MEETING PENSION FUND COMMITTEE
DATE AND TIME THURSDAY 15 MARCH 2012 AT 7.00PM
VENUE HENDON TOWN HALL, THE BURROUGHS, HENDON NW4 4BG

TO: MEMBERS OF THE COMMITTEE (Quorum 3)

Chairman: Councillor Anthony Finn
Vice Chairman: Councillor Mark Shooter

Councillors:

Alex Brodkin	Jack Cohen	Geof Cooke	Susette Palmer

Substitute Members:

Andrew Harper	Geoff Johnson	Lord Palmer	Ansuya Sodha
Rowan Turner			

You are requested to attend the above meeting for which an agenda is attached.
Aysen Giritli – Head of Governance

Governance Service contact: Maria Lugangira 020 8359 2761

Media Relations contact: Sue Cocker 020 8359 7039

To view agenda papers on the website: http://committeepapers.barnet.gov.uk/democracy

CORPORATE GOVERNANCE DIRECTORATE

ORDER OF BUSINESS

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AGENDA ITEM: 6 Page nos. 1 - 22

Meeting	Pension Fund Committee
Date	15 March 2012
Subject	**Presentation on Co-investment in Residential Housing**
Report of	Deputy Chief Executive
Summary	A presentation will be given to the Committee on co-investment in residential housing by the Mill Group. The presentation will outline the structure of the product, set up costs and forecast investment returns

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Iain Millar, Head of Treasury and Pensions
Status (public or exempt)	Public
Wards affected	None
Key Decision	Not Applicable
For decision by	Pension Fund Committee
Function of	Council
Enclosures	Investors in Housing - Draft

Contact for further information: Iain Millar Head of Treasury and Pensions Tel: 0208 359 7126

RECOMMENDATIONS

1.1 That the Committee note the content of the presentation to be provided to the Committee.

2. RELEVANT PREVIOUS DECISIONS

2.1 On 20th December 2011, Pension Fund Committee considered the options making an allocation to complimentary classes including institutional investment into residential housing. The Committee requested that a fund manager presentation on institutional investment in residential housing be arranged for its next meeting.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Consideration of the use of alternative asset classes to further diversify the Pension Fund investment strategy supports the corporate priority of getting the best value from our resources.

4. RISK MANAGEMENT ISSUES

4.1 The ongoing viability of the Pension Fund is dependent on maximising investment income with due regard to the risk returns of the investment vehicles used

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Ensuring the long term financial health of the pension fund will benefit everyone who contributes to it.

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

6.1 This report is just for information; there are no procurement, performance & value for money, staffing, IT, Property or Sustainability implications.

7. LEGAL ISSUES

7.1 No specific legal issues, this report is just for information.

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 The Pension Fund Committee requested more information on the option to invest in residential housing through a fund manager presentation to the Pension Fund

Committee, following consideration of an allocation to complimentary asset classes on 20th December 2011.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: SWS
CFO: JH

Investors in Housing

Draft

BARNET
LONDON BOROUGH

March 2012
Presentation by
Simon Phillips

MILL GROUP

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Introduction

This presentation will demonstrate why investing in residential property through Investors in Housing can generate strong income returns and above average capital growth for the Barnet Pension Fund:

- **Why residential property?**
- **Why London residential property?**
- **Why Co-investment?**
- **How does Co-investment work?**
- **What returns can Co-investment generate for the investor?**
- **How can this opportunity be structured?**

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Where does the Investors in Housing proposition fit?

➔ **CLIENT INVESTMENT OPTIONS**

- EQUITIES
- GILTS / BONDS
- ALTERNATIVES
- ✓ PROPERTY
  - OFFICES
  - RETAIL
  - INDUSTRIAL
  - ✓ OTHER
    - LEISURE
    - HOTELS
    - STUDENT ACCOMODATION
    - INFRASTRUCTURE
    - ✓ RESIDENTIAL
      - PRIME
      - PRIVATE RENTAL
      - SOCIAL
      - ✓ INVESTORS IN HOUSING

✓ Upfront Risk Transferred to Mill Group
✓ Varied Portfolio
✓ Spread of Risk
✓ Greater Rates of Return
✓ Larger Availability of Stock
✓ Stronger Residual Values
✓ Diverse Range of Exit Options
✓ Longer Dated Income

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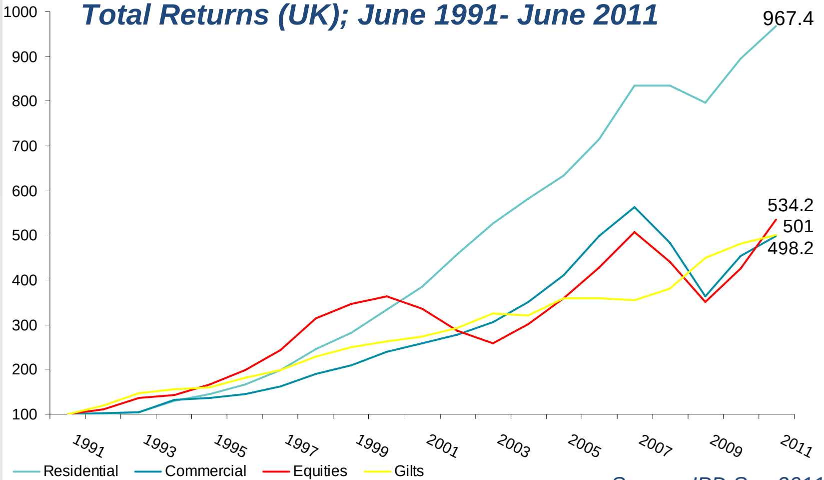
How has the residential asset class performed compared to others?

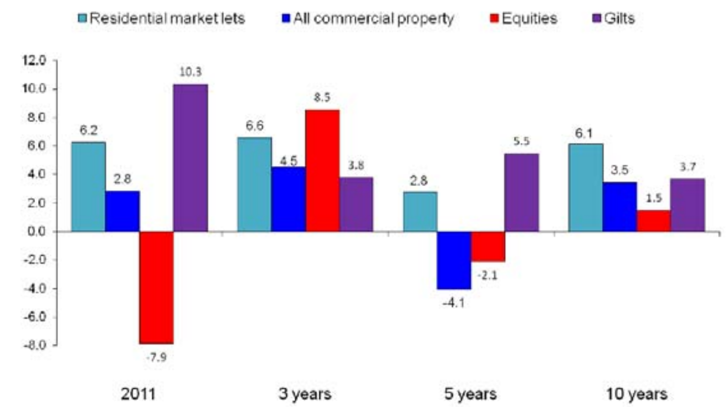
UK residential property has historically proved to be a more attractive asset class as compared to commercial real estate, equities and gilts

Total Returns (UK); June 1991- June 2011



Source: IPD Sep 2011

RPI adjusted annualised Total Returns (UK)



Source: IPD Feb 2012

- An investment in the UK residential sector in 1991 would have resulted in a c.10 times total return over a 20 year period; nearly twice as much as other asset classes.

- Good investment in an inflationary environment
- Outperformed other asset classes in real terms over 5 and 10 years

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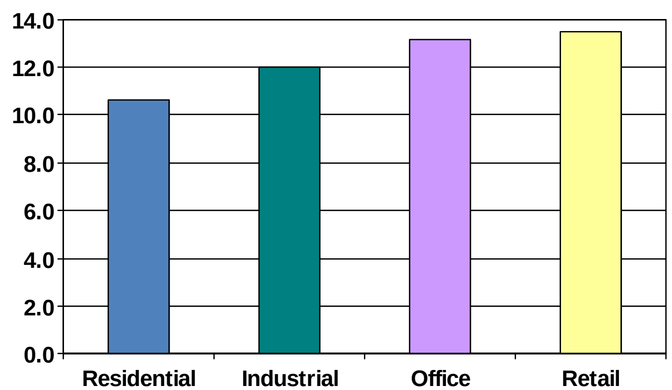
Comparative performance of real estate asset classes

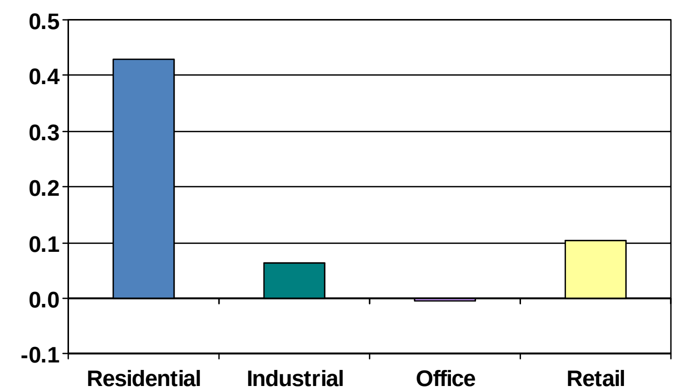
UK residential property has historically delivered more stable and predictable returns which offer a better risk reward ratio

*Variability of returns**



Source: IPD July 2011

*Risk reward ratio***



Source: IPD July 2011

- An investment in the UK residential sector between 2000 and 2010 resulted in a lower volatility of returns compared to other real estate asset classes by between 20% - 30% over the same period

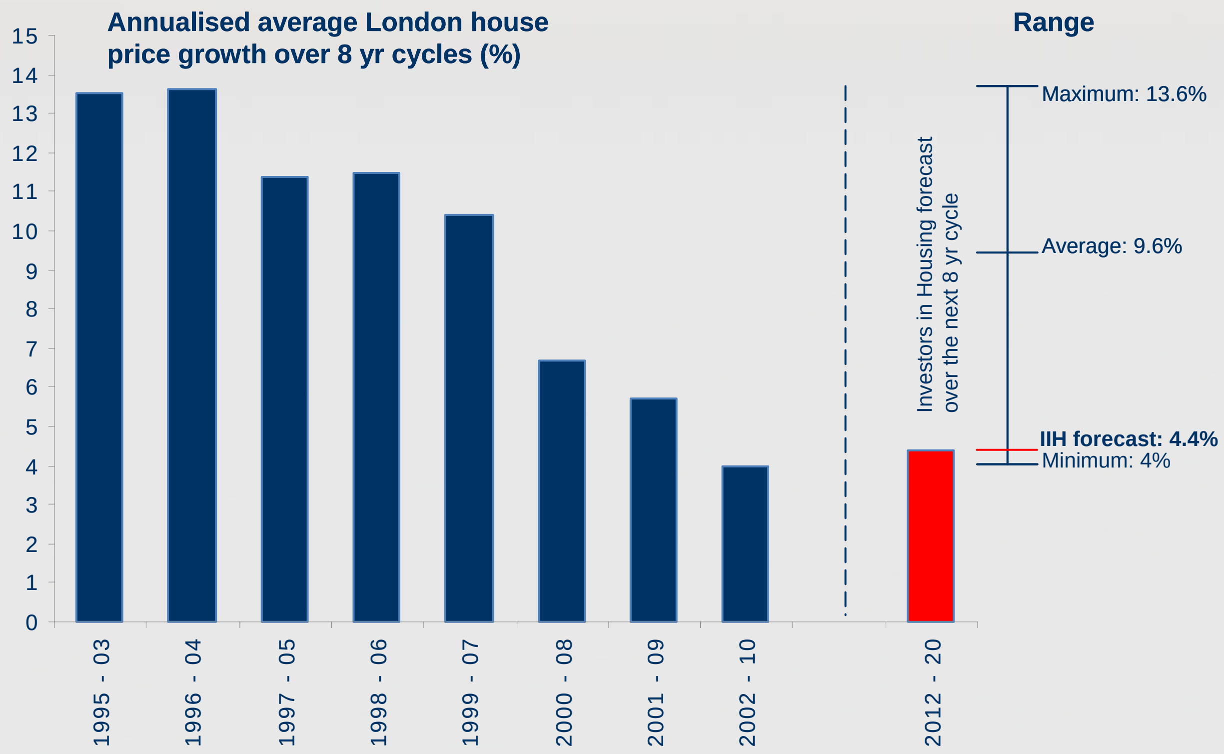
- An investment in the UK residential sector between 2000 and 2010 delivered a much better risk/ reward ratio than other real estate class over the same period

*Standard deviation

** Sharpe ratio

London property prices remained stable during the crisis

The minimum average growth in London house prices has been 4% p.a. with the average being 9.6% - over any 8 year period during which Land Registry has collated house price data.



Source: Land Registry

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London house prices will remain strong in the future

The demand for London property is anticipated to outstrip supply, putting continued upwards pressure on property prices

- **Demand**
  - Changing household formation & net immigration
  - London is an economic hub & has lower unemployment levels
  - London has higher average earnings & is Internationally attractive
  - **Lack of finance is frustrating this demand, as are concerns of negative equity**
  - **There is high demand for an alternative solution**

In 2011, over 1 million + aspiring first time buyers were unable to buy a home. Their average age is 37.

- **Supply**
  - Lack of new housing – a current shortfall of 50%*
  - Severe planning limitations
  - Lack of consumer finance due to debt drought
  - Rental market on the rise = less homes for sale

In 2011, only 120,000 new properties were built in UK, the lowest level since 1920's.

*This is the shortfall between the number of properties required based on household growth and the new housing required to ensure there is no shortfall – Savills Budget Commentary 03/11

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Investment Strategy in Residential – the smarter way

Generate higher returns via expert property selection and higher yields by replacing tenants with “part owners/long-term occupiers”

Investment return

Capital growth

Income

- Very large stock from which to ‘cherry-pick’ for the portfolio
- Highly scalable
- London focus/desirable locations
- Properties matched to occupier demographics, infrastructure and amenities
- Lower risk, with development optional

Part owners/long-term occupiers

- Willing to pay premium to rents
- Willing to take on repair and maintenance responsibilities
- Wanting occupancy on longer terms
- Are individually selected and assessed

The smarter way to buy a home – for investor and consumer

Mill Group's unique 'Co-investment model' has been designed to enhance gross income and protect net income yield, reduce risk and avoid costly void periods

At acquisition

A simple joint venture through which an investor and a prime consumer (with a minimum 5%) will jointly acquire 100% of a desirable property without debt

5% OMV*

(Up to 15%)

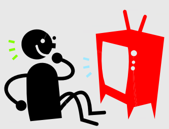
95% OMV

Acquisition costs

Investor

During Co-investment period

In return for sole occupation, the consumer pays an occupation charge to the investor and is responsible for the maintenance, insurance and other service charges for the property



7% occupation charge on investor's share

Investor

- RPI upward only increase each year for five years
- Repair/maintenance/insurance etc costs payable by consumer
- 5 yearly rebasing of occupation charge, upward only, to 7% of open market value share

* Open Market Value also referred to as vacant possession value

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Residential investment with a number of exit options

1. **Individual properties may be sold to the consumer – exit at 95% OMV**
   - Incentive offer to consumer at 5% discount in yr 6&7 – ie buy Investor's 95% share at 90% (efficient sale since it eliminates estate agents fees, voids and other costs of selling)
   - Opportunity for consumer to buy out the investor interest in the property at OMV – option available from year 3
   - Better net return than portfolio sale, thus improving IRRs

2. **If the co-owner wishes to move on without purchasing – exit at full OMV** net of costs
   - Full value sale without discount; or
     - Establish new Co-investment arrangement; or
     - Rent the property

3. **Sale of property portfolio**
   - Base case model assumes sale achievable at 90% of OMV; under control of investor - simple and clean
   - Portfolios should be saleable to the same market as other investment portfolios

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Co-investment – a product for now

FOR CONSUMER: 5% - 15% SHARE OF PROPERTY: With a good income, but without a 20% deposit, Co-investment is the only solution for people who want out of the rental market. It offers a secure, long term tenure, fixed real term costs, no risk of negative equity, and the opportunity to buy the home of their choice when they are ready.

FOR INVESTOR: 85% - 95% SHARE OF PROPERTY: A quality occupier committed to caring for the property. It provides long term income incurring minimal costs or voids. It offers a unique exit with the co-owner wanting to buy out the investor.

	Renting	***Co-investment***	***Buying with a mortgage***
Security of tenure/ need to move	Initial term only – involuntary move with little notice	Secure – no need to move	Secure – no need to move
Personalise a home	No	Yes	Yes
Future monthly cost	Uncontrollable	RPI only for 5 years	Interest rate dependant
Repair costs	Landlord	Consumer	Consumer
Insurance	Landlord	Consumer	Consumer
Benefit from house price growth	No	Yes	Yes
Minimum Deposit requirements	1-3 Months	5 %	10-20 %
Negative equity risk	No	No	Yes

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Why is Co-investment attractive to a consumer?

The Co-investment model is designed to attract those FTBs who are currently renting and want to step onto the housing ladder. They have an above average salary but do not have the high deposit required for a mortgage.

Typical Co-owner

Reality of renting

Dead money

No security of tenure (have to move regularly)

No sense of ownership

No opportunity to build credit rating

- All unlike co-investment

How does a 7% co-investment charge compare to rent & mortgage?

Co-investment compares favourably when compared to the repayment cost of renting a similar property and the cost of a 90% repayment mortgage

Current rental yields*	Rental range	5 - 7%	
Mortgage cost comparator**	Interest rate	5.8%	
	Servicing cost	7.6%	cost of mortgage pa as % of mortgage
Co-investment	Charge	7.0%	Paid on investor share of property
	Nominal Yield	6.6%	occupancy charge as a % of property value

*Based on average asking rents for 2,000 properties and average asking sale prices of 3,000 properties in Barnet as featured on www.zoopla.co.uk and www.Londonpropertwatch.com- Feb 2011.

**As at Feb 2011 average 90% mortgage servicing cost for 5 yr fixed deals available to FTBs from high st lenders .

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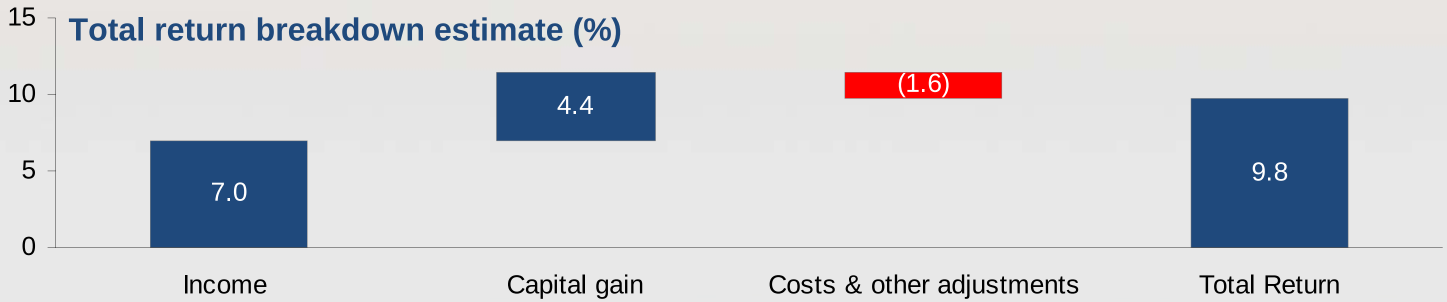
What returns should investors expect?

Due to the high levels of income being generated and the exposure to London residential properties (benefitting from strong demand and constrained supply); a 6.7% annualised distribution and a 9.8% IRR is anticipated



6.7% pa[1] distributions

Strong demand + Constrained supply

9.8% IRR[1]

Mill Group's house price inflation (HPI) forecast[2]

HPI % growth forecast	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*8 Yr Compound Annualised Average*
London	-0.1	0.9	4.6	6.4	6.0	5.5	5.7	6.3	4.4

1. Anticipated based on key modelling assumptions; distributions from year 2 onwards as year 1 cash reinvested (average distribution figure for years 2-5 quoted)
2. In-house estimation based on external research forecasts with an asset selection premium

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In summary…

The Investors in Housing proposition has been designed to provide Barnet with attractive, long-dated RPI linked income, stable returns, via good quality assets which are managed professionally

- Benefits to the LB Barnet Pension Fund
  - Exposure to an attractive asset class
    - Strong historic performance of UK/London residential property
    - Good future prospects for London residential property
  - Attractive anticipated investment returns
    - Upwards only RPI linked income
    - Attractive gross-to-net yields
    - Similar benefits to commercial FRI* arrangements
    - Diversified asset base
    - Robust covenant from multiple credit checked consumers
    - Scalability
  - Flexible, efficient & anonymity providing structure
    - Simple, effective arrangement
    - Investor identity protected via nominee legal structure

*Full Repairing and Insurance (FRI) - Where the occupier has full repairing and insuring obligations

How will the investment be structured?

An tax transparent, flexible, Limited Partnership structure will be used

FUND KEY TERMS

Legal form:	English Limited Partnership
Minimum investment:	£10m
Commitment period of the fund:	Two years
Term:	Nine years
Investment period:	Initial two years, capital proceeds may be reinvested
Borrowings:	30% (may be increased to 50% with investor consent)
Total Expense Ratio*:	0.95% of Gross Asset Value
Carry:	20% above a 10% hurdle
Investor participation:	Investor Advisory Committee with veto rights

** Anticipated during steady state period; equivalent to 1.3% of Net Asset Value*

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What is the fee structure?

	FUND FEES AND COSTS*	
Set-up	Fund Set-up:	£475k**
	Anticipated Investor DD costs:	£100k
Core period	Asset Management :	0.85% of NAV p.a.
	Property transactional costs:	£8.5k per acquisition; Stamp Duty; Valuation/Legals
	Operator fee:	£150k
	Finance arrangement fee:	1.5% of facility
	Anticipated fund running costs:	£100k p.a.
	Anticipated fund valuation cost:	£50k p.a.
Exit	Property disposal fee:	1% of sale proceeds; Legal/Agent costs
	Fund wind up fee:	0.25% net sale proceeds

**Excluding VAT;*

***Subject to confirmation*

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AGENDA ITEM: 7 Page nos. 23 - 27

Meeting	Pensions Fund Committee
Date	15 March 2012
Subject	**TUPE transfer of staff from LB Barnet to Barnet Homes**
Report of	Interim Director of Environment, Planning and Regeneration
Summary	All members of staff from the Housing Service will transfer to Barnet Homes in accordance with the Transfer of Undertakings (Protection of Employment) Regulation 2006 (TUPE) with effect from 1 April 2012. There will be a deficit of £629,000 to the pension fund which will transfer to Barnet Homes, an employer within the LB Barnet pension fund. The employer contribution rate for the transferring staff will include sufficient provision to ensure that the deficit is recovered over the timescales specified by the actuary

Officer Contributors	Paul Shipway, Head of Strategy and Performance David Walton, Interim Finance Manager Hansha Patel, Pensions Services Manager
Status (public or exempt)	Public
Wards Affected	All
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	None
Function of	Council
Enclosures	None
Contact for Further Information:	Anne González, Housing Strategy and Business Improvement Manager, 0208 359 4162 anne.gonzalez@barnet.gov.uk

1. RECOMMENDATIONS

1.1 That the Pensions Fund Committee note the transfer of 79 staff from LB Barnet to Barnet Homes in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE"). Barnet Homes is an employer within the pension fund.

2. RELEVANT PREVIOUS DECISIONS

2.1 On 16 January 2012, Cabinet Resources Committee approved the Future of Housing Services Business Case in order for the Council to proceed with transferring the Housing Service to Barnet Homes and authorised the Interim Director of Environment, Planning and Regeneration to implement the transfer of the Housing Service to the Barnet Group Ltd, who will sub-contract with Barnet Homes (Decision item 6)

2.2 On 16 January 2012, General Functions Committee, subject to a decision at Cabinet Resources Committee on 16 January 2012, instructed the Interim Director of Environment, Planning and Regeneration to transfer the staff employed within the Council's retained Housing Service to Barnet Homes in accordance with the Transfer of Undertakings (Protection of Employment) Regulation 2006 (TUPE) with effect from 1 April 2012 and that the posts in scope for transfer be deleted from the Council's establishment (Decision item 6)

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 The corporate priority *Better Services with Less Money* requires the Council to make better use of resources across the Borough in the context of the Medium Term Financial Strategy. The arrangements transferring the retained Housing Service to Barnet Homes, including the transfer of pension responsibilities need to support this objective.

3.2 Under the Corporate Plan priority *Better Services with Less Money,* bringing housing services delivered by the Council and Barnet Homes together has the potential to realise efficiencies through economies of scale and integrated management arrangements, whilst customers would benefit from a single provider incorporating Barnet Homes' track record in providing customer focused services and high quality resident involvement. Additional service improvements would be delivered by having a more integrated approach to the delivery of housing related services, whilst enabling the Council to focus more on becoming a strategic commissioning organisation in line with One Barnet objectives

4. RISK MANAGEMENT ISSUES

4.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund. All Employing Bodies are subject to reviews and actuarial assessments to ensure compliance with Pension Scheme Regulations and maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the pension fund.

4.2 The pension regulations require actuarial assessments of the value of the pension fund and the liabilities of the employer. This is done initially and at each triennial valuation. The actuarial assessment will determine the employer contribution rate required to be made to the fund dependant on the profile of the workforce and the potential risk to the fund of admitting the body.

4.3 The Authority has carried out an assessment with actuarial advice, as required under the Regulations, of the pension fund deficit as at 31/03/2012 in respect of the staff transferring to Barnet Homes and also the impact on Barnet Homes' employer contribution rate.

4.4 The LGPS provides for early payment of pension benefits on compulsory early retirement, redundancy or ill-health. As an employer in the pension fund, Barnet Homes will take responsibility for any potential strain on the fund resulting from any such early retirements. Payments will be made to the Pension Fund by Barnet Homes, as and when required, should there be any pension strain or contribution issues as a consequence of any decisions made by Barnet Homes.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Under the Equalities Act 2010, the council and all other organisations exercising public functions on its behalf must have due regard to the need to :

a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;

b) advance equality of opportunity between those with a protected characteristic and those without; c) promote good relations between those with a protected characteristic and those without. The 'protected characteristics' referred to are age; disability; gender reassignment; pregnancy; maternity; race; religion or belief; sex; and sexual orientation. The duty to eliminate discrimination also extends to marriage and civil partnership.

5.2 The equalities impacts of the substantive proposal to transfer the Housing Service were considered as part of the report that was approved by CRC on 16 January 2012.

5.3 Ensuring the long term financial health of the pension fund will benefit everyone who contributes to it.

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

6.1 On 1 April 2012, all members of staff from the Council's retained Housing Service will transfer to Barnet Homes in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE").

6.2 This transfer of staff to Barnet Homes will not be on a fully funded basis which means that the estimated pension fund deficit of £629,000, relating to these employees, will transfer to Barnet Homes. The employer contribution rate for the transferring staff will include sufficient provision to ensure that the deficit is recovered over the timescale specified by the actuary.

6.3 Barnet Homes is classed as a "Scheduled Body" for pension fund purposes and, therefore, this report is not seeking permission for an admitted body into the Pension Fund. There is no bond requirement for a scheduled body.

7. LEGAL ISSUES

7.1 Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE)

TUPE is to meet the obligations of the UK to ensure protection of employee rights when there is transfer of an undertaking in accordance with European directive. TUPE applies to a transfer of an undertaking, business or part of an undertaking or business situated immediately before the transfer in the United Kingdom to another person where there is a transfer of an economic entity which retains its identity.

In circumstances where TUPE applies, the employees transferred will become employees of the transferee (Barnet Homes) by virtue of the statutory novation of their employment contracts under TUPE. This means that, in most respects, employees are entitled to the same terms and conditions of employment after the transfer as they had before it.

7.2 Pensions

One of the principle provisions of TUPE is that the pre-transfer liabilities relating to the relevant employees are transferred to the new employer; this includes any contractual obligation to contribute to an employee's individual or group personal pension plan (as opposed to an *occupation* pension scheme).

Under regulation 10 of TUPE, provision of an occupational pension scheme is excluded from the transfer. This means the new employer has no obligation to provide the same or equivalent occupational pension rights for employees. However, The Pensions Act 2004 provides certain employees with a minimum level of protection in the event of a TUPE transfer. This is effected by means of the Transfer of Employment (Pensions Protection) Regulations 2005.

Employees eligible for protection

Employees involved in a TUPE transfer will be eligible for protection where:

- The employee is (or is eligible to be or would have been eligible to be) an active member of an occupations pension scheme in relation to which the transferor (i.e. the employer of the employee before the transfer takes place) is the employer; and
- Where the scheme provides money purchase benefits, the transferor is required or is not required but has made one or more contributions or, would be required had the employee been an active member to make contributions to the scheme in respect of the employee.

7.3 Staff in the Public Sector

The Cabinet Office Statement of Practice on Staff Transfers in the Public Sector 2000 applies directly to transfers involving central and local government departments and the NHS. It provides that TUPE is guaranteed to apply to these transfers. Annexed to the Statement of Practice is "A Fair Deal for Staff Pensions". This provides that the transferee must provide transferring employees with "broadly comparable" pension benefits.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

8.1 The Council's Constitution, Part 3 – Responsibility for Functions, Pension Fund Governance Compliance Statement, and paragraph 2.2.11 empowers the Pension Fund Committee to, "consider actuarial valuations and their impact on the pension fund."

9. BACKGROUND INFORMATION

9.1 An options appraisal was undertaken and business case developed on the future of the council's housing service and presented to Cabinet Resources Committee (CRC) on 16 January 2012 with a recommendation that the Housing Service should be transferred to the council's Local Authority Trading Company (LATC) the Barnet Group, which the committee approved.

9.2 The business case identified that the transfer of the Housing Service will be able to deliver savings to the General Fund of £400k whilst ensuring that a high standard of service is maintained.

9.3 A saving of £400,000 in the general fund for 2012/2013 has been identified as the Housing Service's contribution to the Council's wider drive to reduce its expenditure. As the service is partially funded through the Housing Revenue Account, efficiencies that can be found in general fund costs will also have a beneficial impact on the Housing Revenue Account, releasing additional resources for improved services and additional affordable housing.

9.4 The transfer of the Housing Service is due to be implemented from 1 April 2012 and it is important that arrangements are made for the transfer of pensions protection for staff who are transferring to Barnet Homes.

9.5 An actuarial assessment of the pension fund associated with the transfer has been undertaken to identify the value of the fund and associated liabilities and risks; more detail is given on this in section 5 of this report.

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer's initials)	**JH/MC**
Cleared by Legal (Officer's initials)	**PJ**

AGENDA ITEM: 8 Page nos. 28 - 31

Meeting	Pension Fund Committee
Date	15 March 2012
Subject	**Admission of Blue 9 Security Ltd into London Borough of Barnet Pension Fund**
Report of	Director for Commercial Services
Summary	This report sets out information on the application from Blue 9 Security Ltd for Admitted Body status within the Local Government Pension fund administered by LB Barnet and seeks Committee approval to allow this

Officer Contributors	Craig Cooper, Director for Commercial Services Mick Stokers, Assistant Director – Commercial Services Martyn Carter, Procurement Manager
Status (public or exempt)	Public
Wards Affected	All
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	None
Function of	Council
Enclosures	None
Contact for Further Information:	Martyn Carter, Procurement Manager, 0208 359 7267

1. RECOMMENDATIONS

1.1 That the Committee approve admission to the Local Government Pension Scheme under Admission Body Status for Blue 9 Security Ltd

2. RELEVANT PREVIOUS DECISIONS

2.1 On 20 February 2012 Cabinet Resources Committee approved the awarding of a three year buildings security contract, with an option to extend for a further two years to Blue 9 Security Ltd.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 To maintain the integrity of the Pension Fund by ensuring robust monitoring of admitted body organisations and ensuring all third-parties comply fully with admission agreements and bond requirements. The principle supports the corporate priority of getting 'better services for less money'

4. RISK MANAGEMENT ISSUES

4.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund. All admitted bodies are subject to reviews and actuarial assessments to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the pension fund.

4.2 The pension regulations require actuarial assessments of the value of the pension fund and the liabilities of the employer. This is done initially and at each triennial valuation. The actuarial assessment will determine the employer contribution rate required to be made to the fund dependant on the profile of the workforce and the potential risk to the fund of admitting the body.

4.3 The risk is commonly addressed by the employer being required to take out an Indemnity Bond to ensure payment to the pension fund in case of default.

4.4 The Authority on behalf of the employer has carried out an assessment with actuarial advice, as required under the Regulations, of the level of risk exposure arising on premature termination of the contract by reason of the solvency, winding up or liquidation of the Admission Body. The Admission Body will be required to secure the required level of bond prior to the completion of the admissions agreement.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Pursuant to the Equalities Act 2010, the council is under an obligation to have due regard to eliminating unlawful discrimination, advancing equality and fostering good relations in the contexts of age, disability, gender reassignment, pregnancy, and maternity, religion or belief and sexual orientation.

5.2 Ensuring the long term financial health of the pension fund will benefit everyone who contributes to it.

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

6.1 Paragraph 4, above, deals with the financial implications of this report.

6.2 There are no procurement, performance & value for money, staffing, IT, Property or Sustainability implications.

7. LEGAL ISSUES

7.1 The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) provide that a Local Authority, as an 'Administering Authority' for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the council, meeting the criteria set out in the Regulations. Under the Regulations, the form of admission available to a contractor would either be 'a community admission body', or 'a transferee admission body' as defined in the Regulations

7.2 With respect to an admission agreement with a transferee admission body, the Regulations further provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up or liquidation of the transferee admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified.

7.3 The Council's standard Admissions Agreement makes provision for the admission body to maintain a bond in an approved form and to vary the level of risk exposure under the bond as may be required from time to time.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

8.1 The Council's constitution, Part 3 – Responsibility for Functions, Pension Fund Governance Compliance Statement, paragraph 2.2.13 empowers the Pension Fund Committee to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

9. BACKGROUND INFORMATION

9.1 Currently there are currently two companies that provide buildings security Services to the Council. It was acknowledged that outsourcing to one provider should improve client side contract management and achieve more competitive rates due to economies of scale.

9.2 Following the Delegated Powers Report No 798, May 2009 to authorise the instigation of a specification phase followed by a tender exercise, an external Consultant was engaged to devise a security specification for the five corporate buildings. The buildings within the scope of the tender are: Barnet

House, Hendon Town Hall, Barbara Langstone House, Mill Hill Depot and Burnt Oak Library. Transfer of Undertakings [Protection of Employment] (TUPE) Regulations 2006 applies in respect of fourteen contracted Security Officers who will be subjected to second generation TUPE. There are also two Council employed Security Officers who will be subjected to first generation TUPE . In respect of the two Council employees, TUPE will ensure the continuity of their pension rights. Following the completion of the procurement process, the evaluation team recommended that Blue 9 Security Ltd be awarded the contract given that the company represented the most economically advantageous tender.

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer's initials)	**JH/MC**
Cleared by Legal (Officer's initials)	**SWS**

BARNET LONDON BOROUGH

AGENDA ITEM: 9 Page nos. 32 – 37

Meeting	Pension Fund Committee
Date	15 March 2012
Subject	**Update on Admitted Body Organisations**
Report of	Deputy Chief Executive
Summary	This report updates the Committee on the Admitted Bodies participating in the Local Government Pension Scheme Fund administered by the London Borough of Barnet

Officer Contributors	John Hooton, Assistant Director – Strategic Finance Hansha Patel, Pension Services Manager
Status (public or exempt)	Public
Wards Affected	Not Applicable
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Appendix 1 - Admitted Body Monitoring Spreadsheet
Contact for Further Information:	Hansha Patel, Pension Services Manager, 020 8359 7895

1. RECOMMENDATIONS

1.1 That the Committee note the update to issues in respect of admitted body organisations within the Pension Fund, as detailed in the attached spreadsheet.

2. RELEVANT PREVIOUS DECISIONS

2.1 This report provides an update on issues previously reported at the meeting of the Pension Fund Committee meeting on 20 December 2011.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 To maintain the integrity of the Pension Fund by ensuring robust monitoring of admitted body organisations and ensuring all third-parties comply fully with admission agreements and bond requirements. The principle supports the corporate priority of 'better services with less money'

4. RISK MANAGEMENT ISSUES

4.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund. All admitted bodies are subject to actuarial assessments and are reviewed to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the pension fund.

4.2 There is a possibility of financial losses on the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. New monitoring arrangements are in place to ensure that Admissions Agreements and, where relevant, bonds, are in place and that bonds are renewed, as appropriate, during the lifetime of the relevant Admission Agreement

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Pursuant to the Equalities Act 2010, the council is under an obligation to have due regard to eliminating unlawful discrimination, advancing equality and fostering good relations in the contexts of age, disability, gender reassignment, pregnancy, and maternity, religion or belief and sexual orientation.

5.2 Ensuring the long term financial health of the pension fund will benefit everyone who contributes to it.

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

6.1 Paragraph 4, above, deals with the financial implications of this report.

6.2 The table below sets out any financial issues arising from bonds and admissions agreements in respect of Admitted Bodies to the Pension Fund. This confirms that bonds are in place. Two bonds are currently nearing their expiry date. The table also highlights that contributions are outstanding for Amonet, which are currently being pursued by the legal service

6.3 There are no procurement, performance & value for money, staffing, IT, Property or Sustainability implications.

7. LEGAL ISSUES

7.1 The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) provide that a Local Authority, as an ‘Administering Authority’ for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the council, meeting the criteria set out in the Regulations. Under the Regulations, the form of admission available to an organisation would either be ‘a community admission body’, or ‘a transferee admission body’ as defined in the Regulations

7.2 With respect to an admission agreement with a transferee admission body, the Regulations further provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up or liquidation of the transferee admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified.

7.3 The Council’s standard Admissions Agreement makes provision for the admission body to maintain a bond in an approved form and to vary the level of risk exposure under the bond as may be required from time to time.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

8.1 The Council’s constitution, Part 3 – Responsibility for Functions, Pension Fund Governance Compliance Statement, paragraph 2.2.13 empowers the Pension Fund Committee to “approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds.”

9. BACKGROUND INFORMATION

9.1 Please refer to Appendix 1

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer’s initials)	**JH/MC**
Cleared by Legal (Officer’s initials)	**SWS**

Appendix 1

Admitted Body Monitoring Spreadsheet

Appendix 1 - Admitted Body Monitoring Spreadsheet

Admitted Body	No Of active Employees	Start Date	Bondsman	Bond Value (£)	Bond Expiry date	Bond 6mth Tag (red)	Pension cont on time RAG	Comments
Housing 21 New	56	01/09/2010	Barclays Bank	778,000	30/09/2015		Green	
Goldsborough	3	Contract to cease 31/03/2012					Green	
Amonet Care Watch	5	Contract to cease 31/03/2012					Red	Pension contributions outstanding. Legal are pursuing payment. Approximately £21000.00
Allied Homes	2	Contract to cease 31/03/2012					Green	
Lovell	19	01.10.2010	HCC International Insurance	330,000	31.03/2012	Amber	Green	Lovell contract due to end 31/03/2012 and transfer to Mears Group from 01/04/2012.
Viridian Housing	11	22.04.2006	Euler Hermes UK	65,000	16/08/2016		Green	
Fremantle Trust	83	01.04.2010	Zurich Insurance PLC	1,400,000	20.08.2013		Green	
Birkins Cleaning	1	01.09.2009	FIBI Bank (UK) PLC	3800	31/03/2012	Amber	Green	Bond currently being renewed by Birkins for a longer term with a new Bank.
Go Plant	12	04.10.2008	Bank of Scotland PLC	220,000	03.10.2012		Green	
Turners Industrial Cleaning	1	01.04.2008	Lloyds TSB Securities	6200	continuing		Green	

Greenwich Leisure	22	31.12.2002	Zurich Insurance PLC	328,000	08.02.2015		Green	
YGEN	1	01.04.2008	Euler Hermes UK	32,000	31.03.2012	Amber	Green	Contract due to cease 31/03/2012
Friend of Moat Mount (registered charity)	1	01.04.2008	N/A	N/A	N/A		Green	Community Admissions Agreement- no bond required

AGENDA ITEM: 11 Page nos. 38 - 68

Meeting	Pension Fund Committee
Date	15 March 2012
Subject	**Barnet Council Pension Fund Performance for Quarter October to December 2011**
Report of	Deputy Chief Executive
Summary	This report advises the Committee of the performance of the Pension Fund for the quarter October to December 2011

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Iain Millar, Head of Treasury and Pensions
Status (public or exempt)	Public
Wards Affected	None
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Appendix A – Property Unit Trust Portfolio Appendix B – Pension Fund Market Value of Investments Appendix C – JLT Image Report Quarterly Update December 2011
Contact for Further Information:	Iain Millar Head of Treasury and Pensions Tel: 0208 359 7126

1. RECOMMENDATIONS

1.1 That, having considered the performance of the Pension Fund for the quarter to December 2011, the Committee instruct the Deputy Chief Executive and Chief Finance Officer to address any issues that it considers necessary.

2. RELEVANT PREVIOUS DECISIONS

2.1 Council – 11th September 2007 – Minute 64.

2.2 Pension Fund Committee – 4 February 2010, Item 6

2.3 Pension Fund Committee – 21 March 2011, Item 7

2.4 Pension Fund Committee – 20 December 2011, Item 8

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 A key risk is that of poor investment performance. The performance of Fund managers is monitored by the committee every quarter with reference to reports from JLT the Pension Fund investment adviser and 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.

4.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following sovereign debt crisis in the Eurozone. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility. Both Newton's and Schroder's will attend this Committee to update on their approach in this context.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Pursuant to the Equalities Act 2010, the council is under an obligation to have due regard to eliminating unlawful discrimination, advancing equality and fostering good relations in the contexts of age, disability, gender reassignment, pregnancy, and maternity, religion or belief and sexual orientation

5.2 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 As Administering authority for the London Borough of Barnet Pension Fund, the Council is required to invest any funds not required for the payment and administration of pension fund contributions and benefits.

6.2 The Pension Fund has appointed external fund managers to maximise pension fund assets in accordance with the fund investment strategy. The Pension Fund is a long term investor and volatility of investment return is expected, though in the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the fund benchmarks.

6.3 The value of the externally managed funds including property unit trust cash realised as at 31 December 2011 was £678.876m, compared to £658.113m at 30 September 2011. During the quarter £22.850 million was realised from the sale of property unit trusts. £30 million was re-invested split equally between Newton and Schroder in January 2012.

6.4 At a fund manager level, the performance of both Newton and Schroder was satisfactory with the managers outperforming their respective benchmark, though Schroder marginally under performed on corporate bonds. (See page 6, Appendix C).The property portfolio performed poorly because the assets were sold during the year.

6.4 The total fund return was 3.1% over the quarter, underperforming the total scheme benchmark of 8.3% .The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yield. The impact of the fall in yield (for example because of concerns over European debt and the risk of sovereign default), results in a rise in the value of the fund liabilities. Significant falls in the yields of UK Government Long dated Bonds last quarter, saw fund liabilities rise by 8.3%.

6.5 In a quarter marked by some equity market recovery, the more defensive stance taken by both growth fund managers protected the fund from down side risk but meant that the fund did not fully participate in equity recovery during the quarter. Returns from growth portfolio equities were 3.0% compared to global equities at 7.9%. Similarly the bond portfolio generated positive returns over the quarter at 3% but lagged behind the rapid rises from UK Government and Index-Linked Securities which returned 9.6%. However one year performance shows the defensive strategy has protected the fund against down side risk, with the fund ranked at 15th percentile in the WM Local Authority Universe, though as expected, WM comparative fund performance for the last quarter was poor.

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 (Relevant section from the Constitution, Key/Non-Key Decision)

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 include provision 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 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 19 November 2010 and is now fully completed.

9.3.3 Actuarial services are provided by Barnett Waddingham and the fund receives investment advice from 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 http://www.barnet.gov.uk/statement_of_investment_principles_oct_2010.pdf).

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 C.).

9.6.4 The value of the externally managed funds including property unit trust cash realised as at 31 December 2011 was £678.876m, compared to £658.113m at 30 September 2011, £686.84m at 30 June 2011 and £662.82m as at 31 March 2011. The graph in Appendix B shows how the market value of the fund has appreciated since 2006. During the quarter £22.850 million was realised from the sale of property unit trusts. £30 million was re-invested split equally between Newton and Schroder in January 2012.

9.6.5 At a fund manager level, the performance of both Newton and Schroder was satisfactory with the managers outperforming their respective benchmark, though Schroder marginally under performed on corporate bonds. (See page 6, Appendix C).The property portfolio performed poorly because the assets were sold during the year.

9.6.6 The total fund return was 3.1% over the quarter, underperforming the total scheme benchmark of 8.3% .The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yield. The impact of the fall in yield (for example because of concerns over European debt and the risk of sovereign default results in a rise in the value of the fund liabilities. Significant falls in the yields of UK last quarter saw fund liabilities rise by 8.3%.

9.6.7 In a quarter marked by some equity market recovery, the more defensive stance taken by both growth fund managers protected the fund from down side risk but meant that the fund did not fully participate in equity recovery during the quarter. Returns from growth portfolio equities were 3.0% compared to global equities at 7.9%. Similarly the bond portfolio generated positive returns over the quarter at 3% but lagged behind the rapid rises from UK Government and Index-Linked Securities which returned 9.6%.

9.6.8 One year performance shows the defensive strategy has protected the fund against down side risk, with the fund ranked at 15th percentile in the WM Local Authority Universe though comparative performance for the quarter was poor.

	Portfolio Return Q4 2011 %	Benchmark Return Q4 2011 %
Total Scheme	3.1	8.3
Newton Real Return	3.1	1.2
Newton Corporate Bond	3.8	3.5
Schroder DGF	2.9	1.9
Schroder Bonds	2.3	2.4
L&G Equities	7.5	7.2
L&G Bonds	2.8	2.3
Property	0.0	1.6
Growth Portfolio		
Growth v Global Equity	3.0	7.9
Growth v RPI+5% p.a.	3.0	1.9
Growth v LIBOR + 4% p.a.	3.0	1.2
Bond Portfolio		
Bond v Over 15 Year Gilts	3.0	9.6
Bond v Index-Linked Gilts (> 5 yrs)	3.0	9.8

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.

9.7 Internally managed funds

9.7.2 The property unit trust portfolio accounted for 3.5% of the total market value of the fund and was valued at £23.4m as at the 30th of September 2011. Appendix A shows the value of the individual units held in the portfolio and the movement in market value since the last quarter. In accordance with Pension Fund Committee decision of, 21 March 2011, (Agenda Item 7), almost all of the property unit trust portfolio holdings were sold in the quarter, realising £22.850 million. The remaining units in Rockspring Hanover Property Unit Trust were valued at £1.122 million at 31 December. 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 2011 are detailed in Appendix C.

9.7.3 As at 31 December 2011 £33.752 million Pension Fund cash was held compared to £9.822 million as at 30 September 2011. These funds are invested internally pending transfer to the external fund managers if not required for the payment and administration of pension benefits.

9.7.4 In accordance with Pension Fund Committee decision of 20th December 2011, (Agenda Item 8), the cash proceeds of the property unit trust sales together with other pension fund income were invested equally: £15 million to Schroder and £15 million to Newton in January 2012.

10. LIST OF BACKGROUND PAPERS

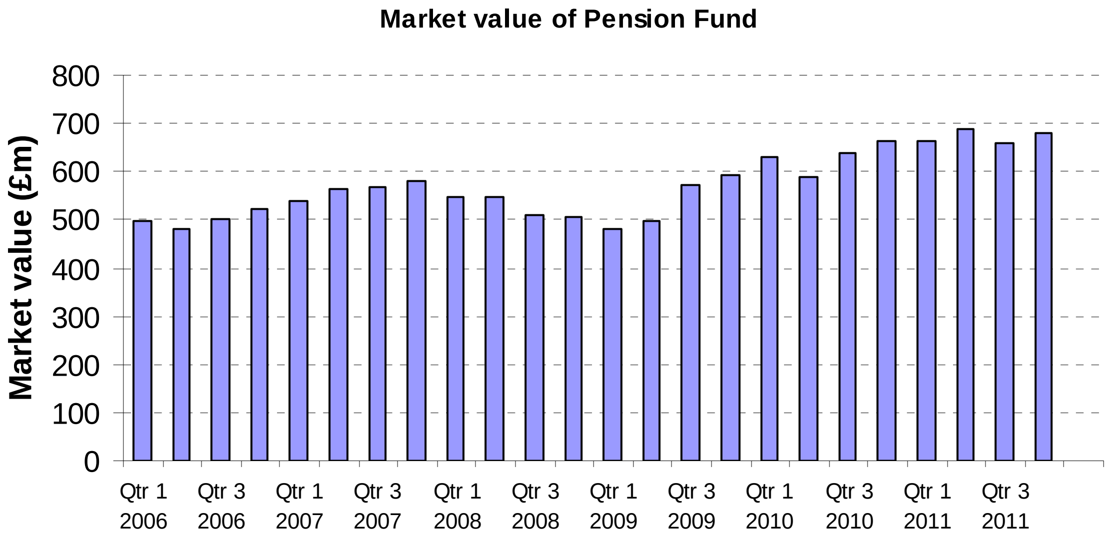
10.1 None

Cleared by Finance (Officer's initials)	JH
Cleared by Legal (Officer's initials)	TE

APPENDIX A - PROPERTY UNIT TRUST PORTFOLIO

Description	Holding 31.12.2011 Units	Book Value £	Bid £	Market Value 31 December 2011 £	Market Value 30 September 2011 £	Holding 30 September 2011 Units
Rockspring Hanover Property Unit Trust	97	879,834	11,570	1,122,290	2,441,100	206
Hermes Property Unit Trust	0	0	0	0	8,877,969	2,002,700
Blackrock UK Property Fund	0	0	0	0	6,122,844	180,300
Schroder Exempt Property Unit Trust	53,174	1,383,403	32.11	1,707,417	6,069,100	190,433
Legal & General Index Tracker Fund	11,461,175	25,000,000	2.72849	31,271,701	29,078,490	11,461,175
Legal & General Active Corporate Bond –All Stock-Fund	8,202,074	11,000,000	1.80265	14,785,469	14,387,012	8,202,074
Cash				33,752,317	9,821,898	
Total		**38,263,237**		**82,639,194**	**76,798,413**	

APPENDIX B – PENSION FUND MARKET VALUE OF INVESTMENTS



APPENDIX C

IMAGE Report - Quarterly Update 31 December 2011

London Borough of Barnet Superannuation Fund

JLT INVESTMENT CONSULTING

Contents

Jignasha Patel, MMath (Hons) IMC
Principal Analyst

Julian Brown, PhD IMC
Investment Consultant
March 2012

Section One – Market Update

Introduction

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

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	8.4	-3.5
Overseas Equities	7.2	-6.9
USA	11.9	2.5
Europe	3.3	-15.0
Japan	-3.6	-12.9
Asia Pacific (ex Japan)	4.4	-14.8
Emerging Markets	4.2	-18.4
Property	1.6	8.1
Hedge Funds	0.8	-2.1
Commodities	9.2	-0.4
High Yield	5.6	3.4
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	9.6	26.3
Index-Linked Gilts (>5yrs)	9.8	23.3
Corporate Bonds (>15yrsAA)	6.4	14.2
Non-Gilts (>15 yrs)	3.7	12.0

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-0.2	-0.7
Against Euro	3.1	2.6
Against Yen	-0.4	-5.8

Yields as at 31 December 2011	% p.a.
UK Equities	3.52
UK Gilts (>15 yrs)	2.94
Real Yield (>5 yrs ILG)	-0.25
Corporate Bonds (>15 yrs AA)	4.68
Non-Gilts (>15 yrs)	4.82

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.5	-1.2
Index-Linked Gilts (>5 yrs)	-0.4	-0.7
Corporate Bonds (>15 yrs AA)	-0.4	-0.7
Non-Gilts (>15 yrs)	-0.2	-0.6

Change in inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.6	4.8
Price Inflation - CPI	0.7	4.2
Earnings Inflation *	0.5	1.9

* is subject to 1 month lag

Statistical highlights

- The rate of CPI inflation fell from 5.2% to 4.2% during the period under review and is expected to fall further over the coming months. The Monetary Policy Committee ("MPC") kept interest rates on hold at 0.5% throughout the quarter and in October it announced an extension to its policy of quantitative easing, increasing the size of its asset purchase programme by £75 billion to a total of £275 billion. The programme is expected to be completed in February 2012.
- According to the British Retail Consortium ("BRC"), UK retail sales were boosted by a Christmas rush but retailers reported very different results with Tesco and Argos reporting a fall in UK sales and John Lewis and Morrisons reporting a rise in sales. Stephen Robertson, Director General of the BRC said, "a better than hoped-for December closed a relentlessly tough year for retailers, but these figures hinged on a dazzling last pre-Christmas week and were boosted by some major one-off factors."
- The Office for National Statistics ("ONS") confirmed that the number unemployed rose to a 17 year high of 2.68m and that the number of people working part-time because they could not find full-time jobs had reached a record high. Unemployment rose by 118,000 between September and November, taking the unemployment rate to 8.4%.
- Interest rates in the Eurozone were reduced to 1.0% over the quarter as the European Central Bank ("ECB") reacted to the intensification of the sovereign debt crisis by reducing interest rates by 0.25% at both its November and December meetings. The US Federal Reserve kept interest rates on hold at 0.25%. During the quarter, the US Federal Reserve, the ECB and the central banks of the UK, Switzerland, Canada and Japan agreed to provide loans to banks, as it became apparent that Europe's banks were struggling to roll over $2 trillion of loans denominated in US Dollars as a consequence of liquidity in the interbank markets falling sharply.
- The sovereign debt crisis facing the Eurozone continues to be extremely challenging, both politically and economically. The cost of borrowing for countries such as Italy and Spain remains a political "hot potato" because the ECB does not have the power to guarantee bonds issued by member countries or be a buyer of the 'last resort'; powers that would be expected to limit speculation and reduce Italian and Spanish government bond yields.
- The pound depreciated against the US Dollar and Yen over the quarter but appreciated against the Euro. Concerns about the ongoing crisis in the Eurozone have resulted in the Euro falling to its lowest level against the US Dollar for 16 months.
- The FTSE-All Share Index produced a return over the quarter of 8.4% and Europe equities achieved a return of 3.3%, due to a belief that the markets have priced in the ongoing sovereign debt crisis in the Eurozone. US equities were the strongest performing of the major equity markets producing a return of 11.9% as evidence emerged that the economy was growing at a faster rate than had been forecast. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of 4.4% and 4.2% respectively. The Japanese equity market produced a return of -3.6% and was the only major region in which the equity market produced a negative return.
- The UK gilt market continues to be perceived as a safe haven and long-dated gilt-edged securities produced a return of 9.6% over the quarter. Index-linked gilts achieved a strong return over the quarter of 9.8%, whilst long-dated corporate bonds produced a return of 6.4%, despite the prices of bonds issued by financial companies continuing to be extremely volatile.

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	207,529,769	31.5	-	213,891,054	31.5
Schroder Investment Management Limited (Schroder)	Diversified Growth	195,313,840	29.7	-	200,939,975	29.6
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	29,078,490	4.4	-	31,271,700	4.6
Newton	Corporate Bond	96,822,334	14.7	-	100,454,207	14.8
Schroder	All Maturities Corporate Bond	91,093,618	13.8	-	93,156,795	13.7
L&G	Active Corporate Bond – All Stocks	14,387,012	2.2	-	14,785,469	2.2
Internal	Property	23,511,013	3.6	-21,150,078	2,829,707	0.4
Schroders	Cash	376,826	0.1	-	397,253	0.1
Internal	Cash	-	-	21,150,078	21,150,078	3.1
ASSET SPLIT						
Growth assets		455,809,938	69.3	-	470,479,767	69.3
Bond assets		202,302,964	30.7	-	208,396,471	30.7
TOTAL		**658,112,902**	**100.0**	**-**	**678,876,238**	**100.0**

Source: Investment managers, bid values. Please note that the internal property amount is based on bid values. The Internal Property was partially disinvested during Q4 2011. The Internal Cash shows only the proceeds of the property disinvestment and this amount is assumed to have earned no interest over the quarter.

Total Scheme Performance

	Portfolio Return Q4 2011 %	Benchmark Return Q4 2011 %	Portfolio Return 2011 %	Benchmark Return 2011 %
Total Scheme	3.1	8.3	0.9	19.5
Growth Portfolio				
Growth v Global Equity	3.0	7.9	-2.0	-4.9
Growth v RPI+5% p.a.	3.0	1.9	-2.0	9.8
Growth v LIBOR + 4% p.a.	3.0	1.2	-2.0	4.7
Bond Portfolio				
Bond v Over 15 Year Gilts	3.0	9.6	8.3	26.3
Bond v Index-Linked Gilts (> 5 yrs)	3.0	9.8	8.3	23.3

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.

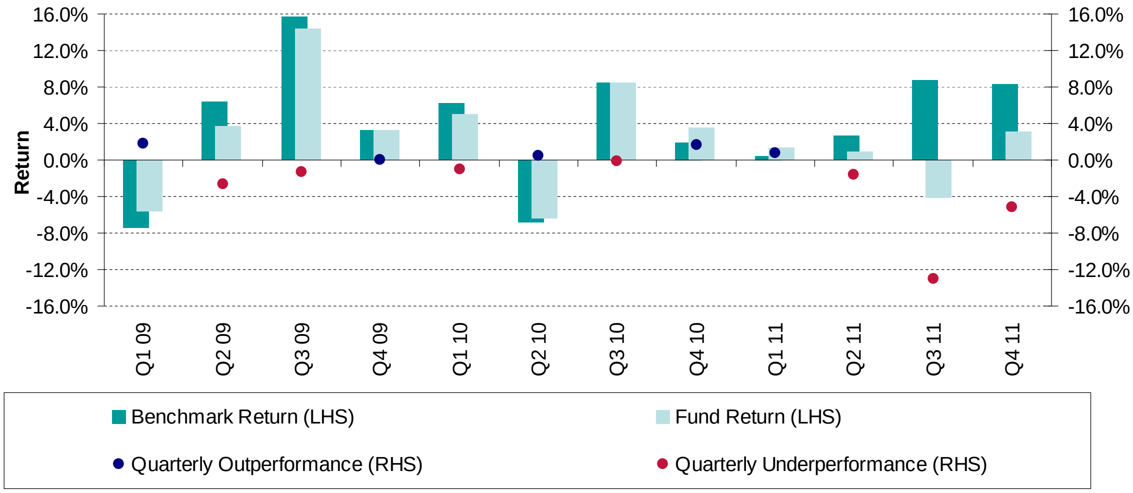
Individual Manager Performance

Manager/Fund	Portfolio Return Q4 2011 %	Benchmark Return Q4 2011 %	Portfolio Return 2011 %	Benchmark Return 2011 %
Newton Real Return	3.1	1.2	0.8	4.7
Schroder Diversified Growth	2.9	1.9	-4.7	9.8
L&G – Overseas Equity	7.5	7.2	-6.1	-6.2
Newton Corporate Bond	3.8	3.5	12.5	11.4
Schroder Corporate Bond	2.3	2.4	4.5	7.2
L&G – Corporate Bond	2.8	2.3	8.4	6.9
Internal Property	-0.5	1.6	0.4	8.1

Source: Investment managers, Thomson Reuters. Performance is time-weighted. The Property return for Q4 2011 shows only the combined performance of the remaining property managers, i.e. Rockspring and Schroders.

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 3.1% over the quarter and underperformed the liability benchmark return of 8.3%.

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 portfolios expect for the Internal Property which returned negative.

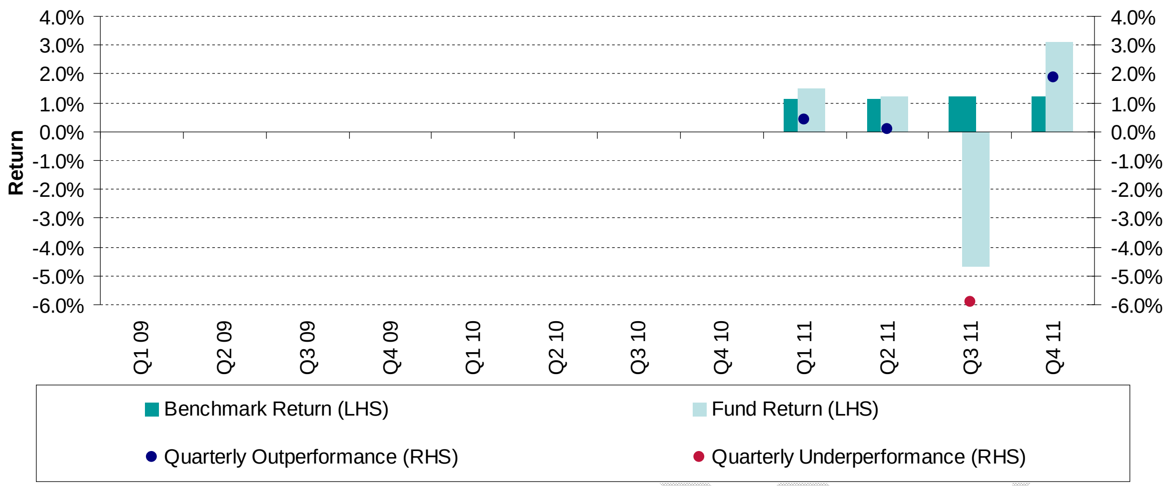
The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 4.9%, as the DGF funds could not keep pace with the equity market rally. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio returned more than both of the LIBOR +4% and the RPI +5% returns.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, underperformed both the Over 15 Year Gilts Index (by 6.6%) and the Over 5 Years Index Linked Gilts Index (by 6.8%). During the quarter, although bonds in general produced positive returns, government bonds and index linked gilts outperformed corporate bonds.

Over the year, the Scheme produced a small positive return of 0.9%, underperforming its liability benchmark by 18.6%. Compared with global equities, the Scheme outperformed by 5.8% over the year.

Section Three – Manager Performance

Newton - Real return fund- performance relative to benchmark



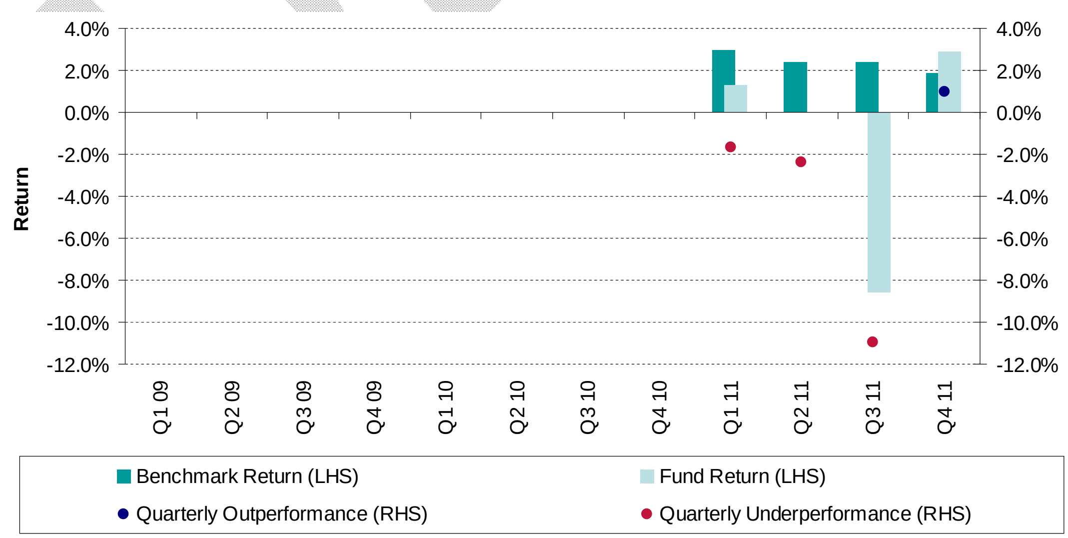
Source: Investment manager.

The portfolio return was 3.1% compared to its LIBOR+4% p.a. benchmark return of 1.2% outperforming by 1.9%. In comparison to a notional 60/40 global equity benchmark return the fund underperformed.

The fund outperformed over a constructive quarter for risk assets. The holdings in both global equities and credit performed well with the exception of some emerging and peripheral European markets. The US market led the rally following more positive economic data.

Over the year, the Fund produced a return of 0.8%, underperforming the benchmark return of 4.7%.

Schroder - Diversified growth fund - performance relative to benchmark



Source: Investment managers.

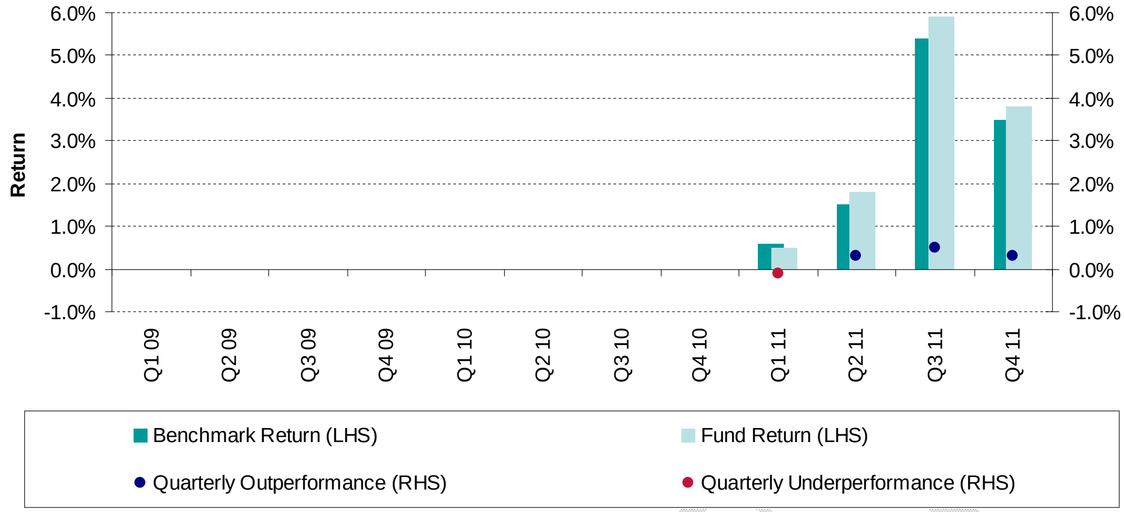
The portfolio return was 2.9% compared to its RPI + 5% p.a. benchmark return of 1.9% outperforming by 1.0%. Like the Newton Real Return Fund, the Schroder DGF underperformed global equities over the quarter. The Fund performed well in a "risk on" environment. The commodity exposure was subdued over the quarter. The Fund maintained a defensive stance over the quarter.

Over the year, the Fund produced a return of -4.7%, underperforming the benchmark return of 9.8%.

Asset allocation for growth managers: movement over the quarter

	Q4 '11 Newton %	Q4 '11 Schroder %	Q3 '11 Newton %	Q3 '11 Schroder %
UK Equities	15.2	2.1	16.0	0.9
Overseas Equities	33.7	28.5	37.4	34.8
Fixed Interest	7.3	-	4.9	-
Corporate Bonds	8.1	6.2	9.3	-
High Yield	-	21.2	-	29.1
Private Equity	-	4.4	-	3.9
Commodities	4.0	11.6	4.7	13.4
Absolute Return	-	8.8	-	2.5
Index-Linked	3.3	-	3.3	-
Property	-	2.8	-	2.9
Cash/Other	28.4	14.4	24.4	12.5

Newton - Corporate bond portfolio - performance relative to benchmark

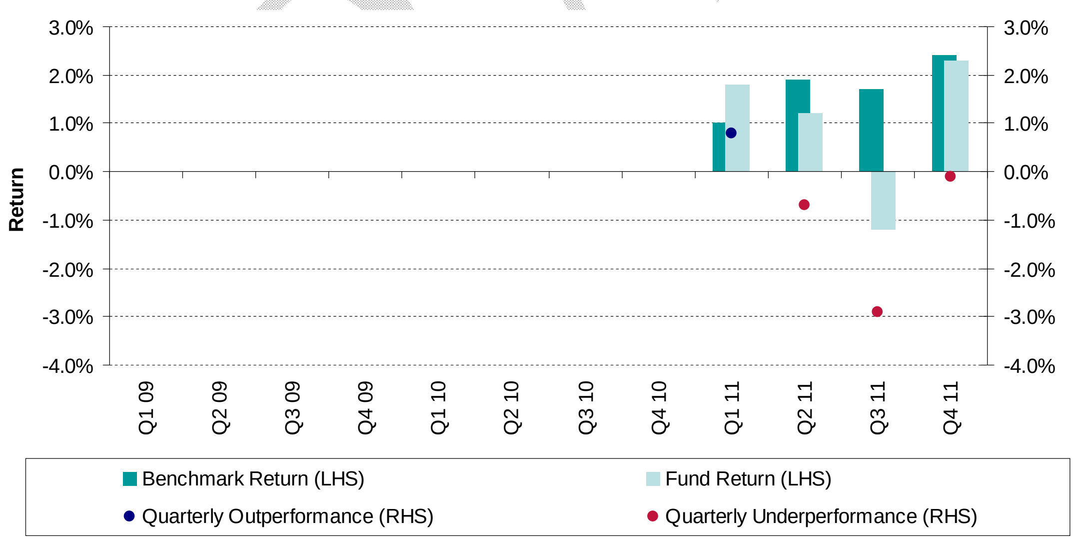


Source: Investment managers

The Newton Corporate Bond portfolio outperformed its benchmark, returning 3.8% versus the benchmark return of 3.5%. Performance was driven by positive returns from both corporate bonds and gilts over the quarter. The Newton High Yield Global Bond Fund performed negatively in relative terms, however, this fund makes up only around 2% of the Newton bond portfolio.

Over the year, the Fund produced a return of 12.5%, outperforming the benchmark return of 11.4%.

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

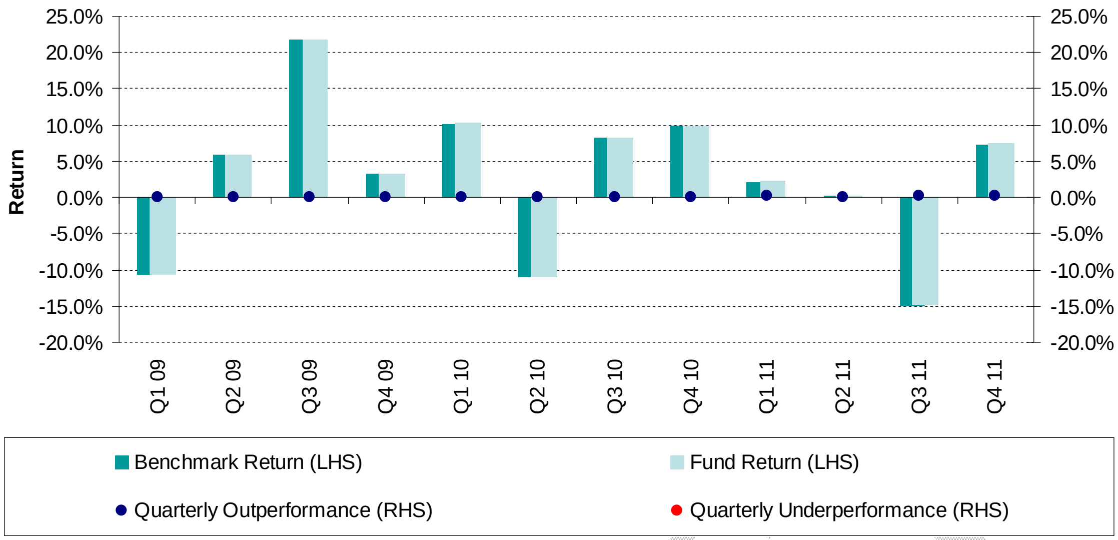


Source: Investment managers

The Schroders Corporate Bond portfolio slightly underperformed the benchmark by 0.1%, returning 2.3%. Performance was driven by the Fund's overweight to credit on the back of the belief that fears over the eurozone were overstated. The key detractor of performance was the underweight duration position as gilts rallied over the quarter.

Over the year, the Fund produced a return of 4.5%, underperforming the benchmark return of 7.2%.

L&G – Equities



Source: Investment manager.

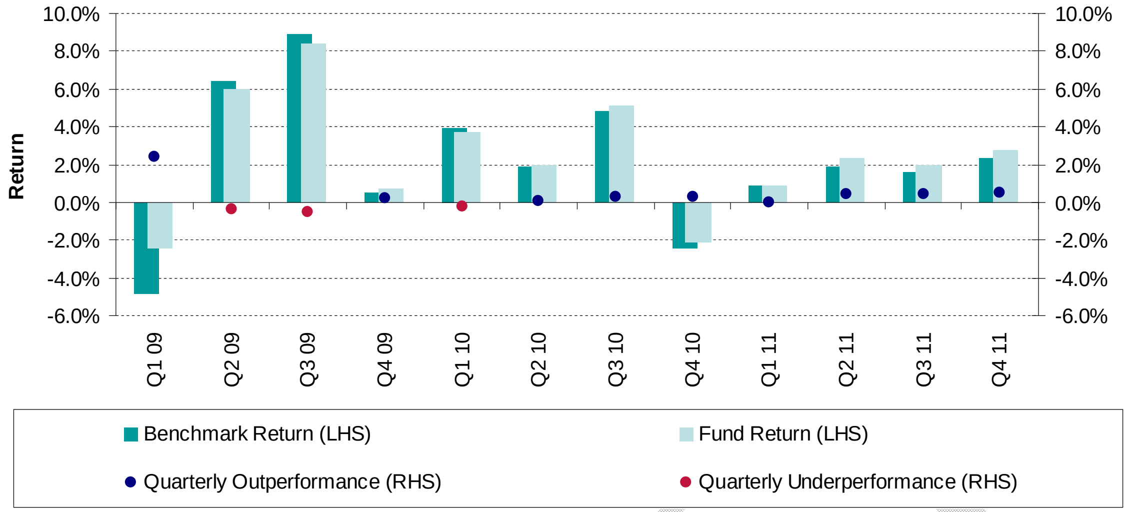
The first investment in the L&G World (ex UK) Equity Index Fund was made on 23 September 2008. There is now a full three year performance.

Over the fourth quarter of 2011, the fund return was 7.5% outperforming the benchmark return of 7.2%; all the equity regions performed broadly in line with their respective benchmarks.

Over the year, the fund return was -6.1% compared with the benchmark return of -6.2%. Over the three years to 31 December 2011, the fund return was 4.7% compared with the benchmark return of 4.5%.

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 2011, the fund return was 2.8% outperforming the benchmark return of 2.3%.

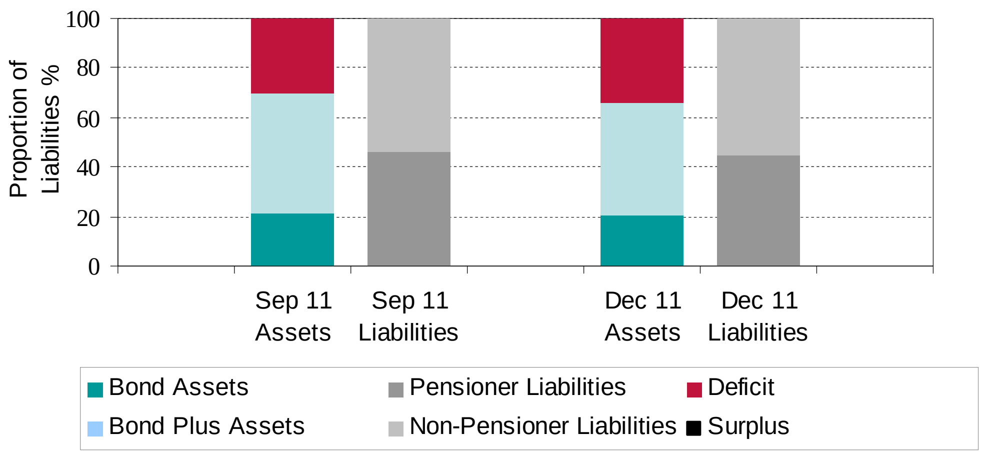
The fund retains an overall defensive bias which contributed positively to performance over the quarter. The gilt allocation also added to performance.

Over the year, the fund has performed well with a return of 8.4% compared with the benchmark return of 6.9%.

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

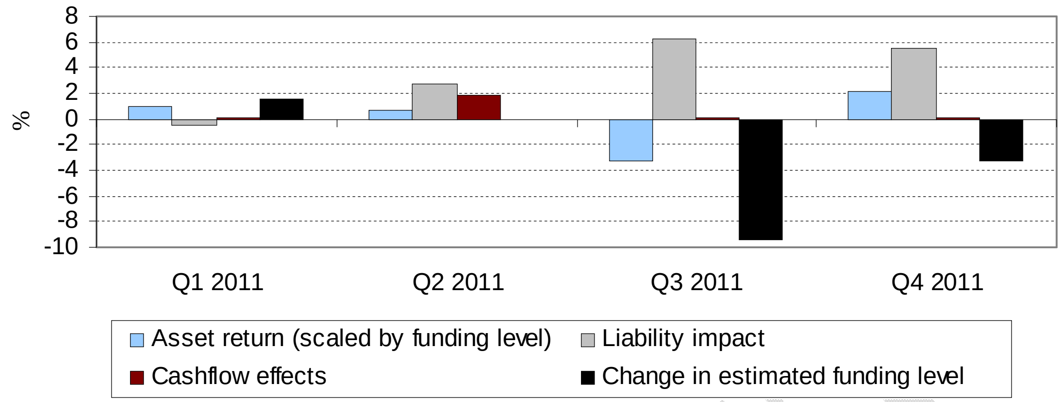
Allocation to Bond and Bond Plus assets against estimated liability split



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

In contrast, the value of the Scheme's assets rose over the quarter but not as much as the expected rise in the value of the liabilities which has led to a deterioration in the funding level.

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

Section Five – Summary

Overall this has been a difficult quarter for the Scheme.

In absolute terms, the Scheme's assets produced a return of 3.1% over the quarter. All portfolios produced positive absolute performances except for the Internal Property.

In relative terms, the Scheme underperformed the liability benchmark return of 8.3%. All portfolios produced positive relative performances except for the Schroder Corporate Bond portfolio, which returned just shy of its benchmark, and the Internal Property which underperformed the IPD index.

Although the DGF portfolios produced positive relative returns they lagged equities over the quarter as we would expect.

The combined Growth portfolio underperformed a notional 60/40 global equity return driven by both DGF funds. In a rising equity market it is usual to expect DGF funds to underperform equities due to the diversification factor which aims to reduce the impact of falling equity markets.

The combined Bond Portfolio underperformed the two indices that will be used to measure the duration portfolio as government and index-linked bonds rose more in value than corporate bonds.

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

Over the year, the Scheme produced a return of 0.9% underperforming its liability benchmark of 19.5%. When compared with global equities, the Scheme outperformed by 5.8% over the year. Over the year it is anticipated, other things being equal, that investment conditions had a negative impact on the Scheme's funding level.

The Barnet Scheme, when setting its strategy in 2009 focussed on the strategy in relation to the liabilities of the Scheme, whilst generating sufficient return to maintain (as far as possible) the level of contribution.

The performance measurement benchmark used within the JLT report for the Scheme is based on expected movements of the liabilities, although more market based objectives are used to assess the individual managers.

2011 was a year that saw significant falls in the yields of UK Government Long dated Bonds, with yields falling over the year from 4.14% to 2.94%. These falls were primarily predicated on the continuing concerns over European Debt and the possibility of Sovereign default by countries like Greece.

The impact of this was an effective rise in the value of the liabilities of 19.5% over the year. Strong falls in yield in the last quarter in particular saw liabilities rise by 8.3% alone.

During the last quarter, which saw equities recover from a disastrous third quarter, the more defensive stance taken by the Scheme's two growth managers meant that the Scheme did not fully participate in the recovery and returns from the Growth portfolio were 3.1% compared to equities at 7.9%. However, over the full year, this defensive view meant that the Growth portfolio returned -2.0% against equities which returned -4.9%.

The Bond portfolio generated similar positive returns over the quarter, but lagged behind the rapid rises from UK Government and Index-Linked securities which returned 9.6%.

These results meant that for the fourth quarter, the Scheme lagged the WM Local Authority universe, which has a significantly higher equity exposure. However, looking at the year as a whole, the Scheme did well, finishing in the 15th percentile largely as a result of the 'protection' provided by the diversified strategy and the more cautious stance taken by the managers.

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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