London Borough of Barnet Pension Fund

Quarterly update to 31 March 2015

Contents

Jignasha Patel CFA

Consultant

The St Botolph Building,
138 Houndsditch, London.
EC3A 7AW

Tel: 0207 895 7706
jignasha_patel@jltgroup.com

Bernard Nelson FIA

Senior Consultant

Bond House, 3 The Bourse
Boar Lane, Leeds.
LS1 5EN

Tel: 0113 203 5806
bernard_nelson@jltgroup.com

1 Executive Summary

- Over Q1 2015, the total scheme assets returned 4.2%. This was significantly above the liability benchmark return of 2.8%. As a result the scheme's estimated funding level has increased to around 76.1% as at 31 March 2015.

- Newton's Real Return Fund and Schroders' Diversified Growth Fund produced modest returns over the quarter of 4.1% and 4.3% respectively. This was significantly below L&G's overseas equity fund of 7.8%.

- The Corporate Bond funds performed strongly over the quarter against a background of falling bond yields.

- Since the implementation of the current investment strategy, the 'bond' portfolio outperformed the 'growth' portfolio by 4.4% pa. (see section 4 for more details).

- Since December 2010 the Schroder DGF has outperformed the Newton RRF, but both have returned less than the UK and overseas equity markets (see section 4 for more details).

2 Market update

Introduction

The tables below summarise the various market returns to 31 March 2015, to relate the analysis of your Scheme's performance to the global economic and market background.

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	**%**	**%**	**% p.a.**
UK Equities	4.7	6.6	10.6
Global Developed (MSCI World)	7.6	19.7	15.6
USA	6.4	26.4	19.1
Europe	10.8	6.8	13.1
Japan	16.4	27.1	12.7
Asia Pacific (ex Japan)	9.5	20.0	9.4
Emerging Markets (MSCI)	7.4	13.2	3.2
Frontier Markets (MSCI)	2.0	8.7	13.5
Property	3.0	18.3	11.4
Hedge Fund	2.6	6.1	6.8
Commodities	-3.6	-33.0	-14.9
High Yield	5.4	9.4	9.0
Emerging Market Debt	2.0	5.6	5.4
Senior Secured Loans	2.4	4.1	6.6
Cash	0.1	0.5	0.5

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	**%**	**%**	**% p.a.**
UK Gilts (>15 yrs)	4.1	27.0	10.0
Index-Linked Gilts (>5 yrs)	3.3	21.1	8.9
Corp Bonds (>15 yrs AA)	5.2	21.8	11.3
Non-Gilts (>15 yrs)	5.0	21.6	11.8

* Subject to 1 month's lag
Source: Thomson Reuters and Bloomberg

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

Change in Sterling	3 Mths	1 Year	3 Years
	%	**%**	**%**
Against US Dollar	-4.8	-11.0	-2.4
Against Euro	7.3	14.3	4.8
Against Yen	-4.8	3.7	10.6

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	**%**	**%**
UK Equities	-0.04	-0.08	-0.12
UK Gilts (>15 yrs)	-0.19	-1.20	-1.03
Index-Linked Gilts (>5 yrs)	-0.16	-0.83	-0.82
Corp Bonds (>15 yrs AA)	-0.31	-1.19	-1.52
Non-Gilts (>15 yrs)	-0.36	-1.22	-1.51

Yields as at 31 March 2015	% p.a.
UK Equities	3.33
UK Gilts (>15 yrs)	2.23
Real Yield (>5 yrs ILG)	-0.93
Corporate Bonds (>15 yrs AA)	3.10
Non-Gilts (>15 yrs)	3.37

Inflation Indices	3 Mths	1 Year	3 Years
	%	**%**	**% p.a.**
Price Inflation - RPI	-0.2	0.9	2.2
Price Inflation - CPI	-0.4	0.0	1.5
Earnings Inflation *	0.7	1.6	1.4

Asset Class	Factors Affecting the Market	
	Positive	Negative
UK Equities	According to the Office for Budget Responsibility (OBR), the UK economy grew by 2.6% in 2014, its strongest level in over six years and faster than any other major advanced economy in the world. The OBR revised the UK GDP growth estimate to 2.5% for 2015, from its earlier prediction of 2.4%.	The uncertainty around the outcome of the general election scheduled for May 2015 is likely to be a headwind for the equity market in the near term. This uncertainty has led some global investors to withdraw from UK-exposed equity funds. According to data from Emerging Portfolio Fund Research (EPFR), funds with exposure to UK equities have had outflows amounting to USD 2.2 billion since the start of 2015.
	The UK unemployment rate remained unchanged at 5.7% over the three months to January 2015. Moreover, the number of people claiming Jobseeker's Allowance fell to 791,200 in February, its lowest level since 2008.	The UK annual inflation rate fell to 0% in February 2015 from 0.3% in January 2015 as the slide in the oil prices continued to put downward pressure on inflation. February recorded the lowest rate of Consumer Prices Index (CPI) inflation since the estimates of the measure began in 1988.
Overseas Equities		
North American Equities	According to the Bureau of Economic Analysis, the US economy grew by 2.4% during 2014, up from 2.2% growth witnessed in 2013. This marks the best full-year growth since 2010 for the world's largest economy.	In March 2015, the Federal Open Market Committee (FOMC) dropped the words "remain patient" from its post-meeting statement. The Federal Reserve (Fed) had been using those words in its previous statements to indicate its dovish stance on the monetary policy front. Having altered the language, the Fed has opened the door to the possibility of the first interest rate hike since the beginning of the credit crisis.
	According to the Bureau of Labor Statistics, the US economy added an average of 197,000 jobs per month during Q1 2015. The unemployment rate fell to 5.5% at the end of March 2015 from 5.6% as at the end of December 2014.	According to Factset, earnings of companies comprising the S&P 500 index are expected to decline by 4.8% year-over-year in Q1 2015, as the impact of a stronger US dollar starts to weigh on corporate profits. If the estimates turn out to be correct, the index will see earnings decline for the first time since Q3 2012. Exports account for over 30% of the S&P 500 revenues and nearly 40% of the profits.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
European Equities	- The European Central Bank (ECB) embarked on a new episode in its history by announcing a quantitative easing (QE) programme amounting to up to EUR 60 billion a month, largely comprising purchases of Eurozone sovereign debt. The asset purchase programme, which commenced in March 2015, is expected to last until September 2016 and to add approximately EUR 1.1 trillion to the ECB's balance sheet.	- Towards the end of February, Greece secured a four-month extension to its bailout programme. However, despite having secured the crucial extension, Greece runs the risk of running out of cash in April 2015 unless it secures fresh aid, implying that the chances of Greece's exit from the Eurozone cannot be ruled out completely.
	- The Eurozone economy expanded at a stronger-than-expected 0.3% quarter-on-quarter growth rate in Q4 2014, faster than the 0.2% growth recorded in Q3 2014. Additionally, the European Commission upgraded its growth forecasts for the Eurozone to 1.3% from 1.1% for 2015 and to 1.9% from 1.7% for 2016.	- Eurozone inflation continues to be in negative territory. Data provided by Eurostat indicates that the annual rate of inflation for the region was at -0.3% in February 2015, marginally higher than -0.6% in January 2015.
Japanese Equities	- After two consecutive quarters of weakness, the Japanese economy returned to growth as GDP expanded at an annualized rate of 1.5% in Q4 2014. The economy had slipped into a tax-induced recession after shrinking at an annualised rate of 1.9% in Q3 2014, following a 7.1% contraction in Q2 2014.	- Excluding the effects of a hike in levy, Japan's inflation rate eased to 0% for the month of February 2015. With low oil prices and tepid consumer demand currently acting as a drag on inflation, the Bank of Japan's (BOJ) chief admitted that it would be "very challenging" to pull the country out of deflation. The BOJ is currently targeting a 2% annualised rate of inflation.
	- Japan's current account surplus surged 140.5% year-on-year in February 2015 to JPY 1.44 trillion—the highest since September 2011. A weaker Yen boosted income from abroad, while lower oil prices pushed down imports. The current account is the broadest measure of the country's global trade which also accounts for trades in services, tourism and returns on foreign investments in addition to trade of goods.	

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Asia Pacific (excluding Japan) Equities	Asia Pacific (excluding Japan) equities finished Q1 2015 with strong positive gains of 9.5%, as measured by the FTSE Asia Pac ex Japan Index. Further easing measures by the Chinese authorities and announcement of a trial programme connecting the stock exchanges of Shenzhen and Hong Kong boosted equities during the quarter.	The South Korean economy recorded a modest pace of seasonally adjusted 0.3% quarter-on-quarter growth in Q4 2014—the slowest growth rate since Q3 2012. A slowdown in investments and weak exports were the major detractors to growth for Asia's fourth largest economy.
	In February 2015, the Reserve Bank of Australia lowered the benchmark cash rate by 0.25% to 2.25%, the first cut since August 2013. This was aimed at stimulating business activity and household spending in the face of a sluggish economic growth amidst low commodity prices environment.	
Emerging Markets Equities	Emerging market equities posted positive gains of 7.4% in Q1 2015, as measured by the MSCI Emerging Market Index. Returns were led by Chinese stocks which surged as the People's Bank of China (PBoC) lowered the reserve requirement ratio by 0.5% in February 2015 before cutting interest rates in March 2015 to boost economic growth.	Turkey's stock market declined over Q1 2015 as the Lira dropped to all-time lows after the country's central bank cut interest rates by 0.5% in January 2015. Foreign investors were concerned that the political pressure on the central bank to further lower interest rates will put downward pressure on the currency.
	In January 2015, India became the fastest growing major economy in the world in Q4 2014, surpassing China after authorities changed the way GDP growth for the country is measured. Under the new method, the economy expanded at an annualised rate of 7.5% as compared to 7.3% recorded by China in Q4 2014. This change primarily includes a shift in the base year and switching to a market-price based calculation of the GDP.	Brazilian Real plunged over Q1 2015 as fears over a political crisis and possible loss of investment-grade credit rating continued to weigh on the currency. A weakening economy coupled with rising inflation and ongoing corruption scandals at the state-run energy company Petroleo Brasileiro (Petrobras) added to the woes.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Gilts	A deceleration in inflation contributed to the performance of gilts over Q1 2015. The CPI stood at 0% in February 2015, well below the Bank of England's (BOE) target of 2%.	The Markit/CIPS purchasing managers' index (PMI) for UK services sector (accounting for around 78% of the GDP), improved to 58.9 in March 2015 from 56.7 in February 2015. Also, estimates suggest that Britain's GDP rose by 0.7% quarter-on-quarter in Q1 2015, up from 0.6% growth witnessed in Q4 2014.
	The UK economy continues to struggle to improve output from existing labour and assets. The Office for National Statistics (ONS) reported a 0.2% fall in UK's labour productivity for Q4 2014. Current productivity remains below pre-crisis levels. Stagnancy in productivity hampers growth in both wages and economy, in turn boosting demand for gilts.	Gilt yields surged in February 2015, after falling in January, on account of the uncertainty around the outcome of the general elections and a sharp rise in the UK budget deficit in December 2014 (reported in January 2015). The unusual rise in UK government borrowing was on account of GBP 2.9 billion European Union contributions that became due in December 2014 .
Index-Linked Gilts	Limited issuance of new index-linked gilts compared with their demand drivers, i.e. pension liabilities, contributed to the asset class returns in Q1 2015.	Falling inflation remains a headwind for this asset class. The inflation rate fell to 0% in February 2015, down from 0.5% in December 2014, significantly below the BOE's target of 2%.
	Linkers outperformed fixed gilts in Q1 2015 as the longer duration offered by this asset class compared to traditional government bonds continued to attract investors.	
Corporate Bonds	Investment grade credit continues to be an attractive asset class. Central bank policies remain supportive, while regulatory action is forcing banks to improve their creditworthiness. Also, bond defaults remain low as corporates are increasingly reporting improved operational performance.	Credit spreads are very low, which leaves them vulnerable to any adverse news that could impact this asset class.
Commodities	Crude oil price stabilised over Q1 2015 after a sharp fall over the second half of 2014. Oil price ended the quarter at USD 55.1, marginally lower than USD 57.3 at the end of Q4 2014, after increasing to nearly USD 62.6 in late February 2015. Oil prices had plunged by more than half in 2014 amidst a global supply glut and OPEC's decision not to cut its output despite falling prices.	Metals prices fell over Q1 2015 mainly on account of concerns over global growth, particularly China. The country accounts for nearly half of the world's metal consumption. Iron ore prices fell the most during the quarter, dropping 14.7% due to a surge in production, mainly from the new capacities in Australia. Nickel, copper, lead, zinc and tin prices, all inched downwards on excess supply concerns. Also, aluminium prices (up by 9.8% in 2014 due to declining inventories and production cuts outside China) fell by 7.1% in Q1 2015.

Asset Class	Factors Affecting the Market	
	Positive	Negative
Property	Commercial property values rose by 3.3% over three months to February 2015. The Office sector continues to lead the market with 4.3% gains during the same period, followed by Industrials and Retail segments with 4.0% and 2.1% gains, respectively.	The Construction PMI fell to 57.8 in March 2015, down from 60.1 in February 2015—the lowest level in the first three months in 2015.
	Mortgage approvals rose to 61,780 in February 2015, from 60,710 in January 2015.	

3 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	264,250,494	30.1	-	275,111,100	30.0
Schroder Investment Management Limited (Schroder)	Diversified Growth	271,913,590	31.0	-	283,658,006	31.0
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	48,211,546	5.5	-	51,958,089	5.7
Newton	Corporate Bond	140,970,588	16.1	-	147,310,675	16.1
Schroder	All Maturities Corporate Bond	128,297,429	14.6	-	132,131,163	14.4
L&G	Active Corporate Bond – All Stocks	19,196,790	2.2	-	19,789,472	2.2
Newton	Cash	730,460	0.1	-	428,283	0.0
Schroders	Cash	711,056	0.1	-	731,355	0.1
Internal	Cash	2,842,075	0.3	-	4,508,000	0.5
Asset split						
Growth assets		587,928,760	67.0	-	615,966,551	67.3
Bond assets		289,195,267	33.0	-	299,659,593	32.7
Total		**877,124,027**	**100.0**	**-**	**915,626,143**	**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 Q1'15 (%)	Benchmark return Q1'15 (%)	Portfolio return 12 Months (%)	Benchmark return 12 months (%)
Total Scheme	4.2	2.8	11.2	15.6
Growth portfolio				
Growth vs. global equity	4.2	5.9	8.7	11.8
Growth vs. RPI+5% p.a.	4.2	1.1	8.7	6.0
Growth vs. LIBOR + 4% p.a.	4.2	1.1	8.7	4.6
Bond portfolio				
Bond vs. over 15 year gilts	3.7	4.1	14.8	27.0
Bond vs. index-linked gilts (> 5 yrs.)	3.7	3.3	14.8	21.1

The Growth portfolio excludes L&G equities. The global equity benchmark is 60% FTSE All-Share Index, 40% MSCI World Index. *Liability benchmark (see page 18).

The Bond portfolio excludes L&G Corporate Bond Fund.

The Total Scheme return is shown against the liability benchmark return (see page 18). The Growth portfolio return is the combined Newton and Schroder DGF portfolios and is shown against a notional 60/40 global equity benchmark and the underlying benchmarks of each fund for comparison purposes. The Bond portfolio is the combined Newton and Schroder Corporate Bond Portfolios and is shown against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

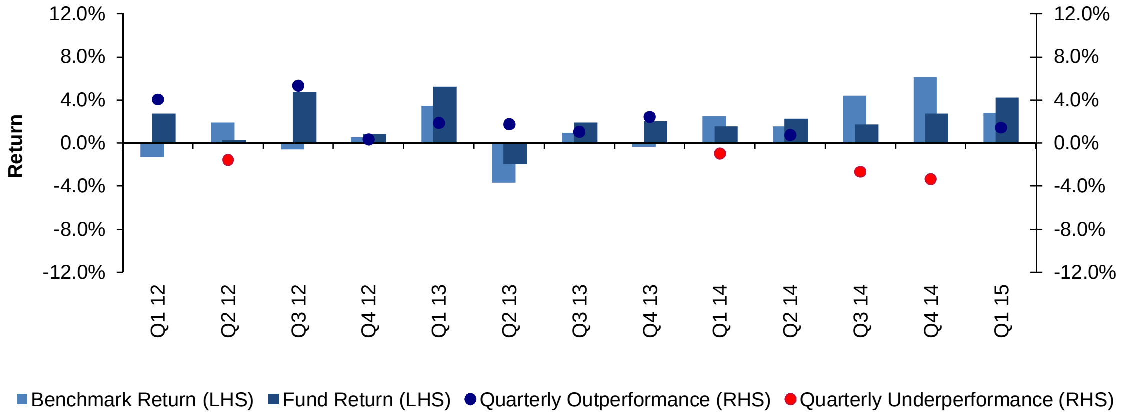
Individual manager performance

Manager/fund	Portfolio return Q1'15 (%)	Benchmark return Q1'15 (%)	Portfolio return 12 Months (%)	Benchmark return 12 months (%)
Newton Real Return	4.1	1.1	6.7	4.5
Schroder Diversified Growth	4.3	1.1	10.6	6.0
L&G – Overseas Equity	7.8	7.7	20.0	19.9
Newton Corporate Bond	4.3	4.7	17.5	19.7
Schroder Corporate Bond	3.0	3.3	11.9	13.2
L&G – Corporate Bond	3.1	3.2	13.4	13.1

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 above 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.

The Scheme achieved a return of 4.2% over the quarter and outperformed the liability benchmark return by 1.4%. The over 15-year gilt yield, upon which the liability analysis is based, decreased over the quarter resulting in an increase in the estimated value of the liabilities.

The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns. The L&G Overseas Equity Fund was the best performing fund in absolute terms, while on a relative basis, all the underlying funds underperformed their respective benchmarks except for the DGFs which significantly outperformed the respective cash benchmarks and the L&G Overseas Equity Fund which marginally outperformed.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark by 1.7% over the quarter. It is usual to expect DGF funds to underperform equities in rising markets and conversely outperform in falling markets. The Growth portfolio outperformed the RPI +5% benchmark and the LIBOR +4% benchmark by 3.1% each over the same period. The Growth portfolio's positive absolute return over the quarter was driven by the performance of both the DGF Funds.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, underperformed the Over 15 Year Gilts Index (by 0.4%) and outperformed the Over 5 Years Index Linked Gilts Index (by 0.4%).

Over the twelve months to 31 March 2015

The Scheme achieved a return of 11.2%, which was 4.2% below the liability benchmark return of 15.6%.

The three corporate bond funds performed strongly in absolute terms against a background of falling yields, but underperformed the return from long dated fixed interest and index-linked gilts.

Although both DGF funds outperformed their respective benchmarks, they underperformed the return on global equities.

4 Longer Term Performance

The table below shows the performance of the scheme's assets over the last four years, i.e. since the implementation of the current investment strategy in December 2010.

	2011 (%)	2012 (%)	2013 (%)	2014 (%)	Q1 2015 (%)	4.25 Years (%pa)
Total scheme	**1.0**	**8.7**	**7.0**	**8.3**	**4.2**	**6.9**
Growth portfolio	**-1.8**	**5.8**	**8.9**	**5.2**	**4.2**	**5.2**
UK equity	-3.5	12.3	20.8	1.2	4.7	8.0
Overseas equity	-6.9	12.1	21.2	12.2	7.6	10.5
RPI + 5% p.a.	9.8	8.1	7.7	7.0	1.1	7.9
LIBOR + 4% p.a.	4.5	4.5	4.5	4.5	1.1	4.5
Bond portfolio	**8.3**	**13.9**	**1.3**	**13.9**	**3.7**	**9.6**
Over 15 year gilts	26.3	2.9	-5.9	26.1	4.1	11.8
Index-linked gilts (> 5 yrs.)	23.3	0.5	0.6	21.4	3.3	11.1

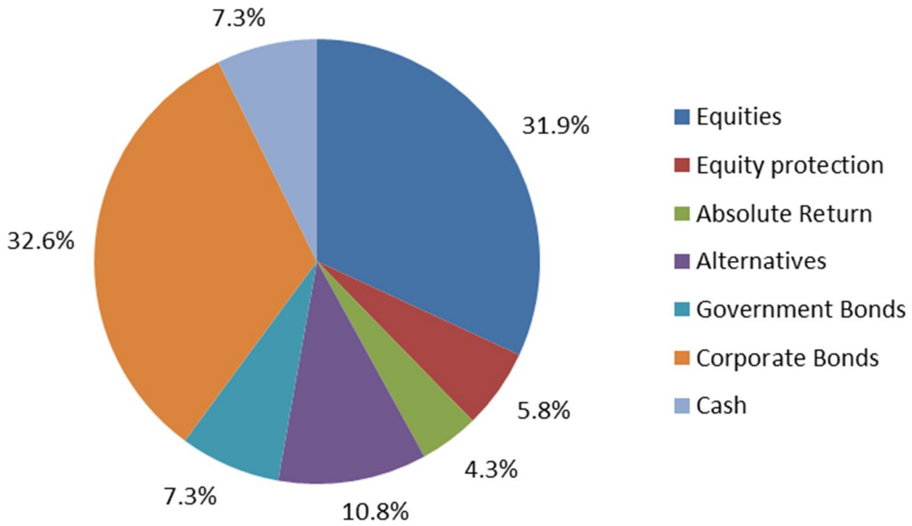
- Since the implementation of the current investment strategy, the bond portfolio has outperformed the growth portfolio by 4.4% pa.

Manager/fund	2011 (%)	2012 (%)	2013 (%)	2014 (%)	Q1 2015 (%)	4.25 Years (%pa)
Growth Assets						
Newton Real Return	0.9	4.2	6.4	3.9	4.1	4.6
Schroder Diversified Growth	-4.5	7.6	11.6	6.4	4.3	5.8
L&G – Overseas Equity	-6.1	11.9	22.7	12.3	7.8	11.0
Bond Assets						
Newton Corporate Bond	12.4	13.9	0.4	15.9	4.3	10.9
Schroder Corporate Bond	4.1	13.9	2.4	11.9	3.0	8.2
L&G – Corporate Bond	8.2	14.0	1.0	12.7	3.1	9.1

- Since the implementation of the current investment strategy, the Schroder DGF has outperformed the Newton RRF, but both have returned less than the UK and overseas equity markets.
- Newton's corporate bond fund has performed above the other bond funds, but this is due to it being benchmarked against a longer duration index.

5 Asset Allocation

The chart below sets out the Scheme's underlying asset allocation as at 31 March 2015, which takes account of how the two Diversified Growth Funds are invested and the other assets held in the portfolio.



The Scheme's overall exposure to equities was 37.7% (gross) at the end of the quarter, but taking account of the hedging positions within the Newton RRF the net exposure was 31.9%.

Exposure to government and corporate bonds was 39.9%, 10.8% was invested in alternative assets and 7.3% was held in cash.

The asset allocation of the two DGFs, before hedging of underlying equity exposure, is set out in the table below.

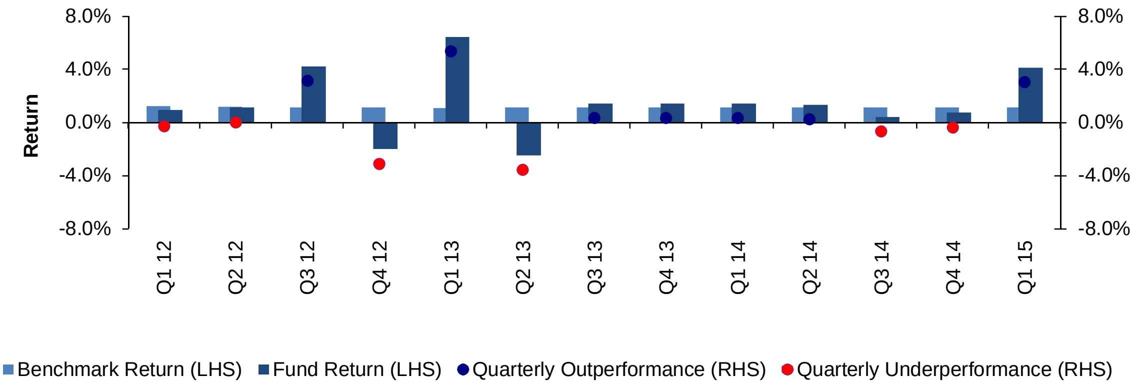
	Q1'15 Newton (%)	Q1'15 Schroder (%)	Q4'14 Newton (%)	Q4'14 Schroder (%)
Global equities	47.9	56.9	56.6	48.1
Government bonds	19.3	3.1	21.0	6.3
Corporate bonds	2.4	-	1.2	-
Convertible bonds	2.3	3.0	2.2	2.9
High yield/EMD	-	3.2	-	3.0
Private equity	-	0.7	-	0.8
Commodities	4.6	2.7	4.1	3.9
Absolute return	-	13.7	-	12.2
Other assets*	3.3	5.9	2.8	6.0
Property	-	3.3	-	3.3
Infrastructure	1.6	3.8	1.6	3.8
Cash	18.7	3.6	10.5	9.7
Total	100.0	100.0	100.0	100.0

Source: Investment managers. * Includes precious metal, renewables, asset-backed and insurance-linked securities.

6 Manager performance

6.1 Newton – Real Return Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund returned 4.1% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby outperforming by 3.0%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 1.8%.

The Fund produced a positive absolute performance, ahead of its performance objective over the quarter. The Fund's equity and bond assets both provided a positive contribution over the quarter. The Fund's cash, derivative and floating rate note holdings all detracted from performance. The notable contributors over the period were the Fund's equity positions in consumer services, basic materials, industrials, and health care. The Fund's government bond position also produced a strong contribution over the period.

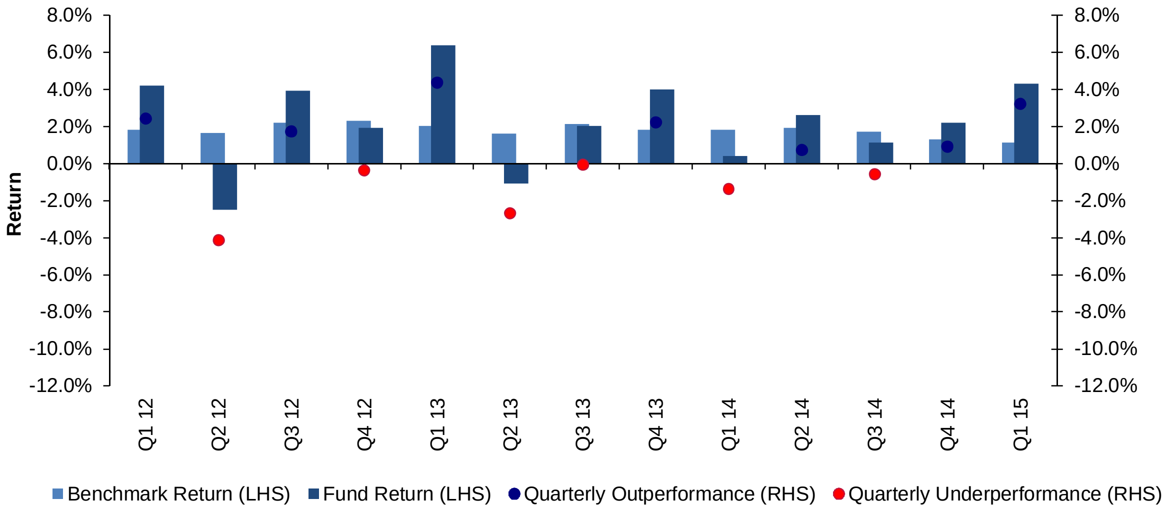
The Fund's holdings related to the utilities sector, Centrica in particular, fell in absolute value due to the fallout which followed the recent declines in the oil price and the uncertainty around the upcoming UK election. Derivative instruments also provided a negative contribution, as the short futures position on the Eurostoxx index underperformed partly due to the unexpectedly strong return from European equities. This position has now been replaced with a relatively wide 'put spread collar' which provides a little more flexibility.

Government bond exposures made a positive contribution, in particular US and Australian sovereign debt, as signs of slowing growth in China and mixed comments from the US Federal Reserve caused investors to adjust their interest rate expectations in a number of major economies, sending yields lower. The Fund's exposure to gold benefited from US dollar strength, which positively affected a number of the larger gold-mining equities and exchange traded notes held.

The Fund continues to maintain a significant proportion of its holdings in stabilising and hedging assets, as the gross exposure to return-seeking assets was reduced. Newton believe that uncertainty will persist and as a result look to balance the portfolio to counteract various possible outcomes. Over the 12 month period, the Fund returned 6.7% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 5.1%.

6.2 Schroder – Diversified Growth Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 4.3% compared to its RPI + 5% p.a. portfolio benchmark return of 1.1% and outperformed by 3.2%. The Fund underperformed the notional 60/40 global equity benchmark by 1.6% over the quarter.

The Fund outperformed against its benchmark, but underperformed versus its global equity comparator, over the quarter. The Fund's regional equity positions were the biggest contributors to the Fund's overall performance with allocations to European, Global, Japanese and UK equities all contributing positively to performance. However, commodities, emerging market equity and US equity positions detracted from performance. Allocations to absolute returns, currency, and convertible bonds also added to performance. Schroders went into the period with the expectation of continuing divergence in monetary policy across the developed world and narrow equity performance due to stretched valuations. The initial strategy was to allocate to the regions best placed to benefit from central bank's accommodative policy.

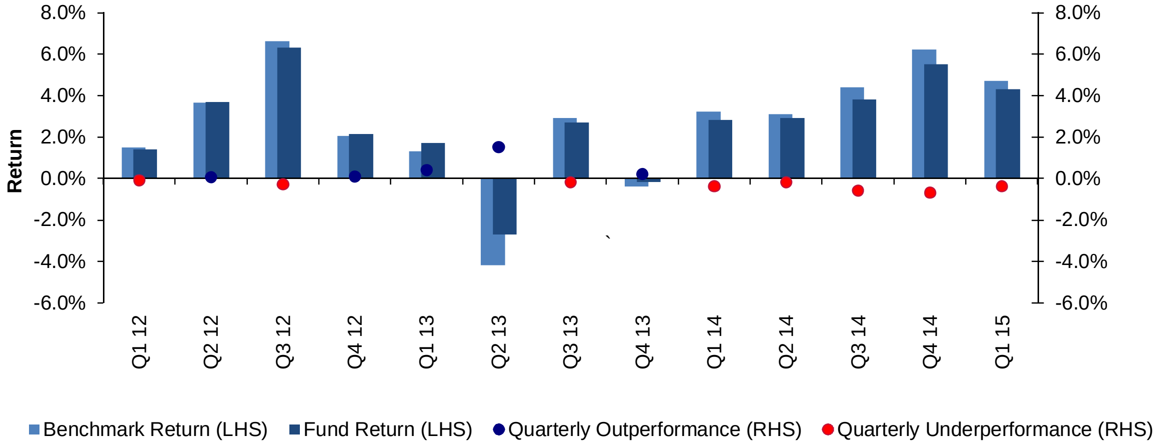
During the quarter, the Fund rotated out of US equities into European equities. The view was that the US equity market was beginning to struggle in the face of a stronger dollar. In Europe, the European Central Bank's (ECB) larger than expected stimulus injection in January piqued investor interest and led European indices higher. The Fund also increased its Canadian and Japanese equity holdings.

The Fund reduced its overall weight in US equities but did introduce a position in US banks, one of the few sectors which would benefit from higher interest rates. In March, the Fund added some tactical opportunities in emerging markets. These markets have benefited from the lower oil price and renewed stimulus from the Chinese central bank.

Over the quarter, the Fund reduced its duration position through the sale of its US and UK bond exposure. The Fund then hedged its equity and duration exposure through the use of options. The Fund's gold position was closed in the first quarter due to improved economic data in the US and a stronger US dollar. The Fund maintained its commodity exposure via a broad commodities position. Schroders expect a number of cyclically depressed commodities to recover through a combination of improved demand and reduced supply. Over the 12 month period, the Fund returned a positive absolute return of 10.6% versus the benchmark return of 6.0%. In comparison to a notional 60/40 global equity benchmark return, the Fund underperformed by 1.2%.

6.3 Newton – Corporate Bond Portfolio

Performance relative to portfolio benchmark



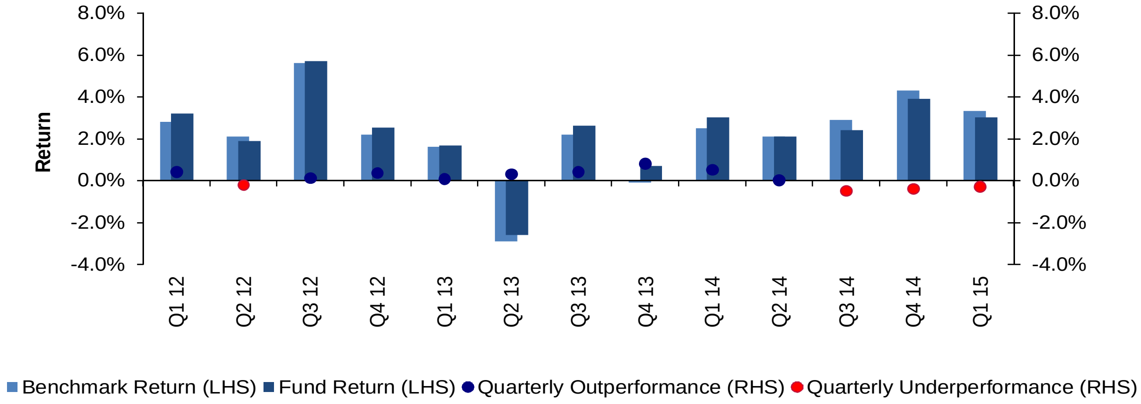
Source: Investment manager.

The Newton Corporate Bond portfolio underperformed its benchmark by 0.4%; it returned 4.3% versus the benchmark return of 4.7%. The underperformance was attributable to the Fund's overall short duration relative to the index over the period.

Over the 12 month period, the Fund returned 17.5% against the benchmark return of 19.7%.

6.4 Schroder – All Maturities Corporate Bond Portfolio

Performance relative to portfolio benchmark

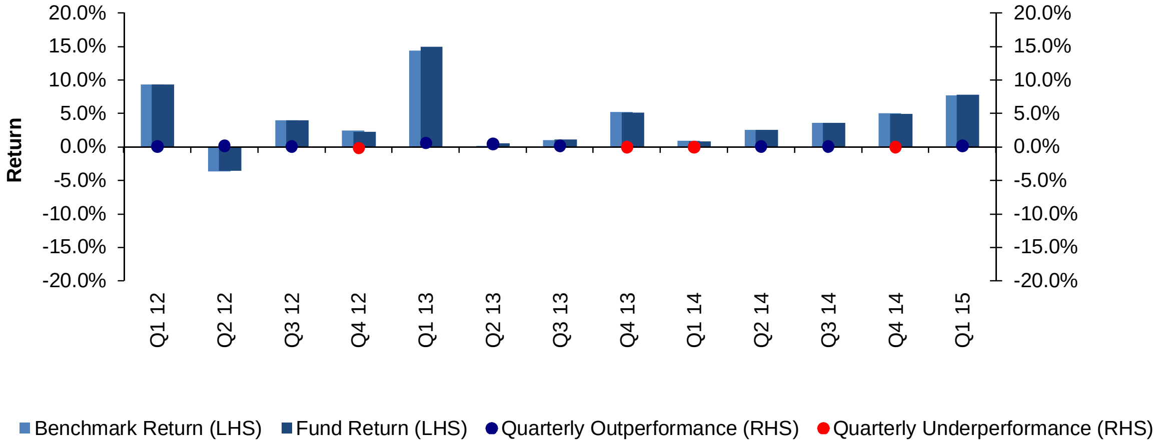


Source: Investment manager.

The Schroders Corporate Bond portfolio underperformed its benchmark by 0.3% and produced an absolute return of 3.0%. The Fund's credit selection in AAA, AA and A bonds and sectorial allocations in industrials and government related securities were negative contributors to the performance.

Over the 12 month period, the Fund returned 11.9% versus the benchmark return of 13.2%.

6.5 L&G – Overseas Equities



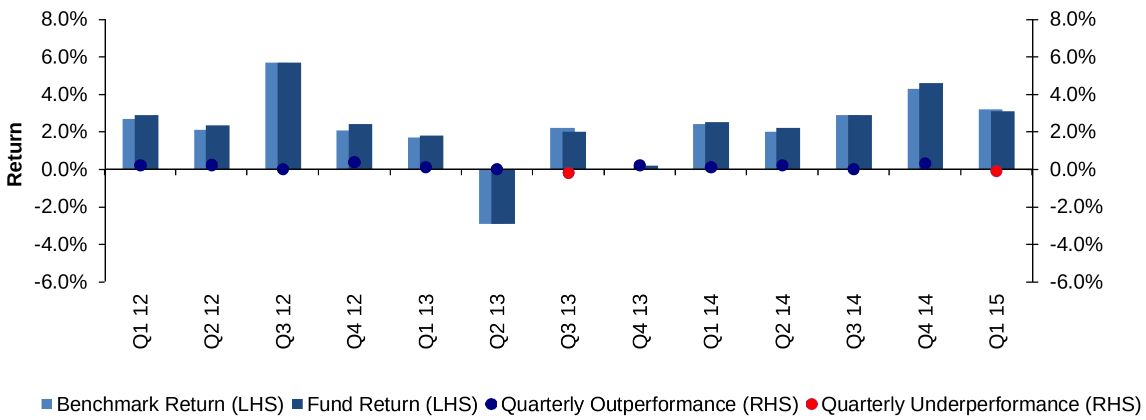
Source: Investment manager.

Over the first quarter of 2015, the Fund marginally outperformed its benchmark return by 0.1% and produced an absolute return of 7.8%.

The Fund generated an absolute return of 20.0% marginally outperforming its benchmark of 19.9% over the 1 year period.

6.6 L&G – Active Corporate bond – All Stocks Fund

Performance relative to portfolio benchmark



Source: Investment manager.

Over the quarter, the Fund marginally underperformed its benchmark by 0.1% and produced an absolute return of 3.1%.

The Fund underperformed the benchmark over the quarter mainly driven by negative credit selection particularly in the securitised and sub-sovereign sectors.

In terms of credit selection the holding in Peterborough Progress Health, in which the Fund was overweight, had a small detrimental impact. This is a Hospital PFI securitisation, which was downgraded to sub-investment grade due to a dispute over compliance with fire regulations. In addition not holding Legal & General Bonds also detracted from relative performance (L&G bonds are in the benchmark but were not held by the Fund).

The Fund was underweight holdings in sub-sovereign bonds which proved detrimental as the sector benefited from downward pressure on yields - driven by the European Central Bank (ECB) announcement on quantitative easing. In addition being overweight to collateralised bonds was negative as this sector lagged the benchmark over the quarter. In addition the Fund had some exposure to US Dollar holdings - which had a very small negative impact as these performed less well than sterling bonds over the period.

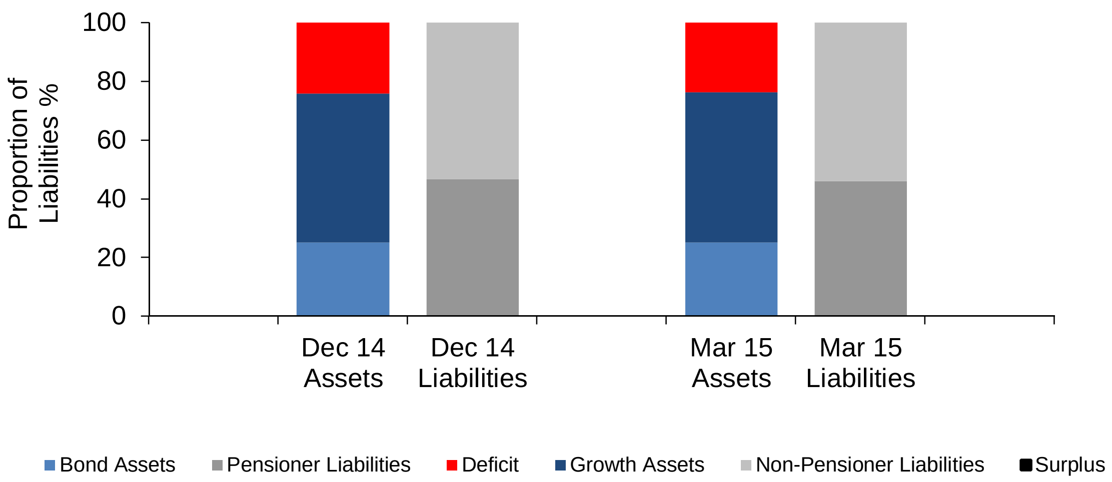
On the positive side, the Fund was underweight Utilities which proved a small positive but not sufficient to offset the negatives above. Sectors such as Utilities, which have a bias towards longer issuance, were negatively impacted by the annuity reforms and thus being underweight in this sector proved beneficial for the Fund. Also there were some positives from stock selection, namely the overweight positions in Standard Life, Heathrow Airport Holdings and Gazprom.

We note that LGIM have stated that the Fund at the quarter was positioned 'cautiously' and overall had a neutral credit risk position. Over the 12 month period, the Fund has produced a return of 13.4% compared with the benchmark return of 13.1%.

7 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



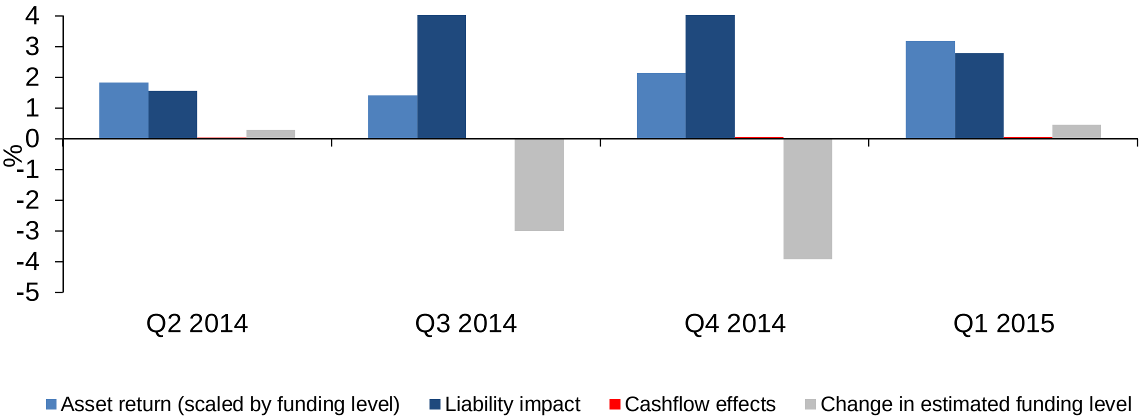
The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 1. 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 Pension Fund Committee in making informed decisions on asset allocation.

Over the quarter, the expected funding position increased by 0.5%, due to an increase in assets which was partially offset by an increase in expected liabilities. The Scheme was approximately 76.1% funded as at 31 March 2015.

The split between non-pensioner and pensioner liabilities moved in favour of non-pensioners over the quarter. The Scheme remains very underweight to Bond assets relative to its estimated pensioner liabilities (circa £549 million as at 31 March 2015); a mismatch that leaves the Scheme exposed to interest rate risk.

The "liabilities" estimated above represent the actuarial liabilities disclosed in the Actuarial Valuation report as at 31 March 2013.

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 0.5% due to an increase in assets which was partially offset by an increase in expected liabilities.

Overall, Q1 2015 has been a positive quarter for the Scheme in terms of the funding level.

8 Summary

Overall this has been a positive quarter for the Scheme as the assets increased due to positive returns and the funding level increased by 0.5%.

In absolute terms, the Scheme's assets produced a return of 4.2% over the quarter. All the underlying funds of the Growth and Bond portfolios produced positive absolute returns.

In relative terms, the Scheme outperformed the liability benchmark return by 1.4%. All of the underlying funds underperformed their respective benchmarks except for the DGFs which significantly outperformed the respective cash benchmarks and the L&G Overseas Equity Fund which marginally outperformed.

The combined Growth portfolio underperformed the notional 60/40 global equity return by 1.7% producing a positive absolute return of 4.2%.

The combined Bond Portfolio underperformed the Over 15 Year Gilts Index by 0.4% and outperformed the Over 5 Years Index Linked Gilts Index by 0.4%.

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 76.1% as at 31 March 2015.

Appendix 1:

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.

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.

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 2013, 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.

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 statistics indices	The following indices are used for asset returns: ▪ UK Equities: FTSE All-Share Index ▪ Overseas Equities: MSCI World Index ▪ 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: IBA GBP IBK LIBOR 1 Week Delayed – Offered 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.

Term	Definition
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.
Three year return	The total return on the fund over a three 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

The St Botolph Building, 138 Houndsditch,
London EC3A 7AW
Tel: +44 (0)20 7528 4000
Fax: +44 (0)20 7528 4500