakness post the referendum dropped out of the annual figures and the Bank of England revised its predictions for growth in 2018 upwards slightly.
- UK equities continued to be relative underperformers, hampered by the political uncertainty over Brexit and the recent sterling strength.
- Higher volatility and rising interest rates hit fixed income markets, with losses across most segments. Corporate bond spreads, which had been narrowing in recent quarters, sharply widened again, reflecting the increased uncertainty.
- The dollar weakened further, following comments from the US Treasury Secretary and escalating trade tensions with China. Increased uncertainty led to an appreciation of the Japanese yen, and sterling strengthened in anticipation of a rate rise by the Bank of England in May.
- Activity in the UK property market was more subdued in the first quarter of the year. This was in part due to flat wages and concerns over the ability to service debt in an environment of increasing interest rates.
- Commodity prices were impacted by the US imposition of tariffs on aluminium and steel, as fears grew that a trade war could break out. The prices of oil and gold ended the quarter up; the former due to fears of a supply disruption in the Middle East and the latter, as a result of heightened global instability.
- The first quarter of 2018 has seen substantial turbulence, suggesting that 2018 may not be as smooth as 2017. Investors may want to keep an eye on the downside risks and future-proof their portfolios for the new environment of higher volatility and tighter monetary policy.

[1] The CBOE Volatility Index (VIX) measures expected volatility implied by stock option prices for the S&P 500.

Outlook

- After ending 2017 on a very positive note, the first quarter of 2018 saw some return to more normal levels of volatility in markets as renewed political uncertainty and high-profile setbacks, both for well-known tech companies led by Facebook as well as traditional brands like Carillion and Toys R Us, reminded market participants that all asset classes have an element of risk and that any business model can be challenged.

- The global economic outlook for 2018 remains good. Corporate cash flows are strong and inflation still remains benign in many regions. Of the developed markets, it is the US which looks most like it is late into the economic cycle and the Fed is responding to this by raising interest rates. Interestingly, the rise in short term rates has not been fully reflected in longer dated government debt suggesting that markets expect this rate rising cycle to be relatively short- lived. Whilst markets are worrying about the next downturn it could be that the surprise is that this late cycle stage plays out longer than expected.

- In the next quarter, investor sentiment might be cheered by several factors, including: the Russian elections passing; receding UK inflation caused by sterling depreciation post Brexit and seeing real wages increase, albeit marginally; US seeing wages rise and the Trump tax cut continuing to support stocks through share buybacks and in the form of special or higher dividends; Germany's new coalition calming nerves in Europe, and free market reforms in France and Italy which seem more likely.

- Of concern are UK local elections where results are likely to prove tricky for the May government and on the international stage, an unpredictable US president.

- Increasing demand from consumers and higher corporate earnings are unlikely to pick up the slack in terms of debt servicing: the high levels of household debts which spurred the 2008 crisis have not meaningfully diminished in the interim. UK household debt was close to reaching £1.6trillion in March, backed by housing assets whose value may come under pressure, nor is this a UK-only issue.

- Emerging markets seem, on balance, more positive than negative: the situation in Brazil is less murky with President Lula exiting from the political scene; Russia's huge equity slump at the beginning of Q2 appears to be temporary; Chinese prospects are apparently undimmed by Trump's protectionist spasms and Modi enters parliamentary elections in India facing a divided opposition.

- As QE and low interest rates come to an end, it seems clear that there are structural changes needed in the real economy, a fact which higher interest rates might well bring to a head. In the near-term, at least, blue skies seem more likely than storm clouds. 2018 might well prove the calm before the storm with Trump's supply-side stimulus and Europe's later economic cycle delaying any lasting reappraisal of asset values.

- The latter stages of an economic cycle bring their own investment challenges with higher volatility in many asset classes but can often see markets rise by more than expected even when valuations in some areas are stretched. The best action is to question momentum trades and to look for value and diversification.

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£380m Segregated Fund; 39.1% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Manager continues to exceed their performance target
Last meeting with manager	23/1/18 John Arthur; John Carnegie/Ken Barker

Despite the market turmoil during the quarter, Baillie Gifford produced another good performance, outperforming their benchmark by 3.6% during the quarter. This brings the 1 year outperformance to an exceptional 10.4% and builds on what was already an impressive long term track record, underscoring the Funds commitment to high conviction active equity managers running concentrated stock portfolios. The fact the manager navigated a quarter during which market sentiment changed so radically is very impressive and shows the strength of their focused, long term, stock picking mentality. The portfolio remains heavily invested in Information Technology and the Financial sector with a focus on long term growth. Active Share[2] remains high at 91%; turnover of stocks remains low.

Baillie Gifford do manage this global equity product via the London CIV.

Asset Class/Manager	Global Equity/ MFS
Fund AuM	£207m Segregated Fund; 21.3% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	
Last meeting with manager	14/3/18 John Arthur; Ben Knottler

MFS have an investment philosophy which concentrates on high quality stock on attractive valuations, this acts as a good balance to the Baillie Gifford, growth orientate, portfolio covered above. Value as an investment style has been out of favour for a number of years and the MSCI index of Value stocks has underperformed the sister index of Growth stocks markedly and the gap between the two indices is at the widest in a decade. Given this backdrop, the performance of this fund has been good.

The portfolio fell by 5.7% during the quarter, underperforming its benchmark by 1.2%. Over 1 year the portfolio has fallen by -0.4% against the benchmark's rise of 2.4%. Over 5 years the portfolio is ahead of its benchmark but is not reaching its performance target.

Value as an investment style, tends to perform in short but very sharp bouts usually around economic recoveries. The long and protracted nature of this economic recovery has undermined that but, with many markets looking stretched in valuation terms, this portfolio should be defensive in any significant market downturn and should be seen as a natural counterweight to the portfolio covered above. It remains underweight the IT sector which has continued to be detrimental to performance.

[2] Active share measures the difference between the weight of a stock in a portfolio and its weighting in the index. A passive, index tracking, portfolio will have an active share of 0%; A portfolio holding only off benchmark stocks will have an active share of 100%.

Asset Class/Manager	Global Equity/ Blackrock
Fund AuM	£155m Pooled Fund; 16.0% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	
Last meeting with manager	No meeting this quarter

The manager navigated a difficult quarter well, outperforming its benchmark marginally. Over the year performance has been strong outperforming the benchmark by 3.9%. This has taken the longer term track record ahead of the benchmark as well. This portfolio will be used as the source of funds for the forthcoming investment into Schroders Multi Asset Income Fund and so will not feature going forward. It has performed acceptably since inception on 1/12/2013.

Asset Class/Manager	Fixed Interest/ Baillie Gifford
Fund AuM	£58m Pooled Fund; 6.0% of the Fund
Benchmark/ Target	Tailored benchmark
Adviser opinion	
Last meeting with manager	Presented to PISC in 1Q2018

The portfolio has a composite benchmarked weighted 44% UK Government Bonds (GILTS) and 44% Non-Government Investment Grade Bonds with a 6% allocation to both Emerging Market Bonds and to High yield Bonds. The portfolio has an average credit rating of single A, a duration of 9 years and is currently yielding 2.6%.

The portfolio continues to yield above the benchmark through taking marginally higher credit risk.

With Interest rates in the UK and much of the rest of the world remaining near multi decade lows, the scope for further capital gains from this portfolio is likely to be limited. Any surprise to the upside in growth or inflation could see expectations for further rises in interest rates and hence lower prices for the bonds in this portfolio. However, as seen during the first quarter 2018, even as the rest of the world, led by the US, is worried about rising interest rates, the UK, with the current confusion over BREXIT, is seeing low levels of GDP growth and falling inflation.

The manager outperformed the benchmark in the first quarter 2018 by 1.0% producing a positive return of 0.5%. Longer term performance remains above benchmark but it is noticeable that levels of absolute returns are falling due to the current low level of yields.

Asset Class/Manager	Fixed Interest/ Fidelity
Fund AuM	£76m Unit Trust; 7.8% of the Fund
Performance target	50% Sterling Gilts; 50% Non-Sterling Gilts; +0.75p.a rolling 3 year
Adviser opinion	Manager continues to meet long term performance targets
Last meeting with manager	No meeting this quarter

The portfolio consists of almost entirely Investment Grade bonds with an average duration of 10.2 years and a current yield of 2.1%.

The manager marginally under-performed the index over the quarter returning -0.8% against the index return of -0.5%. Over the medium to longer term the manager has consistently added value and is achieving the portfolio's performance target of adding 0.75% per annum over a three year rolling basis.

Much of the general comment above is also relevant for this portfolio. The effect of falling bond yields is shown through the falling absolute return achieved by this portfolio over time, from 7.2% per annum over 5 years to 1.7% last year.

Asset Class/Manager	Multi Asset Income/ Fidelity
Fund AuM	£79m Pooled Fund of Fund; 8.2% of the Fund
Performance target	LIBOR +4% p.a.
Adviser opinion	
Last meeting with manager	No meeting this quarter

This mandate was funded on 20th February 2018. It invests across multiple asset classes including Alternatives e.g. property, infrastructure, leasing and direct lending via a Fund of Funds approach. It has a target yield of 4% over time and is designed to cover the cash flow requirements of the Fund into the future.

Because the portfolio is invested in multiple asset classes and is there to produce a yield rather than strong capital growth, it has an absolute benchmark referencing LIBOR. This means that short term performance will be dictated by market direction rather than manager skill. It is only over the longer term that the manager's ability can be truly measured.

Having been funded during the quarter, the performance data is too short term to be of any value at present.

Asset Class/Manager	UK Property/ Fidelity
Fund AuM	£16m Pooled Fund; 1.6% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	
Last meeting with manager	No meeting this quarter

This mandate was funded on 21st February 2018. It invests in the UK commercial property market and is part of the Fund's income producing assets. During the quarter the manager called down an element of the Fund's cash commitment but, in addition, the Fund managed to purchase a holding in the secondary market. So far, £15.8m of the £50m committed to this fund has been invested.

Appendix

Global Economy

The strong synchronised global expansion began to show some signs of slowing down in the first quarter of 2018, and inflation accelerated slightly in most regions, although on the whole economic data was positive. The UK remained the outlier: growth remained slow, and inflation started to fall, to 2.5% for March from its peak of 3% in January. Monetary policy was further tightened in the US, indicating that monetary accommodation was slowing down across the globe.

Table 1: Quarterly GDP Growth Rate

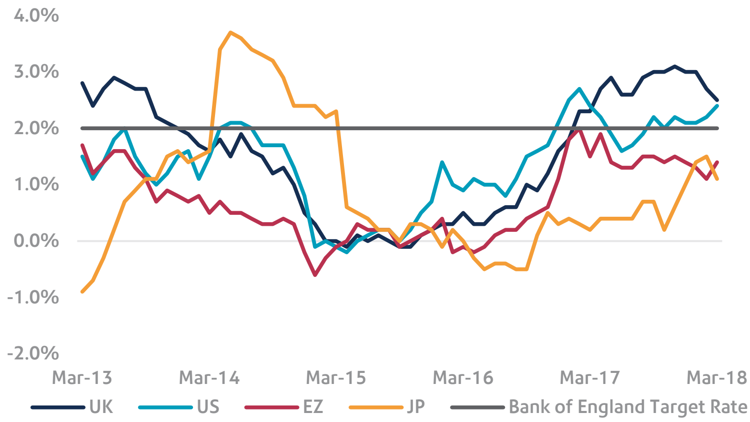
	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q1 2018*	2.20%	0.40%	0.50%	0.60%
Q4 2017	2.90%	0.40%	0.70%	1.60%
Q3 2017	3.20%	0.50%	0.70%	2.50%
Q2 2017	3.10%	0.20%	0.70%	2.90%

Source: Bloomberg. *Forecast based on leading indicators.
Notes: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: EHGDUS Index), Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: EHGDJP Index)

GDP: Global growth in Q1 was steady, albeit slower than in Q4 2017. In the US and Eurozone, declines in manufacturing and purchasing managers' indices indicated potentially slower (although still positive) growth to come.

In the UK, growth continued to be slow, but nevertheless still managed to outperform expectations, with the Bank of England revising its 2018 growth forecast upwards.

Chart 1: 5-year CPI to March 2018



Source: Bloomberg.
Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate NSA (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YoY (Ticker: JNCPIYOY Index)

CPI: With the exception of the UK, inflation trended upwards across the quarter, as increasing price pressures began to be felt.

In the US, higher inflation figures caused some market turbulence, as fears arose that the Fed would raise rates more quickly than planned. This increase was in part due to the effects of the US tax cuts acting as a stimulus. In the UK, inflation began to decline in February, as the effects of the post-Brexit sterling depreciation dropped out of the system. While inflation remained above the Bank of England's 2% target, it dropped to its lowest level in a year in March 2018.

Central Banks: Further steps were taken by central banks to slow or reverse their monetary stimulus programmes. The Bank of England kept rates unchanged over the quarter, but is widely expected to raise them at its next meeting in May, although recent softer economic data has cast doubt on this. This would be only the second interest rate rise from the Bank of England in over a decade. In March, the Federal Reserve increased rates by 25 basis points, to a range of 1.5%-1.75%, with two further increases expected this year. In the Eurozone, Mario Draghi confirmed that the ECB would not raise rates until after its programme of quantitative easing comes to an end, which is currently due to expire at the end of September.

Other Headlines: Markets were further troubled by political events. The US President surprised markets by imposing tariffs on aluminium and steel, and trade tensions between the US and China escalated, leading to considerable market volatility. In the Eurozone, Italy's election returned a hung parliament, with populist parties winning the most seats, although this had only a limited effect on markets. As the quarter ended, a new German government was formed following elections in September, with Angela Merkel remaining as chancellor presiding over a "grand coalition" including both the Christian Democratic Union and its traditional rivals, the Social Democratic Party.

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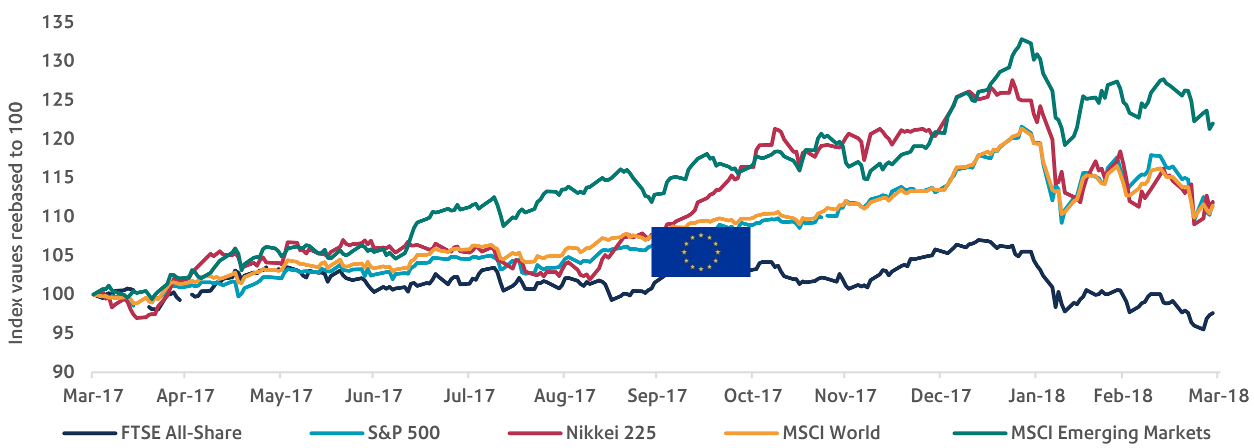
Equities

The year started off strongly, but volatility spiked in the latter part of the quarter, leading to the first equity market correction and quarterly decline in global equities in two years. The MSCI World returned -1.16%[3] in Q1, compared to 5.6% in the previous quarter.

[3] All return figures quoted are Total Return, calculated with gross dividends reinvested. Source: Bloomberg.

UK: Equities performed poorly in Q1: the FTSE 100 and FTSE All-Share posted returns of -7.2% and -6.9% respectively. This was driven in part by the strength of sterling (70% of FTSE 100 companies generate revenue outside the UK), and by concerns that the Bank of England might tighten monetary policy faster than markets anticipate. The trend of relative underperformance continued, as the effects of Brexit continued to be felt, and the collapse of Carillion roiled the markets.

Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currency. FTSE All-Share Index (Ticker: ASX Index) S&P 500 Index (Ticker: SPX Index) Nikkei 225 Index (Ticker: NKY Index) MSCI World Index (Ticker: MXWO Index) MSCI Emerging Markets (Ticker: MXEF Index)

Japan: Performance faltered in the first quarter of the year. Economic indicators were less positive than in previous quarters, and a political controversy over a land sale has weakened the position of Prime Minister Abe. The MSCI Japan returned -4.8% and the Nikkei 225 -5.1% over Q1. Those sectors most dependent on foreign trade performed the worst.

Emerging Markets: The MSCI Emerging Market Index was one of the few to generate positive returns in Q1, albeit the 1.4% return was considerably lower than the 7.3% return of the previous quarter. Brazil provided strong returns as the likelihood of former president Lula da Silva running in the October election decreased. Russia also saw strong gains as its central bank cut interest rates. Indian equities performed poorly, in part because of a reported bank fraud at a state-owned bank.

US: Despite a strong start to 2018, both the Dow Jones Industrial Average and S&P 500 indices posted negative returns of -2.0% and -0.8% respectively for Q1,. Technology stocks fell in particular: Facebook's data privacy policy came under scrutiny and President Trump took aim at Jeff Bezos and Amazon. An uptick in inflation and market concerns that the Fed would accelerate its interest rates hikes, resulted in heighted market volatility in February. US-China trade tensions caused further instability in March.

EU: In keeping with other developed markets, European equities had a poor quarter, with the MSCI EMU[4] Index returning -2.7%, the second consecutive quarter of negative returns. While the economic backdrop was positive, there were signs that growth would likely slow going forward. This, along with political uncertainty in Germany and Italy as well as global volatility, contributed to the weak performance in Q1.

China: Despite trade tensions with the US, Chinese equity markets performed relatively strongly; the MSCI China index returned 2.2%. There was increased volatility, but, in general, equity markets did well (relatively) on the basis of stronger than expected economic data. For example, GDP growth figures of 6.8% for Q1 outperformed expectations. The quarter also saw increased index buying ahead of Chinese A-Shares being included in the MSCI Index, following their recent historic availability to foreign investors.

[4] Economic and Monetary Union of the European Union

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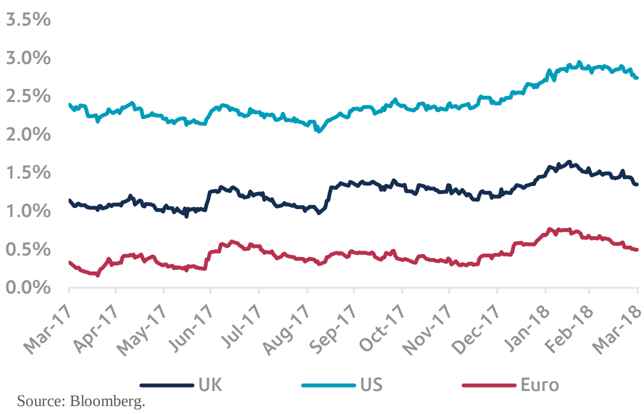
Fixed Income

Despite a late-quarter rally, fixed income markets were characterised by high levels of interest rate volatility which triggered losses across most segments of fixed income. The Bloomberg Barclays US Aggregate Bond Index, which is a good representation of the broader investment grade market in the US, returned -1.5% during the first quarter of 2018, the 14th worst quarter since the index's inception in 1968. A rally of 0.5% in the final week of the quarter, due to concerns over the prospect of a potential trade war, helped to offset some of the earlier losses.

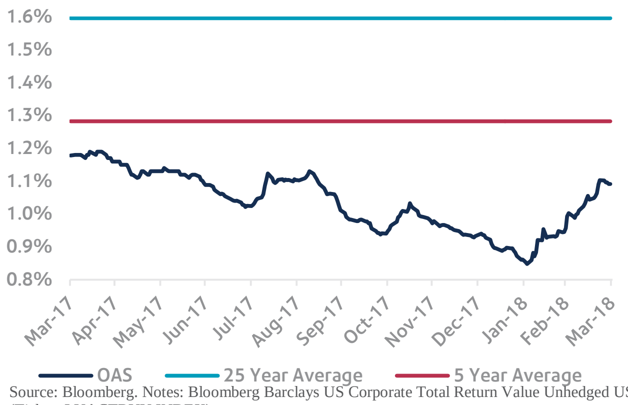
Government Bonds: Sovereign yield curves continued to flatten to varying degrees across most developed markets, amid shifts to more normalised global monetary policy. Short-term yields in the UK and US increased sharply on expectations of more aggressive monetary policy tightening: US T-Bill yields rose markedly across the curve over the first quarter, as forecasts of higher growth and inflation confirmed likely further interest rates hikes this year; UK gilts saw a more pronounced curve flattening as 10-year yields rose from 1.19% to 1.35%, while five and two-year yields rose by 39 and 38 basis points. Longer-term yields, however, declined in the major developed markets where inflation remained tame, including in France, Spain and Italy, while the 10-year Bund rose marginally.

Chart 3: Government Bond Yields



Source: Bloomberg.
Notes: US Generic Govt 10 Year Yield (Ticker: USGG10YR Index)
UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index)
Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index)

Chart 4: US Corporate Bond Spreads

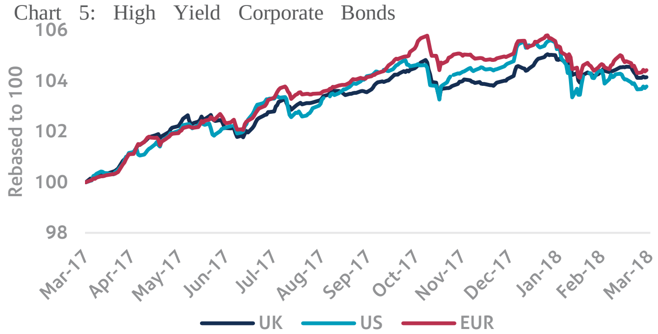


Source: Bloomberg. Notes: Bloomberg Barclays US Corporate Total Return Value Unhedged USD (Ticker: LUACTRUU INDEX)
Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity Treasury.

Corporate Bonds: Corporate bonds registered negative total returns and underperformed government bonds. Investment Grade (IG) corporate bonds were the weakest performer during the first quarter of 2018, returning -2.1% in the sector's worst first quarter return in over 20 years (and 18th worst quarter on record). This was widely put down to the interest rate sensitivity of the asset class. Corporate credit spreads widened in Q1, but widening spreads also weighed on the performance of investment grade IG corporates; this was in part due to reduced demand for short duration corporate credit, despite improving fundamentals and lower new issuance levels, as investors focused on trade tariffs and tax reforms.

High Yield and Investment Grade Credit: Investment grade (IG) credit saw larger negative returns than high yield (HY), notably in US dollar, while sterling HY performed well. The ICE BofA Merrill Lynch High-Yield index posted a 0.9 percent loss on a total return basis, as higher-duration BB-rated bonds delivered their worst performance since Q3 2015 with a 1.7 percent loss, compared to a 0.4 percent loss for B-rated bonds and a 0.5 percent gain for CCC-rated bonds.

Chart 5: High Yield Corporate Bonds



Source: Bloomberg. Notes: Bloomberg Barclays Pan-European High Yield: Sterling Total Return Unhedged GBP (Ticker: I05892GB Index)
Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged US (Ticker: LF98TRUU index)
Bloomberg Barclays Pan-European High Yield (Euro) TR Index Value Unhedged EUR (Ticker: LP02TREU Index)

Currencies

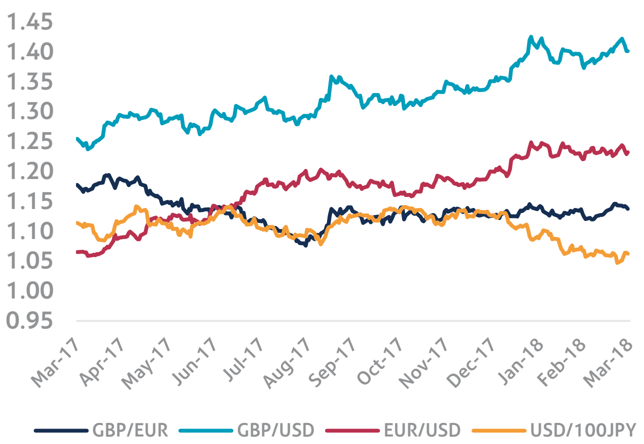
As with markets in general, currencies were volatile in Q1 2018. The dollar fell in January, in part due to the US Treasury Secretary Steven Mnuchin's statements that he favoured a weak dollar. Fears of a trade war between the US and China underpinned currency volatility - the dollar weakened against the yen significantly, as markets sought a "safe haven" currency, as well as against sterling and the euro. The appreciation of sterling was further boosted by the agreement of a Brexit transition deal and the slowing of inflation, as markets anticipate a rate rise in May.

Table 2: Currency Rates as At March 2018

	Quarter-end Value	% Quarter Change
GBP/EUR	1.14	1.04%
GBP/USD	1.40	3.71%
EUR/USD	1.23	2.66%
USD/100JPY	1.06	-5.69%

Source: Bloomberg.
Notes:
GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency)
GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency)
EURUSD Spot Exchange Rate (Ticker: EURUSD Currency)
USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)

Chart 6: 1-Year Currency Rates of Major Currency Pairs

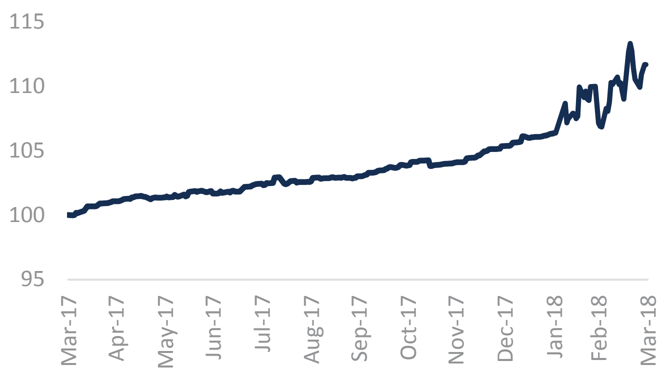


UK Property

The UK property market was fairly soft in the first quarter of 2018, with the FTSE EPRA/NAREIT UK Index down 3.8% overall in the period. Commercial property saw a modest rebound, but residential property remained flat, with continuing fears over household disposable income and debt servicing if interest rates were to venture higher.

Commercial Property: UK commercial property capital values were up 0.9% on average during Q1 2018, with rental values up 0.5%. CBRE data revealed that the industrial sector led the way in Q1 in terms of capital (3.1%) and rental value growth (1.2%), while the office market also showed an increase in capital value (0.8%) and rental value (0.3%). CBRE also reported that March was the second consecutive month of positive rental growth in the Central London office market after 10 months of flat or negative changes.

Chart 7: 1-Year UK Property Investment Index



Notes:
FTSE All UK Property Index (Ticker: FTMSANTR INDEX)
FTSE 350 Real Estate Index (Ticker: F3REAL INDEX), replaced FTSE All UK Property Index from Feb 2018.

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