Appendix B – JLT Image Report Quarterly Update 30 September 2013

Performance Report - Quarterly Update 30 September 2013

London Borough of Barnet Superannuation Fund

JLT Employee Benefits

Contents

Jignasha Patel, MMath (Hons) IMC
Principal Analyst

Julian Brown, PhD IMC
Director
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Section One – Market Update

Introduction

The tables below summarise the various market returns to 30 September 2013, to relate the analysis of your Scheme's performance to the global economic and market background.

Yields as at 30 September 2013	% p.a.
UK Equities	3.41
UK Gilts (>15 yrs)	3.41
Real Yield (>5 yrs ILG)	-0.04
Corporate Bonds (>15 yrs AA)	4.32
Non-Gilts (>15 yrs)	4.51

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	%	%	% p.a.
UK Equities	5.6	18.9	10.1
Overseas Equities	0.8	18.2	9.7
USA	-1.0	19.7	15.4
Europe	6.9	27.1	7.3
Japan	0.1	31.2	8.2
Asia Pacific (ex Japan)	0.6	6.9	3.2
Emerging Markets	-2.2	0.2	-1.7
Property	2.9	6.5	6.2
Hedge Fund	1.7	7.7	5.4
Commodities	-1.9	-4.4	2.7
High Yield	-3.1	8.5	8.2
Emerging Market Debt	1.2	-4.1	4.9
Senior Secured Loans	2.7	9.2	6.7
Cash	0.1	0.4	0.5

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	%	%
UK Equities	-0.12	-0.23	0.24
UK Gilts (>15 yrs)	-0.02	0.51	-0.44
Index-Linked Gilts (>5 yrs)	-0.01	-0.13	-0.52
Corp Bonds (>15 yrs AA)	-0.20	0.30	-0.63
Non-Gilts (>15 yrs)	-0.16	0.26	-0.46

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	%	%	% p.a.
UK Gilts (>15 yrs)	1.3	-4.4	6.3
Index-Linked Gilts (>5 yrs)	0.5	6.6	8.3
Corp Bonds (>15 yrs AA)	3.8	0.7	6.6
Non-Gilts (>15 yrs)	3.2	1.3	6.7

Change in Sterling	3 Mths	1 Year	3 Years
	%	%	%
Against US Dollar	6.8	0.3	0.9
Against Euro	2.5	-4.7	1.2
Against Yen	5.5	26.5	6.5

Inflation Indices	3 Mths	1 Year	3 Years
	%	%	% p.a.
Price Inflation - RPI	0.9	3.2	3.8
Price Inflation - CPI	0.7	2.7	3.3
Earnings Inflation *	-0.1	0.7	1.5

* *Subject to 1 month lag*
Source: Thomson Reuters and Bloomberg

Yields and the absolute change in yields are shown to 2 decimal places to clearly show the changes.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
UK Equities	■ New BoE Governor, Mark Carney, in his forward guidance policy reaffirmed his commitment to maintain rates at low levels at least until unemployment falls below 7%.	■ UK trade deficit more than doubled in the month of July, to £3.1 billion from £1.3 billion in June, due to falling exports to countries outside European Union.
	■ The UK economy posted a strong quarter in Q2, with growth at 0.7%. This was led by construction and manufacturing, suggesting recovery in the economy continues.	■ The equity market continues to be nervous about the extent to which the US Federal Reserve will "taper" its programme of asset purchases.
	■ According to Markit and the Chartered Institute of Purchasing & Supply, August 2013 Purchasing Managers' Index (PMI) rose to a two-and-a-half year high of 57.2, up from July's figure of 54.8.	■ Towards the end of the quarter, markets became concerned about a possible escalation of the conflict in Syria that could destabilise the wider region.
	■ UK equity dividend yields remain comfortably in excess of government bond yields while UK equities remain the cheapest developed equity market globally on a P/E (price to earnings) basis.	
Overseas Equities		
North American Equities	■ The US Federal Reserve refrained from any tapering of QE and assured the markets that a hike in interest rates will follow only when jobless rate falls below 6.5% and the outlook for inflation is no higher than 2.5%. These comments led to a decrease in the 10-Year Treasury bond yield by 15 basis points and equity markets touching a new high.	■ Uncertainty over the starting date of Fed's "taper" of quantitative easing, and concerns over potential conflict in Syria, led to a fall in the US equity markets.
	■ The underlying fundamentals in terms of consumer spending, housing and business confidence are slowly improving, making equities look inexpensive.	■ Revised US GDP forecasts by the Fed reflected a decrease in the growth rate by 0.3%. The GDP is set to increase 2.0% to 2.3% in 2013, down from a June projection of 2.3% to 2.6% growth.
	■ Positive earnings growth and accelerating economic momentum suggest stronger performance from US equities.	■ Though employment figures look reassuring, the rate of growth in jobs and the quality of new jobs remains a concern.
		■ The acrimonious debate on the raising of the debt ceiling is a growing cause for concern.

Asset Class	Factors Affecting the Market	
	Positive	Negative
European Equities	The Eurozone emerged from an 18 month recession in the second quarter, as GDP grew by 0.3% for the 17-nation currency area. Germany and France showed the strongest signs of recovery with Q2 growth rates of 0.7% and 0.5%, respectively.	Standard and Poor's Ratings Services downgraded Italy's sovereign credit rating by one notch, citing the country's worsening economic prospects. S&P lowered the country's rating two levels above junk territory, from BBB+ to BBB.
	Business activity in the Eurozone, as measured by the PMI, rose to 52.1 in September, higher than the August reading of 51.5 and registering its highest level since June 2011.	IMF estimates see the output gap peaking in 2013 at 3%, as unemployment rates remained at an all time high of 12.1% in the month of August. Youth unemployment continued to edge higher, up from 23.3% a year ago to 23.4%.
	European Central Bank President, Mario Draghi, assured the markets that the ECB would be willing to extend its long-term bank lending programme in order to keep short term interest rates low.	According to the IMF, Greece has a shortfall of €11 billion cash in its second bailout and Eurozone governments need to fill half of that gap before the end of this year.
	The ECB left its main refinancing rate at a historic low of 0.5%, staying true to its commitment to keep rates at current or lower levels for "an extended period".	
Japanese Equities	Japan's consumer price index has now risen for three consecutive months, rising at the fastest pace in almost five years in August 2013, by 0.9%. This represents good progress towards achieving the targeted annual inflation of 2% in the next two years. These rises have fuelled hopes that the economy is pulling out of deflation.	In an attempt to ease the nation's colossal debt, Mr Abe has confirmed the raising of sales tax to 8% in April 2014 and further to 10% in Oct 2015, from 5% as of today. Although this increase will be paired with new stimulus spending, economists fear that this move will derail the nascent economic recovery in the short term.
	Japan's economy expanded at an annualised rate of 3.8% in Q2, largely driven by strong consumer spending. This shows the benefits of Mr Abe's reflationary policies and the Bank of Japan's aggressive monetary stimulus.	Slowing growth in emerging markets is affecting demand for exports, whilst a weaker yen has hit importers.
Asia Pacific (excluding Japan) Equities	In an attempt to boost economic growth, the Reserve Bank of Australia (RBA) cut interest rates by 0.25% to a record low of 2.5%.	Rising capital costs and currency depreciations have negatively affected most Asian economies. Those with large current account deficits such as India have fared particularly poorly, seeing their currencies depreciate significantly.
	Upbeat Chinese trade and inflation data brought cheers to the Asian equity markets. August inflation was benign at 2.6% while export growth of 7.2% created the highest August trade surplus for the country since 2008.	Slower commodity demand from key economies such as China still affects the wider region.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Emerging Markets Equities	Buying opportunities can be seen in emerging markets as equity valuations look cheap after recent falls.	During the quarter, we have seen emerging economies struggle with their dependency on foreign capital inflows to fund their current-account deficits.
	Higher consumer demand from the developed economies, coupled with a weak currency, is supporting the growth of emerging economies which are export oriented.	Mexico has cut its 2013 GDP growth forecast to 1.8%, down from the 3.1% that was forecast back in July, on the back of an unexpected drop of 0.7% in the Q2 GDP figures.
		Most emerging market economies are still facing some headwinds due to inflation pressures and are raising their interest rates to combat high prices. Brazil has raised its interest rates for the fourth time since April, while Indonesia has raised interest rates to the highest level since 2009.
Gilts	With the release of the August Inflation Report, the MPC adopted formal forward rate guidance, stating that it did not intend to increase interest rates until the unemployment rate has fallen to at least 7%.	Gilt yields continued to rise, with the 10-year yield peaking at a two year high above 3%, due to the growing view that the Federal Reserve would begin to 'taper' its monthly asset purchases.
Index-Linked Gilts	Post a positive response for the new 2068 index-linked gilts, the Debt Management Office (DMO) has offered to issue an extra £750 million of inflation-linked bonds over the current financial year.	In an environment where central banks are able to control inflation within a target range, there is a limited upside to the return expectations on these instruments.
Corporate Bonds	Spreads over Government Bonds remained 'tight' over the quarter and prices have tended to follow movements in Government bonds.	The corporate bond market still suffers from a lack of liquidity while uncertainty looms over a rise in the interest rate.
	Corporations continue to maintain healthy balance sheets.	
Property	Commercial real estate values rose for the fourth straight month in August 2013. The retail sector saw growth for the first time since October 2011.	Over H1 2013, 77,686 homes were approved for construction which is still well short of the 220,000 per year needed to meet housing demand.
	Mortgage approvals in the UK rose to a five year high in July 2013. Demand in housing is supported by policy measures such as the Funding for Lending Scheme and Help to Buy.	
	The construction PMI grew at the fastest pace in six years in August 2013 amid a revival in the housing market, adding to signs the economic recovery is gaining traction.	

Section Two – Total Scheme Performance

Manager	Fund	Start of Quarter Value £	Start of Quarter Proportion of Total %	Net New Money £	End of Quarter Value £	End of Quarter Proportion of Total %
Newton Investment Management Limited (Newton)	Real Return	247,419,028	31.6	684	250,847,517	31.5
Schroder Investment Management Limited (Schroder)	Diversified Growth	240,950,292	30.8	-	245,675,594	30.9
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	40,421,844	5.2	-	40,861,265	5.1
Newton	Corporate Bond	118,830,446	15.2	-	121,955,015	15.3
Schroder	All Maturities Corporate Bond	110,947,749	14.2	-	113,864,213	14.3
L&G	Active Corporate Bond – All Stocks	16,656,772	2.1	-	16,990,760	2.1
Newton	Cash	553,525	0.1	-	652,225	0.1
Schroders	Cash	598,642	0.1	-	616,928	0.1
Internal	Cash	6,282,093	0.8	-	4,800,000	0.6
ASSET SPLIT						
Growth assets		536,671,899	68.4	684	542,801,304	68.2
Bond assets		246,988,492	31.6	-	253,462,213	31.8
TOTAL		**782,660,391**	**100.0**	**684**	**796,263,517**	**100.0**

Source: Investment managers, bid value used for LGIM and NAV values used for Schroder and Newton. Please note that the Internal Cash is assumed to have earned no interest over the quarter. The Cash from the Newton and Schroder portfolios has been shown separately. The Newton Cash is assumed to be held in the Bond portfolio and the Schroders Cash in the Growth portfolio.

Total may not sum due to rounding.

Total Scheme Performance

	Portfolio Return Q3 2013 %	Benchmark Return Q3 2013 %
Total Scheme	1.9	0.9
Growth Portfolio		
Growth v Global Equity	1.7	3.7
Growth v RPI+5% p.a.	1.7	2.1
Growth v LIBOR + 4% p.a.	1.7	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	2.7	1.3
Bond v Index-Linked Gilts (> 5 yrs)	2.7	0.5

The Growth portfolio excludes L&G equities. The global equity benchmark is 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index. *Liability benchmark (see page 19).

The Bond portfolio excludes L&G Corporate Bond Fund.

The Total Scheme return is shown against the liability benchmark return (see page 19). The Growth portfolio return is the combined Newton and Schroder DGF portfolios and is shown against a notional 60/40 global equity benchmark and the underlying benchmarks of each fund for comparison purposes. The Bond portfolio is the combined Newton and Schroder Corporate Bond Portfolios and is shown against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

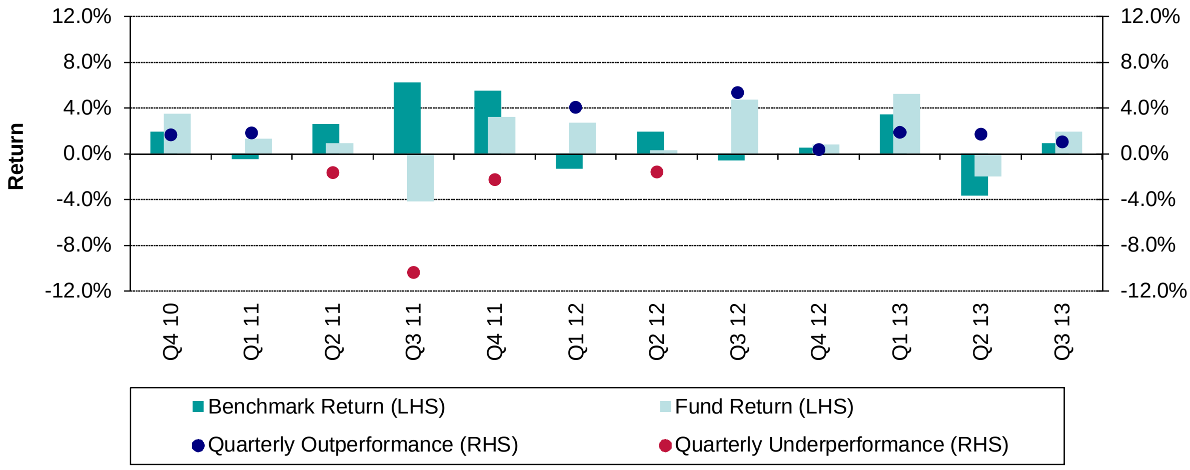
Individual Manager Performance

Manager/Fund	Portfolio Return Q3 2013 %	Portfolio Benchmark Q3 2013 %
Newton Real Return	1.4	1.1
Schroder Diversified Growth	2.0	2.1
L&G – Overseas Equity	1.1	1.0
Newton Corporate Bond	2.7	2.9
Schroder Corporate Bond	2.6	2.2
L&G – Corporate Bond	2.0	2.2

Source: Investment managers, Thomson Reuters. Performance is money-weighted and based on bid values for LGIM and NAV for Schroders and Newton.

The previous table shows the breakdown of the individual manager/portfolio returns against their underlying benchmarks.

Total Scheme - performance relative to liability benchmark



Source: Investment managers, Thomson Reuters. Liability benchmark effective from Q1 2011.

The Scheme achieved a return of 1.9% over the quarter and outperformed the liability benchmark return by 1.0%. This was due to positive performance from both the growth and bond funds.

The chart above shows the historical returns against the WM Universe for information. The new strategy against the liability benchmark is effective from 1 January 2011.

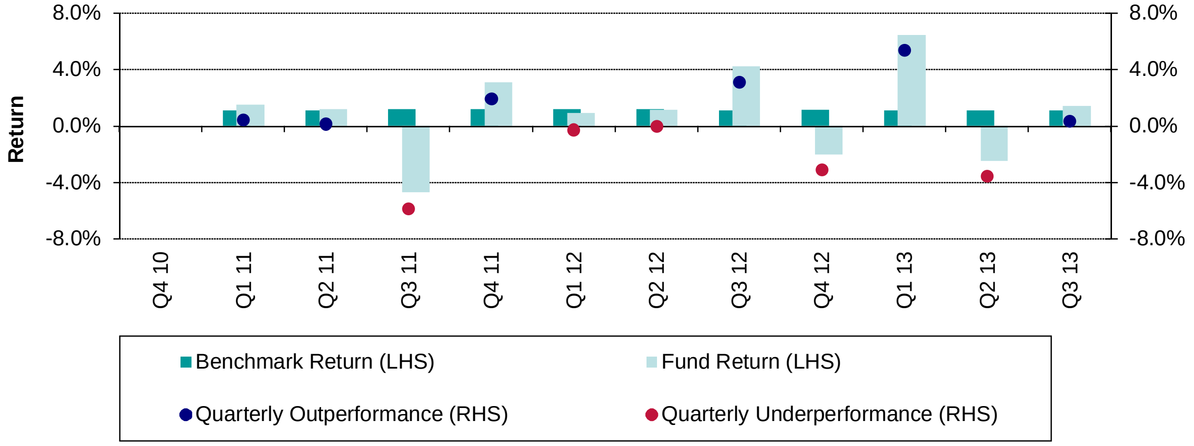
The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns. The Newton Corporate Bond fund was the best performing fund in absolute terms, and on a relative basis, the Schroder Corporate Bond Fund was the best performing fund which outperformed its benchmark return by 0.4%.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 2.0%. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio returned less than the RPI +5%, however, it outperformed the LIBOR +4% in the same period. The growth portfolio's positive absolute return over the quarter was driven by both the DGF Funds.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, outperformed the Over 15 Year Gilts Index (by 1.4%) and the Over 5 Years Index Linked Gilts Index (by 2.2%).

Section Three – Manager Performance

Newton - Real Return Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund returned 1.4% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby outperforming by 0.3%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 2.3%.

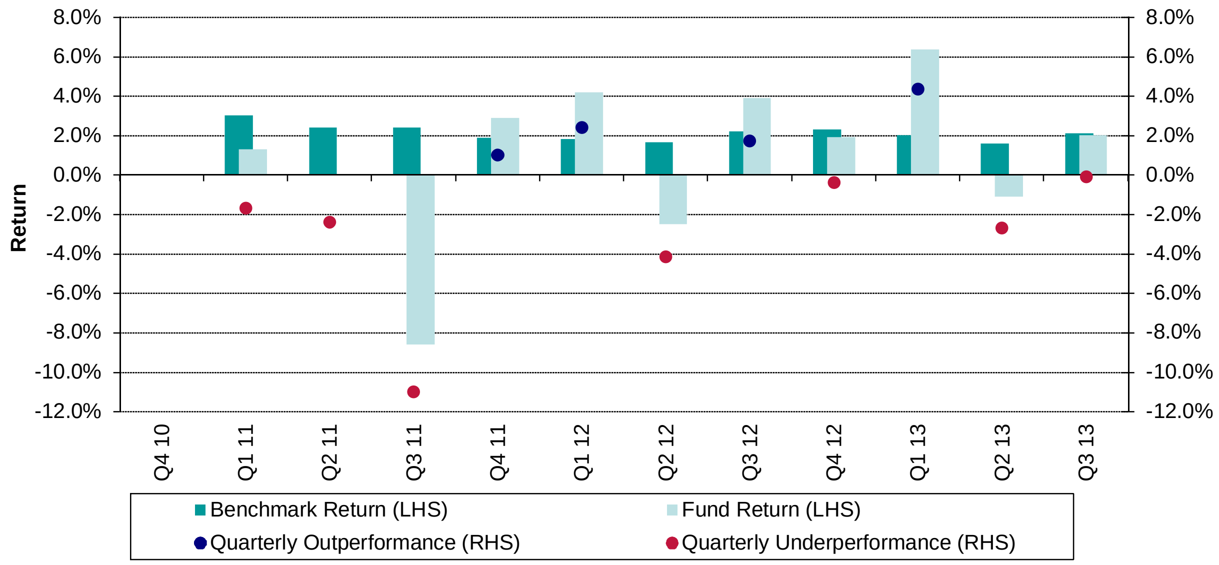
The Real Return Fund outperformed its benchmark, but underperformed equities. UK and European equities, particularly those in the telecoms and mining sectors, and the Fund's currency hedges generated the majority of total fund performance.

Government bonds detracted significantly from returns, most notably the US 30 year Treasury, Norwegian and Australian bonds. The Fund's S&P 500 and FTSE 100 equity protection strategies also detracted from performance.

Four infrastructure funds were added over the quarter, Newton expect these funds to provide a strong income stream as well as bringing further diversification to the portfolio.

Over the 12 month period, the Fund returned 2.8% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 15.9%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 2.0% compared to its RPI + 5% p.a. portfolio benchmark return of 2.1% and underperformed marginally by 0.1%. The Fund underperformed the notional 60/40 global equity benchmark by 1.7% over the quarter.

The Fund's exposure to developed market equities was the main driver of performance, with allocations to European and North American equities adding significantly to the total return. High Yield debt also added significantly to performance as yields fell and credit spreads tightened over the quarter. Commodities also made a small contribution to performance, with precious metals rebounding from a disappointing Q2 2013.

The remainder of the Fund's diversifying assets were flat, or negative, over the quarter. The largest detractor from performance was the Fund's Hedge Fund exposures.

The Fund has reduced its exposure to Credit and High Yield to reflect the low level of yields and reduced credit spreads. Monies have been reallocated to Equities, including a position in emerging market equities for the first time over two years, a thematic basket of equities (RARP) and Property.

Over the 12 month period, the Fund returned a strong absolute return of 9.3% versus the benchmark return of 8.3%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 9.4%.

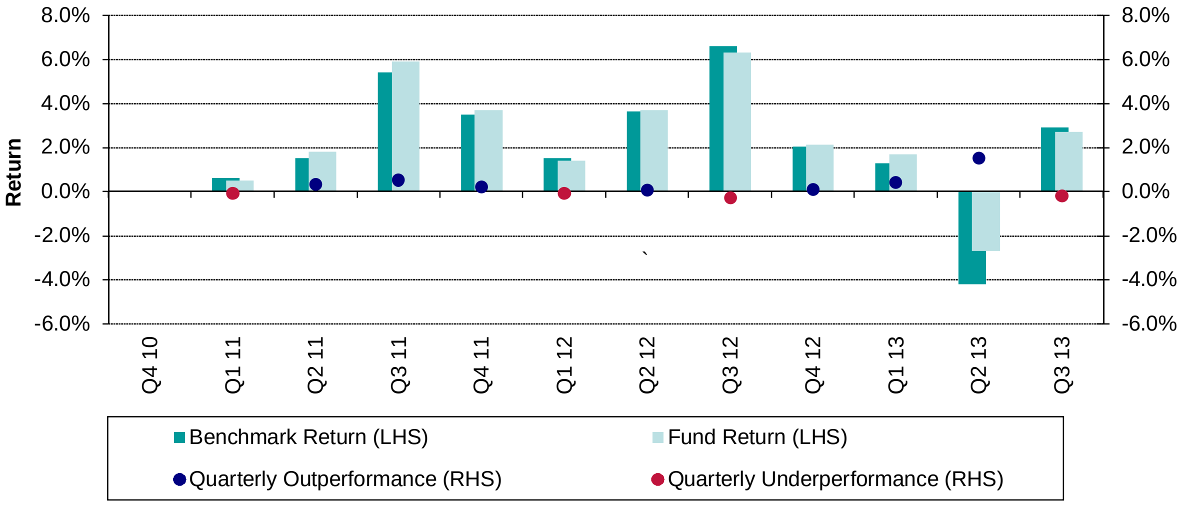
Asset allocation for growth managers: movement over the quarter

	Q3 '13 Newton %	Q3 '13 Schroder %	Q2 '13 Newton %	Q2 '13 Schroder %
UK Equities	15.1	4.0	15.1	2.5
Overseas Equities	40.9	47.7	43.1	44.4
Fixed Interest	18.8	-	15.4	-
Corporate Bonds	10.3	8.5	10.9	4.3
High Yield	-	12.3	-	21.3
Private Equity	-	1.2	-	1.2
Commodities	3.3	7.1	2.8	1.9
Absolute Return	-	6.4	-	6.8
Index-Linked	1.3	-	1.4	-
Property	-	2.3	-	0.3
Cash/Other	10.3	10.5	11.3	17.3
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers.

Note: Total may not sum due to rounding.

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

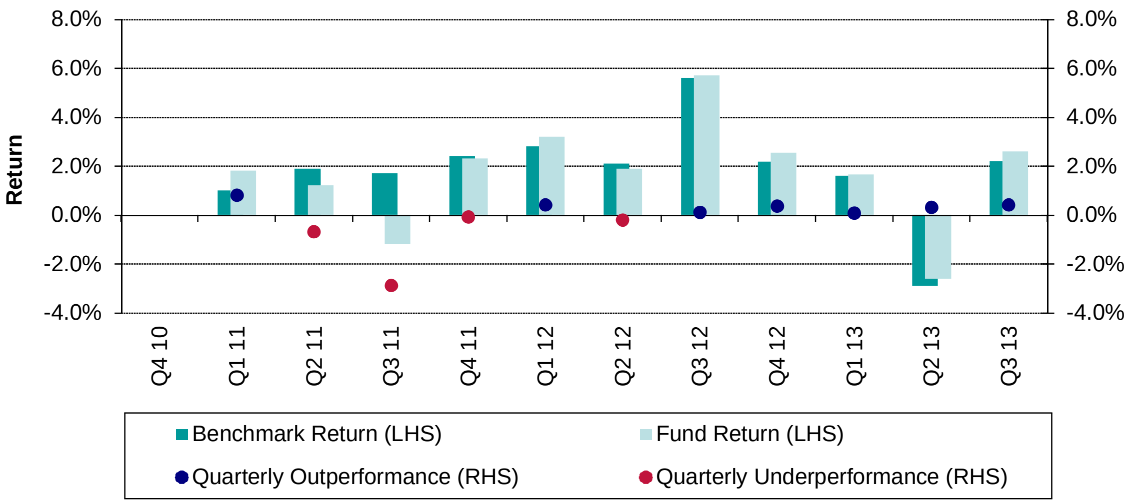


Source: Investment manager.

The Newton Corporate Bond portfolio underperformed its benchmark by 0.2%; it returned 2.7% versus the benchmark return of 2.9%. The Fund's relatively cautious positioning caused it to underperform the benchmark.

Over the 12 month period, the Fund returned 2.8% against the benchmark return of 1.8%.

Schroder - All Maturities Corporate Bond portfolio - performance relative to portfolio benchmark

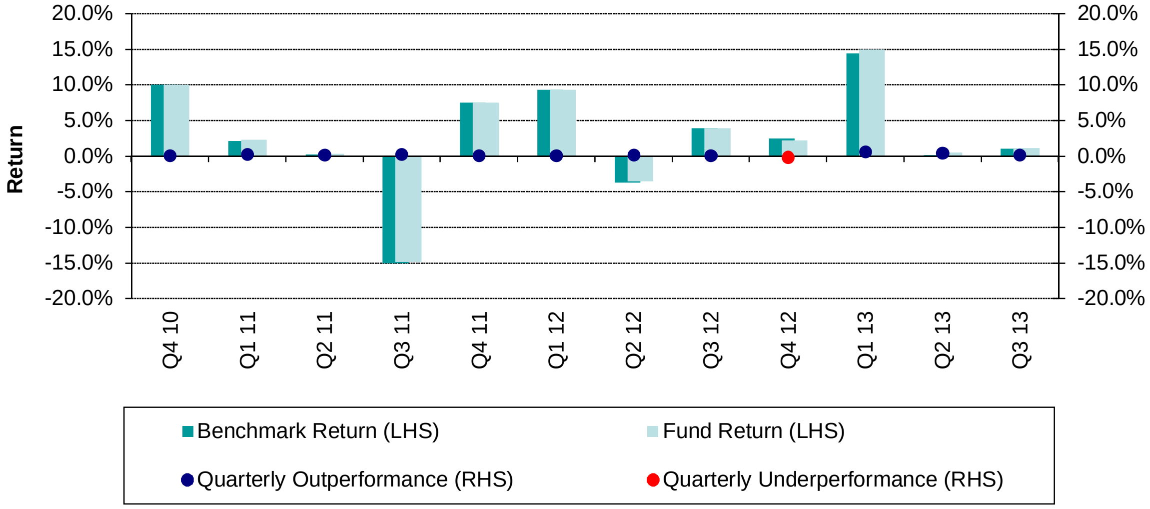


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed its benchmark by 0.4%, returning 2.6% versus the benchmark return of 2.2%. The Fund’s outperformance was driven by a combination of sector selection, such as an overweight position to the financials sector which outperformed, individual security selection and a modest overweight interest rate duration position.

Over the 12 month period, the Fund returned 4.2% versus the benchmark return of 3.1%.

L&G – Overseas Equities



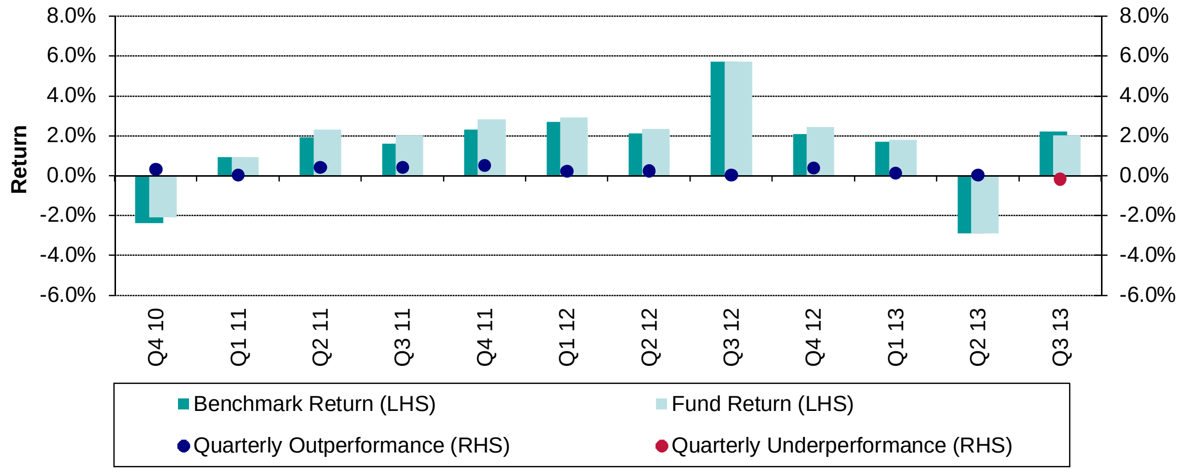
Source: Investment manager.

Over the third quarter of 2013, the Fund outperformed the benchmark return marginally by 0.1% and produced an absolute return of 1.1%.

Over the 12 month period, the Fund return was 19.3%, against the benchmark return of 19.2% thus outperformed its benchmark by 0.1%.

The Fund has tracked its benchmark over the 3 year period.

L&G – Active Corporate Bond - All Stocks - Fund



Source: Investment manager.

Over the quarter, the Fund underperformed its benchmark by 0.2% and produced an absolute return of 2.0% compared to benchmark return of 2.2%.

The overweight position in credit risk benefited the Fund's performance as credit excess returns were positive. Also the overweight position to lower tier two Banks and Sub-Insurance contributed positively.

However, the overweight exposure to Collateralised debt was detrimental as there was mark to market volatility in some names held. The Media sector also detracted. In addition, the 'Off benchmark' overweight exposure to Time Warner Cable detracted due to concerns of a potential bid from Charter Communications Inc. The allocation to US Debt in the Fund also detracted from performance as the sterling market was the best performing over the period.

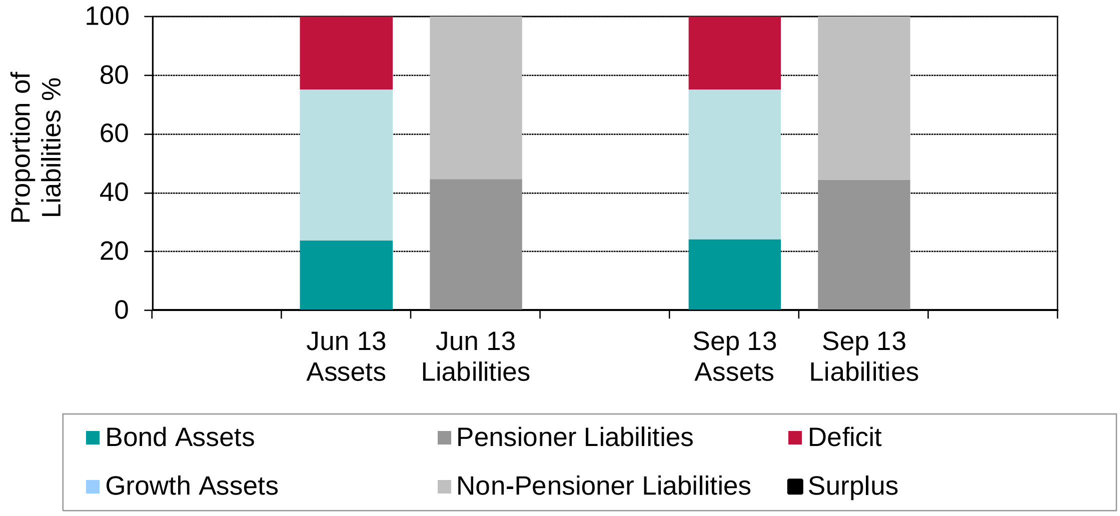
Over the 12 month period, the Fund has produced return of 3.2% compared with the benchmark return of 3.0%.

The Fund has outperformed its benchmark over the 3 year period.

Section Four – Consideration of Funding Level

This section of the report considers the funding level of the Scheme. Firstly, it looks at the Scheme asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Allocation to Bond and Growth assets against estimated liability split

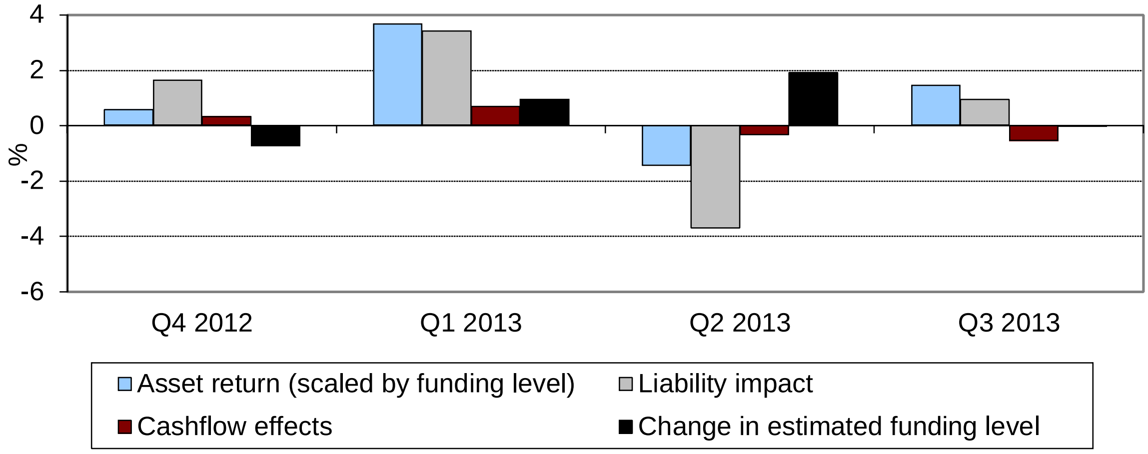


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 2. These calculations do not take account of unexpected changes to Scheme membership and should not be construed as an actuarial valuation. However, by showing approximations to these liabilities, this chart should assist the Panel in making informed decisions on asset allocation.

Over the quarter, the expected funding position marginally decreased by 0.1%, as the expected increase in liabilities was only partially offset the increase in the assets. The Scheme was approximately 75.1% funded as at 30 September 2013.

The split between non-pensioner and pensioner liabilities is estimated to have remained fairly stable over the quarter. The Scheme remains very underweight to Bond assets relative to its estimated pensioner liabilities; a mismatch that leaves the Scheme exposed to interest rate risk.

Scheme performance relative to estimated liabilities



The above chart shows, for each quarter, how changes in the value of the assets and the liabilities, combined with the cashflow of the Scheme, have affected the funding level. As detailed earlier, the value of the liabilities has been estimated with reference to changes in the gilt yields underlying the Scheme Actuary's calculation of liabilities, as shown in the Market Statistics table.

Over the quarter, the estimated funding level decreased by 0.1% due to a large expected increase in the value of the liabilities which was partially offset by an increase in asset value.

Overall, Q3 2013 has been a flat quarter for the Scheme in terms of the funding level.

Section Five – Summary

Overall this has been a fair quarter for the Scheme as equity and bond markets performed positively and the funding level is expected to have remained broadly the same.

In absolute terms, the Scheme's assets produced a return of 1.9% over the quarter. All the growth and bond portfolios produced positive absolute returns.

In relative terms, the Scheme outperformed the liability benchmark return (see page 19) by 1.0%. The Newton Real Return Fund, L&G Overseas equities and Schroder Corporate Bond Fund outperformed the benchmark by 0.3%, 0.1% and 0.4% respectively. However, the Schroder Diversified Growth Fund, Newton Corporate Bond Fund and the L&G Corporate Bond Fund underperformed their respective benchmarks by 0.1%, 0.2% and 0.2% respectively.

The combined Growth portfolio underperformed a notional 60/40 global equity return producing a positive absolute return of 1.7%.

The combined Bond Portfolio outperformed the Over 15 Year Gilts Index by 1.4% and the Index Linked Gilts (>5 Years) Index by 2.2%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a marginal negative impact (0.1%) on the Scheme's estimated funding level which was 75.1% as at 30 September 2013.

Appendix

Liability benchmarking

An assessment of Scheme liabilities and how they change would require details of membership changes and actuarial valuation calculations to be carried out. However, by considering the changes in value of a suitable notional portfolio, based on your own liabilities, we can obtain an approximation to the changes in liabilities which will have occurred as a result of investment factors. In this report, when we refer to “liabilities” we mean the notional portfolio representing the actuarial liabilities disclosed in the actuarial valuation report dated 31 March 2010, adjusted approximately to reflect changes in investment factors. This will, therefore, not reflect any unanticipated member movements since the actuarial valuation. However, as a broad approximation it will allow more informed decisions on investment strategy. When we refer to the "liability benchmark" we mean the estimated impact on the liabilities (as referred to above) based on market movements alone.

Summary of current funds

Manager	Fund	Date of Appointment	Management Style	Monitoring Benchmark	Target
Newton Investment Management Limited (Newton)	Real Return	December 2010	Active, pooled	1 month LIBOR plus 4% p.a.	To achieve significant real rates of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	December 2010	Active, pooled	Merrill Lynch Sterling Non Gilt Over 10 Years Investment Grade Index	To outperform the benchmark by 1% p.a. over rolling 5 years
Schroder Investment Management Limited (Schroder)	Diversified Growth	December 2010	Active, pooled	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	December 2010	Active, pooled	Merrill Lynch Sterling Non-Gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years
Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	September 2008	Passive, pooled	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3

Summary of current funds (continued)

Manager	Fund	Date of Appointment	Management Style	Monitoring Benchmark	Target
L&G	Active Corporate Bond – All Stocks	December 2008	Active, pooled	iBoxx Sterling Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years
Internal	Property	N/a	Active, property unit trust portfolio	UK IPD Property Index	Outperform the index
Newton Investment Management Limited (Newton)	Balanced	April 2006	Active, segregated	WM Local Authority Weighted Average	Outperform by 1% p.a over rolling 3 years, and not to underperform by 3% in any rolling 12 month period
Schroder Investment Management Limited (Schroder)	Balanced	1994	Active, segregated	WM Local Authority Weighted Average ex property, Japan and other international equities	Outperform by 1% p.a over rolling 3 years, and not to underperform by 3% in any rolling 12 month period

Glossary of Terms

Term	Definition
Absolute return	The overall return on a fund.
Bond asset	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth asset	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded liabilities	The value of benefits payable to members that can be paid from the existing assets of the scheme (i.e. those liabilities that have assets available to meet them).
Market stats indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE World Index Series (and regional sub-indices) UK Gilts: FTSE-A Gilt >15 Yrs Index Index Linked Gilts: FTSE-A ILG >5 Yrs Index Corporate Bonds: iBoxx Corporate Bonds (AA) Over 15 Yrs Index Non-Gilts: iBoxx Non-Gilts Over 15 Yrs Index Property: IPD Property Index High Yield: ML Global High Yield Index Commodities: S&P GSCI GBP Index Hedge Funds: CSFB/Tremont Hedge Fund Index Cash: 7 day London Interbank Middle Rate Price Inflation: Retail Price Index (excluding mortgages), RPIX Earnings Inflation: Average Earnings Index

Market volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change impact.
Money-Weighted rate of return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner liability	The value of benefits payable to those who have already retired, irrespective of their age.
Portfolio benchmark	The benchmark return of the each manager/fund.
Relative return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund *less* Return on Index or Benchmark.
Scheme investments	Refers only to the invested assets, including cash, held by your investment managers.
Standard deviation	A statistical measure of volatility. We expect returns to be within one standard deviation of the benchmark 2 years in every 3. Hence as the standard deviation increases so does the risk.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Time-Weighted rate of return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (gross redemption yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the discounted value of future cashflows.
3 Year return	The total return on the fund over a 3 year period expressed in percent per annum.

JLT Manager Research Tier Rating System

Tier	Definition
BUY	Significant probability that the manager will meet the client's objectives.
HOLD	Reasonable probability that the manager will meet the client's objectives. This fund will not be put forward for new investments but there is no intention to sell existing holdings.
REVIEW	The manager may reach the client's objectives but a number of concerns exist. The JLT Manager Research Team are currently reviewing this fund.
SELL	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns and therefore we recommend clients to redeem their assets.

JLT Employee Benefits

The St Botolph Building, 138 Houndsditch,
London EC3A 7AW
Tel: +44 (0) 207 528 4444
Fax: +44 (0) 207 528 4500

CONTACTS

Julian Brown, PhD IMC
JLT Employee Benefits
Tel: +44 (0) 207 528 4024
Email: julian_brown@jltgroup.com

Jignasha Patel, MMath (Hons) IMC
JLT Employee Benefits
Tel: +44 (0) 207 895 7706
Email: jignasha_patel@jltgroup.com