London Borough of Barnet Pension Fund

Review of Investment Managers' Performance for the Second Quarter of 2015

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For and on behalf of Hymans Robertson LLP

October 2015

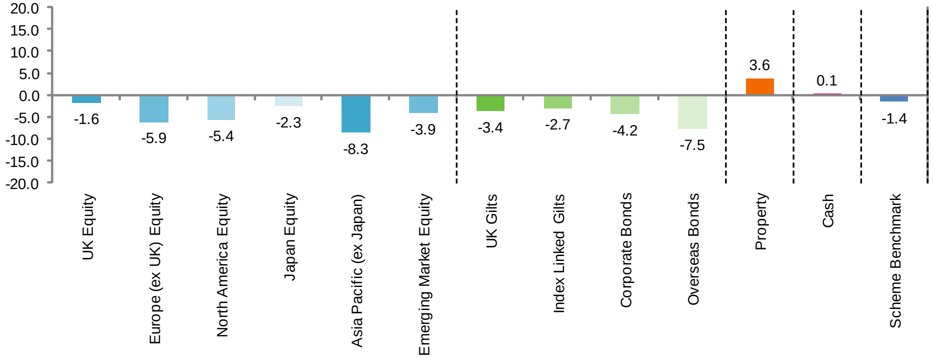
Contents

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

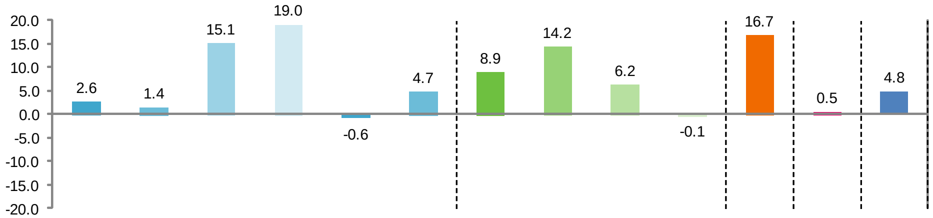
Historic Returns for World Markets to 30/06/2015

Historic Returns [1] [i]

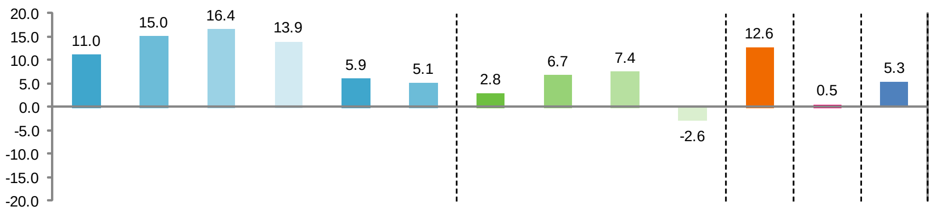
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

Global equity and bond markets fell during the second quarter of 2015. Concerns about deflation eased and pushed bond yields steadily higher; Sterling strengthened against most major currencies and so broadly flat equity markets in local currency delivered negative sterling returns.

Economic news was mildly positive in most regions. The US enjoyed a modest rebound after a disappointing first quarter and data relating to the Eurozone suggested a continuation of the gradual recovery seen in recent quarters.
In the UK, economic growth estimates for Q1 2015 were revised upwards from 0.3% to 0.4% and the estimate of growth for 2014 as a whole was revised from 2.8% to 3.0%, the highest rate since 2007. Inflation turned marginally negative in April for the first time in 50 years as prices declined by 0.1% compared with a year earlier, although this was reversed with a 0.1% increase on an annual basis in May.

Negotiations over a bailout for Greece dominated headlines, as the four-month extension negotiated in February grew closer to expiry. Towards the end of June the Greek government dramatically called a referendum on the terms of the expired bailout proposal, which was widely considered to be a referendum on Euro membership; following a “no” vote in early July, banks remained closed and last-ditch negotiations continued.

Key events during the quarter included:

Global Economy
· Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
· UK inflation (CPI) fell to -0.1% in April, but recovered to 0.1% in May;
· Modest deflationary pressures in the Eurozone gave way to mild inflation throughout the quarter;
· Japan’s economy continued to grow moderately, after emerging from recession in late 2014;
· Trade data increased fears that the Chinese economy is slowing more quickly than expected; the authorities responded with a surprise cut to interest rates at the end of June.

Equities
· The strongest sectors relative to the FTSE All World Index were Telecoms (+2.5%) and Financials (+1.6%); the weakest were Utilities (-2.6%) and Industrials (-1.6%);
· Corporate activity came close to the record levels experienced in Q2 2007, driven by the £47bn takeover of BG Group by Royal Dutch Shell and the continued activity in the healthcare sector.

Bonds and currencies
· Sterling strengthened against major currencies; the Yen weakened the most, with the Euro surprisingly resilient to the Greek crisis;
· Bond yields generally rose; German ten year bonds dipped below 0.1% p.a. in April, before rising sharply to finish the quarter around 0.8% p.a.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Fund summary

Valuation Summary [1] [i]

	Values (£m)				
Asset Class	Q1 2015	Q2 2015	Actual Proportion %	Target Proportion %	Difference %
Global Equity	52.0	49.2	5.6	6.0	-0.4
Diversified Growth Funds	559.5	546.2	61.9	62.0	-0.1
Corporate Bonds	299.7	286.7	32.5	32.0	0.5
Total	**911.3**	**882.1**	**100.0**	**100.0**	

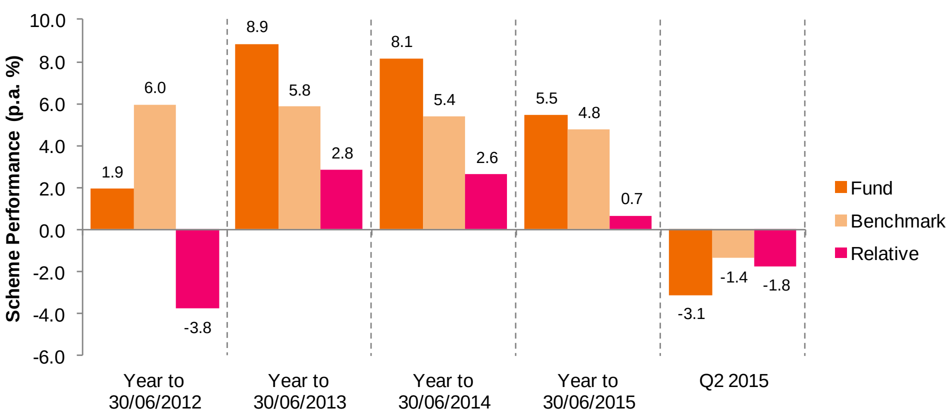
Comments

Total Fund assets fell over the second quarter of 2015 by c. £29m as markets fell.

In terms of relative performance, the Fund's combined assets underperformed the combined benchmark (gross of fees) by 1.8% over Q2 2015. This reflected the DGFs' absolute return targets which are difficult to meet when all markets are generally negative.

The Fund is currently 0.4% underweight to global equities versus its strategic target with roughly a corresponding overweight to corporate bonds. We do not see this as a reason to rebalance at this time.

Performance Summary [2] [ii]



Relative Quarterly and Relative Cumulative Performance [3] [iii]

[1] Excludes operating cash held in Fund bank account., [2] Gross of fees, [3] Gross of fees

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson, [iii] DataStream, Fund Manager, Hymans Robertson

Manager Summary

Manager Summary

Manager	Investment Style	Benchmark Description	Annual Fee (bps)	Rating *				
LGIM World ex UK Equity Index Fund	Passive	FTSE World ex UK Net Tax (UKPN)	15					●
Newton Real Return Fund	Active	1 month £ LIBOR + 4% p.a.	59					●
Schroder Life Diversified Growth Fund	Active	RPI + 5% p.a.	60				●	
LGIM Active Corporate Bond All Stocks Fund	Active	Markit iBoxx GBP Non-Gilts (All Stocks)	20					●
Newton Corporate Bond Fund	Active	Merrill Lynch Sterling (Over 10 years) Investment Grade Index	10			●		
Schroder All Maturities Corporate Bond Fund	Active	Merrill Lynch Sterling Non-Gilts All Stocks Index	18				●	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Manager Valuations [1] [i]

Manager	Value (£m) Q1 2015	Q2 2015	Actual Proportion %	Target Proportion %	Difference %
LGIM World ex UK Equity Index Fund	52.0	49.2	5.6	6.0	-0.4
Newton Real Return Fund	275.1	267.5	30.3	31.0	-0.7
Schroder Life Diversified Growth Fund	284.4	278.7	31.6	31.0	0.6
LGIM Active Corporate Bond All Stocks Fund	19.9	19.1	2.2	2.0	0.2
Newton Corporate Bond Fund	147.7	140.2	15.9	15.0	0.9
Schroder All Maturities Corporate Bond Fund	132.1	127.3	14.4	15.0	-0.6
Total	**911.3**	**882.1**	**100.0**	**100.0**	0.0

[1] Excludes operating cash held in Fund bank account.

Source: [i] Fund Manager, Hymans Robertson

Performance Summary (Net of Fees)

Performance Summary [1] [i]

Period	Measure	LGIM World ex UK Equity Index Fund	Newton Real Return Fund	Schroder Life Diversified Growth Fund	LGIM Active Corporate Bond All Stocks Fund	Newton Corporate Bond Fund	Schroder All Maturities Corporate Bond Fund	Total Fund
3 Months (%)	Absolute	-5.4	-2.9	-1.9	-3.8	-5.1	-3.7	-3.2
	Benchmark	-5.4	1.1	0.7	-3.9	-6.4	-3.9	-1.4
	Relative	0.0	-4.0	-2.6	0.1	1.3	0.3	-1.9
12 Months (%)	Absolute	10.5	1.9	5.2	6.6	8.2	5.6	5.0
	Benchmark	10.6	4.5	1.1	6.5	8.0	6.5	4.8
	Relative	-0.1	-2.5	4.1	0.1	0.2	-0.9	0.2
3 Years (% p.a.)	Absolute	14.1	3.7	8.6	6.7	7.5	7.2	7.0
	Benchmark	14.2	4.2	2.3	6.6	7.8	6.6	5.3
	Relative	-0.1	-0.5	6.1	0.1	-0.3	0.5	1.6
Since Inception (% p.a.)	Absolute	8.9	3.2	5.0	7.5	8.9	6.9	5.5
	Benchmark	9.0	4.6	2.9	7.0	9.0	7.1	5.5
	Relative	-0.1	-1.4	2.1	0.4	-0.1	-0.2	0.0

[1] Since inception for all mandates shown is from 31 December 2010 when the current investment strategy for the Fund was implemented.

Source: [i] DataStream, Fund Manager

LGIM World ex UK Equity Index Fund

HR View Comment & Rating

We rate Legal and General Investment Management's ('LGIM') index-tracking equity capability at '5 – Preferred strategy'.

At the end of last year, Ali Toutounchi, Global Head of Index Funds, announced his intention to retire towards the end of 2015. Since then, there has been further changes announced within the senior management at LGIM. In March 2015, LGIM announced the departure of Joseph Molloy, Head of Index Equities, who has subsequently joined HSBC. Responsibility for Molloy's previous roles was passed to Julian Harding, Director of Index Fund Management in the UK.

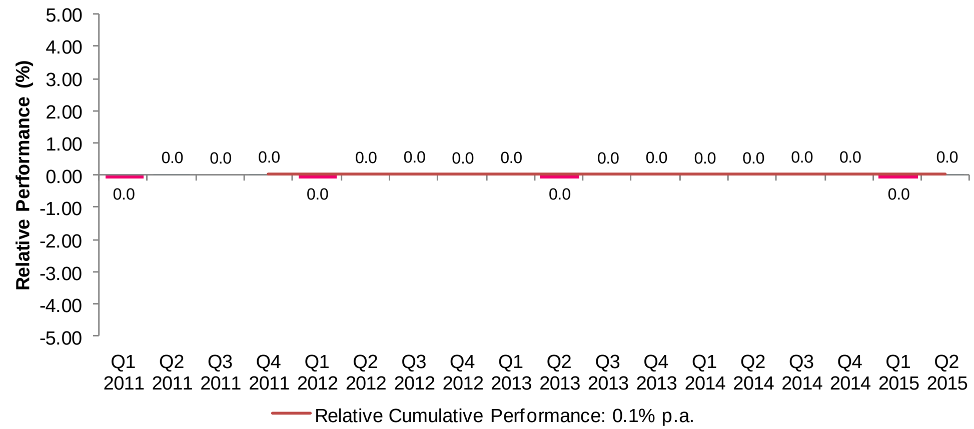
In September LGIM announced that Chad Rakvin will succeed Ali Toutounchi as Global Head of Index Funds. Rakvin was recruited from Northern Trust in 2013 to lead LGIM's index funds expansion in the US. Rakvin will relocate to London and will report to Aaron Meder, Head of Investments. Toutounchi will work through a handover period with Rakvin and will continue to be involved with LGIM in a strategic and advisory capacity. Having taken over Molloy's responsibilities only a few months ago, Julian Harding is set to leave LGIM and Colm O'Brien, who joined from Irish Life in 2012, will take over his responsibilities. Eve Finn, who joined LGIM in 2009, expands her role from engaging with clients on LDI derisking solutions to a much broader, newly created role as Head of Portfolio Solutions. Harding's departure is clearly a consequence of losing out to Ravkin to succeed Toutounchi. In our view Harding was a good manager who understood the UK market very well and his departure is an unfortunate consequence of these changes. Rakvin and O'Brien have plenty of relevant investment experience but have also had much less time at LGIM and less involvement with the UK market than the individuals they are replacing.

Notwithstanding the incidence of change in senior personnel at LGIM, we see no reason to question the continuity of the business at this point and maintain our rating of LGIM's passive capability at '5 - Preferred strategy'.

Fund Commentary

The mandate has broadly matched its benchmark over all time periods, as we would expect from a passive manager.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary (Gross of fees) [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-5.4	10.7	14.2	9.0
Benchmark	-5.4	10.6	14.2	9.0
Relative	0.0	0.1	0.1	0.1

* Inception date 31 Dec 2010.

Source: [i] DataStream, Fund Manager, Hymans Robertson. Gross of fees. [ii] DataStream, Fund Manager, Hymans Robertson

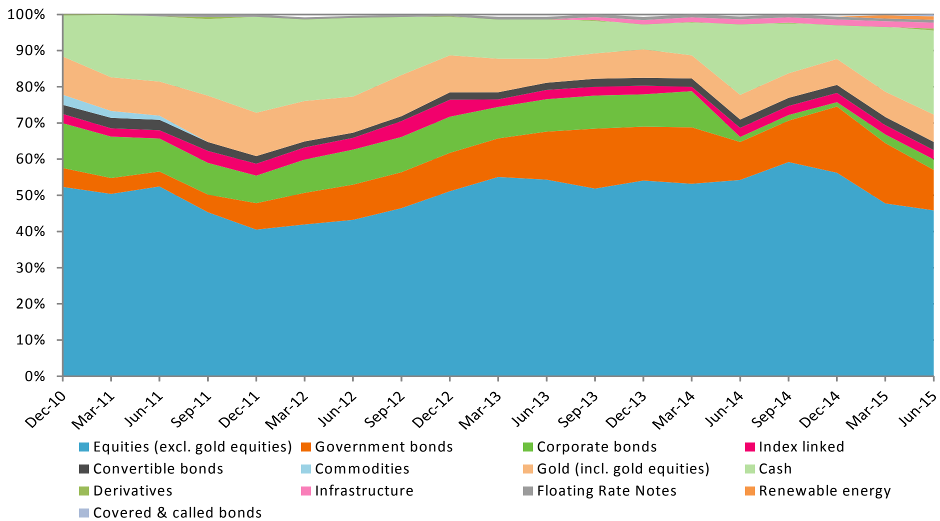
Newton Real Return Fund

HR View Comment & Rating

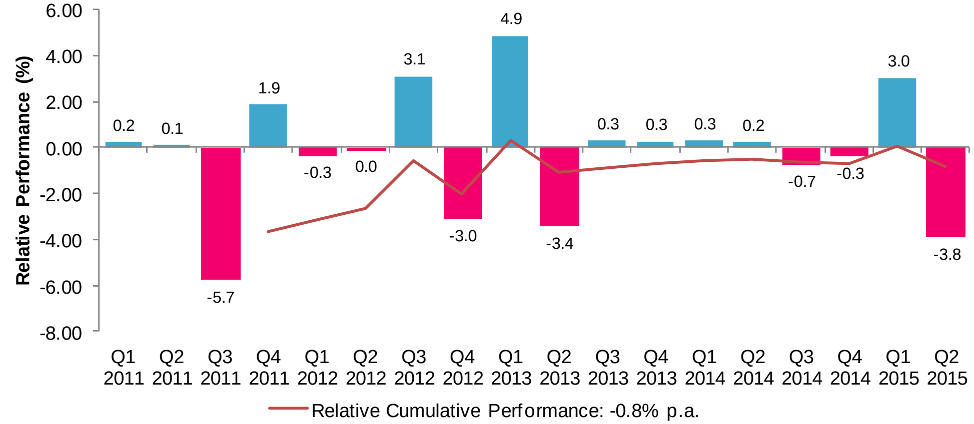
We rate Newton's Real Return Fund at '5 - Preferred strategy'.

The Real Return Fund is an unconstrained multi-asset strategy that seeks to generate a return through both dynamic asset allocation and security specific selection. We like the unconstrained nature of the Newton approach and the real focus on downside protection. It is this focus on risk as the loss of capital rather than a measure of portfolio volatility that distinguishes 'absolute return' managers such as Newton. While the approach draws on a range of inputs from various investment staff in the wider Newton team, we believe that the success or otherwise of the strategy is heavily reliant on the head of the team, Iain Stewart, and there is therefore a high level of key man risk. As at the end of the second quarter the Real Return strategy had assets under management of £12.8bn. Capacity is a consideration due to the portfolio investing in single stock names, however at this level Newton do not believe this is a concern. There were no significant changes to report over the quarter to 30 June 2015.

Change in asset allocation over time [i]



Relative Quarterly and Relative Cumulative Performance [ii]



Fund Commentary

The Newton Real Return Fund delivered an absolute return of -2.8% over the second quarter of 2015, underperforming its performance objective of LIBOR + 4% p.a. It is important to note however, that this sort of performance objective is in line with our long-term expected return from equities and hence the expectation of 'equity-like returns with lower risk'. Whilst we still believe this to be an appropriate target it is less than helpful for measuring short and medium-term performance. With this in mind, the fund's longer term performance since inception currently lags this long-term objective by 0.8%.

Newton has reduced the fund's equity exposure over the past 12 months, both through lowering the capital allocation to equities but also through the use of derivatives to hedge some of the exposure. The first quarter of 2015 saw a number of global equity markets reach new highs, contributing positively to performance over the period; however, equity exposure then detracted over the second quarter. Around 16% of the fund is now protected, with the majority of this protection written against the S&P 500 index, principally implemented using index futures. One of Newton's long-running inflation hedging positions is exposure to gold, both directly through exchange traded funds (ETFs) and through gold-mining stocks. This has been reviewed this year and over the second quarter the team diversified the exposure through the inclusion of a number of small-cap gold producing stocks. During the second quarter the team took the decision to reduce the fund's exposure to the longer-duration government bond positions which it held in liquid US treasuries. The fund continues to hold Australian and New Zealand government bonds which it expects to benefit from further interest rate cuts. Both positions contributed positively over the first half of 2015, driven by signs of slowing growth in China and mixed signals from the US Federal Reserve on their forward guidance for interest rate expectations. Newton remains cautious on the global outlook and is currently holding 20% in cash.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson. Gross of fees.

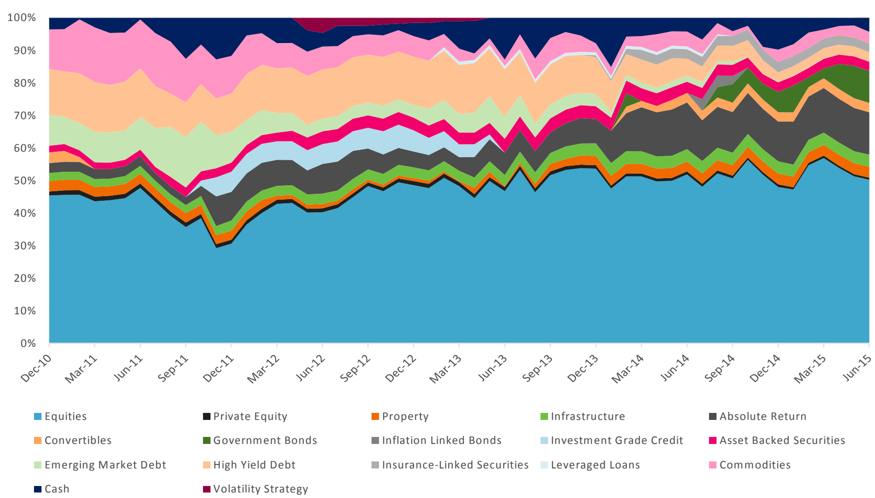
Schroder Diversified Growth Fund

HR View Comment & Rating

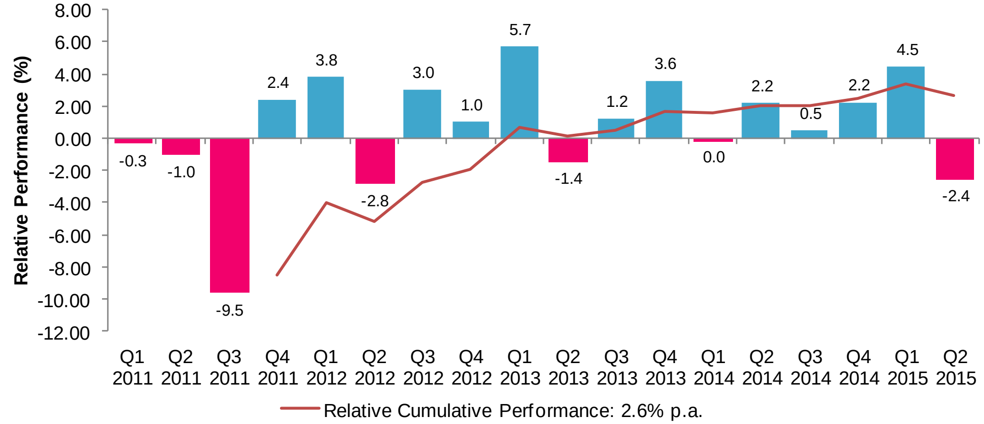
We rate Schroder's Diversified Growth Fund (DGF) at '4 - Retain'.

As a large, long-established multi-asset manager, Schroder is well placed to manage a mandate of this type. Its DGF was one of the first of its kind to gain traction in the institutional market, albeit largely amongst smaller pension funds. The product has a dual objective; on-going access to growth asset classes and the tactical management of those exposures. Schroder has tended to restrict its dynamic asset allocation within narrower bands than many. This fund will typically be highly dependent on the performance of equity markets to generate returns. It therefore offers less diversification benefits than some of the other multi-asset funds available.   During the second quarter Schroder announced that David King, Head of Quantitative Research within the multi-asset team responsible for the DGF, is moving internally to a portfolio manager role for one of the firm's quantitative equity strategies, QEP. At this stage Schroder have not yet determined who will take over his role within the multi-asset team. We do not expect this to have any significant impact on the management of the DGF. There were no other changes over the quarter to the end of June 2015.

Change in asset allocation over time [i]



Relative Quarterly and Relative Cumulative Performance [ii]



Fund Commentary

The fund experienced a negative return over the second quarter both in absolute terms and in comparison to its inflation + 5% p.a. target. This performance target, like Newton's Real Return performance objective, is less meaningful for measuring short and medium-term performance but is appropriate for ensuring the fund is delivering over the longer term. Versus this target, the fund has performed strongly over the last 3 years and since implementation of the new strategy in December 2010, due mainly to the strong performance of equities.

The quarter saw increased volatility in both equity and bond markets. The biggest detractors from returns were European and UK equities and government bonds. However this was partially offset by the effect of diversifying assets such as commodities and property and also by positive contributions from US and Japanese equities.

Over the period, the manager reduced the fund's equity holding in order to mitigate any further market volatility, instead favouring equity option strategies. The manager also increased exposure to sterling, with the expectation that the UK economy will continue to strengthen.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson. Gross of fees.

Newton Corporate Bond Fund

HR View Comment & Rating

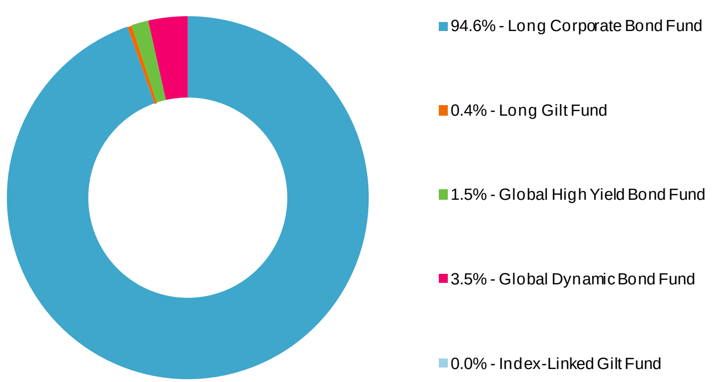
Rating				
Replace		On Watch ●		Retain

As highlighted previously to the Committee, fixed income constitutes a very small proportion of Newton's total assets under management (c. 5%) and, as a result, Newton has a very small fixed income team (10 investment professionals) relative to other managers in the market. For these reasons, we do not currently have a formal rating for the Fund's corporate bond mandate with Newton as we do not have significant client exposure and do not put them forward for new business.

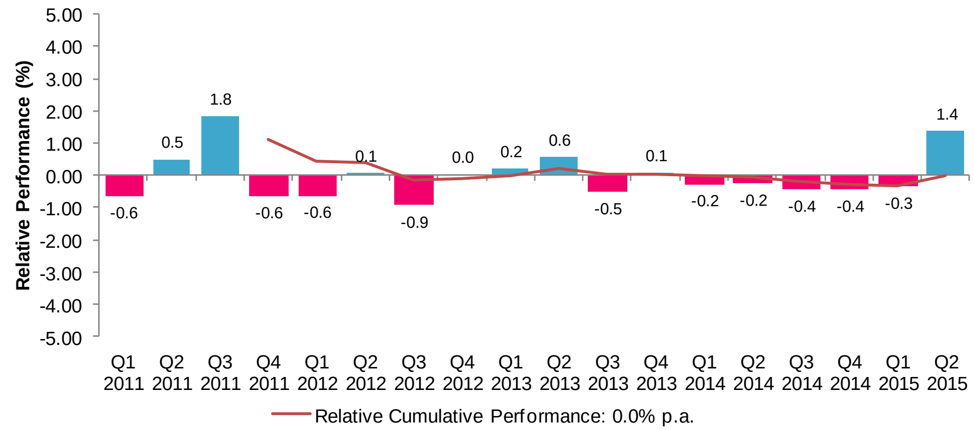
We have therefore rated Newton's corporate bond mandate as '3 - On watch' for the interim period as we do consider the team as part of Newton's wider absolute return mandates. We will look to issue a formal rating in our Q3 2015 report.

The mandate in which the Fund invests allows Newton to allocate their investment into a number of Newton managed funds. At its core, the predominant investment (minimum 85%) is the Newton Long Corporate Bond Fund which can invest in sterling denominated corporate bonds, regardless of the country of issue. The fund can, and does, invest in non-UK issuers which are denominated in Sterling. Alongside this, Newton can also invest up to 15% of the portfolio in a number of Newton managed fixed income products which include the Newton Index-Linked Gilt Fund, Newton Global High Yield Bond Fund and the Newton Global Dynamic Bond Fund, which include non-GBP and non UK domiciled issuers.

Fund Holding as at 30 June 2015



Relative Quarterly and Relative Cumulative Performance [i]



Fund Commentary

The Newton Corporate Bond mandate seeks to outperform its benchmark by 1% p.a. (gross of fees) over a rolling 5 year period.

The fund managed to outperform its benchmark by 1.4% over the quarter to 30 June 2015 but still delivered a negative return of -5.10% as government bond yields and credit spreads increased over the period. Against this market backdrop, the majority of the fund's outperformance was attributable to the manager's decision to maintain a shorter duration position than that of the benchmark, with this relative position then being reduced towards the end of the period.

Elsewhere, the fund's exposure to the high yield bond market through its allocation to the Newton Global High Yield Bond Fund detracted from performance as the European high yield bond market fell over the quarter and the US Dollar depreciating by c. 6% against sterling negatively impacted the fund's US Dollar denominated bonds.

Assessing performance over longer term periods, the fund is marginally ahead of its benchmark over 1 and 3 year periods but has only managed to match its benchmark since the implementation of the Fund's current investment strategy in December 2010. Whilst the manager expects to achieve its performance target over a rolling 5 year period, we would have hoped to have seen some outperformance over the last four and half years since inception.

Source: [i] DataStream, Fund Manager, Hymans Robertson. Gross of fees

Schroder Corporate Bond Fund

HR View Comment & Rating

Schroders has announced a series of key appointments within its Fixed Income Multi Sector team, responsible for managing UK, Euro and Global Aggregate, Global Sovereign as well as Absolute Return and Unconstrained strategies. Paul Grainger joins in June as Senior Portfolio Manager within the London-based team, reporting to Bob Jolly, Head of Global Macro. With more than 18 years' investment experience, he has a background in global aggregate and interest rate investing. Prior to joining, he worked for Wellington Management where he was an associate partner and fixed income portfolio manager. Mads Nielsen joins in June as Quantitative Strategist within the London-based team, reporting to Bob Jolly. With more than 15 years' quantitative analytics experience, he joins from GLG Partners where he worked on a number of their macro and total return strategies. Three hires in the US; David Gottlieb, Vincent Messina, and Whitney Tindale joined in May 1 from hedge fund Third Wave Asset Management, a firm they collectively founded in 2014. The team based in New York, will manage a specialised strategy focused on relative value opportunities primarily in U.S. rates markets and will become part of the global macro team, led by Bob Jolly. Each member of the team has over 20 years of investment management experience, including 50 years of combined hedge fund experience employing relative value rates strategies.

We retain our rating at '4 - Retain'.

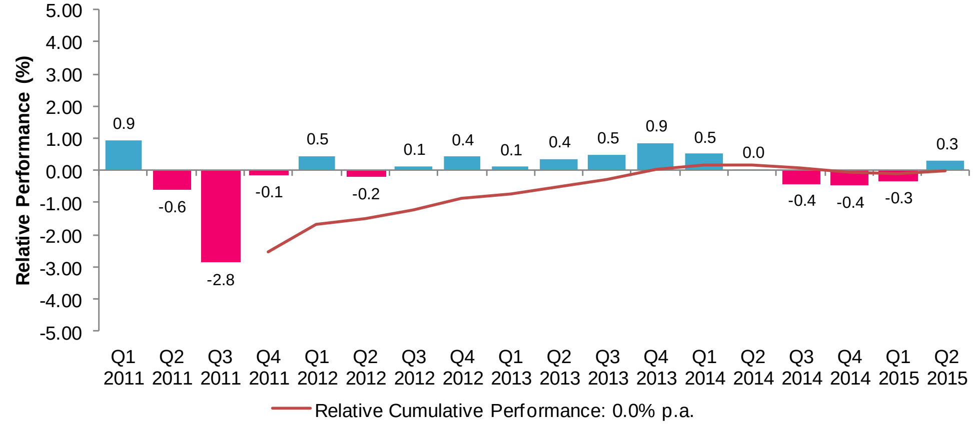
Fund Commentary

The Schroder All Maturities Corporate Bond Fund seeks to outperform its benchmark by 0.75% p.a. (gross of fees) over a rolling 3 year period.

Despite delivering a negative absolute return of -3.6% over the second quarter of 2015, the manager managed to outperform its benchmark by 0.3%. This was driven by the fund's underweight to the Industrials sector and Sterling Government-related debt. The manager also took the decision over the period to reduce the fund's exposure to longer-dated issues which contributed positively to performance versus the benchmark as yields steadily increased.

In terms of longer term performance, the manager has broadly managed to meet its performance target over the past 3 years but is behind since the Fund implemented its current investment strategy back in December 2010.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary (Gross of fees) [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-3.6	5.7	7.4	7.1
Benchmark	-3.9	6.5	6.6	7.1
Relative	0.3	-0.8	0.7	-0.0

* Inception date 31 Dec 2010.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson. Gross of fees.

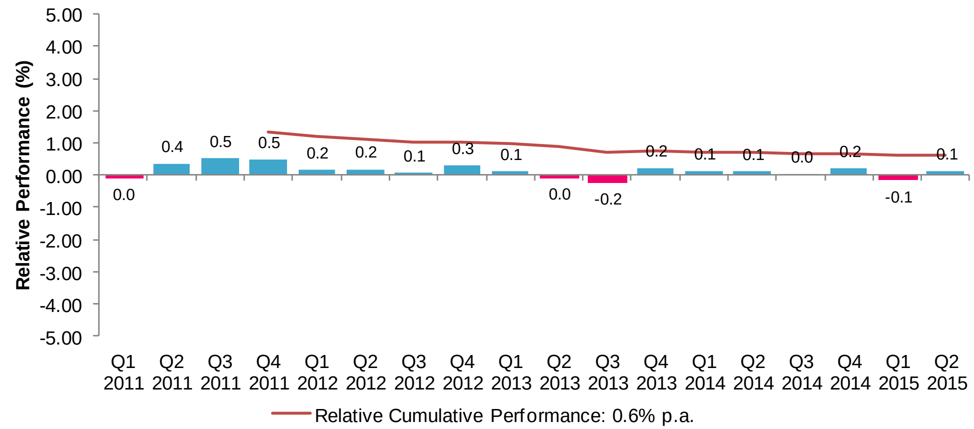
LGIM Corporate Bond Fund

HR View Comment & Rating

There were no significant changes to report over the quarter to end June 2015.

We continue to rate the manager as '5 - Preferred strategy'.

Relative Quarterly and Relative Cumulative Performance [i]



Fund Commentary

The Legal & General Active Corporate Bond Fund seeks to outperform its benchmark by 0.75% p.a. (gross of fees) over a rolling 3 year period.

Over the 3 month period to 30 June 2015, the fund marginally underperformed its benchmark and delivered a negative absolute return of -3.7% as bond yields in general ticked up over the quarter.

The fund has delivered marginal outperformance over longer term periods but continues to lag its performance objective since the Fund's new investment strategy was implemented in December 2010.

Performance Summary (Gross of fees) [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-3.7	6.8	7.0	7.7
Benchmark	-3.9	6.5	6.6	7.0
Relative	0.1	0.3	0.3	0.6

* Inception date 31 Dec 2010.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson. Gross of fees.

Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.