Performance Report - Quarterly Update
30 June 2013

London Borough of Barnet Superannuation Fund

JLT INVESTMENT CONSULTING

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Section One – Market Update

Introduction

The tables below summarise the various market returns to 30 June 2013, to relate the analysis of your Scheme's performance to the global economic and market background.

Yields as at 30 June 2013	% p.a.
UK Equities	3.53
UK Gilts (>15 yrs)	3.43
Real Yield (>5 yrs ILG)	-0.03
Corporate Bonds (>15 yrs AA)	4.52
Non-Gilts (>15 yrs)	4.67

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	%	%	% p.a.
UK Equities	-1.7	17.9	12.8
Overseas Equities	0.1	21.9	12.4
USA	3.0	24.9	17.9
Europe	0.4	26.7	9.4
Japan	4.5	26.3	8.2
Asia Pacific (ex Japan)	-7.4	13.4	7.1
Emerging Markets	-7.5	7.2	2.8
Property	1.9	4.1	6.0
Hedge Fund	0.2	9.5	6.7
Commodities	-5.8	5.5	4.3
High Yield	-1.2	15.0	10.5
Emerging Market Debt	-5.6	1.1	7.3
Senior Secured Loans	1.3	8.7	6.4
Cash	0.1	0.4	0.5

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	%	%
UK Equities	0.18	-0.16	0.19
UK Gilts (>15 yrs)	0.41	0.51	-0.71
Index-Linked Gilts (>5 yrs)	0.40	0.07	-0.70
Corp Bonds (>15 yrs AA)	0.46	0.27	-0.80
Non-Gilts (>15 yrs)	0.44	0.05	-0.72

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	%	%	% p.a.
UK Gilts (>15 yrs)	-5.9	-4.6	7.8
Index-Linked Gilts (>5 yrs)	-7.4	2.7	9.6
Corp Bonds (>15 yrs AA)	-4.6	1.2	7.4
Non-Gilts (>15 yrs)	-4.3	4.4	7.9

Change in Sterling	3 Mths	1 Year	3 Years
	%	%	%
Against US Dollar	-0.1	-3.3	0.5
Against Euro	-1.3	-5.6	-1.5
Against Yen	5.5	20.4	4.4

Inflation Indices	3 Mths	1 Year	3 Years
	%	%	% p.a.
Price Inflation - RPI	0.4	3.3	3.7
Price Inflation - CPI	0.2	2.9	3.2
Earnings Inflation *	1.4	1.1	1.7

* *Subject to 1 month lag*

Source: Thomson Reuters and Bloomberg

Yields and the absolute change in yields are shown to 2 decimal places to clearly show the changes.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
UK Equities	• Comments from the new Governor of the Bank of England (BOE), suggests that he is more concerned about stimulating economic growth rather than bringing the rate of CPI inflation down to the target level of 2%.	• The mere suggestion by the Chairman of the US Federal Reserve that the current level of Quantitative Easing ('QE') would be reduced if the US economy continued to recover (so called 'tapering' of QE) caused a global rapid retreat in equity prices towards the end of the quarter, with the UK equity market falling to a five month low.
	• UK Equities do not look expensive by historical standards, especially after the fall in prices in June, and dividend yields compare favourably with the yield on gilts.	• Fears surrounding the deteriorating outlook for Chinese GDP growth also weighed on investor sentiment.
	• UK corporate earnings and dividends are still rising, in particular those of 'blue chip' companies. The low level of interest rates and the recent improvement in GDP figures also benefited the equity market.	• The Chancellor's Spending Review, set out further government spending cuts in many sectors of the UK economy.
	• The BOE's £80bn Funding for Lending Scheme (FLS) has been extended to January 2015. This has led to an increase in the availability of mortgage products and a reduction in the interest rate payable for fixed rate mortgages.	• The FLS has also contributed to the reduction in savings rates as banks become less reliant upon savers to fund their lending activity.
Overseas Equities		
North American Equities	• Underpinned by the policy of QE, the S&P 500 index rose to a record high in May and, despite the fall in June, the performance in the first half of 2013, was the best first half performance since 1998.	• The Chairman of the US Federal Reserve hinted that there might be a 'tapering' of QE later this year and that QE might come to an end in 2014 with a possible rise in interest rates in 2015.
	• Assuming the economy continues to grow, equities do not look expensive.	• These comments led to an increase in Treasury bond yields and equity markets experienced a major sell off in June.
	• Investors have switched billions of dollars out of cash into bond funds and equity funds on the back of an improvement in sentiment and encouraged by hopes of a sustainable economic recovery.	• Whilst US corporate earnings have been growing, this has often been the result of cost cutting measures and tax changes – revenues in many cases have been static or declining.
	• There has been a significant improvement in the US housing market.	• US GDP has been adversely affected by a drop in federal spending, suggesting that the cuts could limit future economic growth.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
European Equities	• In September, there is a presidential election in Germany and the German Constitutional Court is expected to provide a judgement it is legal for the European Central Bank ('ECB') to buy, without limit, the government bonds of troubled Eurozone	• The suggestion that US QE might be tapered and concerns regarding a slowdown in China led to a fall in European equity markets.
	• In an attempt to boost economic growth, the ECB reduced the Eurozone's interest rate from 0.75% to 0.50%.	• The record high Eurozone unemployment rate of 12% has reduced demand and led to downward pressure on the rate of CPI inflation, which is below the ECB's target rate of 'close to but below 2%'.
	• The Eurozone trade surplus was €14.9bn in April compared with €13.3bn in April 2012.	• Mediobanca, Italy's second largest bank, has said that 'Italy is likely to need an EU bailout within six months as the country slides deeper into crisis and a credit crunch spreads to larger companies'.
	• As widely expected, but initially denied, the 'bail out' terms imposed on Cyprus, which included losses for depositors with large cash balances, will become the template for future rescues.	• Greece became the first developed country to be cut to Emerging Market status by MSCI.
	• Leading indicators and the low level of company inventories suggest that some boost to GDP is likely to arise from re-stocking in the future.	
Japanese Equities	• In his election campaign, the new Japanese prime minister, Mr Abe promised measures to stimulate the economy, measures that have been implemented following the appointment of a new Governor of the Bank Of Japan ('BOJ'). In particular, the BOJ announced that it would pursue a policy of QE amounting to U$1.4 trillion.	• Similar measures have met with varying degrees of success since the peak of the equity market in December 1989.
	• Contrary to some expectations, money is not flowing out of Japan in search of higher yields (as has happened in the past) and it seems that, at least in part, cash is entering the real economy and the equity market.	• Although the equity market rose strongly after the announcement of the QE policy, investor confidence and sentiment were adversely affected by poor communications from the BOJ, regarding the new strategy and the reasons for believing that it would be successful in stimulating a lasting economic recovery. QE has led to the Yen appreciating sharply against the Dollar, which will hurt companies that have large export volumes.
		• In common with the other major equity markets, the Japanese equity market fell sharply after the comments on US QE from the US Federal Reserve and on the deteriorating outlook for the Chinese economy.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Asia Pacific (excluding Japan) Equities	• Many Asian companies, especially those selling to domestic consumers, are continuing to prosper with profits and dividends increasing. Notwithstanding the recent slowing of the Chinese economy, the longer term story for the region, including China, has not changed.	• Recent official Chinese economic statistics have given mixed signals which has led to some analysts becoming concerned that the Chinese economy could slow significantly with severe repercussions for the global economy.
	• A decrease in commodity prices has led to an easing of inflationary pressures in the Asian Pacific region.	• The flow of weak Chinese economic data has continued with falling consumer demand likely to lead to lower GDP growth, a squeeze on corporate profits and lower wage growth.
		• China's long term currency rating was cut from AA- to A+ by Fitch. The credit rating agency cited underlying structural weakness in the economy and concerns about a rise in debt levels.
Emerging Markets Equities	• Emerging Market Equities do not look expensive but could fall further if the US dollar continues to strengthen. Exposure to domestic consumption (and the companies that benefit from it) will be particularly important over the next year when investing in this asset class rather than investing in the index stock weightings.	• The recent strength of the US Dollar has weakened the competitiveness of Emerging Market economies as their exports are usually priced in Dollars, and many of their currencies are still linked, officially or unofficially to the US Dollar.
Gilts	• The US Federal Reserve has tried to calm markets by suggesting that ‘tapering’ still depends on the strength of US economic growth and the reduction in the rate of unemployment.	• No prospect of capital gains in most areas of the fixed income market and every expectation of capital losses over time. Government securities look particularly vulnerable to a rise in yields (fall in price), with the volatility in prices over the past few weeks giving a taste of what might happen.
	• Mark Carney took up his appointment as Governor of the BOE on 1 July and seems likely to maintain the current low level of interest rates for some time.	
Index-Linked Gilts	• Fears over rising inflation have underpinned prices.	• Many stocks offer a negative real yield, which is not appealing to investors.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Corporate Bonds	• Given the strength of corporate balance sheets and good profitability, the returns available on corporate bonds are attractive relative to those available on gilts.	• There is a low level of liquidity in this market at present and the reduction in credit spreads over the past few months leaves little room for any further reduction in credit spreads.
Property	• Rental yields appear to be improving with activity centred around London.	• There have been concerns about the increase in the level of voids and a fall in capital values in the Secondary and Tertiary markets.
	• Mortgage approvals in the UK rose to a three and a half year high in May 2013. House prices are rising across the country with the fastest rate of growth seen in London where prices are now 5% above their previous peak.	

Section Two – Total Scheme Performance

		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	252,863,848	31.5	-	246,487,294	31.5
Schroder Investment Management Limited (Schroder)	Diversified Growth	243,716,290	30.4	-	240,950,292	30.8
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	40,213,709	5.0	-	40,421,844	5.2
Newton	Corporate Bond	122,249,581	15.3	-	119,273,460	15.2
Schroder	All Maturities Corporate Bond	113,904,310	14.2	-	110,947,749	14.2
L&G	Active Corporate Bond – All Stocks	17,158,083	2.1	-	16,656,772	2.1
Newton	Cash	908,285	0.1	-	553,525	0.1
Schroders	Cash	583,460	0.1	-	598,642	0.1
Internal	Cash	10,094,732	1.3	-	6,282,093	0.8
ASSET SPLIT						
Growth assets		547,472,039	68.3	-	534,740,165	68.4
Bond assets		254,220,259	31.7	-	247,431,506	31.6
TOTAL		**801,692,299**	**100.0**	**-**	**782,171,671**	**100.0**

Source: Investment managers, bid value. Please note that the Internal Cash is assumed to have earned no interest over the quarter. The Newton Cash is assumed to be held in the Bond portfolio and the Schroders Cash in the Growth portfolio.

Note: Total may not sum due to rounding.

Total Scheme Performance

	Portfolio Return Q2 2013 %	Benchmark Return Q2 2013 %
Total Scheme	-2.0	-3.7
Growth Portfolio		
Growth v Global Equity	-1.8	-1.0
Growth v RPI+5% p.a.	-1.8	1.6
Growth v LIBOR + 4% p.a.	-1.8	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	-2.7	-5.9
Bond v Index-Linked Gilts (> 5 yrs)	-2.7	-7.4

The Growth portfolio excludes L&G equities. The global equity benchmark is 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index. *Liability benchmark (see page 19).

The Bond portfolio excludes L&G Corporate Bond Fund.

The Total Scheme return is shown against the liability benchmark return (see page 19). 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.

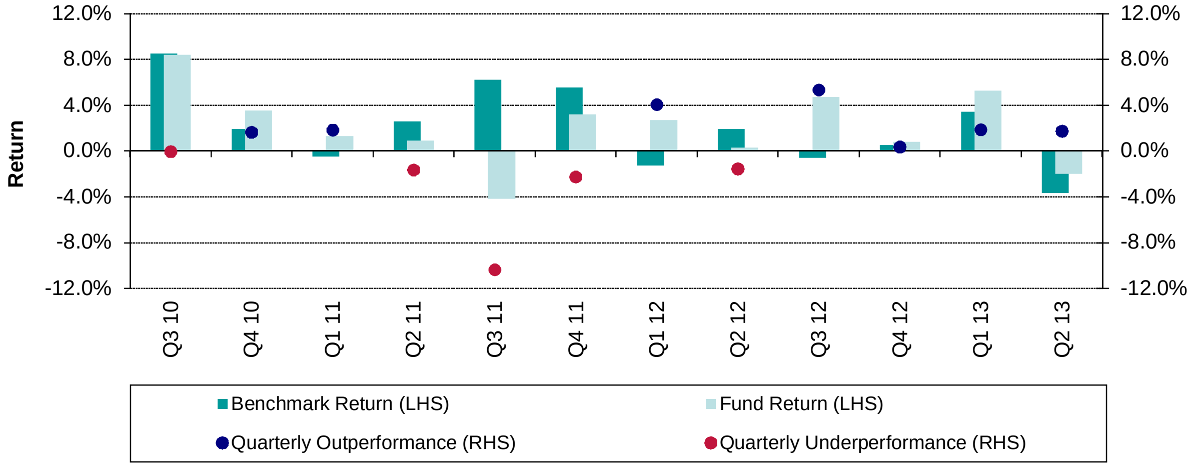
Individual Manager Performance

Manager/Fund	Portfolio Return Q2 2013 %	Portfolio Benchmark Q2 2013 %
Newton Real Return	-2.5	1.1
Schroder Diversified Growth	-1.1	1.6
L&G – Overseas Equity	0.5	0.1
Newton Corporate Bond	-2.7	-4.2
Schroder Corporate Bond	-2.6	-2.9
L&G – Corporate Bond	-2.9	-2.9

Source: Investment managers, Thomson Reuters. Performance is money-weighted and based on bid values.

The previous table shows the breakdown of the individual manager/portfolio returns against their underlying benchmarks.

Total Scheme - performance relative to liability benchmark



Source: Investment managers, Thomson Reuters. Liability benchmark effective from Q1 2011.

The Scheme achieved a return of -2.0% over the quarter due to negative absolute performance from both the growth and bond funds; however, it outperformed the liability benchmark return by 1.7%.

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

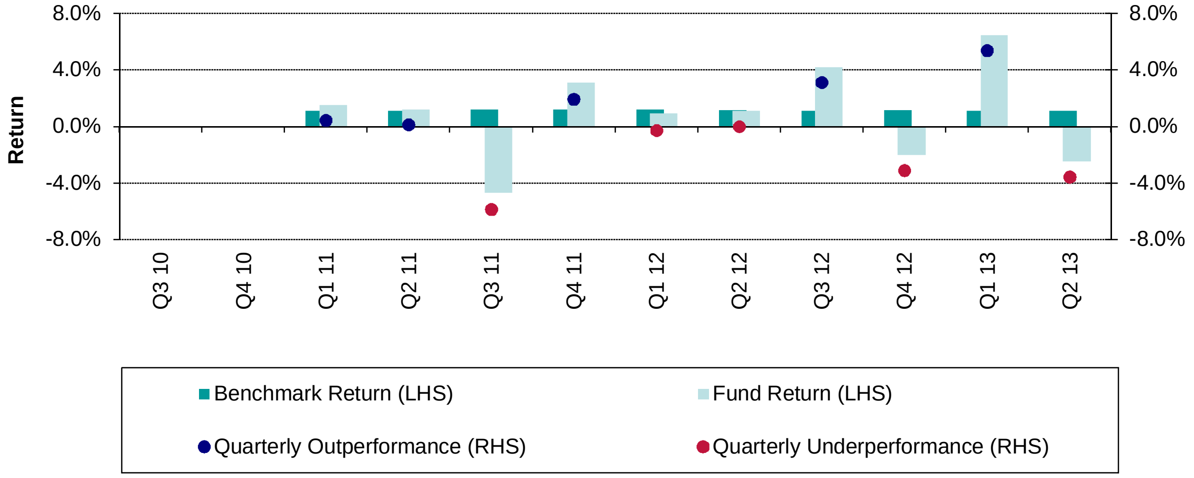
The Scheme generated a negative absolute return as all the underlying funds generated negative absolute returns (except for the L&G Overseas Equity Fund). The worst absolute performance came from the L&G Corporate Bonds and on a relative basis, both the DGF funds underperformed their respective benchmarks.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark by 0.8%. It is usual to expect DGF funds to outperform equities in falling markets. However, this is the first time we have seen a bigger fall in the DGF returns, compared to equities, in falling markets. The Growth portfolio returned less than both of the LIBOR +4% and the RPI +5% target returns of the respective DGF funds. The Growth portfolio's negative absolute (and relative) return over the quarter was driven by both the DGF Funds.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, outperformed the Over 15 Year Gilts Index (by 3.2%) and the Over 5 Years Index Linked Gilts Index (by 4.7%).

Section Three – Manager Performance

Newton - Real Return Fund - performance relative to portfolio benchmark



Source: Investment manager.

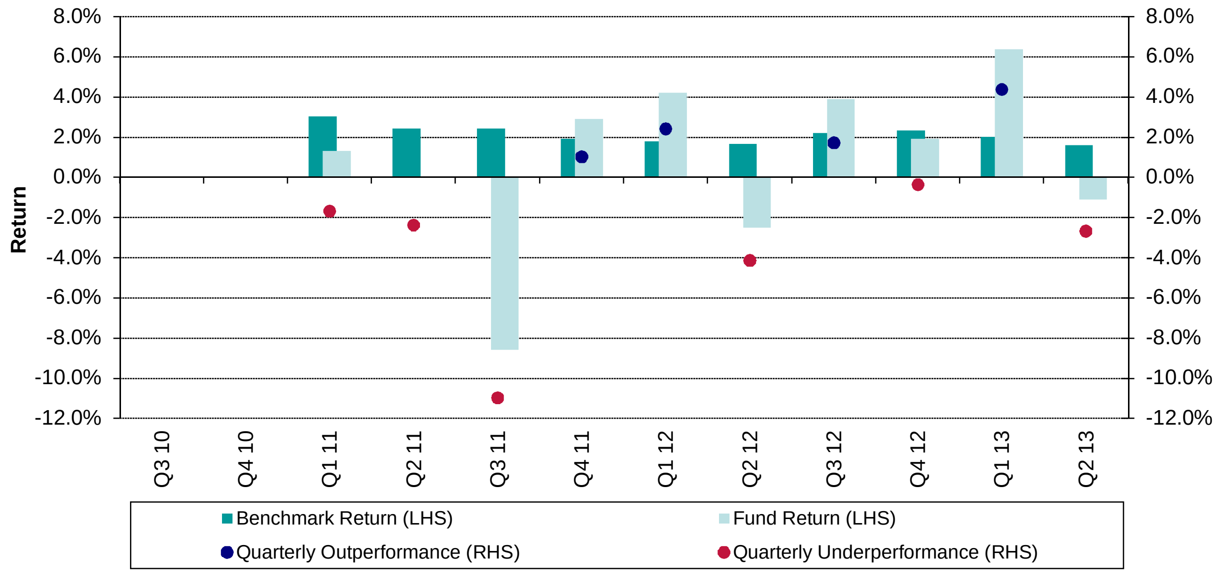
The Newton Real Return Fund return was -2.5% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby underperforming by 3.6%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 1.5%. The Fund's government bond holdings were adversely impacted. The largest detractors were Australasian and Norwegian sovereign debt.

The Fund's physical gold and gold mining equity holdings also proved disappointing.

Despite the weakness in June, the telecommunications, health care and consumer goods sectors provided a positive contribution over the quarter.

Over the 12 month period, the Fund returned 5.3% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 14.2%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was -1.1% compared to its RPI + 5% p.a. portfolio benchmark return of 1.6%, underperforming by 2.7%. The Fund marginally underperformed the notional 60/40 global equity benchmark by 0.1% over the quarter.

North American and Japanese equities along with infrastructure assets provided modest returns over the quarter. However, this was not enough to offset underperforming assets such as emerging market and high yield debt, commodities and equities elsewhere in the portfolio.

The position in US investment grade credit was closed, as was the holding in the Schroder UK Alpha Plus Fund (following the departure of Richard Buxton). Commodities were reduced to 1.9%, the Fund's lowest allocation since 2007.

Direct positions in Mexican and Korean bonds and were established following the sale of the PIMCO Emerging Local Bond Fund, as Schroder prefer the strong fundamentals they offer compared with other emerging economies.

Schroder have a preference for equities. It views US equities as offering the best growth potential and European equities offering a tactical opportunity following recent falls. UK and Japanese markets remain 'interesting' to the manager due to their 'supportive' central bank policies. Schroder however, remain averse to emerging market equities and emerging market related risks.

Over the 12 month period, the Fund returned a strong absolute return of 11.4% versus the benchmark return of 8.4%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 8.1%.

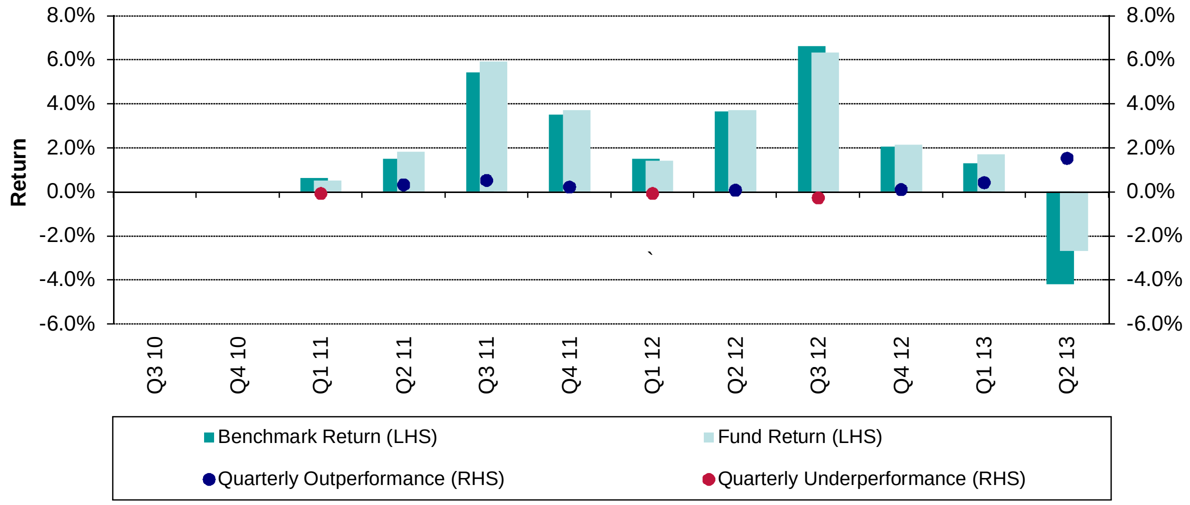
Asset allocation for growth managers: movement over the quarter

	Q2 '13 Newton %	Q2 '13 Schroder %	Q1 '13 Newton %	Q1 '13 Schroder %
UK Equities	15.1	2.5	15.2	5.5
Overseas Equities	43.1	44.4	40.9	42.8
Fixed Interest	15.4	-	10.6	-
Corporate Bonds	10.9	4.3	10.8	7.5
High Yield	-	21.3	-	20.8
Private Equity	-	1.2	-	1.2
Commodities	2.8	1.9	3.8	4.0
Absolute Return	-	6.8	-	4.2
Index-Linked	1.4	-	4.7	-
Property	-	0.3	-	0.3
Cash/Other	11.3	17.3	14.0	13.7
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers.

Note: Total may not sum due to rounding.

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

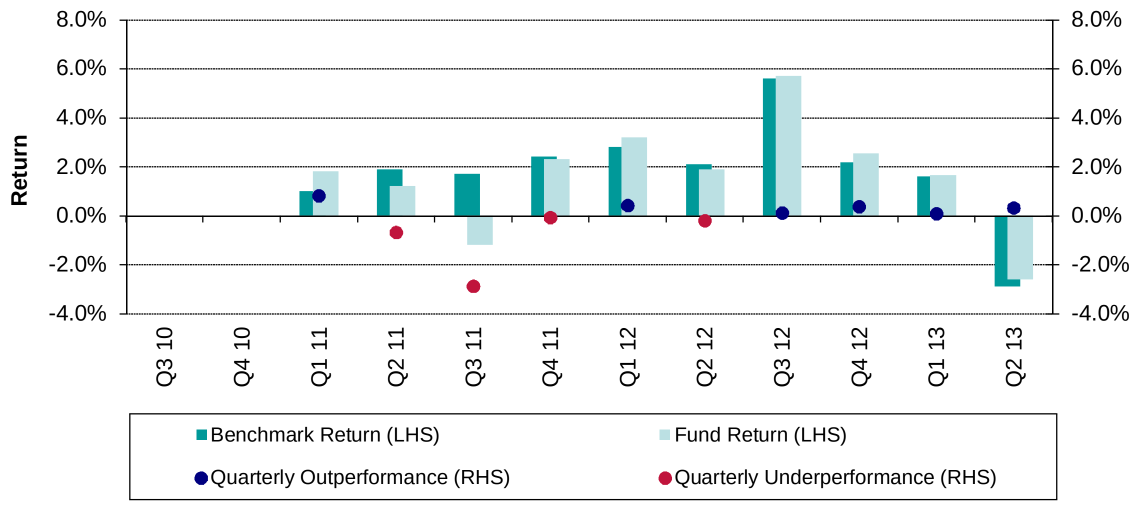


Source: Investment manager.

The Newton Corporate Bond portfolio outperformed its benchmark by 1.5%; it returned -2.7% versus the benchmark return of -4.2%. This was principally due to having a shorter duration stance (less sensitivity to rising yields) than the index.

Over the 12 month period, the Fund returned 6.5% against the benchmark return of 5.4%.

Schroder - All Maturities Corporate Bond portfolio - performance relative to portfolio benchmark

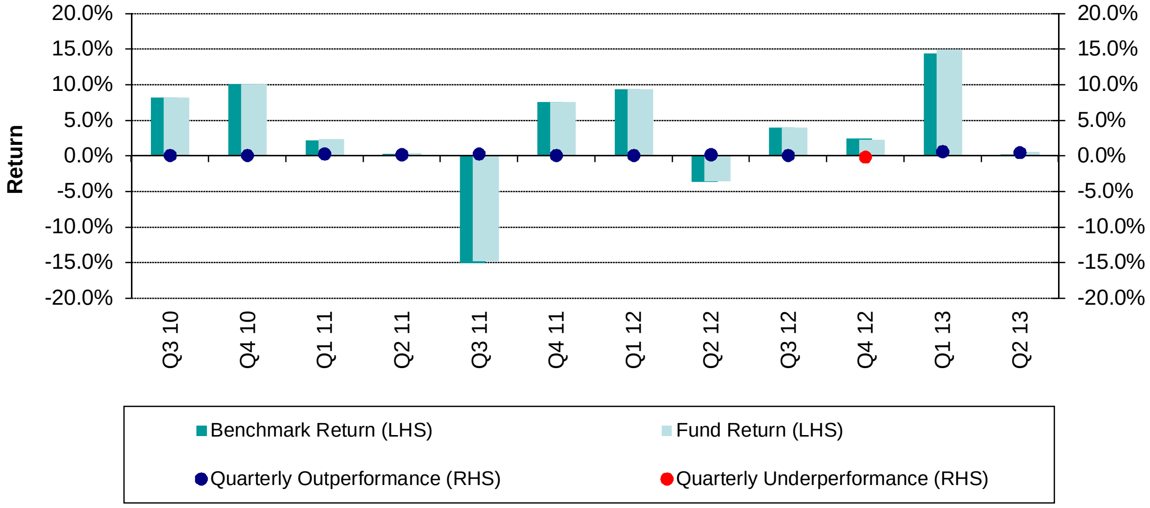


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed its benchmark by 0.3, returning -2.6% versus the benchmark return of -2.9%. The Fund benefitted from its sector selection, such as an overweight bias to the financials sector, and also from individual security selection.

Over the 12 month period, the Fund returned 7.3% versus the benchmark return of 6.5%.

L&G – Overseas Equities



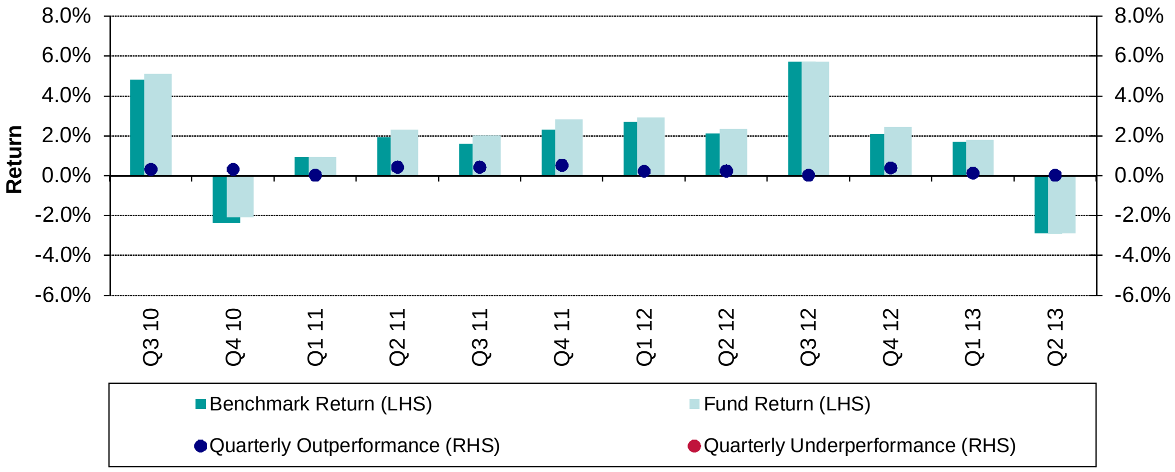
Source: Investment manager.

Over the second quarter of 2013, the Fund outperformed its benchmark by 0.4%, generating a small positive absolute return of 0.5%.

Over the 12 month period, the Fund return was 22.7%, against the benchmark return of 21.9% thus outperformed its benchmark by 0.8%.

The Fund has outperformed its benchmark over the 3 year period.

L&G – Active Corporate Bond - All Stocks - Fund



Source: Investment manager.

Over the quarter, the Fund tracked its benchmark and generated a negative absolute return of 2.9%.

Utilities added the most value due to strong security selection, as well as overweight exposure to risk, the Media sector and some European Telecoms detracted from performance.

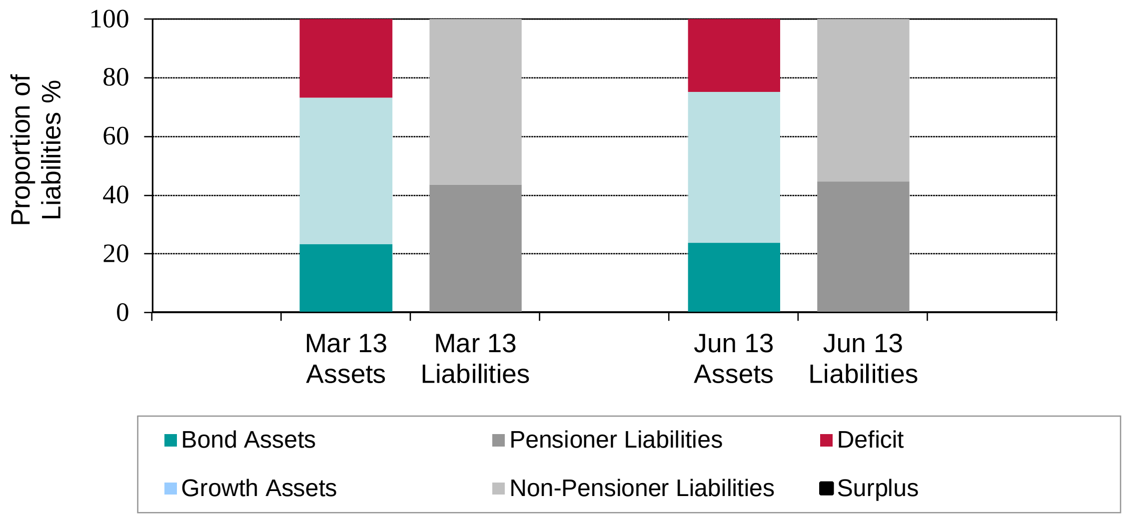
Over the 12 month period, the Fund has performed well with a return of 7.0% compared with the benchmark return of 6.5%.

The Fund has outperformed its benchmark over the 3 year period.

Section Four – Consideration of Funding Level

This section of the report considers the funding level of the Scheme. Firstly, it looks at the Scheme asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Allocation to Bond and Growth assets against estimated liability split

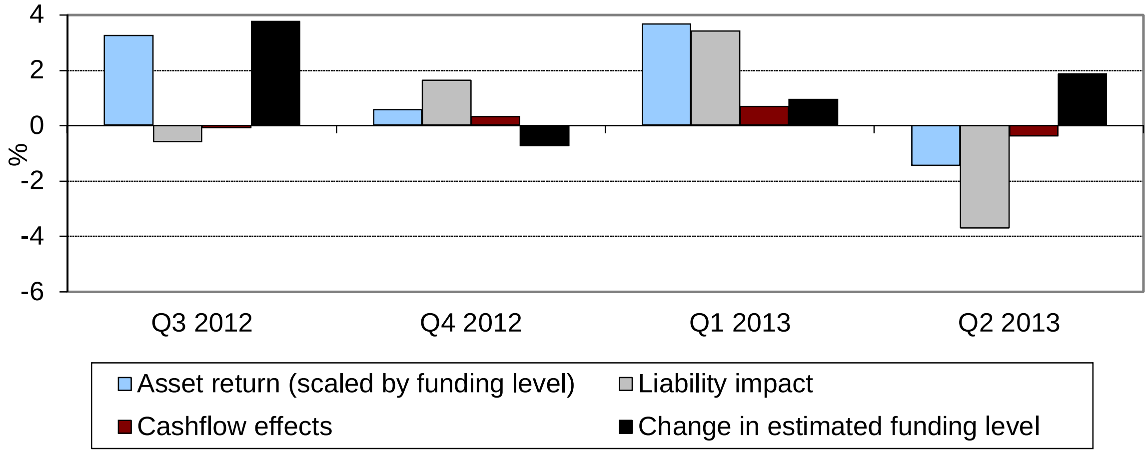


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 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.

Over the quarter, the expected funding position increased by 1.9%, as the liabilities were expected to fall by more than both the fall in assets and the negative cashflow together. The Scheme was approximately 75.1% funded as at 30 June 2013.

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 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.

Over the quarter, the estimated funding level increased by 1.9%, from 73.2% to stand at 75.1%, due to large expected decrease in the value of the liabilities which more than compensated for the fall in asset value and negative cashflow.

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

Overall, Q2 2013 has been a positive quarter for the Scheme in terms of the funding level.

Section Five – Summary

Overall this has been a mixed quarter for the Scheme as equity and bond markets deteriorated and liabilities were expected to have fallen.

In absolute terms, the Scheme's assets produced a return of -2.0% over the quarter. All the growth and bond portfolios produced negative absolute returns except L&G overseas equities.

In relative terms, the Scheme outperformed the liability benchmark return (see page 19) by 1.7%. All the Bond funds outperformed their respective benchmarks as did L&G overseas equities. Both DGF's underperformed their respective benchmarks.

The combined Growth portfolio underperformed a notional 60/40 global equity return, producing a negative absolute return of 1.8%, and underperforming the benchmarks which are cash-based.

The combined Bond Portfolio outperformed the Over 15 Year Gilts Index by 3.2% and the Index Linked Gilts (>5 Years) Index by 4.7%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a positive impact (1.9%) on the Scheme's estimated funding level which was 75.1% as at 30 June 2013.

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. When we refer to the "liability benchmark" we mean the estimated impact on the liabilities (as referred to above) based on market movements alone.

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.
Growth asset	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded liabilities	The value of benefits payable to members that can be paid from the existing assets of the scheme (i.e. those liabilities that have assets available to meet them).
Market 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 volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change impact.
Money-Weighted rate of return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner liability	The value of benefits payable to those who have already retired, irrespective of their age.
Portfolio benchmark	The benchmark return of the each manager/fund.
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.

JLT Manager Research Tier Rating System

Tier	Definition
BUY	Significant probability that the manager will meet the client's objectives.
HOLD	Reasonable probability that the manager will meet the client's objectives. This fund will not be put forward for new investments but there is no intention to sell existing holdings.
REVIEW	The manager may reach the client's objectives but a number of concerns exist. The JLT Manager Research Team are currently reviewing this fund.
SELL	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns and therefore we recommend clients to redeem their assets.

JLT Employee Benefits

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