

**AGENDA ITEM: 9**

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Meeting	Pension Fund Committee
Date	21 March 2011
<b>Subject</b>	<b>Barnet Council Pension Fund Performance for Quarter October to December 2010</b>
Report of	Deputy Chief Executive
Summary	This report advises the Committee of the performance of the Pension Fund for the quarter October to December 2010

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Karen Bannister, Interim Treasury Manager
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A – WM Performance Results for 12 months Appendix B – WM Performance Results for 3 years Appendix C - Pension Fund Market Value of Investments Appendix D – Property Unit Trust Portfolio Appendix E - Image Report Quarterly Update 31 December 2010
For decision by	Pension Fund Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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## **1. RECOMMENDATIONS**

- 1.1 That having considered the performance of the Pension Fund for the quarter to December 2010, the Deputy Chief Executive be instructed to address any issues that the Committee consider necessary.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 Council – 11<sup>th</sup> September 2007 – Minute 64.
- 2.2 Pension Fund Committee – 26 March 2008 – Dec. 1 – Exempt
- 2.3 Pension Fund Committee – 10 September 2008 – Dec 11 & exempt.
- 2.4 Pension Fund Committee – 4 February 2010

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities in providing better services, with less money.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 The primary risk is that of poor investment performance. Fund manager's performance is monitored by the committee every quarter with reference to reports from the WM Company Ltd, a company that measures the performance of pension funds. If fund manager performance is considered inadequate, the fund manager can be replaced.

## **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1 Good governance arrangements and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)**

- 6.1 The financial issues are set out in the body of the report.

## **7. LEGAL ISSUES**

- 7.1 This report is based on the provisions of (i) the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239); (ii) the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166); and (iii) The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238) which have their basis in the Superannuation Act 1972.

7.2 Other statutory provisions are referred to in the body of this report.

## **8. CONSTITUTIONAL POWERS**

8.1 Constitution – Part 3 Responsibility for Functions – Section 2 – Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement.

## **9 BACKGROUND INFORMATION**

### **9.1 History**

9.1.1 The Superannuation Act 1972 makes provision for local authorities to operate pension funds for their employees and employees of other employers who have either a statutory right or an admission agreement to participate in the funds. The London Borough of Barnet's Pension Scheme Fund (The Fund) is set up under the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239); (ii) the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166); and (iii) The Local Government Pension Scheme (Transitional Provisions) Regulations 2008. The Regulations provide for retirement pensions, grants on age or ill-health retirement, short service grants, death grants, injury allowances and widows' pensions.

### **9.2 Tax Status**

9.2.1 The Fund is an exempt approved fund under the Finance Act 1970, and is therefore exempt from Capital Gains Tax on its investments. At present all Value Added Tax is recoverable, but the fund is not able to reclaim the tax on UK dividends.

### **9.3 Operation and Administration**

9.3.1 The Fund is operated and administered by the London Borough of Barnet. Day to day investment management of the Fund's assets is delegated to expert investment advisors in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The Fund is managed on a balanced (excluding property and cash) basis. The current fund managers are Schroder Investment Management Ltd and Newton Investment Management Limited.

9.3.2 At the Pension Fund Committee meeting held on the 4<sup>th</sup> of February 2010, the Committee agreed to implement a 70/30 diversified growth and bonds portfolio using the existing managers. Implementation of the new investment strategy commenced on Friday the 19<sup>th</sup> of November and is now fully completed.

9.3.3 Actuarial services are provided by Barnett Waddingham and the fund receives investment advice from an JLT Investment Consulting.

## 9.4 Scheme Governance

- 9.4.1 The Council is statutorily responsible for the management of the Fund and for making strategic decisions that govern the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Fund Committee. The Pension Fund Committee's responsibilities include reviewing and monitoring the Fund's investments; selecting and deselecting investment managers and other relevant third parties; and establishing investment objectives and policies.

The Fund's investment objectives and policies are published in a Statement of Investment Principles, details of this statement can be found on the Council's Web Site ([www.barnet.gov.uk/pensions/pensions-investments.htm](http://www.barnet.gov.uk/pensions/pensions-investments.htm)).

## 9.5 Funding

- 9.5.1 The Fund is financed by employer and employee contributions and from income derived from investments. Every three years the Fund Actuary carries out a valuation, which determines the level of employer contributions. The last triennial valuation took place as at 31 March 2010 and the final report will be signed off on the 31<sup>st</sup> of March 2011.

## 9.6 Investment Performance & Benchmark

- 9.6.1 The performance of the pension fund is measured by using the WM Local Authority Universe. WM Company compile pension fund statistics from a total of 54 local authority pension funds. The portfolio mandates of the local authority funds in the universe vary both in size and management style i.e. active or passive.
- 9.6.2 The fund managers are obliged by their contract to endeavour to meet the following performance standard: 1% above WM Local Authority Average Fund over 3 years and no lower than 3% below the WM Local Authority Average Fund over any rolling 12 month period.
- 9.6.3 Appendix A shows the performance of the fund over the last 12 months and Appendix B shows the performance over the last three rolling years. The table below shows the performance of the fund against benchmark over the most recent measured quarter October to December 2010.

	<b>Benchmark</b>	<b>Performance</b>	<b>Relative return</b>
<b>Fund</b>	1.9	3.5	1.6

- 9.6.4 The value of the fund at 31 December 2010 was £665.05m compared to £638.49m at 30 September 2010, the graph in Appendix C shows how the market value of the fund has appreciated since 2005.

## 9.7 Internally managed funds

9.7.1 The property unit trust portfolio accounts for 5% of the total market value of the fund and was valued at £33.58m as at the 31<sup>st</sup> of December 2010. Appendix D shows the value of the individual units held in the portfolio and the movement in market value since the last quarter.

The performance of property fund is measured against the IPD All Properties Index, performance for the last quarter and the 12 months to 31 December 2010 are detailed in Appendix E.

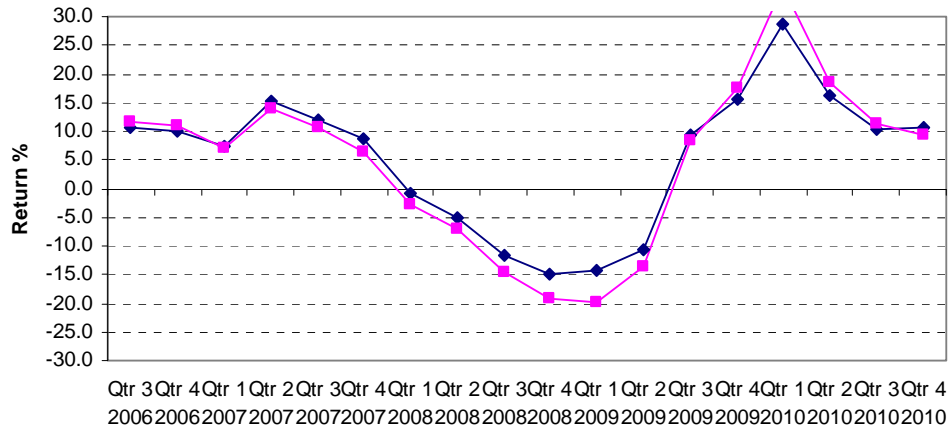
## **10. LIST OF BACKGROUND PAPERS**

10.1 None.

Legal: TE  
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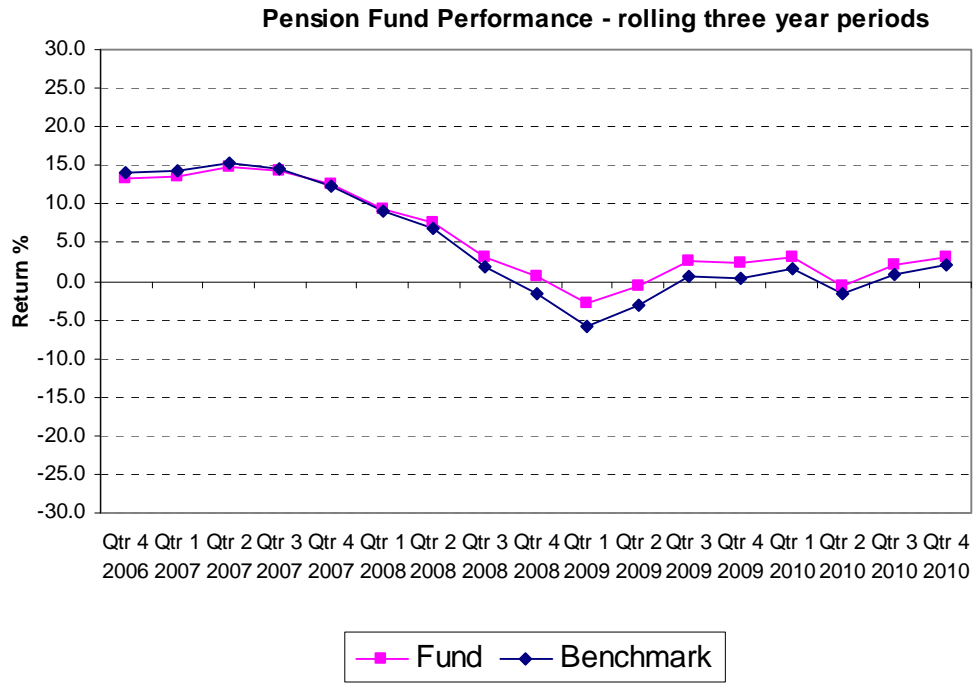
**Appendix A:**

**Pension Fund Performance - 12 months (annualised)**

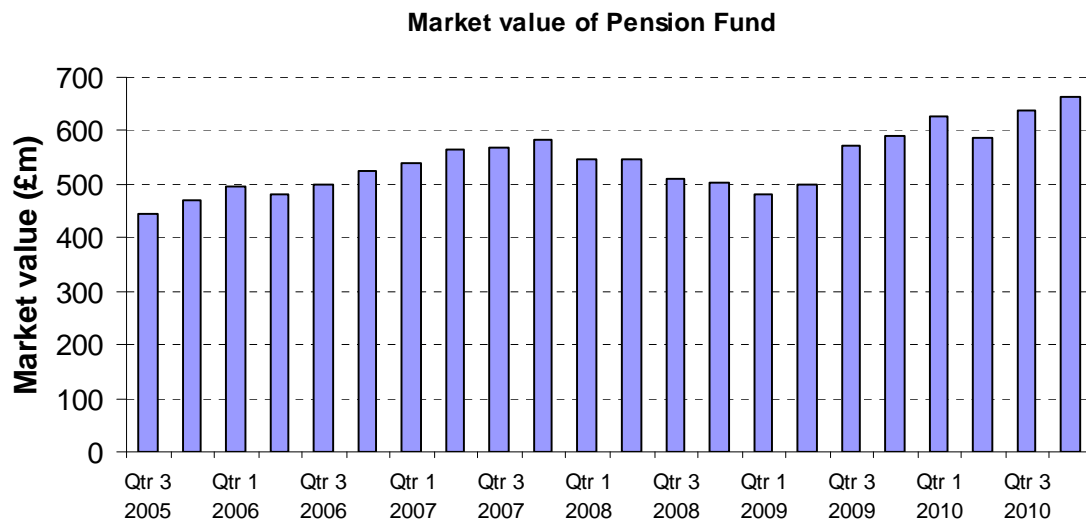


—◆— Fund —■— Benchmark

## Appendix B



## Appendix C





## Appendix D

### Property Unit Trust Portfolio

Description	Holding	Book Value	Bid	Market Value	Market Value
		£	£	31 December 2010 £	30 September 2010 £
Rockspring Hanover Property Unit Trust	206	1,868,514	11,450	2,358,700.00	2,354,580.00
Hermes Property Unit Trust	2,002,700	5,891,532	4.328	8,667,685.60	8,483,437.00
Blackrock UK Property Fund	180,300	4,987,991	35.2504	6,355,647.12	6,032,297.00
Schroder Exempt Property Unit Trust	190,433	4,954,405	31.12	5,926,274.96	5,796,781.00
Cash				10,267,140.32	10,085,488.00
<b>Total</b>				<b>33,575,448.00</b>	<b>32,752,583.00</b>

# IMAGE Report - Quarterly Update

31 December 2010

London Borough of Barnet Superannuation Fund



JLT INVESTMENT CONSULTING

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March 2011

## Section One – Market Update

### Introduction

This summary covers the key market data for the three months to the end of December 2010.

### Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	7.4	14.5
Overseas Equities	9.6	17.2
USA	11.5	18.8
Europe	5.1	6.6
Japan	12.8	19.0
Asia Pacific (ex Japan)	8.3	23.9
Emerging Markets	8.1	23.6
Property	2.2	14.5
Hedge Funds	4.8	11.3
Commodities	14.1	12.5
High Yield	2.8	17.5
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-3.5	8.8
Index-Linked Gilts (>5yrs)	1.1	9.0
Corporate Bonds (>15yrsAA)	-3.7	9.6
Non-Gilts (>15 yrs)	-3.9	9.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-0.6	-3.0
Against Euro	1.1	3.7
Against Yen	-3.5	-15.5
Yields as at 31 December 2010	% p.a.	
UK Equities	2.89	
UK Gilts (>15 yrs)	4.14	
Real Yield (>5 yrs ILG)	0.49	
Corporate Bonds (>15 yrs AA)	5.42	
Non-Gilts (>15 yrs)	5.40	

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	0.3	-0.3
Index-Linked Gilts (>5 yrs)	0.0	-0.2
Corporate Bonds (>15 yrs AA)	0.5	-0.2
Non-Gilts (>15 yrs)	0.4	-0.3

Change in inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	1.4	4.8
Price Inflation - CPI	1.7	3.7
Earnings Inflation *	0.1	2.3

\* is subject to 1 month lag

## Statistical highlights

- During the quarter, the rate of CPI inflation increased from 3.1% to 3.7% and it remains persistently above the Bank of England's 2% target level.
- The Bank of England's Monetary Policy Committee again kept interest rates on hold at 0.5%, and unveiled no new quantitative easing measures. The last change in interest rates was in March 2009 (a reduction from 1.0%). There is a difference of opinion with one member now voting in favour of increasing interest rates, another voting for an extension of the policy of quantitative easing and the other members voting for no change.
- The latest economic figures have increased concerns that the rate of economic growth will slow further in 2011 as a result of the impact of the government's £85 billion spending cuts, VAT rising to 20% from 17.5% on 4 January 2011.
- The political and financial situation in Europe remains uncertain with speculation that further international bailouts will be required. Sterling appreciated by 1.1% against the Euro over the quarter as the Euro was adversely affected by increasing concerns about sovereign debt problems within the peripheral Eurozone countries.
- At the beginning of the quarter, US stocks benefited from expectations that the US Federal Reserve would unveil another round of quantitative easing in order to help maintain the economic recovery. The Federal Reserve duly announced a further \$600 billion of US Treasury purchases in November and encouraging economic data towards the end of the fourth quarter led to an improvement in market confidence.
- Equities continued their positive run over Q4 2010 with all major equity markets producing strong positive returns. In Sterling terms, each region posted a positive return over the quarter. The Japanese market posted the strongest return over the quarter (+12.8%) closely followed by USA (+11.5%), Asia Pacific (ex Japan) (+8.3%) and Emerging Markets (+8.1%).
- The majority of fixed interest assets produced negative returns over the fourth quarter with, for example, long-dated gilts producing a return of -3.5%.

## Section Two – Total Scheme Performance

### Fund values

Manager	Fund	Start of Quarter		Net New Money	End of Quarter	
		Value	Proportion of Total		Value	Proportion of Total
		£	%	£	£	%
Newton Investment Management Limited (Newton)	Balanced	281,131,922	44.0	-	292,613,258	44.0
Schroder Investment Management Limited (Schroder)	Balanced	280,047,393	43.9	(36,530)	291,750,133	43.9
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	30,264,722	4.7	-	33,295,171	5.0
L&G	Active Corporate Bond – All Stocks	13,960,176	2.2	-	13,669,495	2.1
Internal	Property	32,944,000	5.2	-	33,575,448	5.0
Internal	Cash	142,670	0.0	-	143,048	0.0
<b>ASSET SPLIT</b>						
	Bond assets*	118,744,874	18.6		187,200,803	28.1
	Bond Plus assets	519,746,009	81.4		477,845,750	71.9
	<b>TOTAL</b>	<b>638,490,883</b>	<b>100.0</b>	<b>(36,530)</b>	<b>665,046,553</b>	<b>100.0</b>

Source: Investment managers, bid values.

\* The Bond assets do not include any fixed interest assets held as part of the Newton and Schroder "growth" portfolios.

Net new money is the net inflows and outflows of each manager. We do not have details of the movements into and out of the Property and Cash funds.

Over the quarter, both Newton and Schroders restructured their multi-asset portfolios. Each mandate is made up of 70% in a "diversified growth" fund, aiming to capture an "absolute" return, and 30% in a Corporate Bond portfolio. Please note that as the objectives for each mandate have changed (contained within the Appendix), the managers' benchmarks have also changed and as of next quarter performance will no longer be shown against the WM universe.

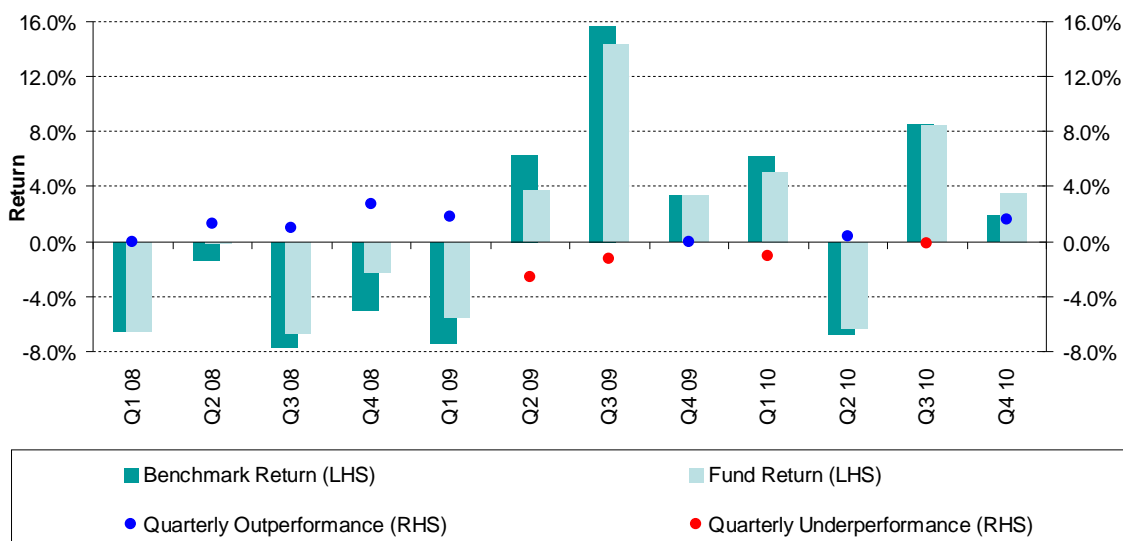
## Total Scheme Performance

Manager/Fund	Portfolio Return	Benchmark Return	Portfolio Return	Benchmark Return
	4Q 2010	4Q 2010	12 months to 31/12/10	12 months to 31/12/10
	%	%	%	%
Newton Multi-asset	4.4	2.8	10.8	10.2
Schroder Multi-asset	2.3	0.3	10.1	7.3
Internal Property*	1.9	2.2	6.4	14.5
Legal and General – Equity	10.0	10.0	16.7	16.5
Legal and General – Fixed Interest	-2.1	-2.4	8.8	8.4
<b>Combined Portfolio</b>	<b>3.5</b>	<b>1.9</b>	<b>10.5</b>	<b>9.4</b>

Source: Investment managers, Thomson Reuters. Benchmark returns taken from investment managers and are estimates. For the Schroders return (both fund and benchmark), we have combined the performance of the "old" portfolio with the "new" portfolio, assuming the 70/30 split for the new portfolio.

\* Estimate portfolio returns based on asset value over asset value.

Portfolio returns are as stated in the investment managers' quarterly reports except for the internal property which is an estimate.



Source: Investment managers, Thomson Reuters.

The Scheme achieved a return of 3.5% over the quarter and outperformed the estimated benchmark return of 1.9%. Over the year to 31 December 2010, the Scheme outperformed the estimated benchmark by 1.1%.

Over both the 3 month and the 1 year periods, four of the five portfolios have outperformed the benchmark. The only portfolio to underperform was the Internal Property fund. However, in absolute terms only the L&G Fixed Interest fund performance was negative.

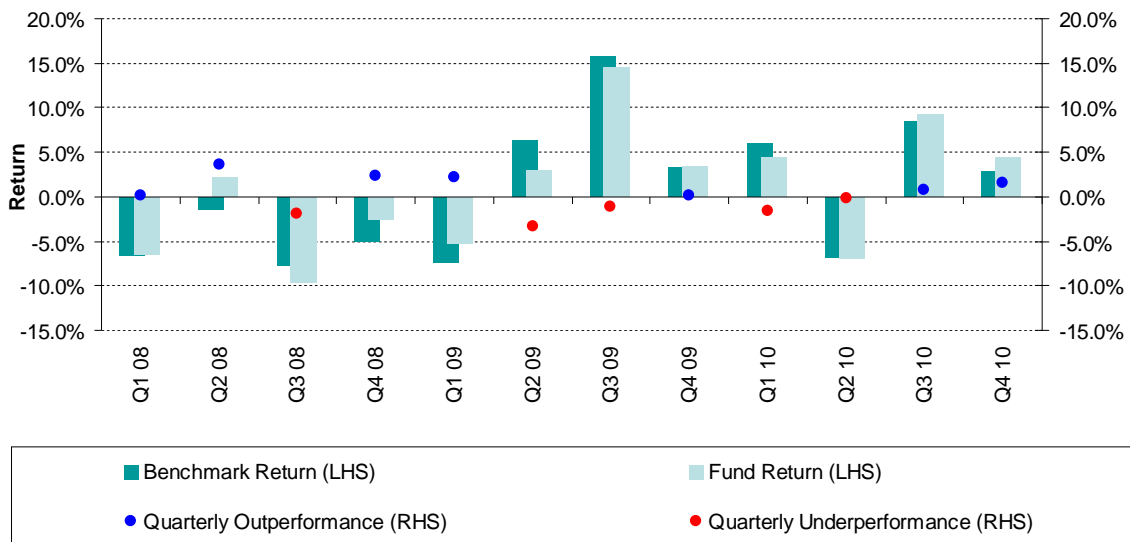
Over the quarter, Schroders and Newton transitioned their portfolios to the new 70% growth / 30% corporate bond splits.

As of next quarter, the performance of Schroders and Newton will no longer be benchmarked against WM figures but rather versus the respective benchmarks of the individual growth and bond strategies they manage.



## Section Three – Manager Performance

### Newton - Multi-Asset Portfolio - performance relative to benchmark



Source: Investment manager.

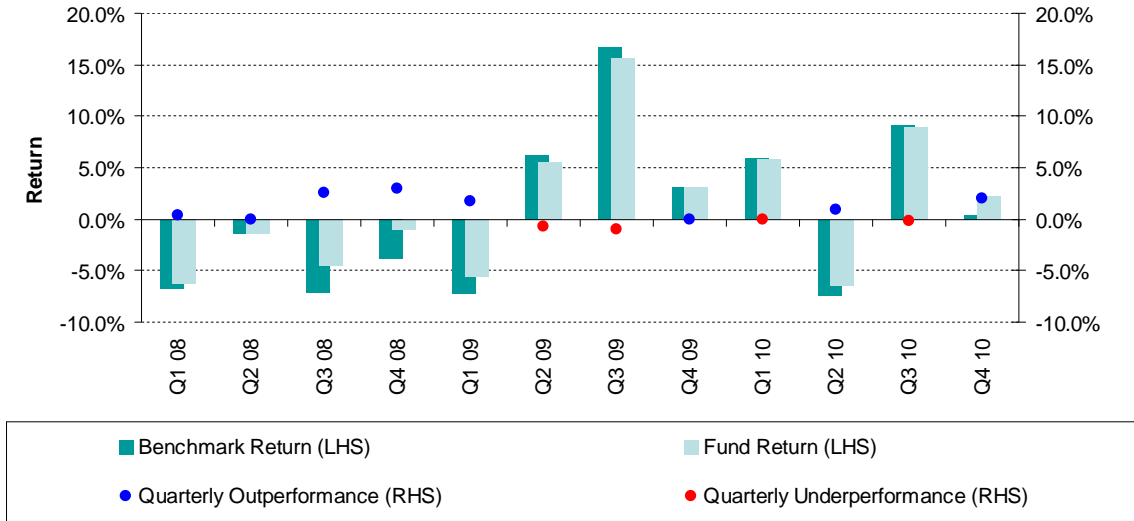
The portfolio return was 4.4% compared with the estimated benchmark return of 2.8%.

Over the quarter, Newton transitioned the portfolio from the "balanced" structure to the 70% growth / 30% corporate bond split. This was completed on 10 December 2010.

Over the year to 31 December 2010, the portfolio has produced a return of 10.8% compared with the benchmark return of 10.2%.

Over the three year period, Newton produced a return of 2.3% p.a. compared with the benchmark return of 2.2% p.a. The portfolio has outperformed in seven quarters over the last three years.

## Schroder - Multi-Asset Portfolio - performance relative to benchmark



Source: Investment managers.

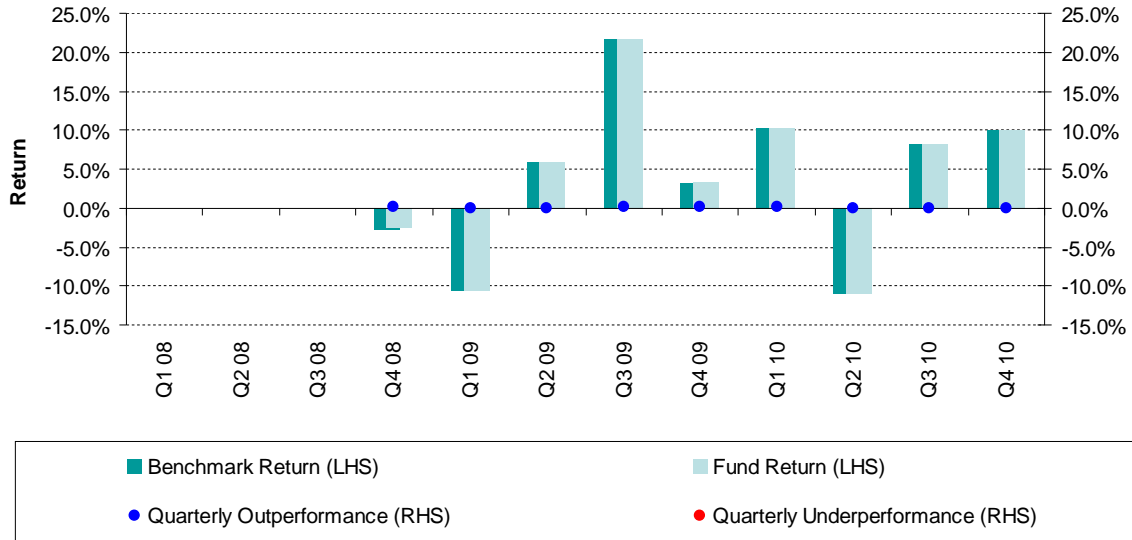
The return on the portfolio over the quarter was 2.3% compared with the estimated benchmark return of 0.3%.

Over the quarter, Schroders transitioned the portfolio from the "balanced" structure to the 70% growth / 30% corporate bond split. This was completed in early December.

Over the year to 31 December 2010, the portfolio has produced a return of 10.1% compared with the benchmark return of 7.3%.

Over the three year period, Schroders has performed well in absolute terms returning over 4% p.a. The portfolio has outperformed in seven quarters over the last three years.

## L&G – Equities



Source: Investment manager.

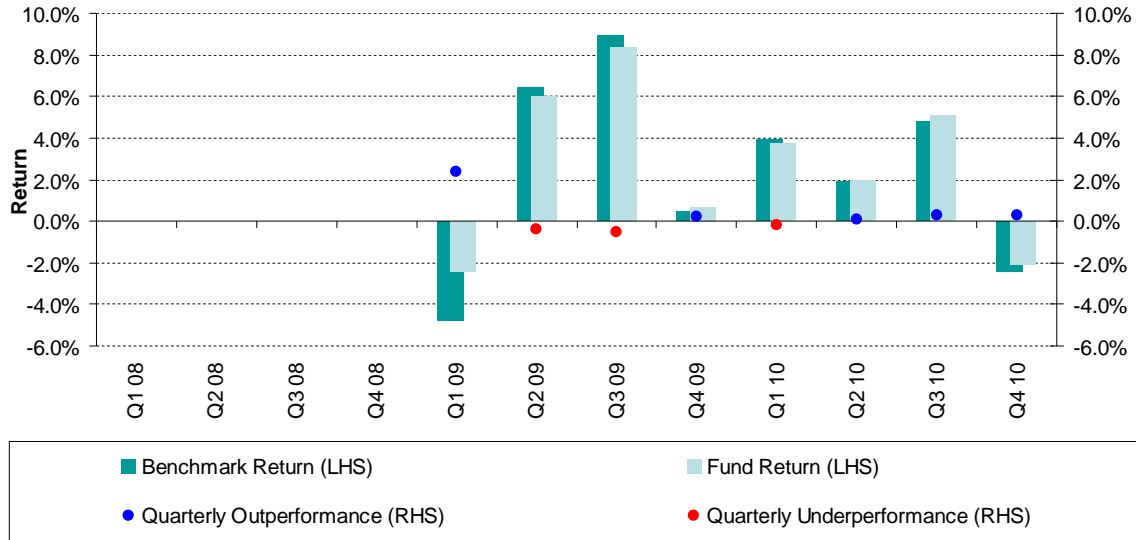
The first investment in the L&G World (ex UK) Equity Index Fund was made on 23 September 2008.

Over the fourth quarter of 2010, the Fund return was 10.0% in line with the benchmark return; all the equity regions performed much in line with their respective benchmarks.

Over the year, the Fund return was 16.7% compared with the benchmark return of 16.5%.

This Fund has achieved its target of matching the relevant indices over both the quarter and year.

## L&G – Fixed Interest



Source: Investment manager.

The first investment in the L&G Active Corporate Bond – All Stocks Fund was made on 17 December 2008.

Over the fourth quarter of 2010, the Fund return was -2.1% compared with the benchmark return of -2.4%.

The key driver of outperformance over the quarter was the portfolio's bias towards collateral debt; a defensive positioning also contributed positively.

Over the year, the Fund has performed well with a return of 8.8% compared with the benchmark return of 8.4%.

## Section Four – Asset Allocation and Liabilities

### Scheme asset allocation against asset benchmark split

	Start of Quarter			End of Quarter		
	Exposure	Bmk	Difference	Exposure	Bmk	Difference
	%	%	%	%	%	%
<b>UK Equities</b>	30.5	30.1	0.4	9.1	29.4	-20.3
<b>Overseas Equities</b>	34.0	35.3	-1.3	28.4	35.9	-7.5
<b>Fixed Interest</b>	13.6	13.4	0.2	28.3	13.1	15.2
<b>Bonds(held as part of Growth portfolios)</b>	-	-	-	6.4	-	6.4
<b>High Yield</b>	-	-	-	7.3	-	7.3
<b>Private Equity</b>	-	-	-	1.2	-	1.2
<b>Commodities</b>	-	-	-	5.4	-	5.4
<b>Absolute Return</b>	-	-	-	0.9	-	0.9
<b>Index-Linked*</b>	5.0	4.8	0.2	-	4.7	-4.7
<b>Property</b>	5.2	6.2	-1.0	6.1	6.0	0.1
<b>Cash/Other</b>	11.7	10.2	1.5	6.9	10.9	-4.0

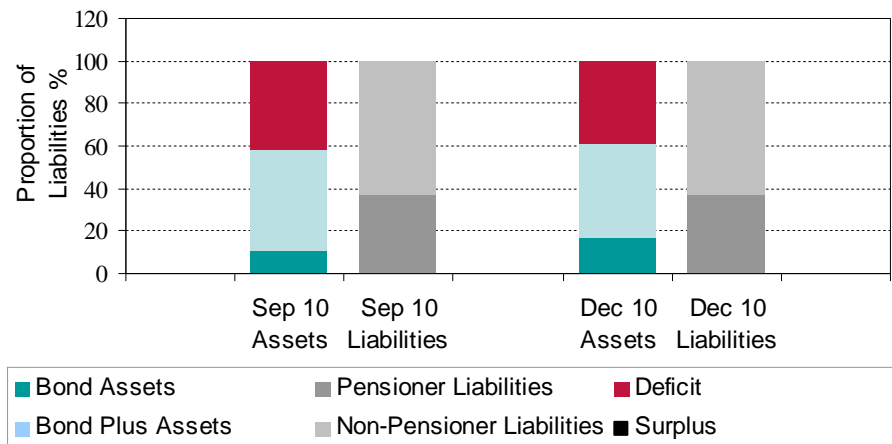
Source: Investment Managers. The end of quarter benchmark allocation is based on 49 funds within the WM universe. The benchmark allocation to Alternatives (shown as part of Cash) was 7% as at end September 2010 and 7.1% as at end December 2010.

\*There is a small proportion (less than 1%) of Index-Linked gilts held as part of the Newton growth portfolio.

Over the quarter, the changes in asset allocation are primarily due to the Scheme's transition to the new investment strategy. Overall, the allocation to Equities, particularly UK Equities, has decreased whilst the allocation to Fixed Interest has increased. The Scheme now has a significant allocation to "Alternative" growth assets.

It is important to note here that the benchmark allocation at the end of the quarter is based on the WM universe which is no longer relevant to the Scheme, given the implementation of the new strategy, and is shown here for interest only.

## Allocation to Bond and Bond Plus assets against estimated liability split



The chart above shows the allocation of the Scheme to Bond and Bond Plus assets (see appendix 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.

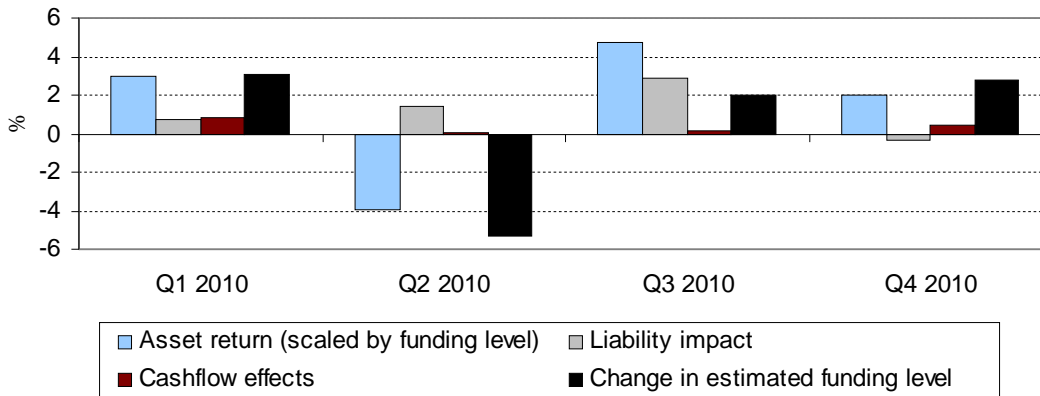
The split between non-pensioner and pensioner liabilities is estimated to have remained fairly stable over the quarter. The Scheme remains very underweight to Bond assets relative to its estimated pensioner liabilities; a mismatch that leaves the Scheme exposed to both market and interest rate risk.

### Scheme performance relative to estimated liabilities

Long-dated government bond yields rose (i.e. government bond prices fell) over the quarter and this is expected to have reduced the value of the liabilities (all else being equal).

In addition, the value of the Scheme's assets rose over the quarter which has led to an improvement in the funding level.

Therefore, based on movements in the investment markets alone, this quarter has seen an improvement in the Scheme's estimated funding position with a reduction in the funding deficit.



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.

## Section Five - Corporate governance

We have not included this section given the transition of the Scheme's assets held with Newton and Schroders, however, we do highlight that we have no concerns with each of the manager's approach to corporate governance and responsible investing.

We will resume this section in our Q1 2011 report following a full quarter of performance in the newly implemented strategy.



## Section Six – Summary

Overall this has been a good quarter for the Scheme.

In absolute terms, the Scheme's assets produced a return of 3.5%, as growth markets produced positive returns, where a significant proportion of the Scheme is invested.

In relative terms, the Scheme outperformed the estimated benchmark return by 1.6%.

The transition to the new agreed portfolio strategy was completed in December. The structure was created to minimise the costs of transition and ensure that appropriate market exposures were maintained throughout.

Our next report will provide an analysis of the Scheme's performance relative to its liabilities subsequent to the completion of the new strategy.

## 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 2007, adjusted approximately to reflect changes in investment factors as determined by an estimated projection of the 31 March 2007 actuarial valuation report as at 30 September 2008. 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 to be made on an ongoing basis.

### 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 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
<b>Absolute return</b>	The overall return on a fund.
<b>Bond asset</b>	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.
<b>Bond plus asset</b>	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 bond plus assets may not.
<b>CAPS</b>	A performance monitoring service provided by Russell Mellon. This shows manager by manager performance on a fund by fund basis, including median manager returns. CAPS use a form of time-weighted rate of return.
<b>Duration</b>	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.
<b>Equity risk premium</b>	The additional return expected from equities over and above that expected from UK Gilts. An equity risk premium is given as an example and other risk premia also exist.
<b>Funded liabilities</b>	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).
<b>IMAGE Median</b>	The return from the median manager in the IMAGE survey.
<b>IMAGE Universe</b>	All the managers who are included in the IMAGE survey of pooled balanced funds.
<b>Market stats indices</b>	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

<b>Market forecast committee</b>	An internal committee at HSBC Actuaries that meets each quarter to set long term return expectations on different asset classes using fund manager surveys and wider economic data from the investment market.
<b>Market volatility</b>	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change impact.
<b>Money-Weighted rate of return</b>	The rate of return on an investment including the amount and timing of cashflows.
<b>Non-Pensioner liability</b>	The value of benefits payable to those who are yet to retire, including active and deferred members.
<b>Pensioner liability</b>	The value of benefits payable to those who have already retired, irrespective of their age.
<b>Relative return</b>	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.
<b>Scheme investments</b>	Refers only to the invested assets, including cash, held by your investment managers.
<b>Standard deviation</b>	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.
<b>Surplus/Deficit</b>	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.
<b>Time-Weighted rate of return</b>	The rate of return on an investment removing the effect of the amount and timing of cashflows.
<b>Unfunded liabilities</b>	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.
<b>Yield (gross redemption yield)</b>	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.
<b>3 Year return</b>	The total return on the fund over a 3 year period expressed in percent per annum.

## Manager Research Tier Rating System

Tier	Definition
<b>Tier One</b>	Significant probability that the manager will meet the client's objectives.
<b>Tier Two</b>	Reasonable probability that the manager will meet the client's objectives.
<b>Tier Three</b>	The manager may reach the client's objectives but a number of concerns exist.
<b>Tier Four</b>	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns.
<b>Tier Five</b>	Significant concerns exist and it is highly probable that the manager will not meet client's objectives.

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