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

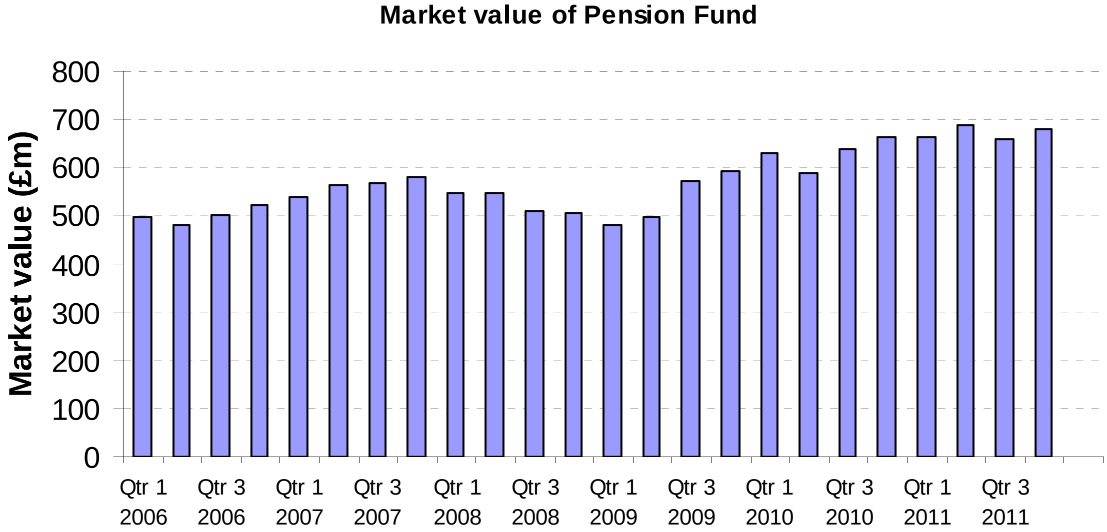
10.1 None

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

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March 2012

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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.

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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.

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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.

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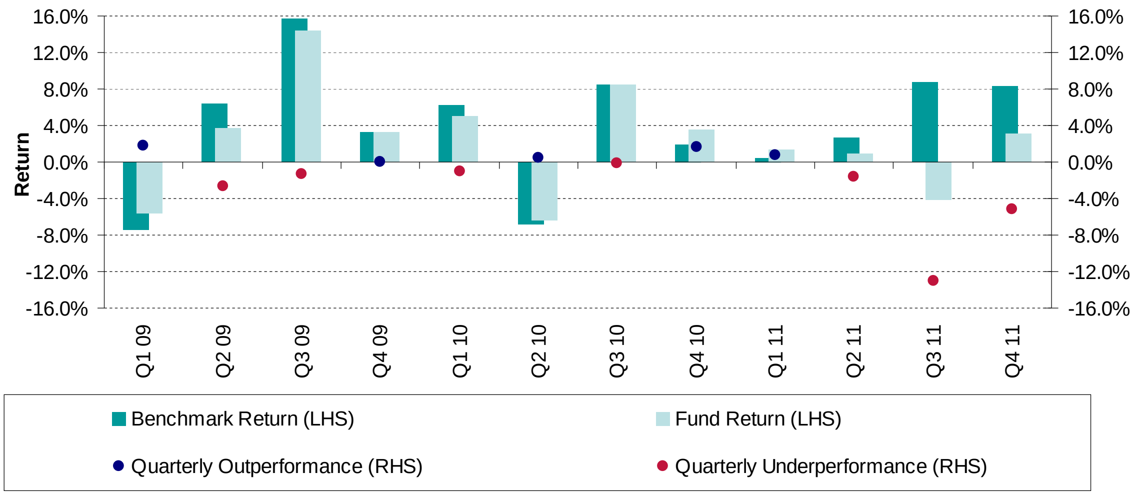
The above table shows the breakdown of the individual manager/portfolio returns against their underlying benchmarks. The internal property portfolio is compared to the IPD UK Monthly index.

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.

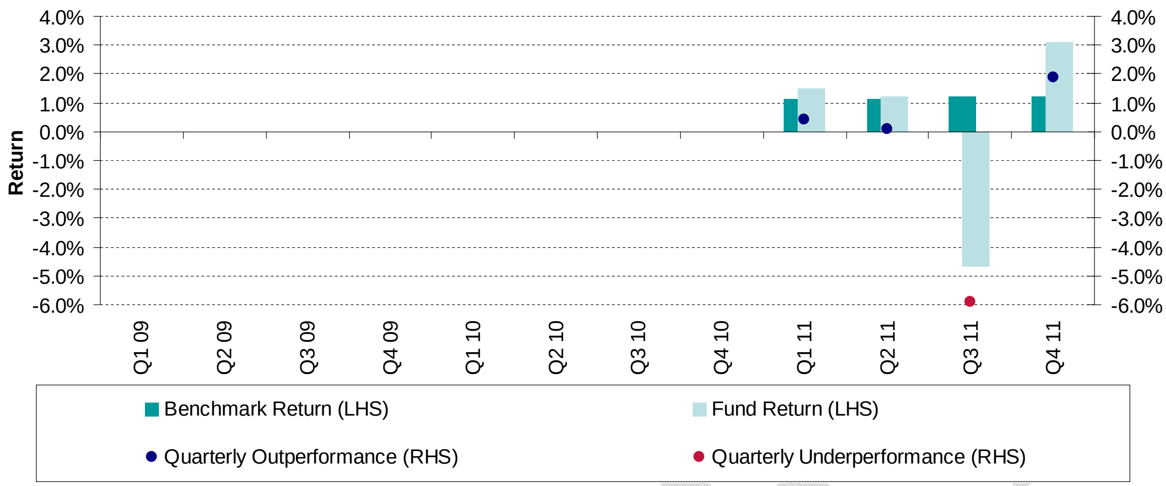
The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 4.9%, as the DGF funds could not keep pace with the equity market rally. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio returned more than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



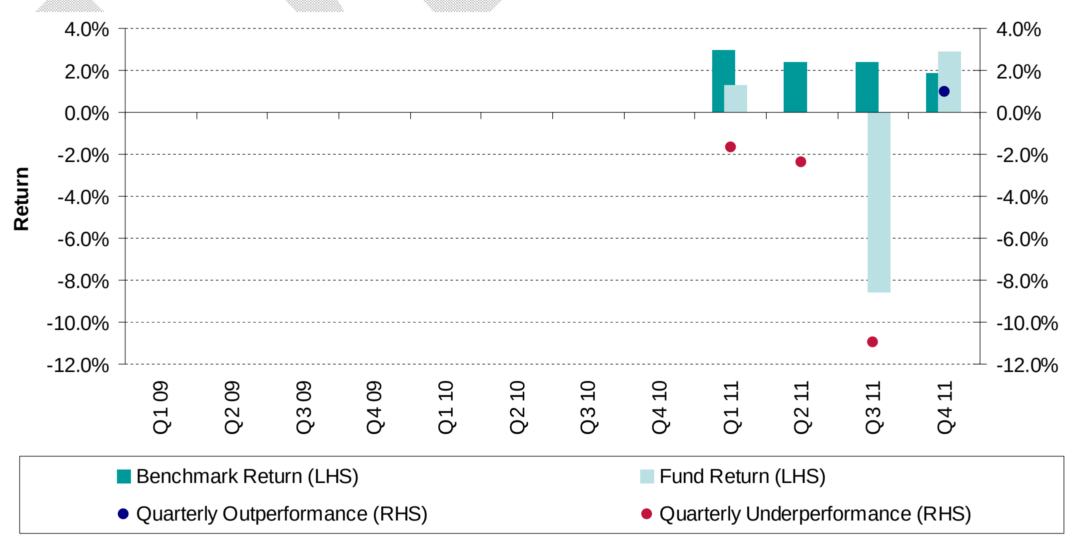
Source: Investment manager.

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

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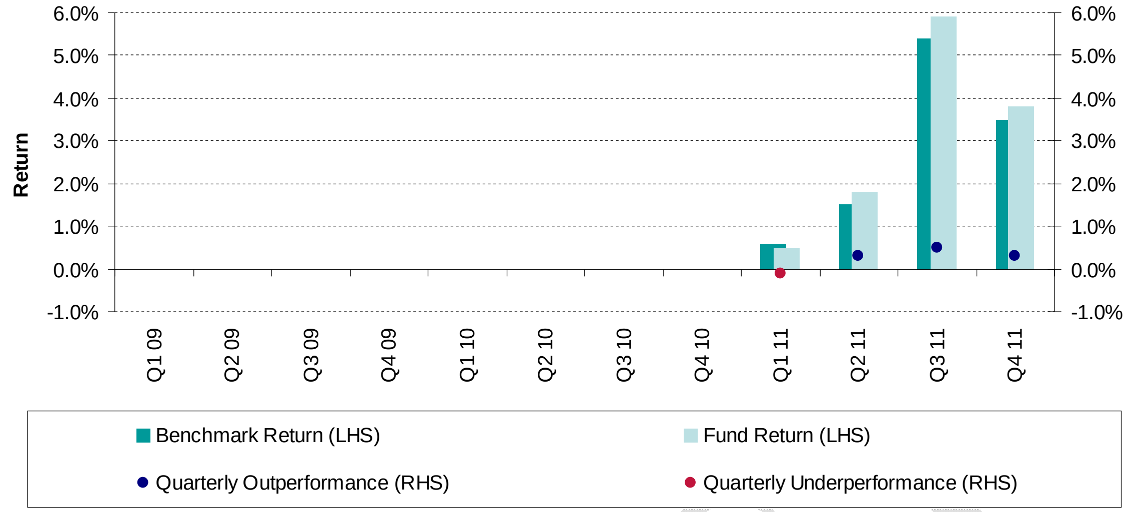
Newton - Corporate bond portfolio - performance relative to benchmark

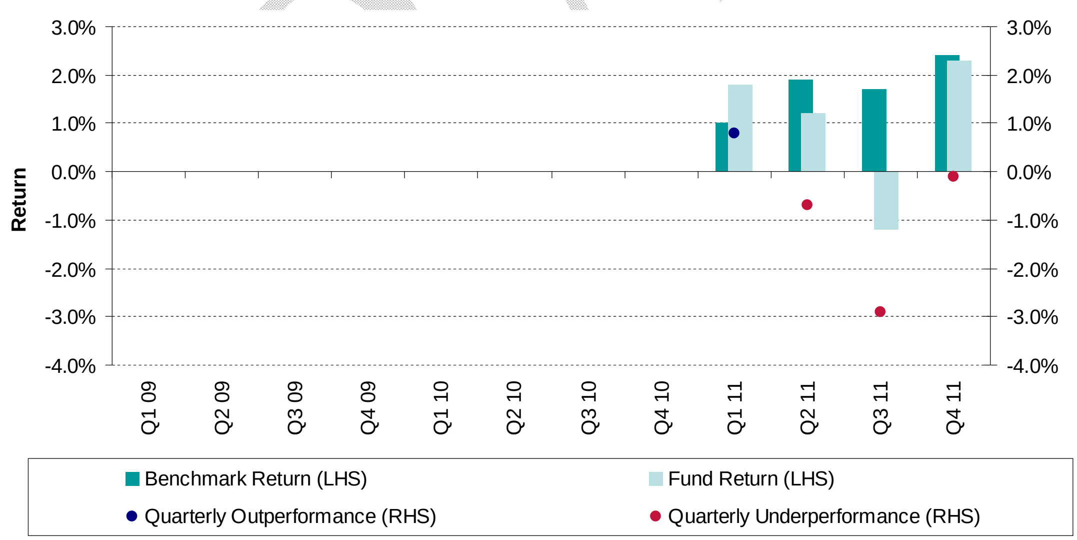


Source: Investment managers

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

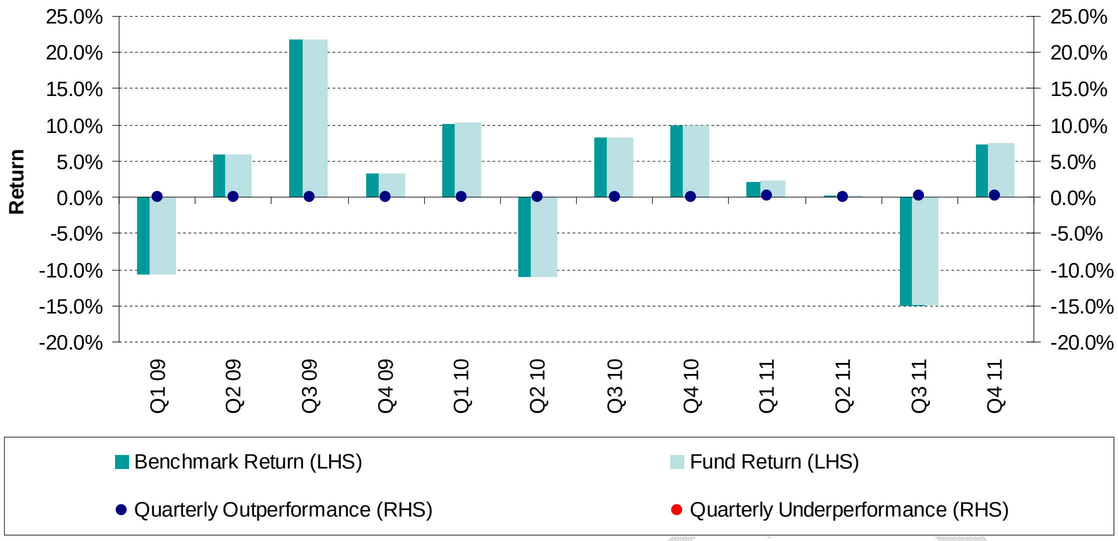


Source: Investment managers

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.

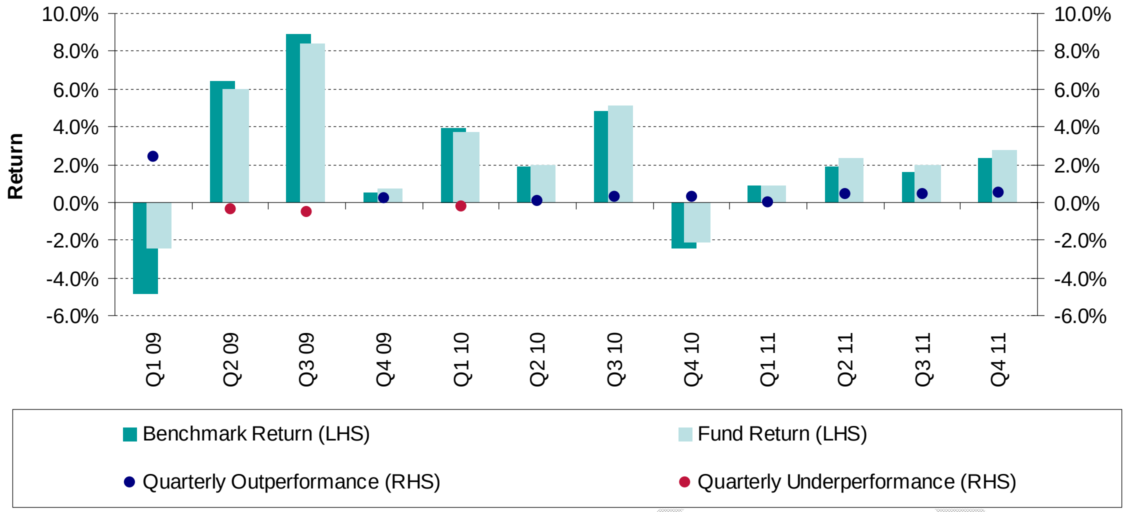
The first investment in the L&G World (ex UK) Equity Index Fund was made on 23 September 2008. There is now a full three year performance.

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%.

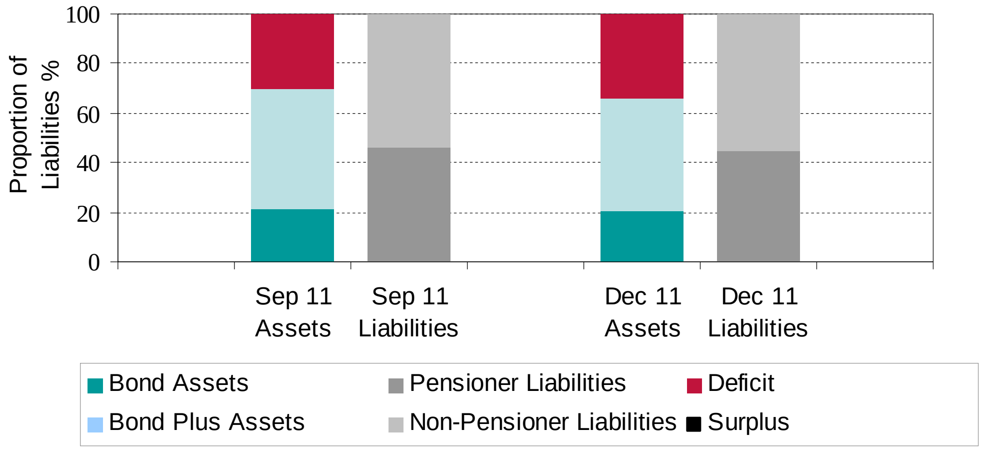
The fund retains an overall defensive bias which contributed positively to performance over the quarter. The gilt allocation also added to performance.

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

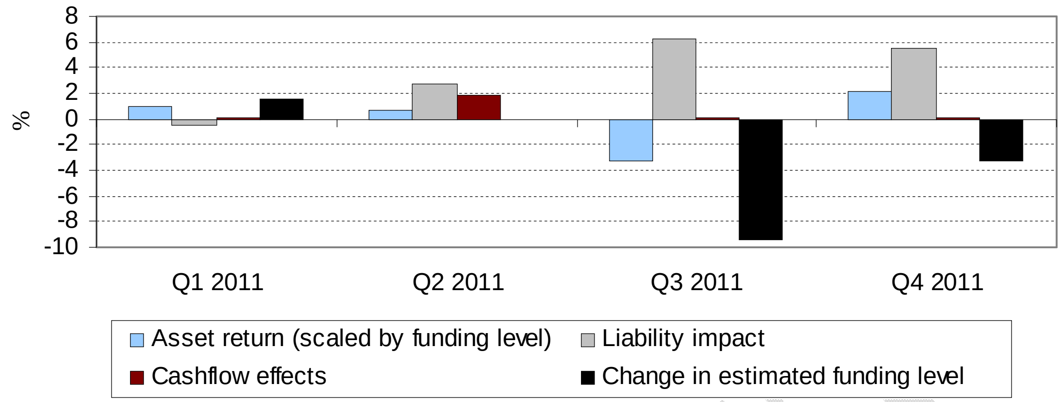
Allocation to Bond and Bond Plus assets against estimated liability split



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.

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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

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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

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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.

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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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