AGENDA ITEM: 6 Page nos. 1 - 30

Meeting	Pension Fund Committee
Date	22 June 2011
Subject	**Barnet Council Pension Fund Performance for Quarter January to March 2011**
Report of	Deputy Chief Executive
Summary	This report advises the Committee of the performance of the Pension Fund for the quarter January to March 2011

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Karen Bannister, Head of Treasury and Pensions
Status (public or exempt)	Public (with separate exempt report)
Wards affected	None
Enclosures	Appendix A – Image Report Quarterly Update 31 March 2011 Appendix B – Pension Fund Market Value of Investments Appendix C - Property Unit Trust Portfolio
For decision by	Pension Fund Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Karen Bannister – Head of Treasury and Pensions Tel: 0208 359 7119

1. RECOMMENDATIONS

1.1 That having considered the performance of the Pension Fund for the quarter to March 2011, the Deputy Chief Executive be instructed to address any issues that the Committee consider necessary.

2. RELEVANT PREVIOUS DECISIONS

2.1 Council – 11th 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 4th 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 19th 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).

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 has been published on the Council's website.

9.6 **Investment Performance & Benchmark**

9.6.1 The Fund's overall performance is measured against a liability benchmark return and includes internal property.

9.6.2 The Growth portfolio return is the combined Newton and Schroder Diversified Growth Fund portfolios and is measured against a notional 60/40 global equity benchmark and underlying benchmarks of each fund for comparison.

9.6.3 The performance of the Fund including manager performance is outlined in Appendix A.

9.6.4 The value of the fund at 31 March 2011 was £662.82m compared to £654.15m at 31 December 2010, the graph in Appendix B shows how the market value of the fund has appreciated since 2005.

9.6.5 Overall the fund outperformed the benchmark by 0.8% over the quarter to 31 March 2011.

9.7 **Internally managed funds**

9.7.1 The property unit trust portfolio accounts for 3.5% of the total market value of the fund and was valued at £23.16m as at the 31st of March 2011. Appendix A shows the value of the individual units held in the portfolio and the movement in market value since the last quarter.

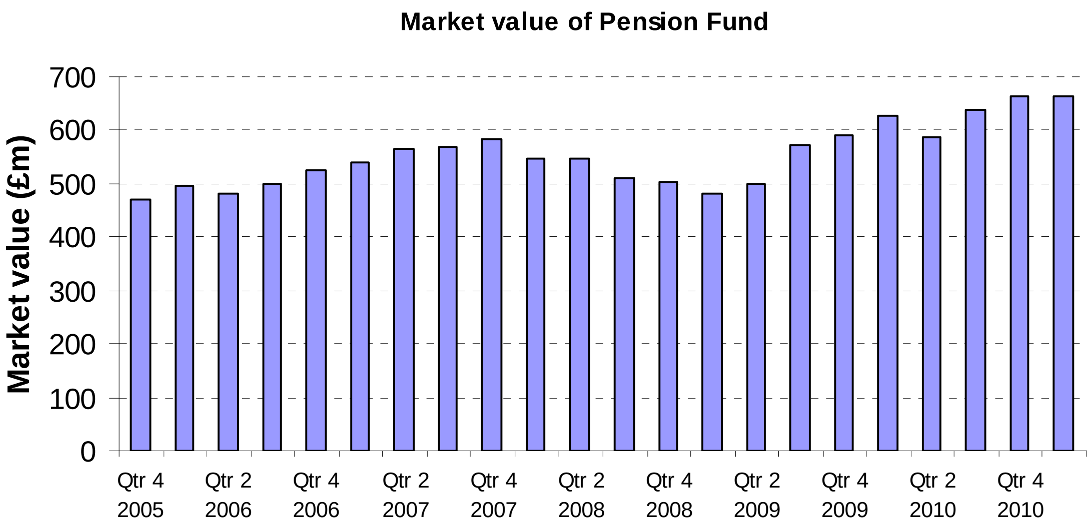
9.7.2 The performance of property fund is measured against the IPD All Properties Index, performance for the last quarter and the 12 months to 31 March 2011 are detailed in Appendix C.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: TE
CFO: JH/ MC

Appendix B:



Market value of Pension Fund
Market value (£m)
0
100
200
300
400
500
600
700
Qtr 4 2005
Qtr 2 2006
Qtr 4 2006
Qtr 2 2007
Qtr 4 2007
Qtr 2 2008
Qtr 4 2008
Qtr 2 2009
Qtr 4 2009
Qtr 2 2010
Qtr 4 2010

Appendix C

Property Unit Trust Portfolio

Description	Holding	Book Value	Bid	Market Value 31 March 2011	Market Value 31 December 2010
		£	£	£	£
Rockspring Hanover Property Unit Trust	206	1,868,514	11,675	2,405,050.00	2,358,700.00
Hermes Property Unit Trust	2,002,700	5,891,532	4.35	8,711,745.00	8,667,685.60
Blackrock UK Property Fund	180,300	4,987,991	33.5857	6,055,501.71	6,355,647.12
Schroder Exempt Property Unit Trust	190,433	4,954,405	31.44	5,987,213.52	5,926,274.96
Cash				-	10,267,140.32
Total				**23,159,510.23**	**33,575,448.00**

IMAGE Report - Quarterly Update
31 March 2011

London Borough of Barnet Superannuation Fund

JLT INVESTMENT CONSULTING

Contents

Jignasha Patel, MMath (Hons) IMC
Investment Consulting Analyst

John Finch, ASIP FCII
Divisional Director
May 2011

Section One – Market Update

Introduction

This summary covers the key market data for the three months to the end of March 2011.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	1.0	8.7
Overseas Equities	2.1	8.5
USA	3.3	9.2
Europe	6.0	8.2
Japan	-6.9	-4.0
Asia Pacific (ex Japan)	-0.5	13.1
Emerging Markets	-1.2	11.9
Property	2.3	10.7
Hedge Funds	2.3	10.3
Commodities	9.0	16.1
High Yield	2.4	8.1
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-1.5	6.9
Index-Linked Gilts (>5yrs)	-0.2	6.7
Corporate Bonds (>15yrsAA)	0.0	6.0
Non-Gilts (>15 yrs)	0.2	6.1

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	2.4	5.7
Against Euro	-3.2	0.8
Against Yen	4.6	-6.3

Yields as at 31 March 2011	% p.a.
UK Equities	2.96
UK Gilts (>15 yrs)	4.30
Real Yield (>5 yrs ILG)	0.63
Corporate Bonds (>15 yrs AA)	5.53
Non-Gilts (>15 yrs)	5.52

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	0.2	-0.2
Index-Linked Gilts (>5 yrs)	0.1	0.0
Corporate Bonds (>15 yrs AA)	0.1	0.0
Non-Gilts (>15 yrs)	0.1	0.0

Change in inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	1.8	5.3
Price Inflation - CPI	1.1	4.1
Earnings Inflation *	0.6	2.1

* is subject to 1 month lag

Statistical highlights

During the quarter, the rate of CPI inflation increased from 3.7% to 4.4% in February, a 28 month high. However, there was a surprise fall in inflation over March to 4.0%, mainly due to the record monthly fall in the price of food and non-alcoholic drinks, which fell 1.4%.

The minutes of the latest Monetary Policy Committee ("MPC") meeting stated that there was a "significant risk" that inflation could exceed 5% in the coming months. The MPC kept interest rates on hold at 0.5% and unveiled no new quantitative easing measures although three members of the committee voted in favour of raising rates and another member voted in favour of extending the policy of quantitative easing. Interest rates were last changed in March 2009 when they were reduced from 1.0%.

The Governor of the Bank of England has warned that January's rise in VAT and other inflationary pressures mean that prices are likely to outstrip pay again this year, leaving real wages no higher than they were six years ago. The latest figures for the retail sector have been disappointing with retail sales suffering the worst fall in sales since records began in 1996. Next, the retailer, has warned of very challenging times ahead for retailers and consumers.

Sterling appreciated by 2.4% and 4.6% respectively against the US Dollar and Japanese Yen over the quarter but depreciated by 3.2% against the Euro despite the ongoing concerns about sovereign debt problems within the peripheral Eurozone countries.

The earthquake disaster in Japan has had a major effect on the Japanese economy with many electronics, steel and car manufacturers suspending operations. Given the 'just in time' nature of many manufacturing operations, supply shortages are becoming evident with, for example, Toyota halting overtime at its Derby factory and Sony Ericsson stating that it may be unable to source parts for its mobile phones and a rise in the price of memory chips and display panels for computers.

Japanese equities fell by over 6.0% over the quarter although, at one stage, the market had fallen by 12% in the aftermath of the earthquake.

Equities had a mixed quarter with Japanese, Asia ex Japan and Emerging Markets all producing negative returns in sterling terms and the US, UK and Europe ex UK markets producing positive returns. Although the fallout from the Japanese earthquake mainly affected the Japanese market, all the major markets were unsettled by the problems in the Middle East and an increase in inflationary pressures resulting from a rise in food prices and the sharp increase in the price of oil. In Sterling terms, the best performing equity market over the quarter was Europe ex UK which achieved a return of +6.0% and the US and UK markets which produced sterling returns of +3.3% and +1.0%, respectively.

Gilts produced a return of -1.5% over the quarter and underperformed corporate bonds, which produced a zero return over the period.

Section Two – Total Scheme Performance

Fund values

		Start of Quarter		Net New Money	End of Quarter	
Manager	Fund	Value £	Proportion of Total %	£	Value £	Proportion of Total %
Newton Investment Management Limited (Newton)	Real Return	205,910,329	31.5	-	208,942,483	31.5
Schroder Investment Management Limited (Schroder)	Diversified Growth	204,614,856	31.3	-	207,368,303	31.3
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	33,295,171	5.1	-	34,052,869	5.1
Newton	Corporate Bond	86,702,929	13.2	-	87,106,978	13.2
Schroder	All Maturities Corporate Bond	86,828,379	13.3	-	88,398,463	13.3
L&G	Active Corporate Bond – All Stocks	13,669,495	2.1	-	13,788,507	2.1
Internal	Property	22,987,126	3.5	-	23,159,510	3.5
Internal	Cash	143,048	0.0	-	0	0.0
ASSET SPLIT						
Bond assets		187,200,803	28.6	-	189,293,948	28.6
Growth assets		466,950,530	71.4	-	473,523,165	71.4
TOTAL		**654,151,333**	**100.0**	**-**	**662,817,113**	**100.0**

Source: Investment managers, bid values. Please note that the internal property amount is based on bid values. Operational cash has been excluded from the portfolio, therefore the December property value has been adjusted accordingly. The internal cash portfolio is not included as part of the total return.

Total Scheme Performance

	Portfolio Return Q1 2011 %	Benchmark Return Q1 2011 %
Total Scheme	1.3	0.5
Growth Portfolio		
Growth v Global Equity	1.4	1.5
Growth v RPI+5% p.a.	1.4	3.0
Growth v LIBOR + 4% p.a.	1.4	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	1.1	-1.5
Bond v Index-Linked Gilts (> 5 yrs)	1.1	-0.2

The Growth portfolio excludes internal Property and L&G equities, Global equity 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index

The Bond portfolio excludes L&G corporate bond fund

The total scheme return is shown against the liability benchmark return, and includes the internal property fund. 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.

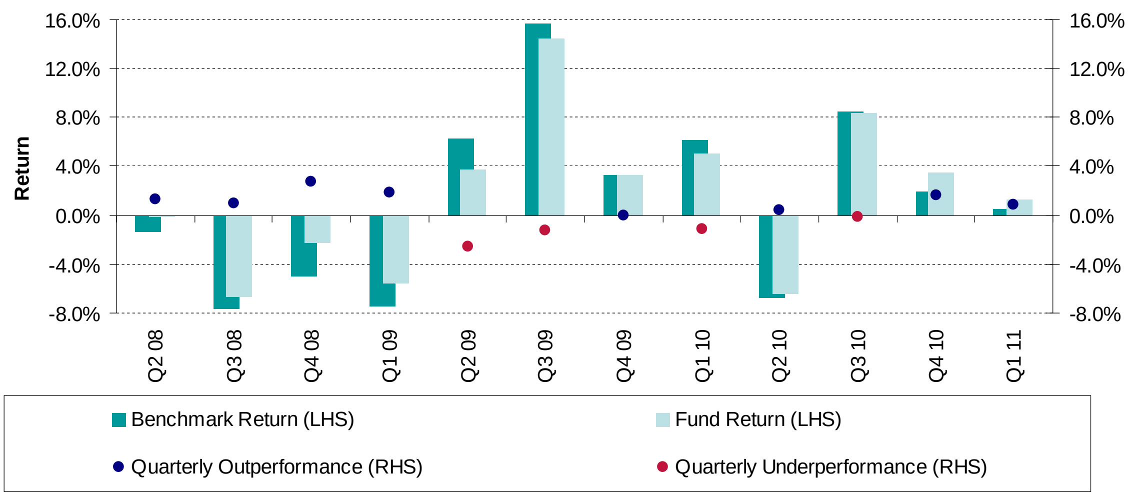
Individual Manager Performance

Manager/Fund	Portfolio Return Q1 2011 %	Benchmark Return Q1 2011 %
Newton Real Return	1.5	1.1
Schroder Diversified Growth	1.3	3.0
L&G – Overseas Equity	2.3	2.1
Newton Corporate Bond	0.5	0.6
Schroder Corporate Bond	1.8	1.0
L&G – Corporate Bond	0.9	0.9
Internal Property	0.5	2.3

Source: Investment managers, Thomson Reuters.

The above table shows the breakdown of the individual manager/portfolio returns against their underlying benchmarks. The internal property portfolio is compared to the IPD UK Monthly index.

Total Scheme - performance relative to benchmark



Source: Investment managers, Thomson Reuters.

The Scheme achieved a return of 1.3% over the quarter and outperformed the liability benchmark return of 0.5%.

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

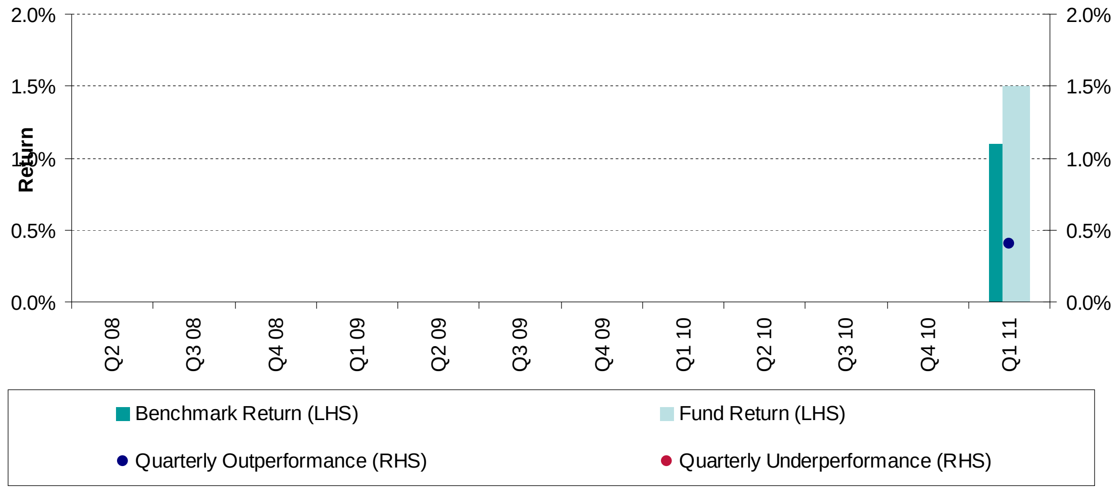
The absolute return was generated by positive returns across all managers and portfolios, in particular the DGF managers which produced the greater absolute returns and form the largest proportion of the Schemes assets.

The Growth Portfolio, comprising the two DGF funds, marginally underperformed the notional 60/40 global equity benchmark, by 0.1%. It is usual to expect DGF funds to underperform equities in rising markets. Whilst the LIBOR +4% return was exceeded, the Growth portfolio returned less than the RPI +5% return.

The Bond Portfolio, comprising the two corporate bond portfolio's managed by Newton and Schroder, outperformed both the Over 15 Year Gilts Index (+2.6%) and the Over 5 Years Index Linked Gilts Index (+1.3%). During the quarter corporate bonds outperformed government bonds, with government bonds and index linked gilts producing negative returns.

Section Three – Manager Performance

Newton - Real return fund- performance relative to benchmark

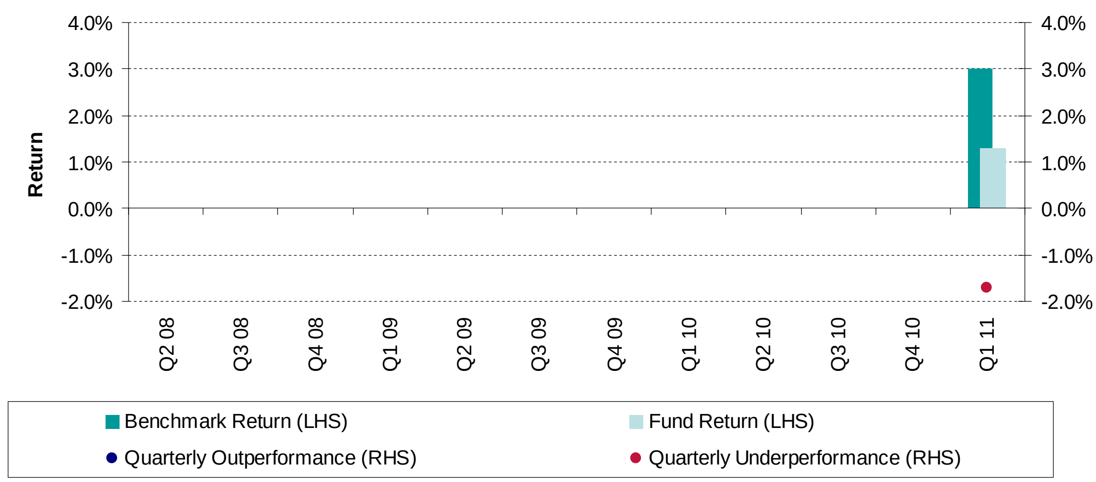


Source: Investment manager.

The portfolio return was 1.5% compared to its LIBOR+4% p.a. benchmark return of 1.1% outperforming by 0.4%. In comparison to a notional 60/40 global equity benchmark return the fund returned in line with it.

During a volatile quarter, the fund performed well benefitting from rising equities across some markets. Commodities, particularly silver and oil, also returned positive over the quarter which helped performance, however, returns from this asset class were partially offset due to the weakening dollar relative to sterling. The corporate bond holding within the fund also benefitted from inflows which revived the market.

Schroder - Diversified growth fund - performance relative to benchmark



Source: Investment managers.

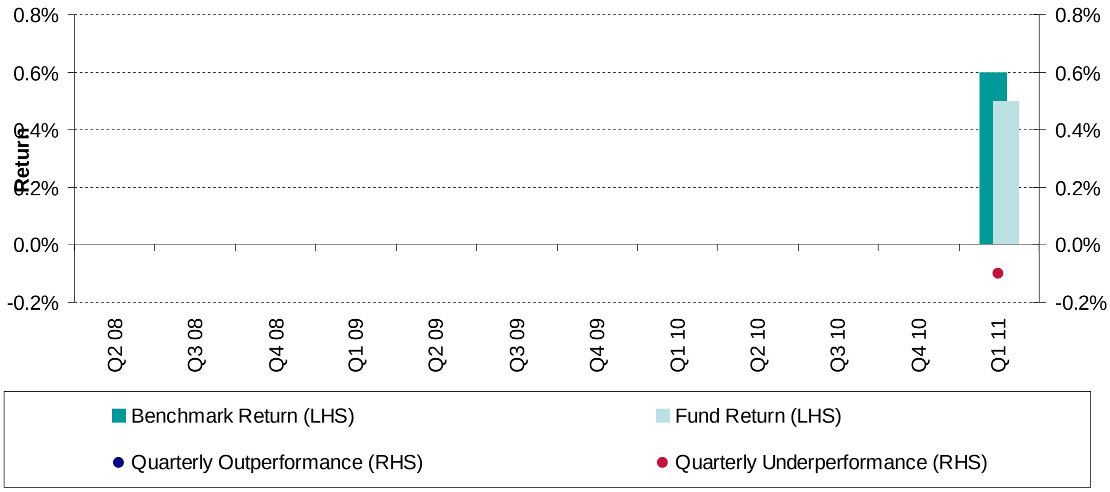
The portfolio return was 1.3% compared to its RPI+5% p.a. benchmark return of 3.0% underperforming by 1.7%. In comparison to a notional 60/40 global equity benchmark return the fund returned 0.2% less.

Although the fund performed positively in absolute terms, it underperformed the benchmark due to a sharp rise in inflation which came from commodity prices following the crises in Japan and North Africa.

Asset allocation for growth managers: movement over the quarter

	Q4 '10 Newton %	Q4 '10 Schroder %	Q1 '11 Newton %	Q1 '11 Schroder %
UK Equities	22.5	7.1	17.5	3.2
Overseas Equities	37.7	38.2	40.0	40.5
Fixed Interest	5.2	0.0	4.4	0.0
Corporate Bonds	13.0	0.0	12.6	0.0
High Yield	0.0	29.0	0.0	26.7
Private Equity	0.0	3.8	0.0	3.8
Commodities	5.4	12.1	4.1	16.8
Absolute Return	0.0	3.0	0.0	3.1
Index-Linked	2.6	0.0	2.3	0.0
Property	0.0	3.2	0.0	3.0
Cash/Other	13.6	3.6	19.1	2.9

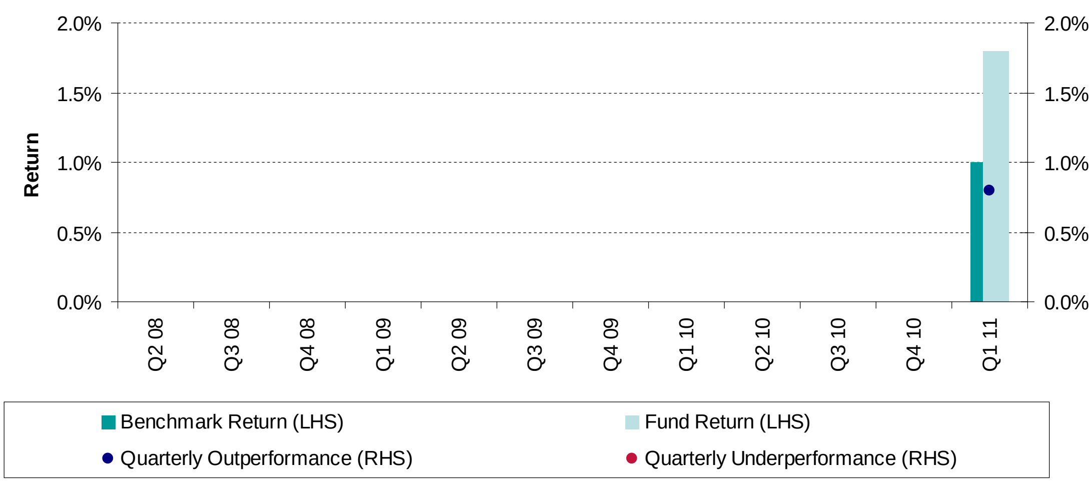
Newton - Corporate bond portfolio - performance relative to benchmark



Source: Investment managers

The Newton Corporate Bond portfolio underperformed its benchmark marginally, returning 0.5% versus the benchmark return of 0.6%. Performance was driven by flat UK corporate bond markets over the quarter.

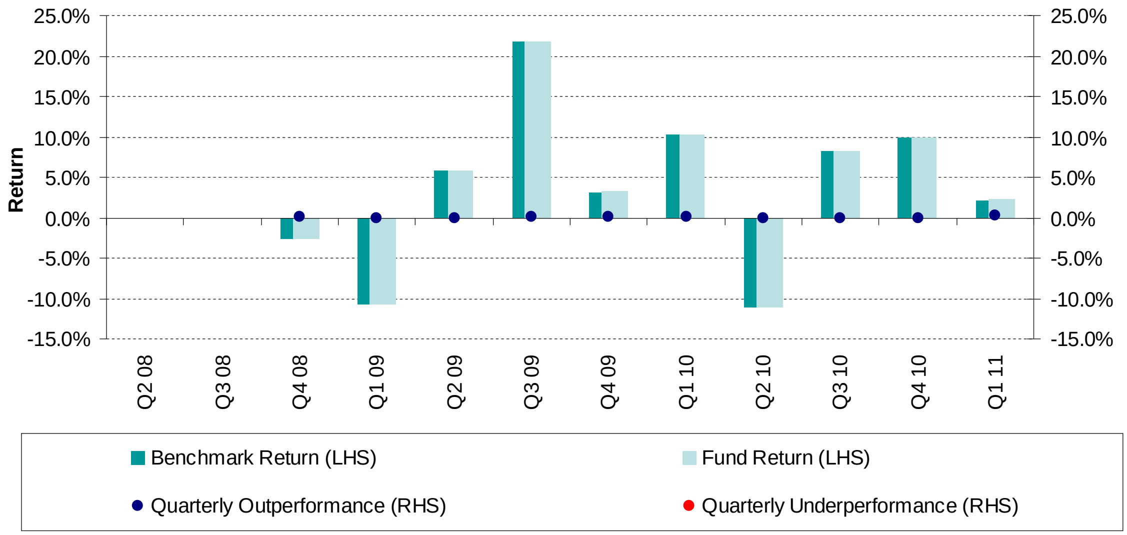
Schroder - All maturities corporate bond portfolio - performance relative to benchmark



Source: Investment managers

The Schroders Corporate Bond portfolio outperformed the benchmark by 0.8%, returning 1.8%. Performance was driven by an underweight duration position and an overweight exposure credit, more specifically to financials, cyclical sectors and lower rated corporate bonds which outperformed higher rated bonds.

L&G – Equities



Source: Investment manager.

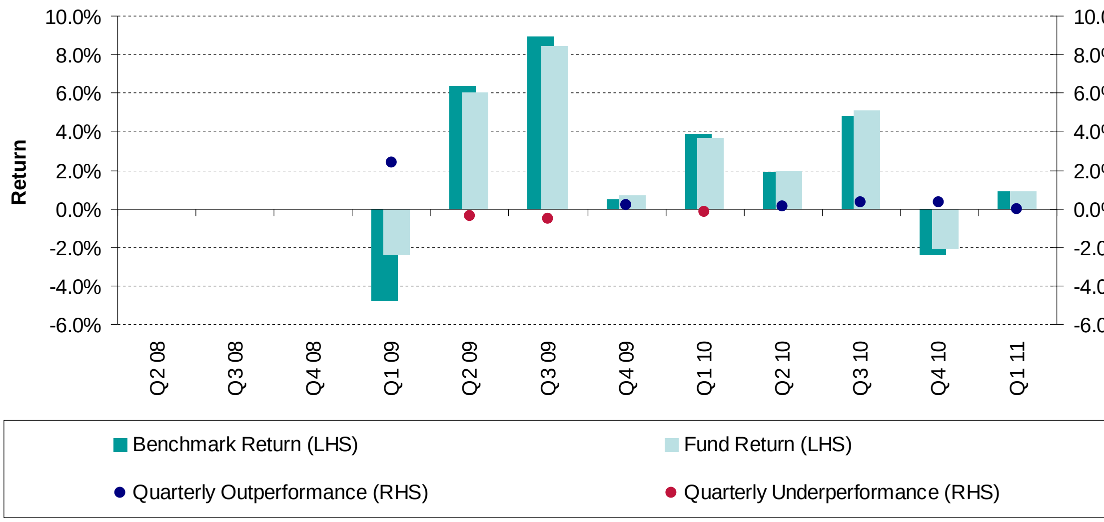
The first investment in the L&G World (ex UK) Equity Index Fund was made on 23 September 2008.

Over the first quarter of 2011, the fund return was 2.3% outperforming the benchmark return of 2.1%; all the equity regions performed much in line with their respective benchmarks.

Over the year, the fund return was 8.2% compared with the benchmark return of 8.1%.

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 first quarter of 2011, the fund return was 0.9% in line with the benchmark return.

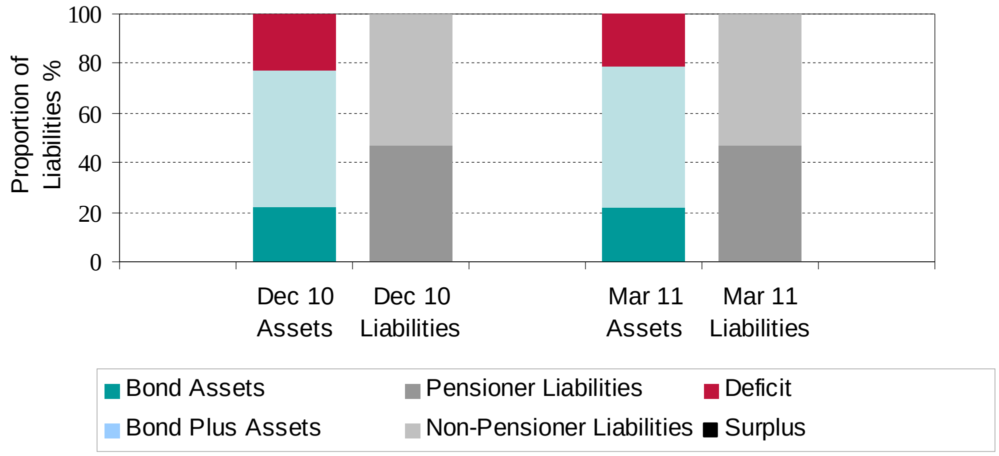
The portfolio's underweight position in sovereigns and supranationals and an overweight exposure to financials was positive for the fund, however this was offset by the negative impact of an overweight position in collateralised bonds.

Over the year, the fund has performed well with a return of 5.8% compared with the benchmark return of 5.2%.

Section Four – Consideration of Funding Level

This section of IMAGE 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

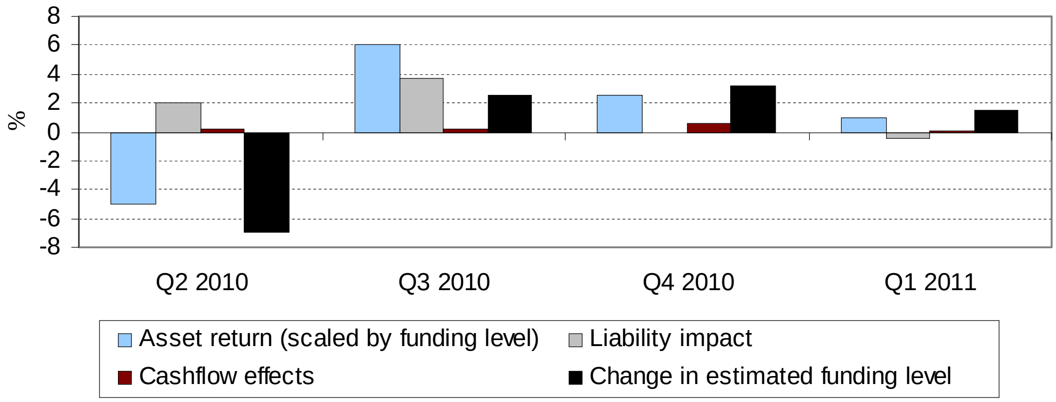
Allocation to Bond and Bond Plus assets against estimated liability split



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



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.

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.

Section Five – Summary

Overall this has been a good quarter for the Scheme.

In absolute terms, the Scheme's assets produced a return of 1.3%, as most growth markets produced positive returns, where a significant proportion of the Scheme is invested. All the funds produced positive absolute performances.

In relative terms, the Scheme outperformed the liability benchmark return of 0.5%.

The Schroders Diversified Growth Fund, the Newton Corporate Bond Fund and the Internal Property all underperformed their respective benchmarks. All other funds either outperformed or performed in line with their respective benchmarks.

The combined Growth portfolio marginally underperformed a notional 60/40 global equity return. The Newton real return fund performed in line with this, whilst the Schroder DGF underperformed it. In a rising equity market it is usual to expect DGF funds to underperform equities.

The combined Bond Portfolio outperformed the two indices that will be used to measure the duration portfolio as government and index-linked bonds fell in value, whilst corporate bonds rose.

Over the quarter it is anticipated, other things being equal, that investment conditions had a positive impact on the Scheme's funding level.

Appendix

Liability benchmarking

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

Summary of current funds

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

Summary of current funds (continued)

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

Glossary of Terms

Term	Definition
Absolute return	The overall return on a fund.
Bond asset	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Bond plus 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 bond plus assets may not.
CAPS	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.
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.
Equity risk premium	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.
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).
IMAGE Median	The return from the median manager in the IMAGE survey.
IMAGE Universe	All the managers who are included in the IMAGE survey of pooled balanced funds.
Market stats indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE World Index Series (and regional sub-indices) UK Gilts: FTSE-A Gilt >15 Yrs Index Index Linked Gilts: FTSE-A ILG >5 Yrs Index Corporate Bonds: iBoxx Corporate Bonds (AA) Over 15 Yrs Index Non-Gilts: iBoxx Non-Gilts Over 15 Yrs Index Property: IPD Property Index High Yield: ML Global High Yield Index Commodities: S&P GSCI GBP Index Hedge Funds: CSFB/Tremont Hedge Fund Index Cash: 7 day London Interbank Middle Rate Price Inflation: Retail Price Index (excluding mortgages), RPIX Earnings Inflation: Average Earnings Index

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

Manager Research Tier Rating System

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

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JLT Investment Consulting
St James's House, 7 Charlotte Street,
Manchester, M1 4DZ
Fax +44 (0)161 253 1169

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Tel +44 (0)20 7528 4000 Fax +44 (0)20 7528 4500. www.jltgroup.com.
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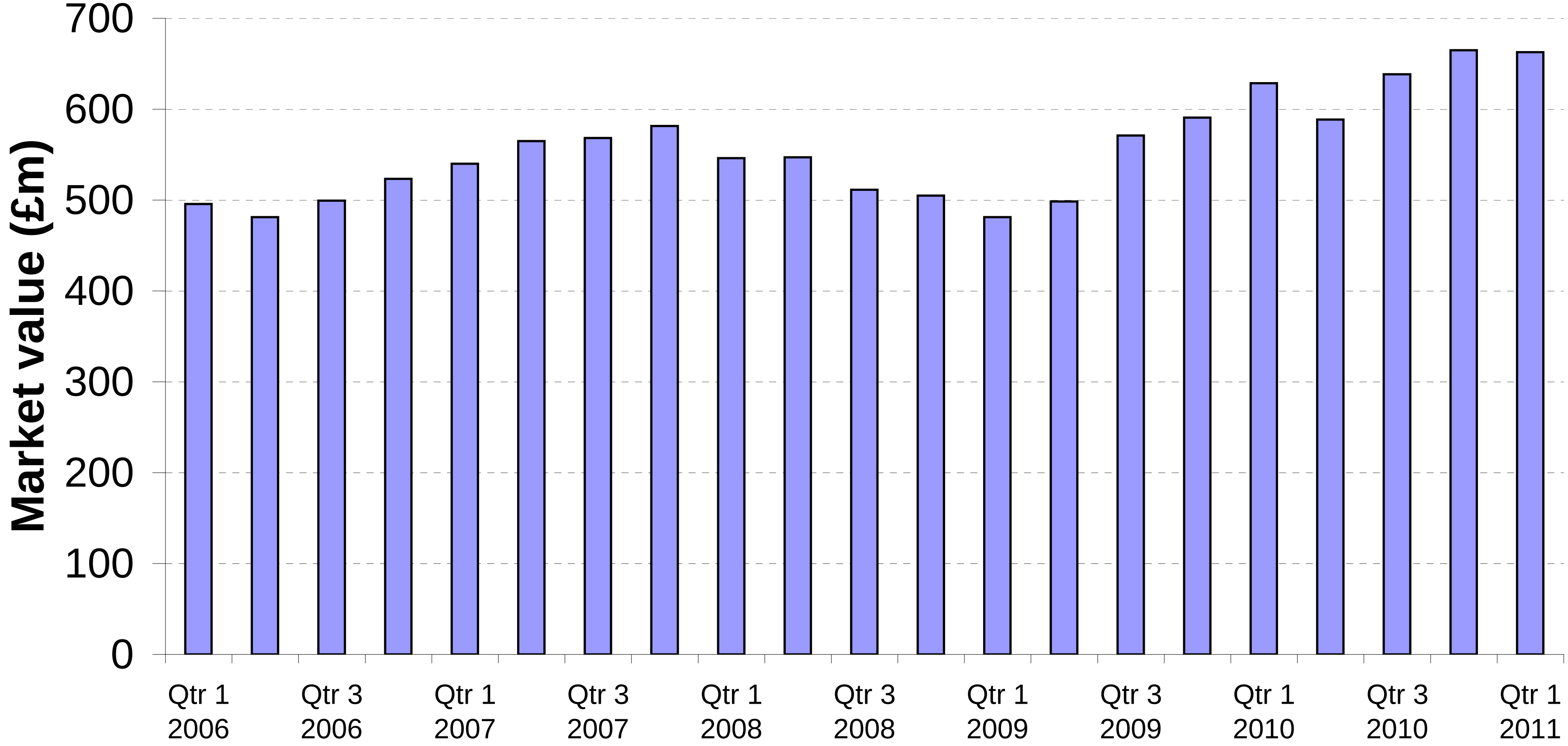
CONTACTS

John Finch, ASIP FCII
JLT Investment Consulting
Tel: +44 (0) 161 253 1168
Email: john_finch@jltgroup.com

Jignasha Patel, MMath (Hons) IMC
JLT Investment Consulting
Tel: +44 (0) 161 253 1163
Email: jignasha_patel@jltgroup.com

Market value of Pension Fund



Appendix C

Property Unit Trust holdings as at :- 31st Dec 2010

Property Unit Trust Portfolio

Description	Holding	Book Value £	Bid £	Market Value 31 March 2011 £	Market Value 31 December 2010 £
Rockspring Hanover Property Unit Trust	206	1,868,514	11,675	2,405,050.00	2,358,700.00
Hermes Property Unit Trust	2,002,700	5,891,532	4.35	8,711,745.00	8,667,685.60
Blackrock UK Property Fund	180,300	4,987,991	33.5857	6,055,501.71	6,355,647.12
Schroder Exempt Property Unit Trust	190,433	4,954,405	31.44	5,987,213.52	5,926,274.96
Cash				-	10,267,140.32
Total				**23,159,510.23**	**33,575,448.00**