Appendix B

Performance Report - Quarterly Update
31 December 2013

London Borough of Barnet Superannuation Fund

JLT Employee Benefits

Contents

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Section One – Market Update

Introduction

The tables below summarise the various market returns to 31 December 2013, to relate the analysis of your Scheme's performance to the global economic and market background.

Yields as at 31 December 2013	% p.a.
UK Equities	3.28
UK Gilts (>15 yrs)	3.58
Real Yield (>5 yrs ILG)	0.03
Corporate Bonds (>15 yrs AA)	4.42
Non-Gilts (>15 yrs)	4.63

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	%	%	% p.a.
UK Equities	5.5	20.8	9.4
Overseas Equities	5.0	21.2	8.1
USA	7.9	30.4	14.1
Europe	5.2	24.0	7.4
Japan	0.1	25.0	4.0
Asia Pacific (ex Japan)	0.0	1.3	0.5
Emerging Markets	-0.7	-5.3	-4.5
Property	4.7	10.9	7.1
Hedge Fund	4.2	10.0	5.2
Commodities	-2.5	-3.1	-2.6
High Yield	1.5	6.0	7.7
Emerging Market Debt	1.5	-5.3	6.1
Senior Secured Loans	2.2	9.2	6.3
Cash	0.1	0.4	0.5

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	%	%
UK Equities	-0.13	-0.29	0.39
UK Gilts (>15 yrs)	0.17	0.58	-0.56
Index-Linked Gilts (>5 yrs)	0.07	0.10	-0.46
Corp Bonds (>15 yrs AA)	0.11	0.35	-1.00
Non-Gilts (>15 yrs)	0.12	0.41	-0.77

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	%	%	% p.a.
UK Gilts (>15 yrs)	-1.8	-5.9	6.9
Index-Linked Gilts (>5 yrs)	-0.9	0.6	7.6
Corp Bonds (>15 yrs AA)	-0.3	0.0	7.8
Non-Gilts (>15 yrs)	-0.3	-0.6	8.0

Change in Sterling	3 Mths	1 Year	3 Years
	%	%	%
Against US Dollar	2.3	1.9	1.9
Against Euro	0.5	-2.5	1.0
Against Yen	9.6	23.9	11.1

Inflation Indices	3 Mths	1 Year	3 Years
	%	%	% p.a.
Price Inflation - RPI	0.6	2.7	3.5
Price Inflation - CPI	0.5	2.0	3.0
Earnings Inflation *	-0.1	0.8	1.4

* *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	Business confidence, as measured by the Purchasing Managers Index (PMI), rose to 73.5 in December, its highest since March 2010. The PMI for the services sector stood at 58.8 in December, well above the 50 mark, separating growth from contraction.	Equity dividends have enjoyed an impressive lead over bond yields for some time. However, with gilt yields now on an upward trajectory and investment grade bond yields also on the rise, UK equities might face some headwinds.
	The British Chamber of Commerce Quarterly Economic Survey, a major economic indicator closely watched by the Bank of England (BoE) and the Treasury, upgraded its GDP growth forecast for 2014 to 2.7% in Q4 2013 from 2.2% in Q3 2013.	Britain's trade deficit, plus the losses UK plc. made on its overseas ventures, rose to GBP 21 billion in Q3 from a deficit of GBP 6 billion in the previous quarter. As a percentage of GDP, the deficit was 5.1%, the largest share in more than 20 years.
	Unemployment fell more than expected in October to 7.4% (the lowest level since early 2009) from 7.6% a month earlier. The BoE has issued forward guidance indicating that interest rates are unlikely to increase above the current level of 0.5% until the unemployment rate falls to 7%.	
Overseas Equities		
North American Equities	The US Federal Reserve (Fed) announced that it will scale back its asset purchase program from the current USD 85 billion per month to USD 75 billion per month beginning January 2014. This reflects the Federal Reserve's belief that the economic recovery is broad-based and sustainable.	The 10-year treasury yield (the benchmark interest rate) spiked over the 3% mark for the first time since July 2011 after the Fed’s announcement that it plans to taper its bond-buying program. Higher interest rates could increase the cost of borrowing for the corporates and jeopardise the nascent recovery in the economy.
	The Fed also signalled that if the employment and inflation environment remains stable, it expects similar monthly cutbacks in the bond-buying program over the course of 2014. This would lead to a formal end to the quantitative easing program towards the fourth quarter of 2014.	Following a 30% rally in the S&P 500 through 2013, there is some concern that equity valuations appear unsustainable.
	Equity markets continued to surge to new highs amidst the improving labour market and a strengthening economy. GDP grew by a robust 3.6% (revised) in the fourth quarter, while the unemployment level fell to 7.0% by the end of November.	
	The US congress passed a budget deal late December aimed at rolling back sharp spending cuts, known as the sequester, over the next two years. This will reduce the likelihood of another government shutdown in the near term.	

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
European Equities	The ECB surprised markets in November by cutting its main refinancing rate to a record low of 0.25%, and while it is not expected to cut the rate again, it is likely to flood the markets with another round of cheap cash early 2014.	The PMI for the services sector, which makes up a majority of the Eurozone's economy, dipped to 51.0 in December from 51.2 in November confounding expectations for a rise to 51.5. This indicated that growth in this sector has been weaker than anticipated.
	Business activity in the Eurozone, as measured by the PMI, rose to 52.1 in December, recording the second-highest reading since mid-2011.	Services firms cut prices again in the month of November, as they have done over the last two years, to facilitate business. The output price index rose to 48.6 from 47.9, still below the break-even mark.
	Ireland became the first country to exit the EU bailout programme without a precautionary credit line on December 15.	
Japanese Equities	The Japanese economy grew at an annualised pace of 1.9% in Q3 2013, the fourth successive quarter of growth, lending more credibility to the expansionary monetary policy embarked upon by Prime Minister Shinzo Abe.	Concerns remain over the ripple effects on the economy due to the proposed sales tax hike from the current 5% to 8% beginning April 2014.
	The government dropped the word 'Deflation' in its description of the economy for the first time in four years as core consumer inflation hit a five year high—past the halfway mark of the 2% target.	The real wage scenario in the country could pose a serious challenge, as rising inflation coupled with less than desired wage increases will start to erode household spending power.
	According to BOJ's quarterly survey, business confidence amongst large manufacturers surpassed expectations and rose from 12 points in Q3 to 16 points in Q4, the highest level since 2007, suggesting that economic prospects largely remain upbeat.	
Asia Pacific (excluding Japan) Equities	South Korea recorded its 23rd consecutive month of trade surplus owing to strong exports, which grew by 2.2% year-on-year. This marked the highest level of annual exports in the country's history.	Australia's GDP grew at an annualised rate of 2.3% in the third quarter of 2013, well below the consensus forecast of 2.6%. Economists argue that the nation needs to grow at a pace above 3% to curb the recent increases in the unemployment rate which currently stands at 5.7%.

Asset Class	Factors Affecting the Market	
	Positive	Negative
Emerging Markets Equities	China, in its Third Plenum, announced sweeping reforms aimed at steering the nation from an investment-led developing nation to a consumption driven economy. The 60 point reform plan aims to achieve a sustainable growth and liberalise Chinese markets.	In China, concerns grew over the domino effects of the ailments in the banking system as asset repurchase rates surged to record highs after a government official warned about possible bank failures in the coming year.
	After weak performance through 2013, the emerging market space appears to be attractive from a valuation perspective.	Taiwan cut its growth forecast for 2014 to 2.6%, down from its earlier projection of 3.4%, reflecting weak prospects for one of the most export-oriented economies in the region.
	China edged out the United States as the biggest trader of goods in 2013 as the value of its imports and exports crossed the USD 4 trillion mark for the year. The change in the pecking order reflects China's growing dominance in global trade.	Most emerging market economies still face headwinds due to inflationary pressures and are raising interest rates to combat high prices. Brazil raised its interest rates for the sixth time since March 2012, while Indonesia raised interest rates to the highest level since 2009.
	India's current account deficit fell to 1.2% from 5% a year ago as the government's efforts to curb exports of non-essential commodities, particularly gold, started to yield the desired results.	Brazil's GDP shrank in Q3 2013 by 0.5% due to worsening fiscal imbalances, higher than target inflation and rising interest rates in the economy.
Gilts	UK's GDP expanded by 0.8% in the third quarter, the strongest reading in over three years. Meanwhile, the International Monetary Fund (IMF) significantly upgraded Britain's growth outlook to 1.4% in 2013 and 1.9% in 2014.	Market interest rates are expected to rise much sooner than expected as the BoE has brought forward its forecast for a drop in the unemployment to 7% by around 18 months from what was previously expected.
Index-Linked Gilts	With limited supply of paper and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	UK inflation continued to decline, reaching 2.0% in December 2013, affecting returns on index-linked instruments.
		In an environment where central banks are able to control inflation within a target range, there is a limited upside to the return expectations on these instruments.
Corporate Bonds	Corporations continue to maintain healthy balance sheets. While, the relatively attractive yield from parts of the corporate bond market continue to attract investor interest.	The corporate bond market still suffers from liquidity constraints while uncertainty looms over interest rate increases.

Asset Class	Factors Affecting the Market	
	Positive	Negative
Property	In November 2013, the UK commercial property values registered their highest monthly gain since March 2010, marking seven consecutive months of rises in values.	According to the changes to the capital gains tax structure announced by the chancellor George Osborne, foreign owners will be required to pay tax on gains in value on the UK properties starting April 2015. This move may dampen overseas investor sentiment into UK property market.
	Mortgage approvals in the UK rose to about a six-year high in November 2013. House prices are rising across the country with the fastest growth rate seen in London where prices are now 14% above their previous peak in 2007.	
	The Construction PMI hit 62.6 in November 2013—the highest reading since August 2007.	

Section Two – Total Scheme Performance

Manager	Fund	Start of Quarter Value £	Start of Quarter Proportion of Total %	Net New Money £	End of Quarter Value £	End of Quarter Proportion of Total %
Newton Investment Management Limited (Newton)	Real Return	250,847,517	31.5	-	254,254,170	31.2
Schroder Investment Management Limited (Schroder)	Diversified Growth	245,675,594	30.9	-	255,593,750	31.4
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	40,861,265	5.1	-	42,940,895	5.3
Newton	Corporate Bond	121,955,015	15.3	-	121,845,573	15.0
Schroder	All Maturities Corporate Bond	113,864,213	14.3	-	114,689,027	14.1
L&G	Active Corporate Bond – All Stocks	16,990,760	2.1	-	17,026,029	2.1
Newton	Cash	652,225	0.1	-	467,209	0.1
Schroders	Cash	616,928	0.1	-	612,773	0.1
Internal	Cash	4,800,000	0.6	-	7,446,621	0.9
ASSET SPLIT						
Growth assets		542,801,304	68.2	-	560,848,209	68.8
Bond assets		253,462,213	31.8	-	254,027,838	31.2
TOTAL		**796,263,517**	**100.0**	**-**	**814,876,047**	**100.0**

Source: Investment managers, bid value used for LGIM, NAV for Schroders and mid value used for Newton. Please note that the Internal Cash is assumed to have earned no interest over the quarter. The Cash from the Newton and Schroder portfolios has been shown separately. The Newton Cash is assumed to be held in the Bond portfolio and the Schroders Cash in the Growth portfolio.

Total may not sum due to rounding.

Total Scheme Performance

	Portfolio Return Q4 2013 %	Benchmark Return Q4 2013 %
Total Scheme	2.0	-0.4
Growth Portfolio		
Growth v Global Equity	2.7	5.3
Growth v RPI+5% p.a.	2.7	1.8
Growth v LIBOR + 4% p.a.	2.7	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	0.2	-1.8
Bond v Index-Linked Gilts (> 5 yrs)	0.2	-0.9

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.

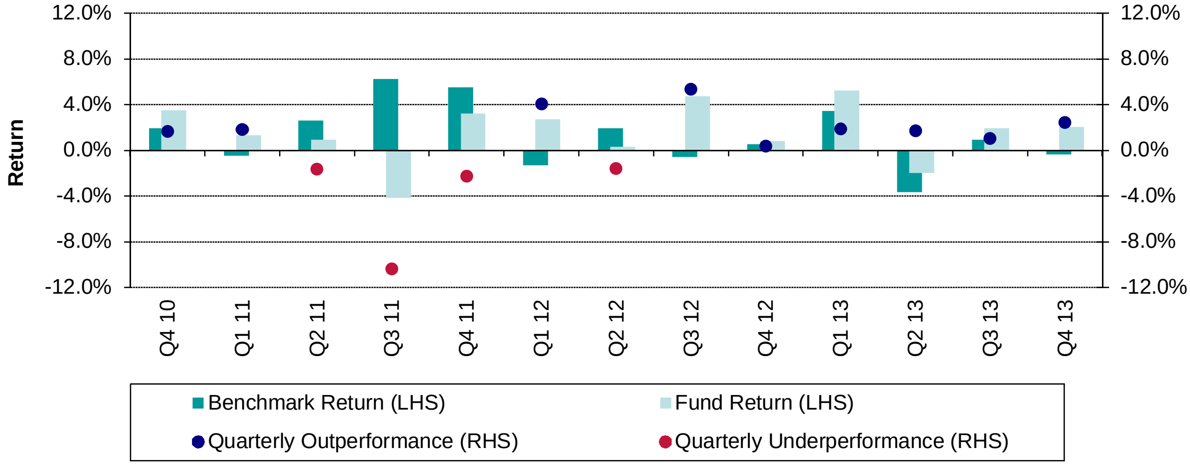
Individual Manager Performance

Manager/Fund	Portfolio Return Q4 2013 %	Portfolio Benchmark Q4 2013 %
Newton Real Return	1.4	1.1
Schroder Diversified Growth	4.0	1.8
L&G – Overseas Equity	5.1	5.2
Newton Corporate Bond	-0.2	-0.4
Schroder Corporate Bond	0.7	-0.1
L&G – Corporate Bond	0.2	0.0

Source: Investment managers, Thomson Reuters. Performance is money-weighted and based on bid values for LGIM, NAV for Schroders and mid values for Newton.

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 and outperformed the liability benchmark return by 2.4%. This was due to positive performance primarily from the growth funds.

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.

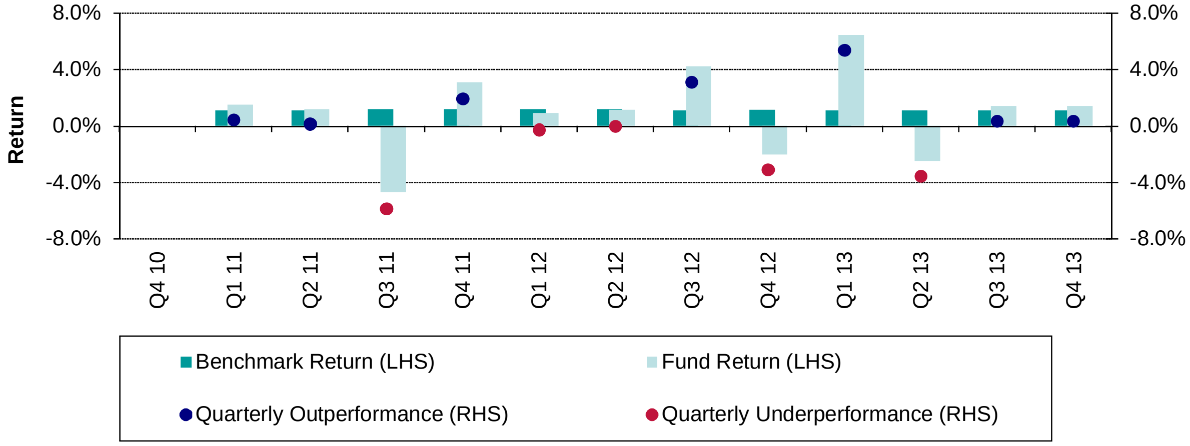
The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns except for the Newton Corporate Bond Fund. The L&G Overseas Equities was the best performing fund in absolute terms, while on a relative basis, the Schroder Diversified Growth Fund was the best performing fund which outperformed its benchmark return by 2.2%.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 2.6%. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio, however, outperformed the RPI +5% and LIBOR +4% in the same period. The Growth portfolio's positive absolute 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 2.0%) and the Over 5 Years Index Linked Gilts Index (by 1.1%).

Section Three – Manager Performance

Newton - Real Return Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund returned 1.4% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby outperforming by 0.3%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 3.9%.

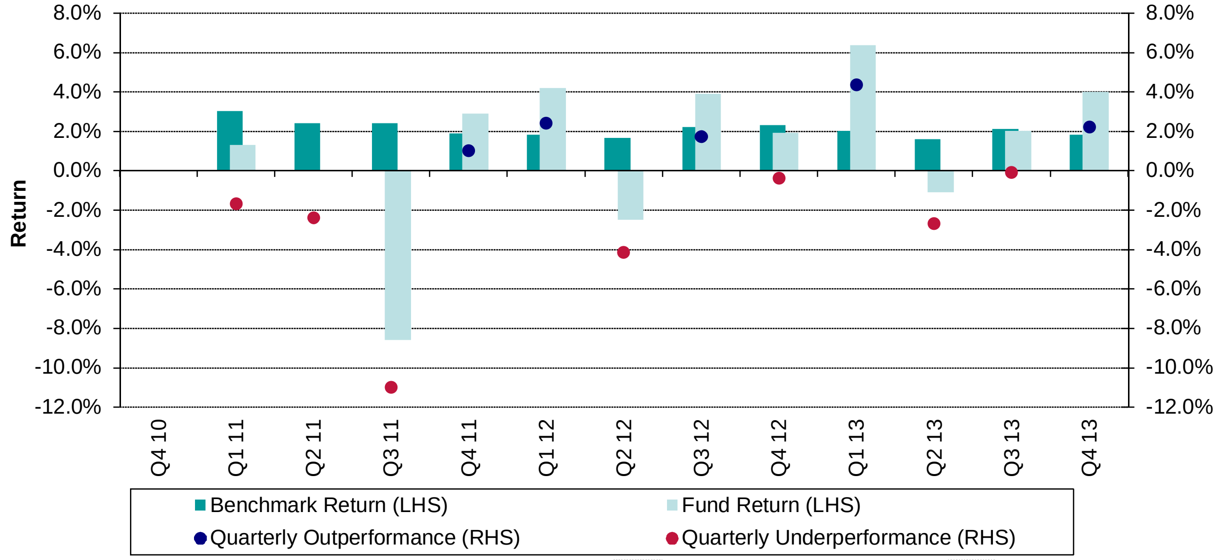
The Real Return Fund outperformed its benchmark and target over the quarter, but underperformed equities. The Fund's equity holdings, particularly those in the telecoms and healthcare performed well due to improving investor sentiment. Exposure to infrastructure was also positive.

The US Federal Reserve's 'Tapering' decision and the improved strength of sterling was disadvantageous for the Fund's Government Bond holdings and the US Treasury positions. The impact of the fall in the price of Gold on both physical and Gold mining companies held in the Fund was also detrimental.

The Fund sought to diversify its equity exposure over the quarter, with a consequent increase in the equity holding. Holdings such as Orkla, Nokia, and Dexus, have been added as Newton expect these funds to provide a strong income stream as well as bringing further diversification to the portfolio.

Over the 12 month period, the Fund returned 6.4% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 14.6%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 4.0% compared to its RPI + 5% p.a. portfolio benchmark return of 1.8% and outperformed by 2.2%. The Fund underperformed the notional 60/40 global equity benchmark by 1.3% over the quarter.

The Fund outperformed its benchmark over the quarter, producing a positive return, but fell short of its global equity composite comparator. The Fund's exposure to developed market equities was the main driver of performance, with allocations to Global and US equities adding significantly to the total return.

Property, high yield debt, infrastructure and currency also added to performance.

The largest detractors from performance were the Fund's Commodities and Hedge Fund exposures. Returns from Commodities were mixed as the broad index was flat. However, there was a wide divergence in the underlying Commodities sectors, with Energy delivering a positive return of 6% and Gold falling over 9%.

In terms of foreign exchange, the Fund's short position in the Japanese yen and the Canadian dollar boosted returns. However, the short position in Sterling detracted from returns. The Fund increased its exposure to sterling over the quarter in recognition of the stronger than expected improvement in UK economic data.

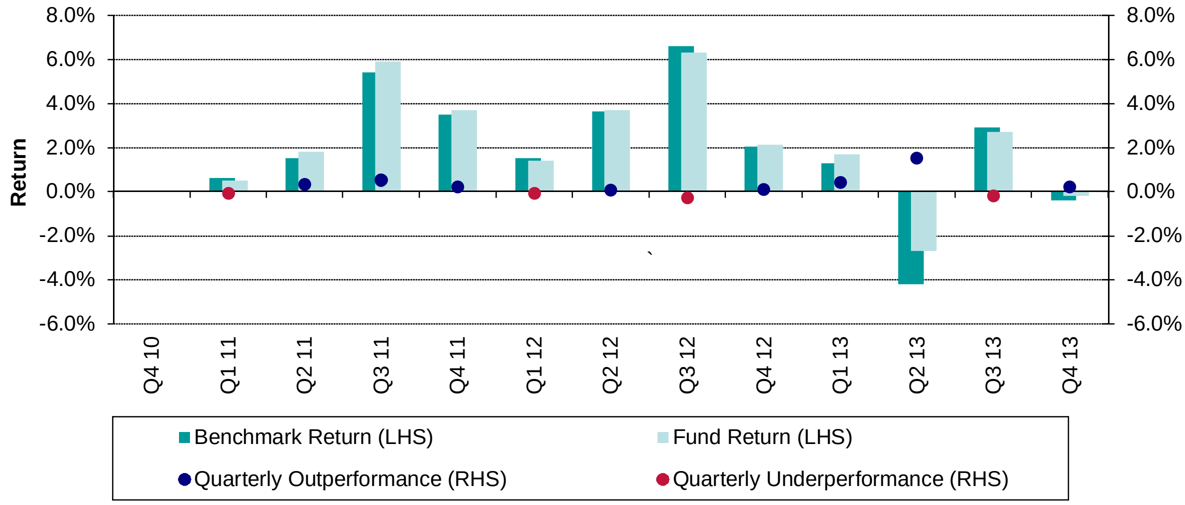
Over the 12 month period, the Fund returned a strong absolute return of 11.6% versus the benchmark return of 7.8%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 9.4%.

Asset allocation for growth managers: movement over the quarter

	Q4 '13 Newton %	Q4 '13 Schroder %	Q3 '13 Newton %	Q3 '13 Schroder %
UK Equities	14.2	2.2	15.1	4.0
Overseas Equities	45.5	51.4	40.9	47.7
Fixed Interest	17.2	-	18.8	-
Corporate Bonds	10.2	3.7	10.3	8.5
High Yield	-	11.4	-	12.3
Private Equity	-	1.1	-	1.2
Commodities	2.6	2.8	3.3	7.1
Absolute Return	-	7.5	-	6.4
Index-Linked	1.2	-	1.3	-
Property	-	2.9	-	2.3
Cash/Other	9.1	17.0	10.3	10.5
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers.

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

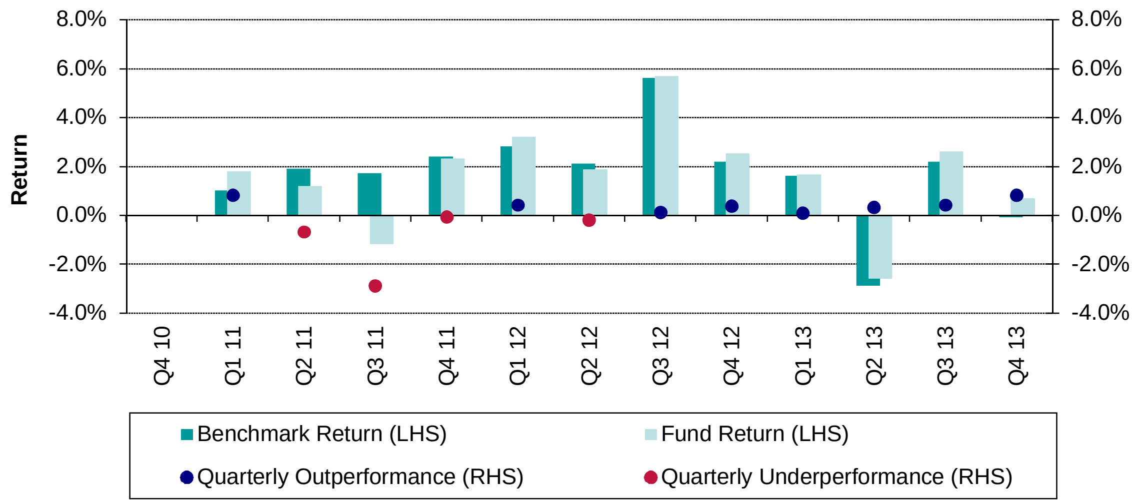


Source: Investment manager.

The Newton Corporate Bond portfolio outperformed its benchmark by 0.2%; it returned -0.2% versus the benchmark return of -0.4%. Overall, the Fund's duration was shorter than the comparative index which helped the outperformance over the quarter.

Over the 12 month period, the Fund returned 0.4% against the benchmark return of -0.6%.

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

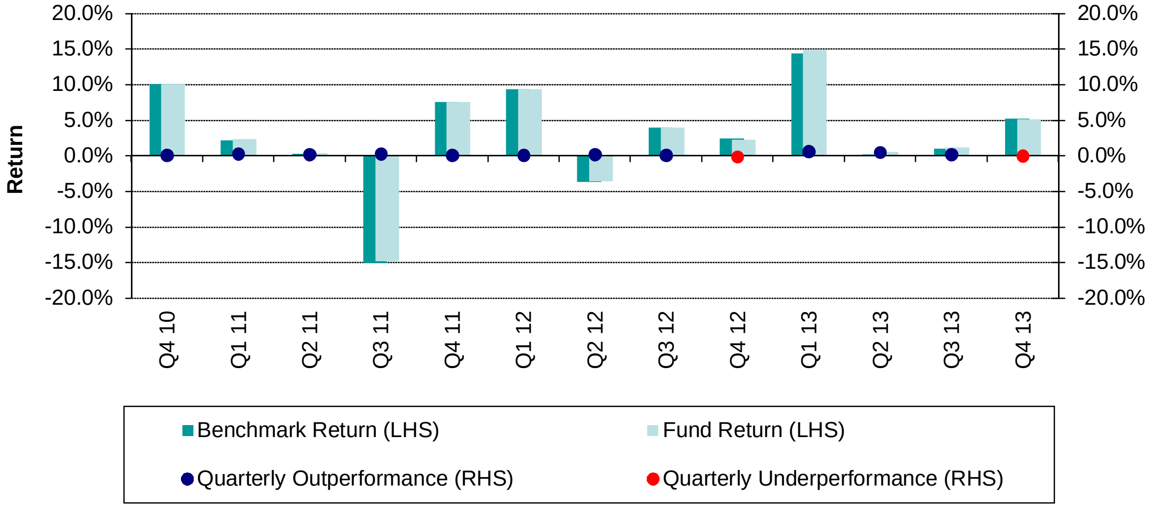


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed its benchmark by 0.8%, returning 0.7% versus the benchmark return of -0.1%. This is mainly attributed to security selection, although an overweight credit bias at the beginning of the period, and underweight to interest rate duration added to the relative performance.

Over the 12 month period, the Fund returned 2.4% versus the benchmark return of 0.8%.

L&G – Overseas Equities



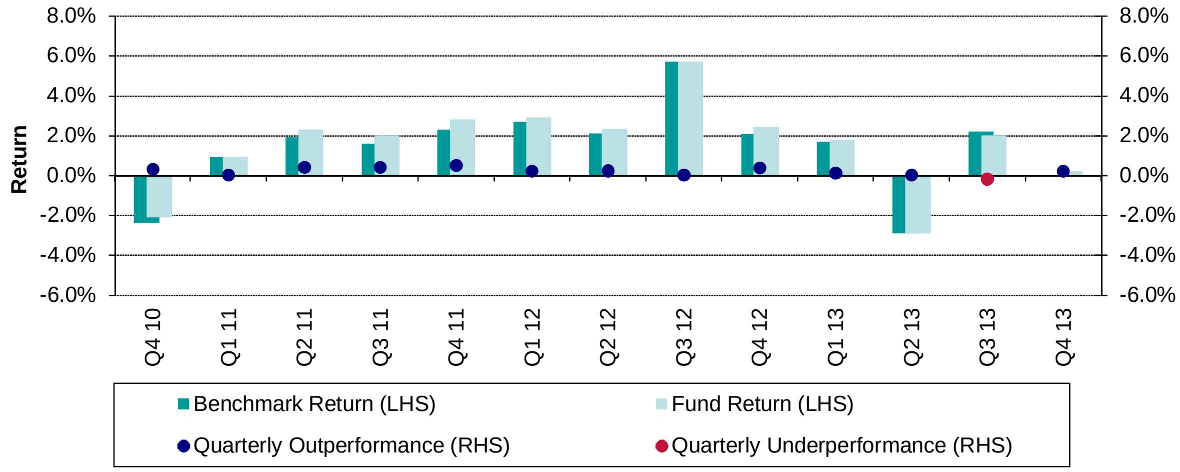
Source: Investment manager.

Over the fourth quarter of 2013, the Fund underperformed the benchmark return marginally by 0.1% and produced an absolute return of 5.1%.

The Fund generated an absolute return of 22.7% against the benchmark return of 22.7% and tracked its benchmark over the 1 year period.

Over the 3 year period, the Fund return was 8.9% p.a. against the benchmark return of 8.8% p.a. thus outperformed the benchmark by 0.1% p.a.

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



Source: Investment manager.

Over the quarter, the Fund outperformed its benchmark by 0.2% and produced an absolute return of 0.2% compared to benchmark return of 0.0%.

The Fund outperformed during the quarter mainly as a result of credit selection. It was also beneficial, that over a period where credit outperformed, that the Fund was overweight credit risk as compared with the benchmark.

In addition, the overweight exposure to Financials, particularly lower tier 2 Banks and Insurance added value both in terms of stock and sector selection.

The Fund's exposure to Dollar denominated Corporate Bonds added value over the period, following a period of extended underperformance. Additionally, holdings within 'collaterised' credit debt contributed to performance. LGIM particularly like the yields available in these bonds taking into account the relative 'safety' of the sector.

However, exposure to the Media sector detracted from performance. Particularly, holdings in Time Warner underperformed due to concerns regarding the Charter bid.

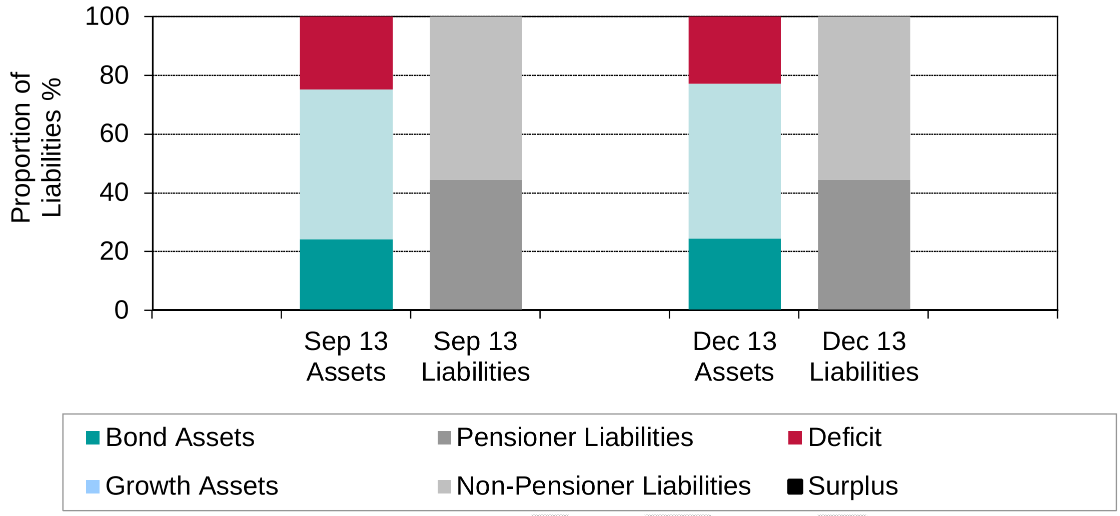
Over the 12 month period, the Fund has produced return of 1.0% compared with the benchmark return of 0.9%.

The Fund has produced return of 7.6% p.a. compared with the benchmark return of 6.8% p.a.

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

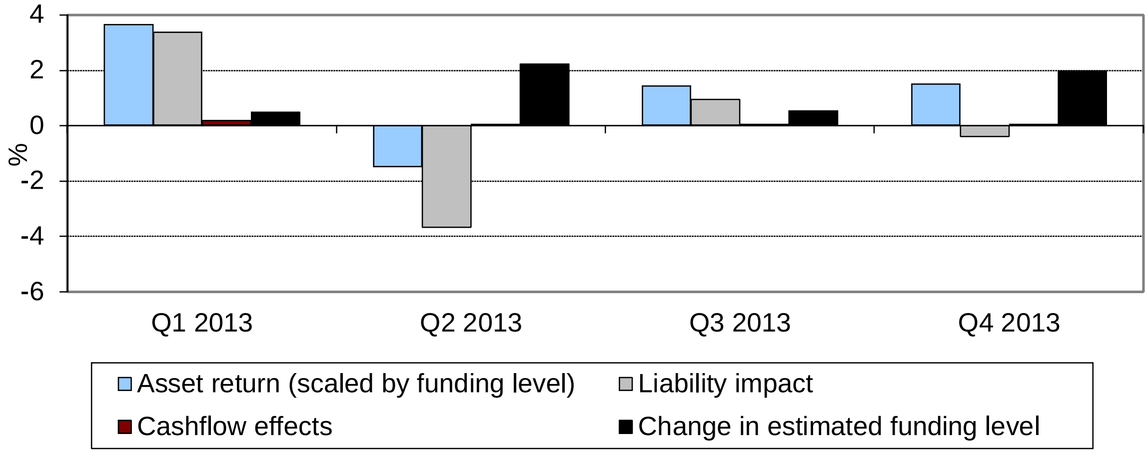


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the 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 2.0%, due to a decrease in expected liabilities coupled with an increase in the assets. The Scheme was approximately 77.1% funded as at 31 December 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 2.0% due to a decrease in the value of the liabilities coupled with an increase in asset value.

Overall, Q4 2013 has been a positive quarter for the Scheme in terms of the funding level.

Section Five – Summary

Overall this has been a positive quarter for the Scheme as equity and bond markets performed positively and the funding level has improved by 2.0%.

In absolute terms, the Scheme's assets produced a return of 2.0% over the quarter. All the underlying funds of Growth and Bond portfolios produced positive absolute returns except for the Newton Corporate Bond Fund.

In relative terms, the Scheme outperformed the liability benchmark return (see page 19) by 2.4%. All the underlying funds outperformed their respective benchmarks except for the L&G Overseas Equity which only marginally underperformed.

The combined Growth portfolio underperformed a notional 60/40 global equity return producing a positive absolute return of 2.7%.

The combined Bond Portfolio outperformed the Over 15 Year Gilts Index by 2.0% and the Index Linked Gilts (>5 Years) Index by 1.1%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a positive impact on the Scheme's estimated funding level which was 77.1% as at 31 December 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.

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