London Borough of Barnet Superannuation Fund

Quarterly update to 31 March 2014

Contents

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1 Market update

Introduction

The tables below summarise the various market returns to 31 March 2014, to relate the analysis of your Scheme's performance to the global economic and market background.

Market returns growth assets	3 mths %	1 yr. %	3 yrs. % p.a.
UK equities	-0.6	8.8	8.8
Overseas equities	0.7	6.8	7.6
USA	1.2	11.3	13.3
Europe	2.4	15.7	6.1
Japan	-6.0	-1.6	4.3
Asia Pacific (ex Japan)	0.4	-6.5	0.8
Emerging markets	-0.7	-10.8	-4.3
Property	3.9	14.0	7.6
Hedge fund	1.0	7.2	4.7
Commodities	2.3	-7.9	-4.7
High yield	2.2	-0.7	7.6
Emerging market debt	3.7	0.6	7.1
Senior secured loans	0.6	7.0	5.0
Cash	0.1	0.4	0.5

Market returns bond assets	3 mths %	1 yr. %	3 yrs. % p.a.
UK gilts (>15 yrs.)	3.4	-3.1	8.7
Index-linked gilts (>5 yrs.)	3.6	-4.4	9.0
Corporate bonds (>15 yrs. AA)	2.7	1.5	8.8
Non-gilts (>15 yrs.)	2.7	1.1	8.9

* Subject to 1 month's lag

Source: Thomson Reuters and Bloomberg

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

Change in sterling	3 mths %	1 yr. %	3 yrs. % p.a.
Against US dollar	0.7	9.8	1.3
Against euro	0.6	2.3	2.3
Against yen	-1.4	20.3	8.9

Absolute change in yields	3 mths %	1 yr. %	3 yrs. % p.a.
UK equities	0.13	0.06	0.45
UK gilts (>15 yrs.)	-0.15	0.41	-0.87
Index-linked gilts (>5 yrs.)	-0.13	0.33	-0.73
Corporate bonds (>15 yrs. AA)	-0.13	0.24	-1.24
Non-gilts (>15 yrs.)	-0.03	0.37	-0.93

Yields as at 31 March 2014	% p.a.
UK equities	3.41
UK gilts (>15 yrs.)	3.43
Real yield (>5 yrs. ILG)	-0.10
Corporate bonds (>15 yrs. AA)	4.29
Non-gilts (>15 yrs.)	4.60

Inflation indices	3 mths %	1 yr. %	3 yrs. % p.a.
Price inflation – RPI*	0.6	2.5	3.1
Price inflation – CPI*	0.1	1.6	2.6
Earnings inflation**	0.9	2.0	1.5

What happened?		
Asset class	**Positive factors**	**Negative factors**
UK equities	■ According to the British Chambers of Commerce (BCC), measures of growth in services, export sales and orders hit their highest levels in Q1 since the survey was launched in 1989. Six key manufacturing balances, including investment plans, were also at all-time highs. ■ The release of detailed UK GDP for the fourth quarter showed a more balanced picture of growth. As a result, the Bank of England upgraded its expectations for 2014 growth to 3.4% from its previous forecasts of 2.8%. ■ The labour market continued to strengthen as unemployment fell to 7.2% in the latest reading. A faster than expected improvement prompted the BoE to expand the number of indicators it will consider before raising interest rates. The BoE had earlier pledged not to raise interest rates until unemployment falls below 7%.	■ After a 20.3% gain in 2013, the FTSE All-Share index got off to a muted start in 2014, falling 0.6% over the first quarter as corporate earnings were generally disappointing. Financials, led by banks, had the largest negative effect on returns during the quarter. ■ Equity dividends have enjoyed an impressive lead over bond yields for some time. But with gilts and investment grade bond yields starting to rise, UK equities might witness some amount of discomfort. ■ Fears of a bubble in the UK housing market grew as indicated by the monthly house price index published by Halifax which rose 2.4% in February versus a 0.7% consensus estimate.
Overseas equities		
North America	■ The US equity markets managed to eke out marginal gains for the quarter despite the Federal Reserve slowing its pace of asset purchases to USD 55 billion in March 2014 from USD 85 billion at the end of 2013. Markets gained comfort as the Fed abandoned its erstwhile threshold of 6.5% unemployment rate to raise interest rates. ■ Markets were boosted as the congress approved a deal to raise the debt ceiling for the government until March 2015. The agreement will ensure that there will be no repeat of a government shutdown like October 2013, in the near future. ■ From a valuations perspective, the S&P 500 still appears to be reasonably priced at a price-to-earnings ratio of 15.8x, with corporate earnings expected to grow by 8% for the year.	■ In February, the commerce department revised down the GDP growth for the fourth quarter in 2013 by 0.8% to 2.4% (annualised), driven by a slowdown in manufacturing activities and lower consumer spending growth. Severe weather conditions during the first quarter have also dampened the growth estimates to sub 2% for Q1 2014. ■ Disruptive weather during January and February led to revision of consensus corporate earnings estimates to a modest growth of 1% for the first quarter; down from initial estimates of 6%. ■ The Federal Reserve revised its median forecast for the Federal Funds rate to 1% and 2.25% from its previous forecast of 0.75% and 1.75% at the end of 2015 and 2016 respectively. A faster than expected rise in the interest rate in the economy is likely to be a headwind for the equities.

What happened?		
Asset class	**Positive factors**	**Negative factors**
Europe	■ Eurozone equities delivered positive returns for the first quarter of 2014, outpacing other regions, though gains were held back by the geo-political situation in Ukraine. ■ The upturn in economic activity continued into 2014, with purchasing managers' indices (PMIs) still showing expansion. The flash reading of the eurozone composite PMI for March was 53.2, marking the ninth consecutive month of expansion. ■ France saw its flash PMI for manufacturing rise above the breakeven level of 50 for the first time since July 2011, thereby toning down the persisting concern around the strong growth disparities.	■ Inflation remained below target during the quarter with the preliminary reading for March at just 0.5% while February's reading was revised down to 0.7% from the preliminary reading of 0.8%. However, the ECB kept its monetary policy unchanged in its latest meet. ■ Unemployment in the eurozone has remained close to record highs despite signs of economic recovery in the 18-nation currency bloc. The jobless rate remained at 11.9% in February, only marginally down from its peak of 12% for much of 2013.
Japan	■ Japan's inflation rose for the ninth consecutive month in February. The consumer price index rose 1.3% year-on-year, in line with the Bank of Japan's expectations, suggesting that Tokyo's efforts to reverse the falling prices is gathering steam. ■ Factory equipment orders surged to a 5-year high and the job availability rose for the 15th consecutive month in February. The unemployment rate hit a seven year low at 3.6%.	■ The rise in consumption tax from 5% to 8% from April is expected to drain nearly Yen 6 trillion out of the economy. Though the government has passed an economic package of Yen 5 trillion in supplementary budget items plus another Yen 1 trillion in tax cuts to counter the outflow. However, these measures are still lower than last year's stimulus. ■ GDP grew by 1% on an annualised basis in the three-month period to December, compared with market estimates for a 2.8% expansion. The disappointing result is a reflection of lower exports, as well as weaker private consumption and capital spending.
Asia Pacific	■ South Korea's trade surplus widened by 25.7% year-on-year in March 2014, on the back of higher demand from the US and EU, which increased the overall exports by 5.2% year on year. ■ Indonesian stocks surged as rupiah appreciated by 6.8%, its strongest quarter since June 2009, owing to a narrowing current account deficit, growth in foreign exchange reserves and slow inflation which attracted inflows in Southeast Asia's biggest economy. The rupiah has been a standout performer across Asia year-to-date.	■ Asia ex. Japan equities have been underperforming the developed world for well over a year and valuations are now discounting a lot of bad news. Sentiment is almost universally negative. Until there is some news from China that is considered positive, markets are likely to languish.

	What happened?	
Asset class	**Positive factors**	**Negative factors**
Emerging markets	▪ The People's Bank of China widened the daily trading band of Yuan to 2.0% from its previous target of 1.0%. The move is considered as a step towards making the Yuan a fully convertible currency and allowing for greater two-way trade. ▪ MSCI plans to include China's A-shares (Yuan-denominated mainland shares) in its emerging market equity index starting May 2015 as Asia's largest economy gradually opens up its domestic markets to foreign investors. This move would increase China's weight in the benchmark emerging market index to 19.9% from 18.9% currently. ▪ Indian equities hit record highs as foreign investors poured in nearly USD 2.8 billion during the quarter amidst a strengthening currency, shrinking current account deficit and stabilizing economy.	▪ The Chinese PMI slumped to 48.0 in March, the lowest reading since July 2013, as domestic and export demand weakened. This weakness indicates a reduction in discretionary consumer spending, which, if it persists, will make it more difficult for countries to export their way out of trade imbalances and also reinforces signs of a slowdown in the world's second largest economy. ▪ China witnessed its first corporate bond default when Shanghai Chaori Solar Energy failed to pay interest to its bondholders. In a change from previous behaviour rather than delivering a bailout or extended debt deadline, the Chinese Government refrained from doing either on this occasion. ▪ S&P downgraded Turkey's credit rating to negative from stable, citing growing risk of a hard economic lending and unpredicted policy environment. ▪ The Russian central bank raised its interest rates by 1.5% to 7.0% to defend its currency as foreign investors dumped stocks due to political turmoil in Ukraine.
Gilts	▪ The British economy recorded its fastest annual growth rate since the start of the financial crisis in 2013, with full-year growth rate up to 1.9% from just 0.3% in 2012. The IMF predicts that the UK GDP will grow at an annualised pace of 2.9% in 2014, fastest amongst the G7 economies. ▪ The Monetary Policy Committee (MPC) has removed the link between interest rates and unemployment after a sharp fall in the unemployment rate. Interest rates are likely to move only in the later part of the next year after the spare capacity in the economy is fully absorbed.	▪ UK productivity, measured by output per hour, is 21% below the average of G7 countries which is affecting the growth rate and real wages in the economy. The productivity gap of UK with its counterparts is at its widest in 20 years.
Index-linked gilts	▪ With limited supply of paper and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	▪ UK's inflation fell to 4 year low, reaching 1.7% in February 2014 from 1.9% in January 2014, affecting returns on index-linked instruments. ▪ In an environment where central banks are able to control inflation within a target range, there is limited upside to the return expectations on these instruments.

Asset class	What happened? Positive factors	Negative factors
Corporate bonds	■ Corporations continue to maintain healthy balance sheets as deleveraging continues in expectations of rising interest rates.	■ The corporate bond market still suffers from liquidity constraints while poor productivity is pulling down the earnings growth.
Property	■ In February 2014, the UK commercial property values registered the tenth consecutive month of rise in values. Prices remain nearly 33% below their 2007 peak levels. ■ House prices are rising across the country with the fastest growth rate seen in London where prices are now 20% above the pre-crisis peak. ■ The Construction PMI continues to be well above the 50 mark, with the latest reading being 62.5 in March 2014.	■ Mortgage approval fell to 70,309 in February 2014 from 76,753 in January 2014; biggest drop in more than six years.

2 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	254,254,170	31.2	-	257,735,581	31.4
Schroder Investment Management Limited (Schroder)	Diversified Growth	255,593,750	31.4	-	256,538,972	31.3
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	42,940,895	5.3	-	43,305,475	5.3
Newton	Corporate Bond	121,845,573	15.0	-	125,428,296	15.3
Schroder	All Maturities Corporate Bond	114,689,027	14.1	-	118,080,502	14.4
L&G	Active Corporate Bond – All Stocks	17,026,029	2.1	-	17,457,130	2.1
Newton	Cash	467,209	0.1	-	324,660	0.0
Schroders	Cash	612,773	0.1	-	649,502	0.1
Internal	Cash	7,446,621	0.9	-	154,584	0.0
Asset split						
Growth assets		560,848,209	68.8	-	558,384,115	68.1
Bond assets		254,027,838	31.2	-	261,290,588	31.9
Total		**814,876,047**	**100.0**	**-**	**819,674,702**	**100.0**

Source: Investment managers, bid value used for LGIM, NAV for Schroders and mid value used for 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 Q1'14 (%)	Benchmark return Q1'14 (%)
Total scheme	1.5	2.5*
Growth portfolio		
Growth vs. global equity	0.9	-0.1
Growth vs. RPI+5% p.a.	0.9	2.1
Growth vs. LIBOR + 4% p.a.	0.9	1.1
Bond portfolio		
Bond vs. over 15 year gilts	2.9	3.4
Bond vs. index-linked gilts (> 5 yrs.)	2.9	3.6

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 18).

The Bond portfolio excludes L&G Corporate Bond Fund.

The Total Scheme return is shown against the liability benchmark return (see page 18). 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.

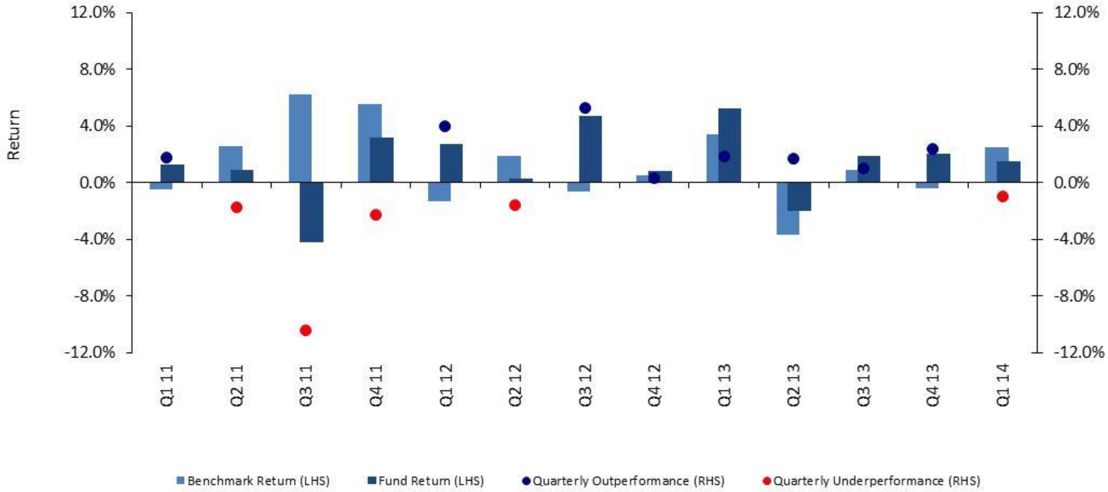
Individual manager performance

Manager/fund	Portfolio return Q1'14 (%)	Portfolio benchmark Q1 14 (%)
Newton real return	1.4	1.1
Schroder diversified growth	0.4	2.1
L&G – overseas equity	0.8	0.8
Newton corporate bond	2.8	3.2
Schroder corporate bond	3.0	2.5
L&G – corporate bond	2.5	2.4

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

The Scheme achieved a return of 1.5% over the quarter and underperformed the liability benchmark return by 1.0%. The yields over the quarter have decreased which resulted in an increase in the estimated value of the liabilities.

The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns. The Schroder Corporate Bond Fund was the best performing fund in absolute terms, while on a relative basis, the Schroder Diversified Growth Fund was the worst performing fund which underperformed its benchmark return by 1.7%.

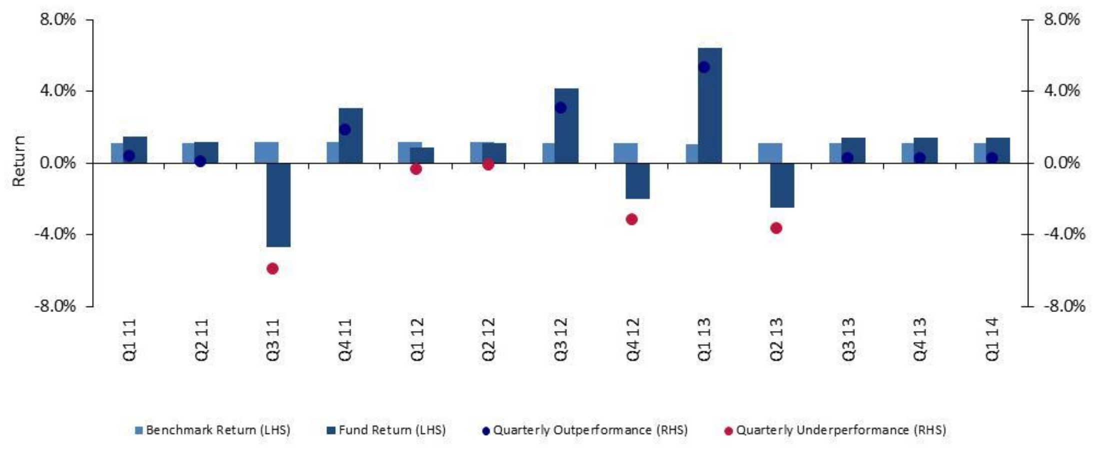
The Growth Portfolio, comprising the two DGF funds, outperformed the notional 60/40 global equity benchmark, by 1.0% over the quarter. It is usual to expect DGF funds to outperform equities in falling markets and conversely underperform in rising markets. The Growth portfolio, underperformed the RPI +5% and LIBOR +4% benchmarks over the same period. The Growth portfolio's positive absolute return over the quarter was driven by both the DGF Funds with the Newton Real Return performing significantly ahead of the Schroder DGF.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, underperformed the Over 15 Year Gilts Index (by 0.5%) and the Over 5 Years Index Linked Gilts Index (by 0.7%).

3 Manager performance

3.1 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 outperformed by 1.5%.

The Real Return Fund outperformed its benchmark and target over the quarter, and also outperformed equities. Over the period, the largest contribution to the Fund's performance came from the holding in 30 year US Treasury bonds.

At the broad asset class level, the Fund's bond holdings provided the largest positive contribution over the quarter, followed by equities. Equity returns from Microsoft, United Utilities, Newcrest Mining, Merck and Roche were positive for the Fund. The main detractors from performance were holdings in Sprint, Syngenta, Citigroup and Bayer.

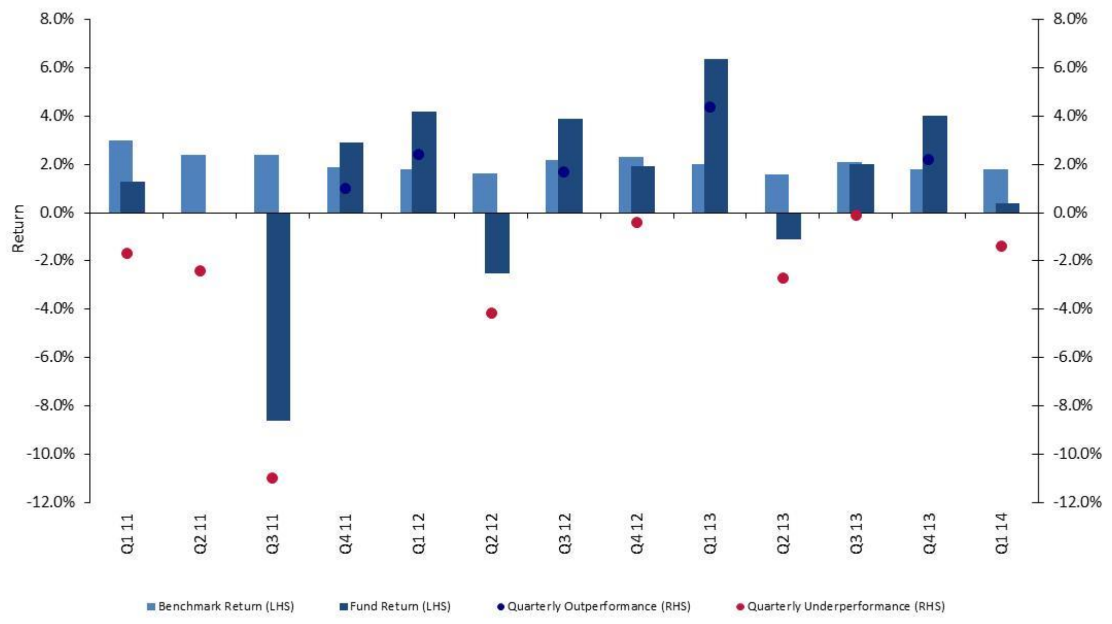
The Fund's exposure to physical gold provided a positive contribution, as gold rose over 6.4% in US dollar terms.

Going forward, the Fund continues to take a cautious approach. The broad allocation to equities was relatively unchanged over the quarter. Within the equity segment, the allocation continues to be skewed to those sectors which are, traditionally, more defensive, e.g. pharmaceuticals. The Fund's bond holdings are also similar to that at the end of the previous quarter. The largest holdings continue to be in US government bonds and large household names such as Microsoft and GlaxoSmithKline.

Over the 12 month period, the Fund returned 1.7% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 6.3%.

3.2 Schroder – Diversified Growth Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 0.4% compared to its RPI + 5% p.a. portfolio benchmark return of 2.1% and underperformed by 1.7%. The Fund outperformed the notional 60/40 global equity benchmark by 0.5% over the quarter.

The Fund's exposure to US equities, Global equities and High Yield Debt were the main drivers of performance. Most emerging markets finished the quarter in negative territory.

Allocations to UK Equities, Property, and EMD (Local Currency) also added to performance. The largest detractors from performance were the Fund's Currency, European and Japanese equity exposures.

Going forward, the Fund increased its North American equity exposure, adding over 3% in both US small cap and Canadian equities. The Fund added a holding in EURO STOXX 50, rotating out of UK equities, on the view that margins are currently depressed offering potential earnings growth. The Fund also turned more negative on Japanese equities and established a long position in the Japanese yen, after over a year of being short.

Over the 12 month period, the Fund returned a positive absolute return of 5.3% versus the benchmark return of 7.6%. In comparison to a notional 60/40 global equity benchmark return, the Fund underperformed by 2.7%.

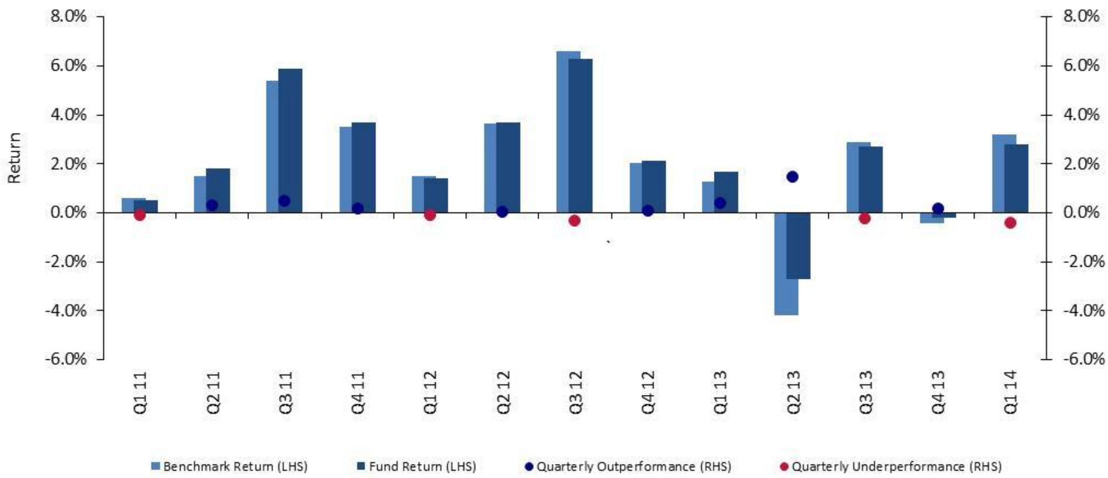
Asset allocation for growth managers: movement over the quarter

	Q1'14 Newton (%)	Q1'14 Schroder (%)	Q4'13 Newton (%)	Q4'13 Schroder (%)
UK equities	12.5	-1.6	14.2	2.2
Overseas equities	44.3	52.9	45.5	51.4
Fixed interest	17.9	-	17.2	-
Corporate bonds	10.0	1.8	10.2	3.7
High yield	-	7.0	-	11.4
Private equity	-	0.9	-	1.1
Commodities	2.8	3.3	2.6	2.8
Absolute return	-	13.5	-	7.5
Index-linked	1.2	3.0	1.2	-
Property	-	3.0	-	2.9
Cash/other	11.3	16.2	9.1	17.0
Total	100.0	100.0	100.0	100.0

Source: Investment managers.

3.3 Newton – Corporate Bond Portfolio

Performance relative to portfolio benchmark



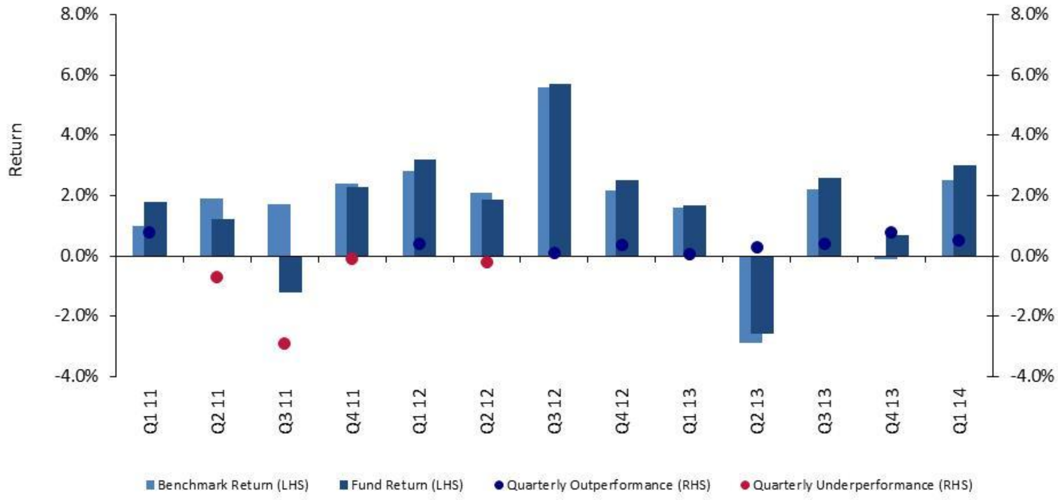
Source: Investment manager.

The Newton Corporate Bond portfolio underperformed its benchmark by 0.4%; it returned 2.8% versus the benchmark return of 3.2%. An underweight allocation to utilities was a positive factor, however, the Fund's underweight position in peripheral European corporate bonds and hybrid bonds detracted from relative performance.

Over the 12 month period, the Fund returned 1.5% against the benchmark return of 1.2%.

3.4 Schroder – All Maturities Corporate Bond Portfolio

Performance relative to portfolio benchmark

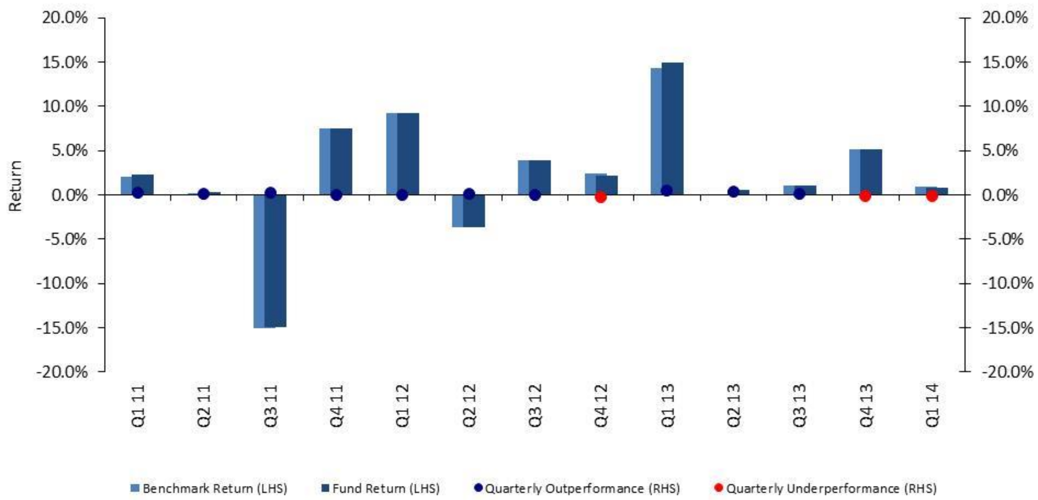


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed its benchmark by 0.5%, returning 3.0% versus the benchmark return of 2.5%. Positive contributors to relative outperformance included an underweight to bonds exposed to emerging markets and an overweight to banks.

Over the 12 month period, the Fund returned 3.7% versus the benchmark return of 1.7%.

3.5 L&G – Overseas Equities



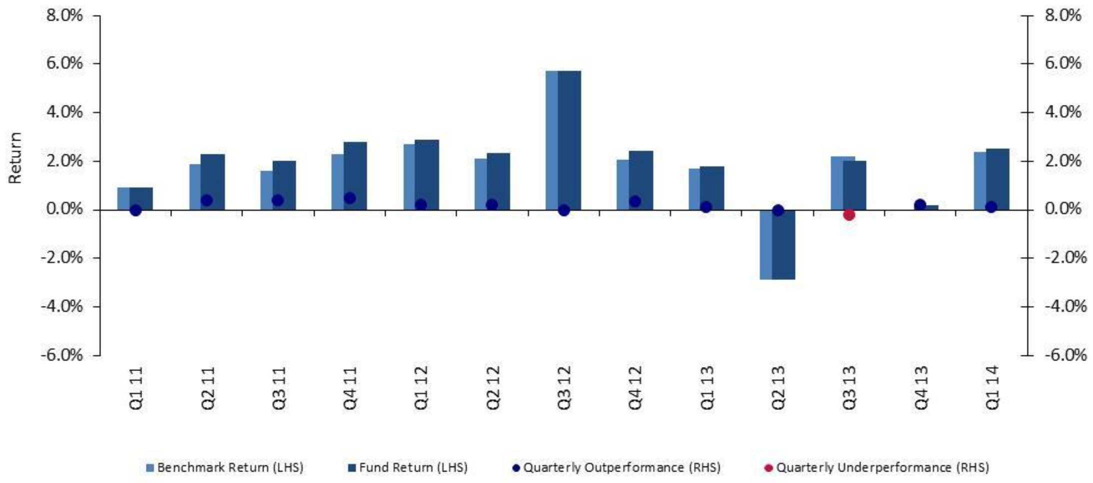
Source: Investment manager.

Over the first quarter of 2014, the Fund performed in line with its benchmark return and produced an absolute return of 0.8%.

The Fund generated an absolute return of 7.7% performing in line with its benchmarks over the 1 year period.

3.6 L&G – Active Corporate bond – All Stocks Fund

Performance relative to portfolio benchmark



Source: Investment manager.

Over the quarter, the Fund outperformed its benchmark marginally by 0.1% and produced an absolute return of 2.5% compared to benchmark return of 2.4%.

In general, returns were helped by positive effects from regional allocation, sector positioning and security selection.

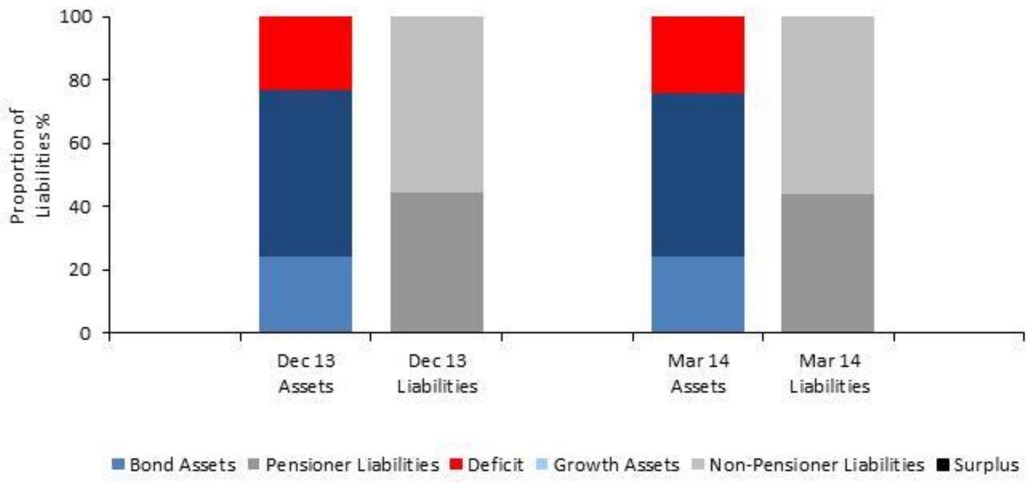
The Fund's off-benchmark allocation to US dollar denominated bonds contributed positively as these bonds performed relatively well. A driver of return within this sector was the strong fixed income demand by US pension funds caused by de-risking and locking in strong gains from the equity markets, by switching into longer dated US dollar bonds. The exposures to US dollar bonds were largely maintained over the quarter, although the fund took profits from Wells Fargo and Statoil after strong performance.

Over the 12 month period, the Fund has produced a return of 1.7% compared with the benchmark return of 1.6%.

4 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

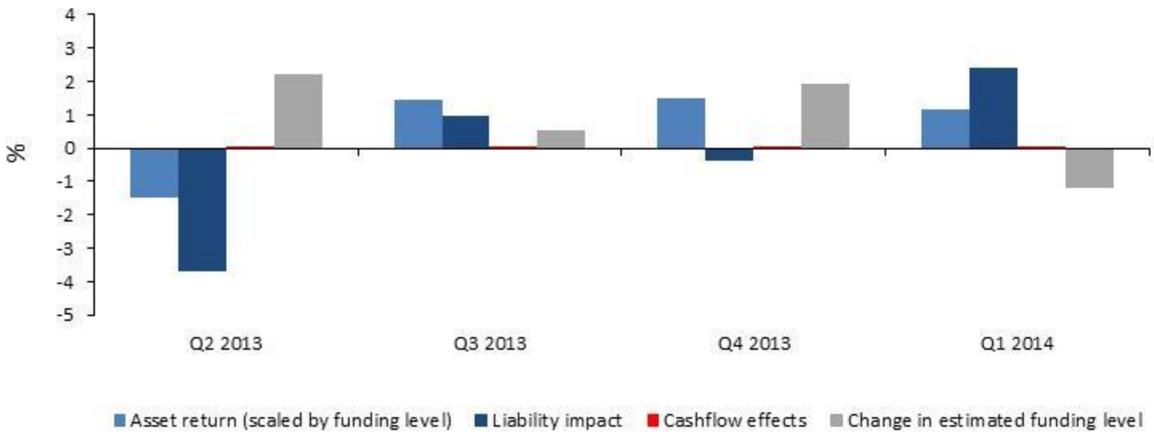


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 1. 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 decreased by 1.3%, due to an increase in expected liabilities which was partially offset by an increase in assets. The Scheme was approximately 75.8% funded as at 31 March 2014.

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 (circa £475m at 31 March 2014); 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 1.3% due to an increase in expected liabilities which was partially offset by an increase in assets.

Overall, Q1 2014 has been a negative quarter for the Scheme in terms of the funding level.

5 Summary

Overall this has been a mixed quarter for the Scheme as the assets grew whilst the funding level decreased by 1.3%.

In absolute terms, the Scheme's assets produced a return of 1.5% over the quarter. All the underlying funds of the Growth and Bond portfolios produced positive absolute returns.

In relative terms, the Scheme underperformed the liability benchmark return (see page 19) by 1.0%. All of the underlying funds outperformed their respective benchmarks except for the Schroder Diversified Growth Fund which significantly underperformed, the Newton Corporate Bond Fund which underperformed and the L&G Overseas Equity which met its benchmark.

The combined Growth portfolio outperformed a notional 60/40 global equity return producing a positive absolute return of 0.9%.

The combined Bond Portfolio underperformed the Over 15 Year Gilts Index by 0.5% and the Over 5 Years Index Linked Gilts Index by 0.7%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a negative impact on the Scheme's estimated funding level which was 75.8% as at 31 March 2014.

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It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.

Appendix 1:

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.

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.

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.

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 statistics 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.

Term	Definition
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.
Three year return	The total return on the fund over a three 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.

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