London Borough of Barnet Superannuation Fund

Quarterly update to 30 September 2014

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1 Market update

Introduction

The tables below summarise the various market returns to 30 September 2014, to relate the analysis of your Scheme's performance to the global economic and market background.

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	**%**	**%**	**% p.a.**
UK Equities	-1.0	6.1	13.9
Overseas Equities	3.5	12.3	16.0
USA	6.4	19.3	21.5
Europe	-2.6	5.3	14.6
Japan	3.1	1.2	8.0
Asia Pacific (ex Japan)	2.4	6.6	9.8
Emerging Markets	3.2	6.7	6.1
Frontier Markets	7.1	30.4	16.8
Property	4.7	19.7	9.6
Hedge Fund	0.6	8.0	7.5
Commodities	-7.7	-7.9	-1.4
High Yield	2.0	6.1	10.1
Emerging Market Debt	-0.6	9.7	7.9
Senior Secured Loans	0.4	4.6	7.9
Cash	0.1	0.5	0.5

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	**%**	**%**	**% p.a.**
UK Gilts (>15 yrs)	7.2	11.4	6.4
Index-Linked Gilts (>5 yrs)	5.9	9.9	7.2
Corp Bonds (>15 yrs AA)	5.5	11.1	9.2
Non-Gilts (>15 yrs)	5.1	11.3	9.2

* 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 Year	3 Years
	%	**%**	**%**
Against US Dollar	-5.2	0.1	1.3
Against Euro	2.8	7.3	3.4
Against Yen	2.7	11.9	14.0

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	**%**	**%**
UK Equities	0.07	-0.07	-0.32
UK Gilts (>15 yrs)	-0.36	-0.43	-0.47
Index-Linked Gilts (>5 yrs)	-0.25	-0.33	-0.53
Corp Bonds (>15 yrs AA)	-0.33	-0.48	-1.29
Non-Gilts (>15 yrs)	-0.28	-0.36	-0.88

Yields as at 30 September 2014	% p.a.
UK Equities	3.34
UK Gilts (>15 yrs)	2.98
Real Yield (>5 yrs ILG)	-0.37
Corporate Bonds (>15 yrs AA)	3.83
Non-Gilts (>15 yrs)	4.15

Inflation Indices	3 Mths	1 Year	3 Years
	%	**%**	**% p.a.**
Price Inflation - RPI	0.5	2.3	2.7
Price Inflation - CPI	0.1	1.2	2.0
Earnings Inflation *	0.3	1.2	1.3

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
UK Equities	Towards the end of the quarter, Scotland voted to stay part of the UK's political union. This cleared months of uncertainty over potential negotiations of sharing the nation's debts and assets that had weighed on investors' confidence.	Consumer confidence in the UK edged down as reflected by the GfK Consumer Confidence Index which declined in September to −1 from 1 in August. The gauge, which had recovered sharply early in the year, slipped on concerns that economic growth would not benefit the personal finances of people in Britain.
	The Office for National Statistics (ONS) revised the UK's economic growth up to 0.9% for Q2 2014 compared with the previous estimate of 0.8%. As per the ONS' revised estimates, GDP was 2.7% higher than its pre-crisis peak by the end of Q2 2014.	Despite steady economic growth, the ONS figures indicate that the country's current account deficit widened from 4.7% of GDP in Q1 2014 to 5.2% in Q2 2014.
Overseas Equities		
North American Equities	Aided by a surge in exports and a rise in business spending, US GDP grew at an annualised rate of 4.6% in Q2 2014, marking the fastest pace of growth in two years. The growth rate has now exceeded 3.5% in three of the past four quarters.	As the Federal Reserve's quantitative easing program is due to end in Q4 2014, the timing of the first interest rate hike remains a headwind for the equity markets in the near term. While the market expects interest rates to start inching upward towards mid 2015, Janet Yellen has often emphasised that any such move will depend on the strength of economic data.
	The unemployment rate fell to 5.9% in September, marking the first time that unemployment has been below 6% since July 2008. The US Labour department said that the economy added 248,000 jobs in September while job growth numbers for July and August were also revised upwards.	Labour force participation rate fell to 62.7% in September—the lowest reading since February 1978. A lower participation rate implies that fewer people are looking for work, limiting an economy's ability to grow.
European Equities	In response to a continued decline in inflation, employment and production readings, the European Central Bank (ECB) cut its benchmark interest rate to 0.05%, and reduced the deposit rate to -0.2% in September 2014. Moreover, they announced a programme to buy asset-backed securities later this year.	Eurozone equities posted negative returns over Q3 2014 as macro-economic data released during the period further substantiated that the region's fragile economic recovery was slowing. In addition, worries over the volatile situation in Ukraine and the potential impact of sanctions on Russia weighed on the region's equities.
	Equities were buoyed in the latter half of Q3 2014 as expectations rose that the ECB will announce a full-fledged quantitative easing program in the near term. Policymakers have hinted that the bank stands ready to try any unconventional measures to avert the threat of deflation in the Euro area.	Eurozone GDP recorded zero growth in Q2 2014. Weakness in France and Germany, which together contribute approximately two-thirds of the output in the region, offset gains in some of the other countries such as Portugal and Spain. Moreover, inflation fell to 0.3% in September from 0.4% in August, fuelling fears that deflationary pressures may dampen the region's economic recovery.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Japanese Equities	■ Corporate earnings for Q2 2014 beat analysts' estimates—a trend held for seven consecutive quarters. The Yen, meanwhile, hit a multi-year low of JPY 108 versus the US dollar during the quarter. This weakness in the Yen is expected to further boost the profitability of export-oriented companies.	■ The sales tax hike in April continued to adversely impact economic data released during the Q3 2014. Q2 2014 GDP contracted sharply by 7.1% on an annualised basis—the largest since 2009. The effect of the hike in levy was widespread with consumption and capital spending falling by 5.1% each during the quarter.
	■ Japan's public pension funds, including the USD 1.2 trillion Government Pension Investment Fund, sold Japanese government bonds worth USD 10.1 billion during the April to June quarter. This was in line with the recently announced portfolio reallocation to move its assets away from low-yielding bonds into equities.	■ The Bank of Japan (BoJ) kept monetary policy unchanged, maintaining its current annual expansion rate of JPY 60-70 trillion. However, analysts expect that the BoJ would have to undertake further easing to reach its inflation target of 2%.
Asia Pacific (excluding Japan) Equities	■ A rally in Indian stocks continued following the election of a new government and the indices gained another 4.8% over Q3 2014. A better-than-expected GDP growth rate of 5.7% for Q2 2014 compared with 4.6% growth witnessed in Q1 2014 indicates that growth may be picking up pace. Also, Standard and Poor's raised the outlook for India's "BBB-minus" rating to "stable" from "negative" towards the end of September 2014.	■ Asia Pacific (excluding Japan) equities ended the quarter marginally lower as strong economic data coming out of the US and resulting expectations of an interest rate hike by the Federal Reserve concerned the markets.
	■ South Korea recorded its 32nd consecutive month of trade surplus owing to strong exports, which grew by 6.8% year-on-year in September. The Korean government announced a stimulus package of USD 40 billion in July to stimulate the economy and unveiled a new tax plan prodding cash-hoarding companies to spend more in wages and dividends or face extra taxes.	■ Stocks fell marginally in Hong Kong over the quarter, with most losses arising in September, as the pro-democracy movement in the city gathered momentum and culminated into street protests towards the end of the quarter.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Emerging Markets Equities	■ Chinese equities performed positively during the quarter amidst mixed economic data. Exports grew by 9.4% in August, while imports fell by 2.4%, further inflating the country's trade surplus. Although the HSBC Purchasing Managers Index (PMI) fell to a three-month low, it managed to remain in the expansionary territory, recording 50.2 in August.	■ For the first time in history, the Russian Rouble fell below the psychological 40-level mark versus the US dollar under the weight of Western sanctions. Russian firms shut out of capital markets due to these sanctions have been purchasing dollars, pushing the Rouble down by approximately 18% since the start of the year.
	■ Standard & Poor's upgraded its debt rating for Greece from 'B-minus' to 'B' in September citing that the fiscal reform efforts are yielding results and the economy remains on track to emerge from a six-year recession next year.	
Gilts	■ Growth expectations in the UK remain strong. However, of the three major sectors (services, construction and manufacturing), services and manufacturing industries have been a drag over the quarter. The monthly Markit/CIPS PMI for the services sector dropped to 58.7 in September from 60.5 in August. Manufacturing output rose by 0.1% in August, down from growth of 0.3% in July.	■ Gilt prices slipped at the beginning of September 2014 on account of the Scottish Independence referendum. It was speculated that a vote in favour of Scottish independence could result in economic uncertainty in the UK.
	■ Modest Inflation and more-than-estimated spare capacity in the labour market have been restricting the Bank of England (BoE) to undertake interest rate hikes.	
Index-Linked Gilts	■ With limited issuance of new index-linked gilts and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	■ The UK consumer price index grew by a modest 1.6% and 1.5% in July and August 2014 respectively, down from 2.0% in December 2013.
		■ 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.
Corporate Bonds	■ Investment grade credit continues to be an attractive asset class. Central bank policies remain supportive, while regulatory action is forcing banks to improve their creditworthiness. Also, bond defaults remain low as corporates are increasingly reporting improved operational performance.	■ The reduction in credit spreads over the past few months leaves little room for any further contraction.

Asset Class	Factors Affecting the Market	
	Positive	Negative
Property	UK commercial property values rose by 0.9% in August 2014, albeit at a moderated pace as compared with the previous two months. The values have now risen by 12.8% over 16 months of consecutive growth.	Residential real estate in the UK declined by 0.2% in September 2014, following 16 consecutive months characterised by price increases. The new affordability tests (MMR) introduced in April for house buyers are influencing this, leading to a drop in the number of mortgage approvals to 64,212 in August 2014—the weakest reading since May 2014.
	Construction PMI rose to 64.2 in September 2014 from 64.0 in August 2014, the highest reading since January 2014.	

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	261,134,985	31.0	-	262,285,103	30.7
Schroder Investment Management Limited (Schroder)	Diversified Growth	263,220,629	31.3	-	266,003,362	31.2
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	44,378,012	5.3	-	45,941,316	5.4
Newton	Corporate Bond	128,903,322	15.3	-	133,932,331	15.7
Schroder	All Maturities Corporate Bond	120,597,176	14.3	-	123,538,554	14.5
L&G	Active Corporate Bond – All Stocks	17,835,000	2.1	-	18,359,769	2.2
Newton	Cash	508,617	0.1	-	403,425	0.0
Schroders	Cash	666,816	0.1	-	685,860	0.1
Internal	Cash	3,772,716	0.4	-	2,410,504	0.3
Asset split						
Growth assets		573,173,158	68.2	-	577,326,145	67.6
Bond assets		267,844,115	31.8	-	276,234,078	32.4
Total		**841,017,273**	**100.0**	**-**	**853,560,224**	**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 Q3'14 (%)	Benchmark return Q3'14 (%)
Total Scheme	1.7	4.4
Growth portfolio		
Growth vs. global equity	0.8	0.8
Growth vs. RPI+5% p.a.	0.8	1.7
Growth vs. LIBOR + 4% p.a.	0.8	1.1
Bond portfolio		
Bond vs. over 15 year gilts	3.1	7.2
Bond vs. index-linked gilts (> 5 yrs.)	3.1	5.9

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.

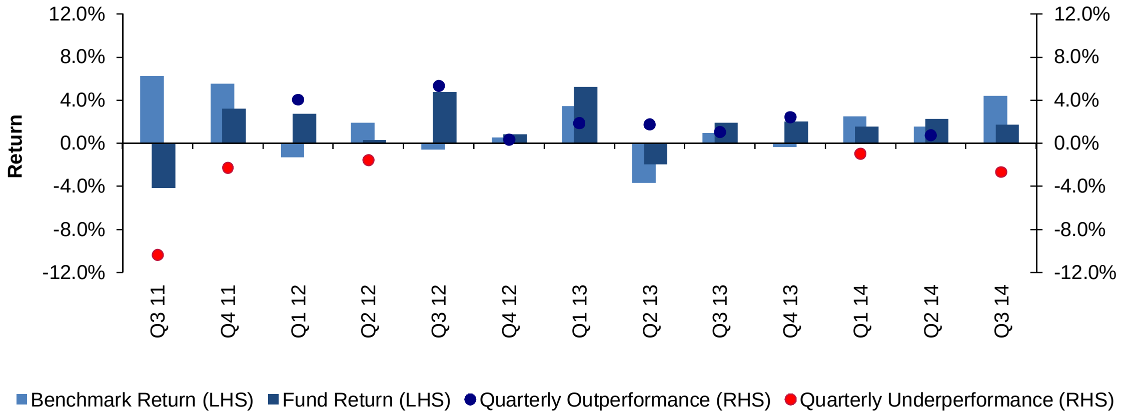
Individual manager performance

Manager/fund	Portfolio return Q3'14 (%)	Portfolio benchmark Q3'14 (%)
Newton Real Return	0.4	1.1
Schroder Diversified Growth	1.1	1.7
L&G – Overseas Equity	3.5	3.5
Newton Corporate Bond	3.8	4.4
Schroder Corporate Bond	2.4	2.9
L&G – Corporate Bond	2.9	2.9

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 1.7% over the quarter and underperformed the liability benchmark return by 2.7%. The over 15-year gilt yield upon which the liability analysis is based, decreased over the quarter resulting 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 Newton Corporate Bond Fund was the best performing fund in absolute terms (although underperformed its benchmark), while on a relative basis, all the underlying funds either tracked or underperformed their respective benchmarks.

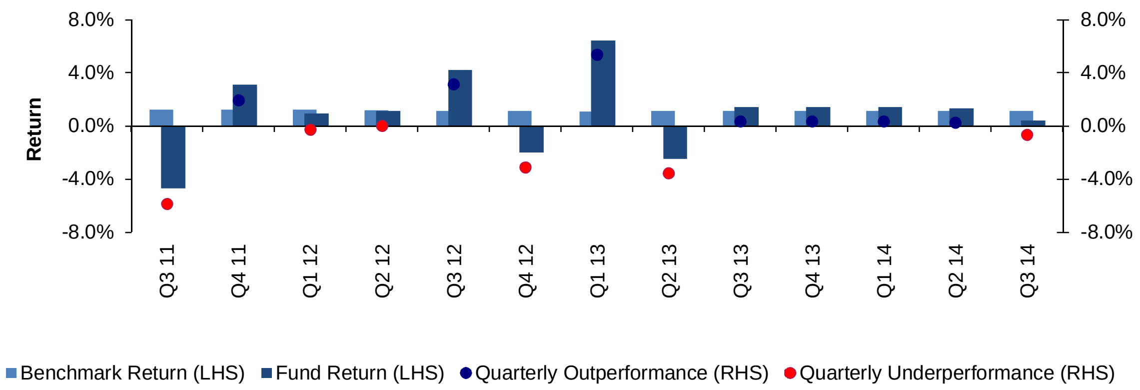
The Growth Portfolio, comprising the two DGF funds, tracked the notional 60/40 global equity benchmark over the quarter. It is usual to expect DGF funds to underperform equities in rising markets and conversely outperform in falling markets. The Growth portfolio underperformed both the RPI +5% benchmark and the LIBOR +4% benchmark by 0.9% and 0.3% respectively over the same period. The Growth portfolio's positive absolute return over the quarter was driven by the performance of both the DGF Funds with the Schroder DGF performing significantly ahead of the Newton Real Return, a similar pattern of what happened last quarter where Schroder outperformed Newton.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, underperformed the Over 15 Year Gilts Index (by 4.1%) and the Over 5 Years Index Linked Gilts Index (by 2.8%).

3 Manager performance

3.1 Newton – Real Return Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund returned 0.4% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby underperforming by 0.7%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 0.4%.

The Fund finished the quarter with a small positive absolute return, albeit behind that of its underlying performance reference. Performance was mainly driven by its equity holdings in the health care and technology sectors. Notable examples were Microsoft, Sanofi and Novartis. However, the Fund's Telecommunication holdings provided mixed results, as positive contributions from Spark New Zealand and Vodafone, were offset by negative contributions from Sprint, TDC and Millicom.

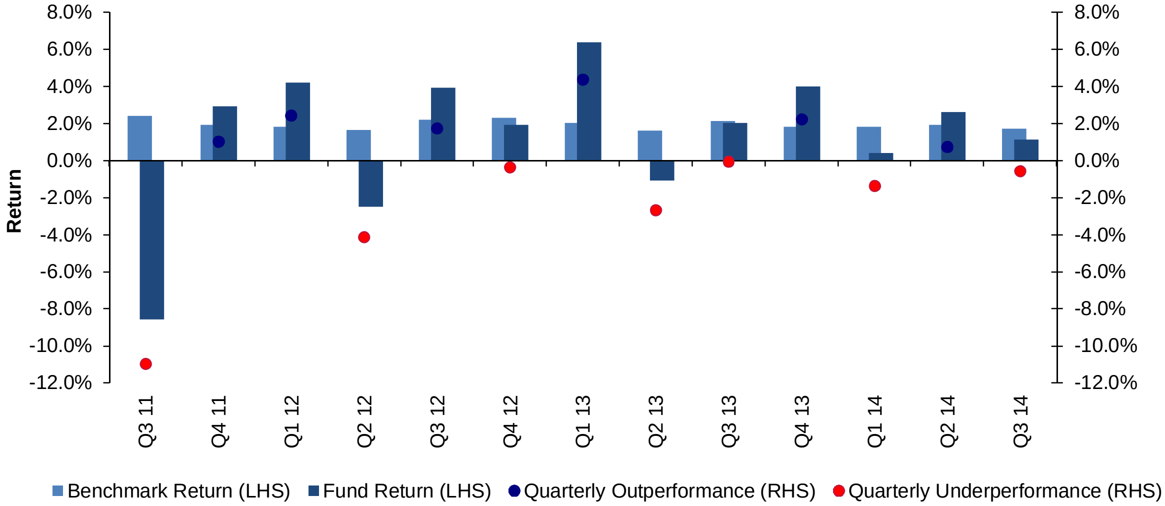
The Fund's government bond positions proved highly beneficial, positive contributors included Norwegian government debt holdings and the 2018 US Treasury note, largely as a result of US-dollar strength. However, Australian state and sovereign debt were negative contributors to the Fund. They were adversely affected by the strength of sterling, given the decision not to hedge the Australian dollar exposure entirely.

Over the quarter, Newton increased the Fund's exposure to equity through reinvestment of cash into select stocks, such as, SAP, Vivendi, Suncor and CRH. The Fund sold its holding in Norwegian government debt and reinvested proceeds in Australian government debt. There was also the additional hedge of the Fund's US-dollar exposure back to sterling to lock in currency gains.

Over the 12 month period, the Fund returned 4.6% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 4.0%.

3.2 Schroder – Diversified Growth Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 1.1% compared to its RPI + 5% p.a. portfolio benchmark return of 1.7% and underperformed by 0.6%. The Fund outperformed the notional 60/40 global equity benchmark by 0.3% over the quarter.

The Fund underperformed against its objective over the quarter, although it outperformed versus its global equity comparator. US and Japanese equities were the key contributors to performance. Although, allocations to commodities and high yield debt were the main detractors.

Allocations to absolute return, infrastructure, property and insurance linked securities also added to performance, as did the Fund's currency positioning.

During the period, the Fund sold out of leveraged loans and the quality yield equity basket, with the view that these positions no longer offer the risk/reward trade off. Although the Fund's US equities allocation remained largely unchanged, there was a preference for long S&P 500 futures and short Russell 2000 index futures positions. Furthermore, the Fund added to its European large cap position after weak performance following monetary stimulus announcements from the European Central Bank.

Schroders also took tactical positions in UK and US 10 year government bonds and US 'Ultra' bonds which have a 25 year maturity, as a hedge against further economic deterioration in Europe.

Over the 12 month period, the Fund returned a positive absolute return of 8.3% versus the benchmark return of 7.4%. In comparison to a notional 60/40 global equity benchmark return, the Fund underperformed by 0.3%.

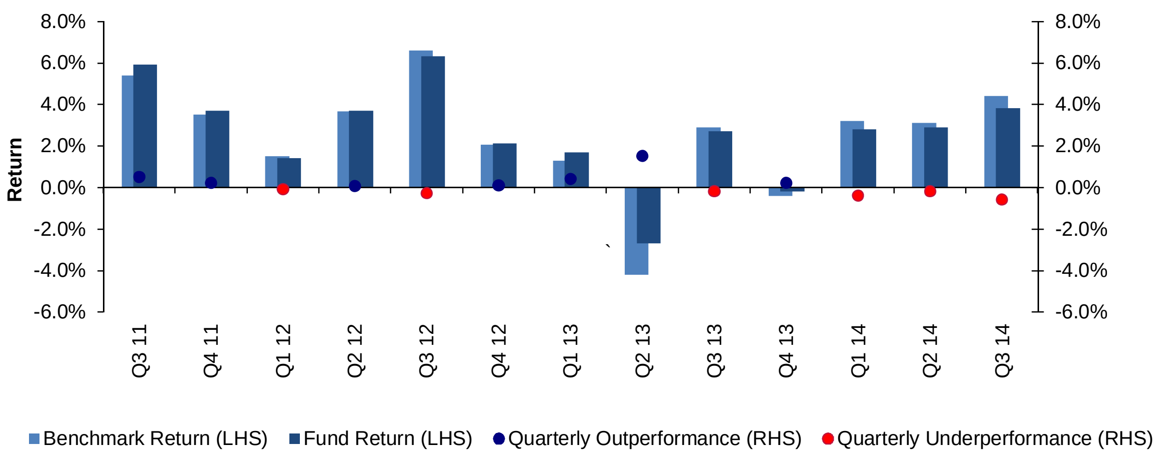
Asset allocation for growth managers: movement over the quarter

	Q3'14 Newton (%)	Q3'14 Schroder (%)	Q2'14 Newton (%)	Q2'14 Schroder (%)
UK equities	13.8	3.2	13.5	1.9
Overseas equities	49.5	47.5	45.1	50.0
Fixed interest	13.7	-	12.8	-
Corporate bonds	2.9	1.1	2.7	1.9
High yield	-	4.7	-	5.3
Private equity	-	0.8	-	0.9
Commodities	2.7	1.4	2.8	4.6
Absolute return	-	12.5	-	14.3
Index-linked	1.2	3.1	1.2	2.9
Property	-	3.2	-	3.1
Cash/other	16.2	22.5	21.9	15.1
Total	100.0	100.0	100.0	100.0

Source: Investment managers.

3.3 Newton – Corporate Bond Portfolio

Performance relative to portfolio benchmark



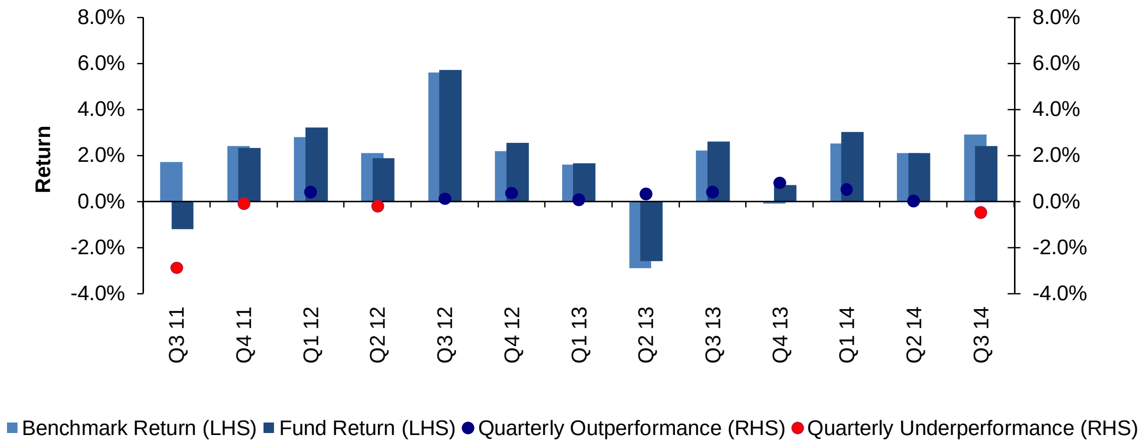
Source: Investment manager.

The Newton Corporate Bond portfolio underperformed its benchmark by 0.6%; it returned 3.8% versus the benchmark return of 4.4%. The underperformance was attributable to the Fund's overall short duration relative to the index over the period.

Over the 12 month period, the Fund returned 9.6% against the benchmark return of 10.7%.

3.4 Schroder – All Maturities Corporate Bond Portfolio

Performance relative to portfolio benchmark

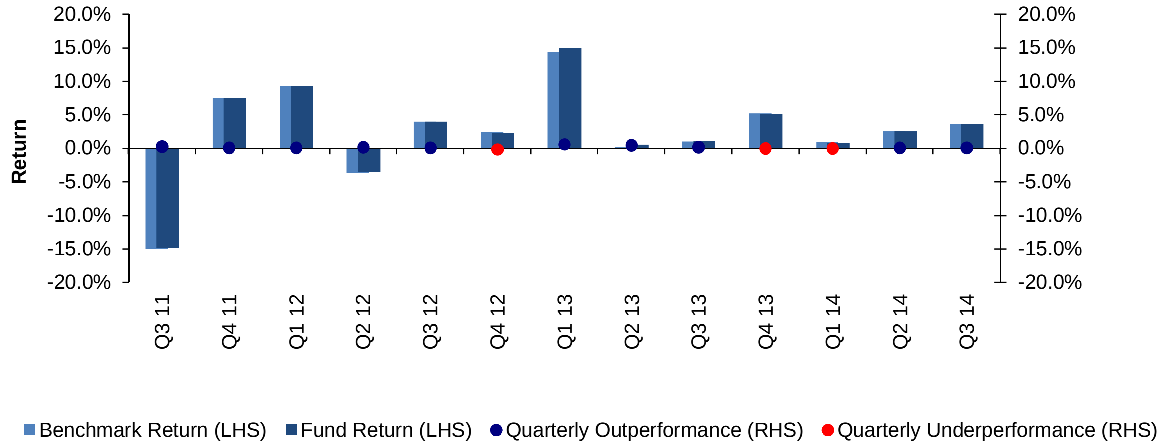


Source: Investment manager.

The Schroders Corporate Bond portfolio underperformed its benchmark by 0.5% and produced an absolute return of 2.4%. The Fund's underweight exposure to interest rate movements, and an overweight position in lower rated credit detracted from performance.

Over the 12 month period, the Fund returned 8.5% versus the benchmark return of 7.6%.

3.5 L&G – Overseas Equities



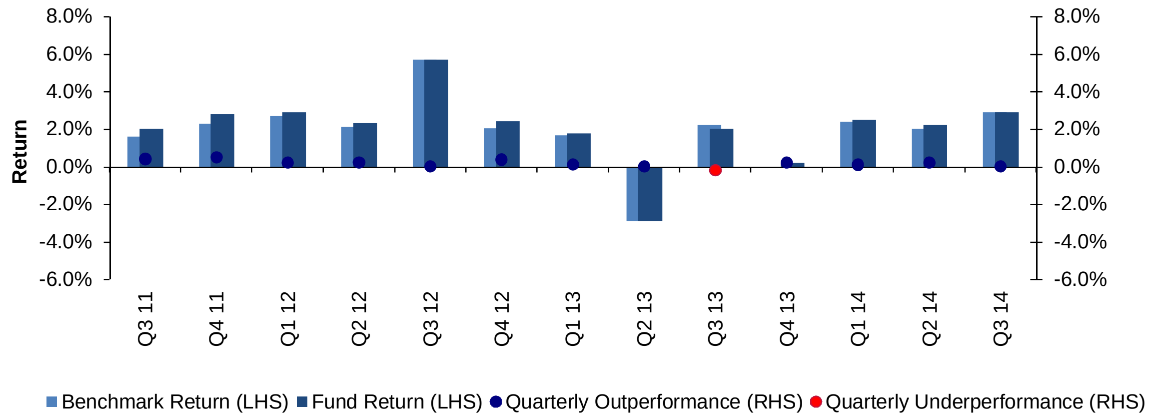
Source: Investment manager.

Over the third quarter of 2014, the Fund performed in line with its benchmark return and produced an absolute return of 3.5%.

The Fund generated an absolute return of 12.4% underperforming its benchmark by 0.1% 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 performed in line with its benchmark and produced an absolute return of 2.9%.

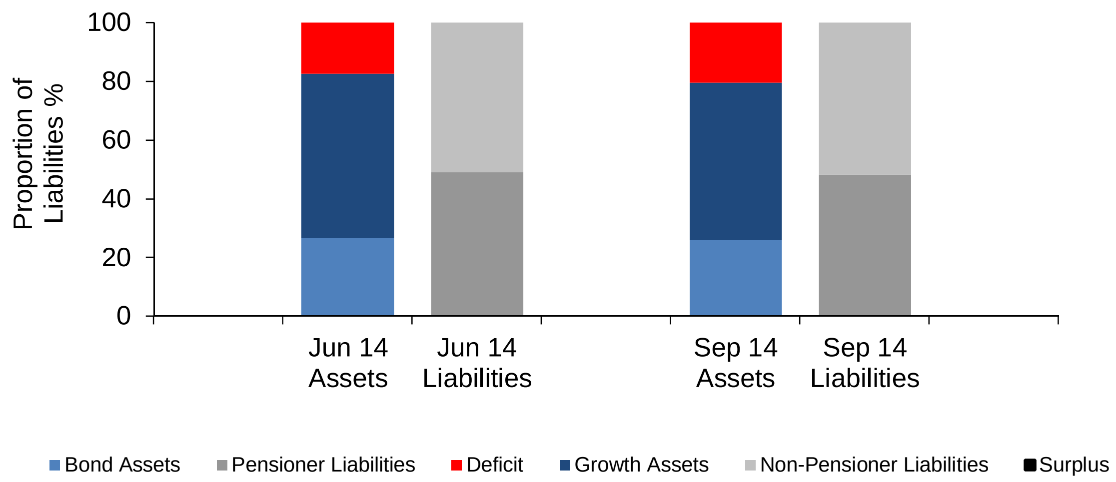
The Fund performed broadly in line with the benchmark over the quarter. There were a number of small positive positions but these were offset by the Fund's positioning in the Sub-Sovereign, Utility and Oil & Gas sectors.

Over the 12 month period, the Fund has produced a return of 8.1% compared with the benchmark return of 7.5%.

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



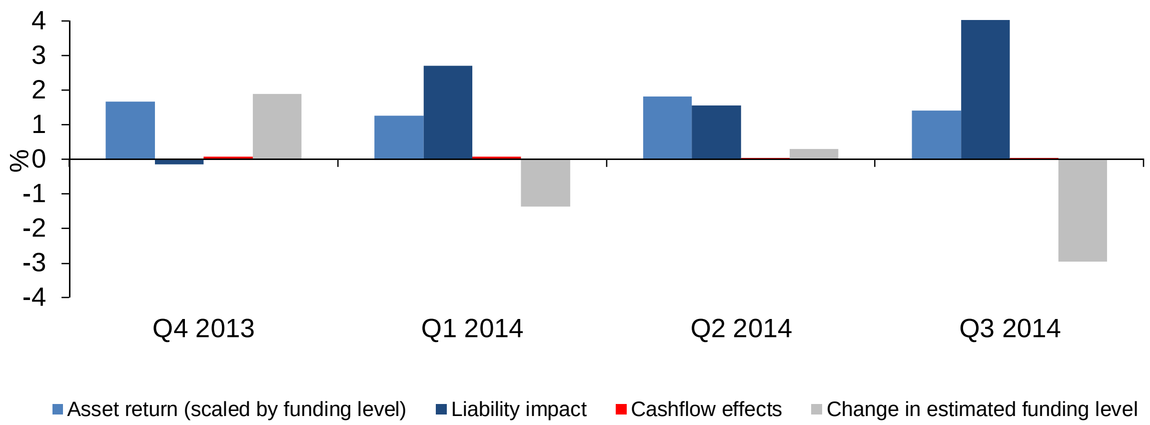
The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the 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 3.0%, due to an increase in expected liabilities which was partially offset by an increase in assets. The Scheme was approximately 79.6% funded as at 30 September 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 £513 million as at 30 September 2014); a mismatch that leaves the Scheme exposed to interest rate risk.

The "liabilities" estimated above represent the actuarial liabilities disclosed in the Actuarial Valuation report as at 31 March 2013.

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 3.0% due to an increase in expected liabilites which was partially offset by an increase in assets.

Overall, Q3 2014 has been a negative quarter for the Scheme in terms of the funding level.

5 Summary

Overall this has been a negative quarter for the Scheme as the liabilites grew and the funding level decreased by 3.0%.

In absolute terms, the Scheme's assets produced a return of 1.7% 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 18) by 2.7%. All of the underlying funds either underperformed or tracked their respective benchmarks.

The combined Growth portfolio performed in line with a notional 60/40 global equity return producing a positive absolute return of 0.8%.

The combined Bond Portfolio underperformed the Over 15 Year Gilts Index and the Over 5 Years Index Linked Gilts Index by 4.1% and 2.8% respectively.

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 79.6% as at 30 September 2014.

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 2013, 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: IBA GBP IBK LIBOR 1 Week Delayed – Offered 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.

JLT Employee Benefits

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